

Deloitte.

GST

Practical Issues

GST Training

Topics

- GST – The Basics
- Common Errors
- What to do if something is wrong
- Best practise
- Recent and upcoming changes

GST Training

Objectives

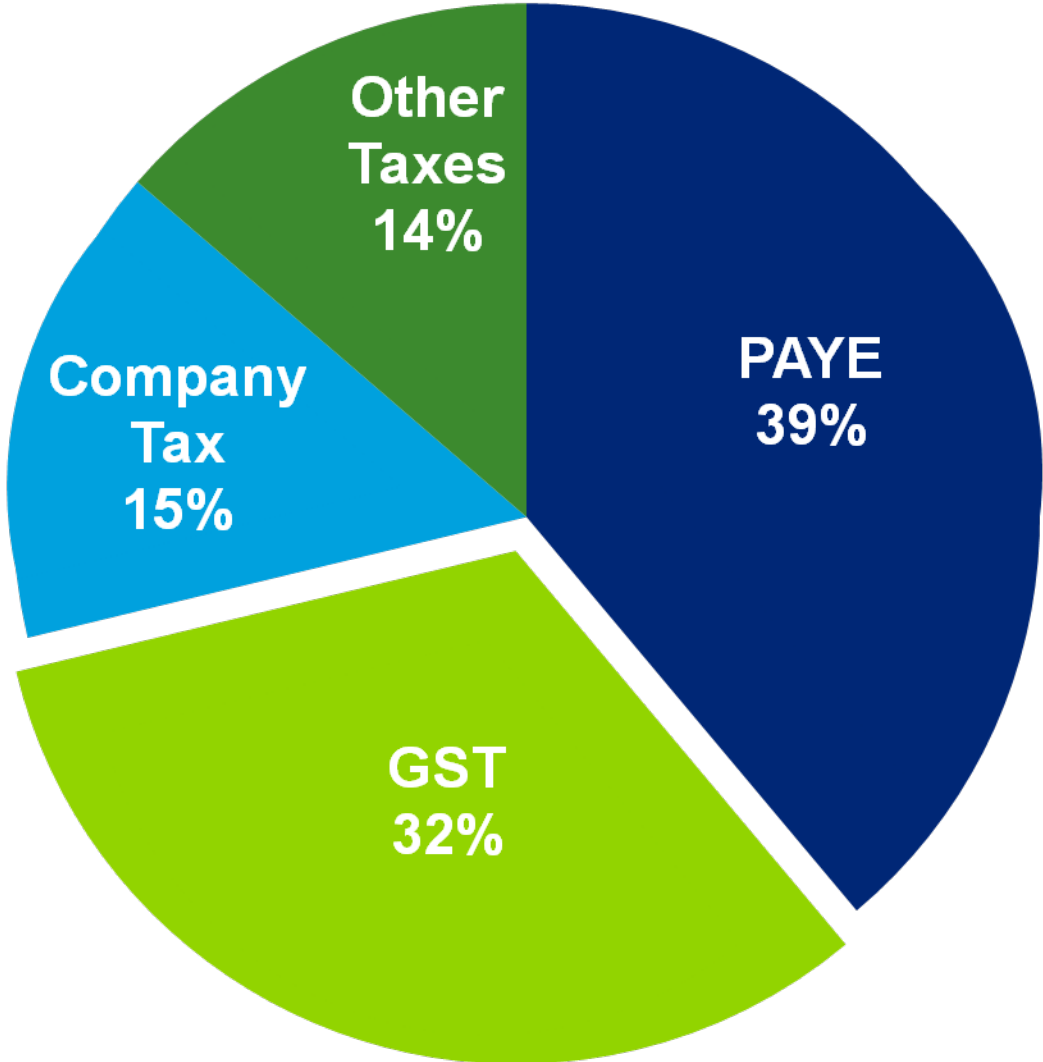
1. Refresh your understanding of core GST concepts and definitions
2. Become aware of common GST errors
3. Develop your ability to identify GST issues
4. Increase your confidence to discuss current GST issues

