GST 2010 12.5% ▶ 15%

LEVEL 4, 56 CAWLEY STREET,
P.O. BOX 11 174, ELLERSLIE, AUCKLAND 1542
TEL 09 580 1291 FAX 09 580 1292. www.streetsmartgroup.co.nz
Member of New Zealand Institute of Chartered Accountants

Street SMART GROUP
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The speculation is over…

The rate of GST will be increased from 12.5% to 15% as of 1 October 2010.

The GST rate increase is consistent with Government's commitment to a fairer tax system and a move away from personal and company tax rates that it considers harmful to economic growth.

Over the next three months (and beyond) we'll be working hard to guide our clients through the various changes that need to be implemented as a result of the GST rate increase, some of them complex.

As always, taxation changes do present opportunities along with the usual challenges, so now is the time to consider those opportunities along with the raft of administrative changes you'll need to consider.

The art of taxation consists in so plucking the goose as to get the most feathers with the least hissing.

~ Jean Baptist Colbert, attributed

New Tax Fraction

At the moment, with a GST rate of 12.5%, calculating the GST component of a GST inclusive price is as simple as dividing by 9.

Not so simple after 1 October. When GST increases to 15% you'll need to multiply by 3 then divide by 23 or alternatively simply divide by 7.66666.

For example: Let's assume the price of an item is $1,000 plus GST, so that's $1,150 including GST. The GST component is $1,150 x 3 ÷ 23 = $150.

GST Threats and Opportunities

1. **Registration Issues**
   A small number of our clients are registered on a voluntary basis. For a few of those clients, deregistration from GST may be desirable before 1 October 2010. We'll talk to affected clients about their options in the weeks to come.

2. **Marketing & Sales**
   Some clients may experience a spike in sales prior to 1 October. This was the case for many businesses back in 1989 in advance of the GST rate increasing from 10% to 12.5%. Conversely, demand may subsequently dip past 1 October.

   Businesses need to plan how they can maximise their sales between now and October, possibly even by invoicing customers in advance to accelerate the time of supply so that the 12.5% rate applies rather than the 15% rate.

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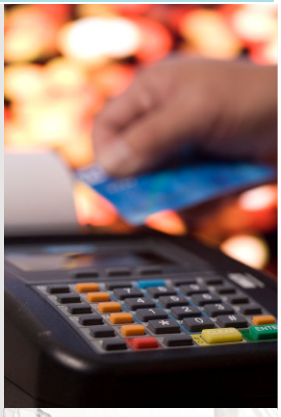

3. Pricing

How will you deal with the GST rate increase as part of your overall sales and pricing strategy? Will you pass on all of the GST increase, or will you fully or partially absorb the GST?

Yet again, will you take this opportunity to increase your price?

At the end of the day your pricing and therefore sales strategy will depend on the composition of your customers (are they GST registered or are they end users who cannot reclaim GST?), demand for your goods and services, not to mention your competitors' reactions to the same issues.

You'll need to update all of your marketing and sales collateral and that includes any web pages.

And here's one of the big issues for retailers – you'll need a plan for updating shelf and catalogue prices.

If you're contemplating absorbing the GST or increasing prices, check out the following price reduction and price increase tables... They challenge your thinking on price discounting and price increases don't they?

Reducing Price

If your present margin is…

	20%	25%	30%	35%	40%	45%	50%	55%	60%
And reduce your price (ex GST) by…	To produce the same profit you must increase your sales volume by…								
2%	11%	9%	7%	6%	5%	5%	4%	4%	4%
4%	25%	19%	15%	13%	11%	10%	9%	8%	7%
6%	43%	43%	25%	21%	18%	15%	14%	12%	11%
8%	67%	47%	36%	30%	25%	22%	19%	17%	15%
10%	100%	67%	50%	40%	33%	29%	25%	22%	20%
12%	150%	92%	67%	52%	43%	36%	32%	28%	25%
14%	233%	127%	88%	67%	54%	45%	39%	34%	30%
16%	400%	178%	114%	84%	67%	55%	47%	41%	36%
18%	900%	257%	150%	106%	82%	67%	56%	49%	43%
20%	*	400%	200%	133%	100%	80%	67%	57%	50%
25%	*	*	500%	250%	167%	125%	100%	83%	71%
30%	*	*	*	600%	300%	200%	150%	120%	100%

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Increasing Price

If your present margin is…

	20%	25%	30%	35%	40%	45%	50%	55%	60%
And increase your price (ex GST) by…	To produce the same profit, you could decrease your sales volume by…								
2%	9%	7%	6%	5%	5%	4%	4%	4%	3%
4%	17%	14%	12%	10%	9%	8%	7%	7%	7%
6%	23%	19%	17%	15%	13%	12%	11%	10%	9%
8%	29%	24%	21%	19%	17%	15%	14%	13%	12%
10%	33%	29%	25%	22%	20%	18%	17%	15%	14%
12%	38%	32%	29%	26%	23%	21%	19%	18%	17%
14%	41%	36%	32%	29%	26%	24%	22%	20%	19%
16%	44%	39%	35%	31%	29%	26%	24%	23%	21%
18%	47%	42%	38%	34%	31%	29%	26%	25%	23%
20%	50%	44%	40%	36%	33%	31%	29%	27%	25%
25%	56%	50%	45%	42%	38%	36%	33%	31%	29%
30%	60%	55%	50%	46%	43%	40%	38%	35%	33%

4. Contractual Issues

This area is a minefield. We won't even attempt to go into detail in a newsletter!

Just some of the issues you need to consider include:

- Do your customer contracts enable you to pass on the GST?
- Do you have periodic supply agreements in place that span the GST rate increase?
- What about goods on layby? The GST liability on layby sales spanning pre-and post-1 October will depend on whether the goods were placed for layby prior to budget night, or between budget night (20 May 2010) and 1 October
- Do you collect a deposit as part of your trade terms? If so, you may want to increase the deposit rate to avoid a negative cashflow impact

A person doesn't know how much he has to be thankful for until he has to pay taxes on it.

~ Author Unknown

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5. **Systems and Processes**
   - Maybe it's time for a complete health check of your GST systems?
   - Can your accounting software issue tax invoices, debit and credit rates at both old and new rates?
   - What changes will be required to POS and till technology?
   - When will GST rate compliant software updates be sent to you from your suppliers and how will you test those updates to make sure the new rates calculate correctly?
   - Do you have any internal excel spreadsheets or other templates where the GST rate is 'hard wired' in? If so, each of these will need a careful review

6. **Transitional Issues**
   - Businesses on the cash basis (that's most of our clients) will need to make an adjustment based on creditors and debtors in the September GST return. The adjustment will be made for the rate increase on debtors less creditors
   - If your GST return period straddles 1 October, you'll need to complete a special transitional GST return

7. **And finally… What about the effect of all this on your Profit and Cashflow?**
   You need to consider all of the above. Some of you will benefit from re-doing your Budget and cashflow forecast for the current year.

What Next

This publication is not intended to give you detailed and specific advice. It's more to raise your awareness of just some of the issues that surface as a result of the GST rate increase.

We're available and we're well placed to provide all clients with a comprehensive GST Rate Increase Review. We'll systematically go through all of the issues likely to affect your business and from there we'll complete an Action Plan that ensures you complete the key projects and tasks that need to be implemented.

Let's start planning now for a successful increase to 15% GST.

Disclaimer

This publication has been carefully prepared, but it has been written in general terms only. The publication should not be relied upon to provide specific information without also obtaining appropriate professional advice after detailed examination of your particular situation.

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