

A BRIEF GUIDE TO GST, AND WHAT IT MEANS FOR YOU.

GST returns are a fertile area for mistakes. Our purpose is to alert you to the main points to be aware of and to explain some of the terms used.

GST speak

It is important to get used to the terminology. Mistakes arise from misunderstandings when people use their own words. Here are the most important terms with their meaning:

- **Input tax**
This is the GST content of your business expenditure. It includes purchases of assets (equipment, vehicles etc)
- **Output tax**
This is the GST content of your business income. It includes the sale of assets.
- **Tax Invoice**
This is a bill. It contains all the information you would expect plus two things:
 - The words "Tax Invoice" in a prominent place.
 - The GST number of the supplier.

Here, very briefly, are the other things to be included in a tax invoice:

1. Name of supplier
2. Name and address of the recipient
3. Date
4. Quantity of goods
5. Description of goods
6. Amount charged + GST, or the inclusive figure

A full tax invoice is needed for purchases over \$1000. If the amount is smaller but more than \$50 you can leave out numbers 2 and 4 above. This means if you go to a restaurant, their standard tax invoice may be adequate unless the bill exceeds \$1000, in which case ask for a formal tax invoice and see they put in all the details.

Any bill worth \$50 or less does not require a tax invoice. However, you still may have to prove the money you spent was for business so get an invoice where you can. Parking meters will present a challenge. Develop a system

to handle this. IRD will usually believe you if you do your best to keep records. One way might be to have a float in your car and draw a cheque every so often to top it up. Keep parking building receipts.

- **Exempt Supply**

There are six supplies which are not subject to GST:

1. Financial services such as bank charges and interest. This also includes life insurance.
2. Domestic rent
3. Salaries and wages
4. Donated goods sold by a non profit organisation
5. Near enough to pure gold, silver or platinum because these are almost in the nature of money.
6. Penalty **interest** you charge on an overdue account or vice versa.

These do not have any GST in them.

- **Zero rated supplies**

GST is normally charged at twelve and a half percent. Zero rated means GST is still charged but the rate is nil. We need zero rated because if these supplies were exempt there would be no GST claim for input tax. Landlords supply rent, which is exempt so they cannot claim GST on rates and insurance they pay. Exporters supply goods and charge GST at zero %. They can claim GST on their expenses.

When a business is sold, the transaction can be zero rated provided certain rules are obeyed. They include:

- Both parties must be registered for GST
- There must be a written agreement to the business being sold as a "Going Concern"
- The business must be a "Going Concern", which means it must be capable of being run as a separate business entity both before and after the sale. There have been many court cases over the meaning of this term.

Registering for GST

If you expect sales less than \$40,000 per year you do not need to be GST registered. If your customers are mostly businesses you would gain from registering. If not businesses it would be better not to register.

Registration is done by completing an IRD form. You are deemed to be registered as soon as you have posted or given this signed form to the Tax Department.

Danger areas

- **System**

GST returns need to be prepared in a systematic way designed to avoid omissions or double counting. In one case a client received a big payment right at the end of a GST period. She accidentally picked up the same figure at the beginning of the next GST period. Claiming GST on wages is not unheard of.

Here is a way to be systematic. Be sure all income and expenditure goes through the bank and then use your bank statements for gathering up the figures for GST. This is much safer than using cheque butts and deposit books because these do not necessarily pick up every transaction. Should you have filled in a butt incorrectly you will make a mistake. Any system you use can be run from bank statements.

Ensure you are right

- There are several ways to get it wrong:

1. Claim GST when you do not have a tax invoice for an expense over \$50.

Solution: Keep your paid bills in date and cheque number sequence. Skim your files when you come to do your GST return and make sure all the GST invoices are there. If you put the cheque number on each bill you can soon see the gaps. Where there is no bill, such as drawings, put in a piece of paper (with the word Drawings on it) and put the cheque number on this.

2. Your computer can calculate GST on exempt expenses.

Solution: Review the GST accounts and make sure there are no claims for exempt costs.

OR

Go through every account such as bank charges, wages, interest, drawings etc and ensure GST has not been deducted in error.

3. Calculation errors

Solution: If your system is manual, add the GST figures from the start of the period to the end. Then add them in reverse from the end back to the start. The two totals should be the same. Be sure to rule a line at the end of the GST period so you know where to start next time.

Beware spreadsheets. Recently a client was \$2000 out. She had picked up the year heading as part of her additions. It is easy to get wrong adds when using spreadsheets. If you do not have a running total matching the bank statements, you will probably have no way of checking your totals are right.

Software packages often yield the wrong answers. One of the popular ones is notorious for getting the wrong answers unless you know exactly how to operate it.

Another way to make a calculation error is to take one-ninth of an expense from which withholding tax has been deducted.

4. Claiming on the wrong amounts

Leasing and hire purchase contracts are common sources of error. Here are some favourite mistakes:

Claiming GST off each instalment of a hire purchase contract. The correct approach is to claim the GST in full at the time of purchase. The instalments are merely repayments of a debt.

Thinking you have a hire purchase contract when you have not. Some payment schemes are only spreading arrangements. These are often short term - usually up to twelve months.

Not knowing the difference between an operating lease and a finance lease. Better talk to us if you contemplate leasing.

Claiming one ninth of the interest content of a finance lease.

Claiming GST before you have really paid. Writing out a cheque is not enough. It must be posted by the last day of the GST period to be counted for a claim. Also, it may be uncommon but, a payment to an agent is not payment by you. A bad example is paying your solicitor for the purchase of commercial property. Payment does not occur until your solicitor pays the seller's solicitor. A delayed settlement cost one taxpayer a fine.

5. Failing to pay GST on all your income.

Barter cards will usually have taxable income in the account.

Holding money at GST balance date and not banking it until next day, often innocently. You should add on the money held and deduct the same amount from the next GST return.

Those on an invoice basis forgetting to add back deposits received. These people take up the balance on their debtors (money owing to them) ledger and fail to adjust for credit balances.

6. Private and business use involved.

These rules are complex. They are different, for example, depending on percentage of use and whether you trade as a sole trader, partnership, company or trust.

If a business asset is used privately, claim GST on the full price of the asset and add back an allowance for private use, based on depreciation and expenses, in each GST return.

If a private asset is used for business claim GST based on depreciation in each return.

Expenses such as telephone have to be apportioned.

Entertainment expenses are mostly only claimable to the extent of 50%. GST on the non-claimable half has to be adjusted. You may make an annual adjustment after your income tax return has been completed in place of adjusting every GST return.