GST:

The Basics

GST Landscape

Forecast Tax Revenue 2015



PAYE	19,261
GST	16,010
Company Tax	7,476
Other Taxes	6,776

Imposition of GST

Section 8 elements:

- GST is charged if there is:
 - supply
 - of goods or services
 - in New Zealand
 - by a registered person
 - in the course or furtherance of a taxable activity carried on by that person
 - [but not charged on an exempt supply]

Core GST Concepts

Supply

- Widely defined to include all kinds of supply
- GST is a tax on supplies – wider than just sales
- Generally, requires both a supplier and a recipient i.e. must be two parties
- Actual supplies and deemed supplies
- Certain deemed supplies can arise in the context of a single person e.g. deemed supply on deregistration or a change of use adjustments
- But does not include everything – “exempt” supplies or outside the scope of supplies

Core GST Concepts

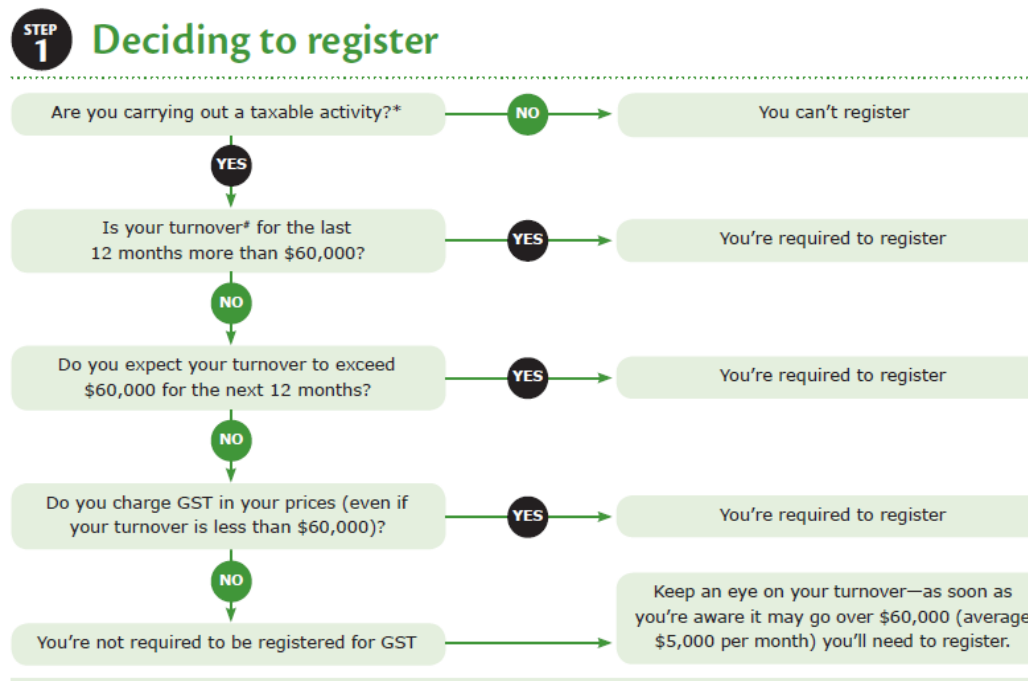
Goods vs. Services

- Goods = tangibles (i.e. real and personal property) excluding “money”
- Services = everything else except goods or money
- Why is the distinction important?
 - Importation
 - Second-hand goods
 - Zero-rating provisions
 - Time and value of supply

Core GST Concepts

Registered Person

- Only registered persons can charge GST. Registration is required if
 - There is a taxable activity
 - Involving taxable supplies of more than \$60,000
 - In a 12-month period.



Core GST Concepts

Taxable Activity

- Any activity carried on continuously or regularly by any person for consideration
- Whether or not for profit
- Includes supply or intention to supply
- Includes anything done in connection with the beginning/ending of a taxable activity
- Does not include:
 - Private recreational pursuit/hobby
 - Occupation/employment
 - Exempt supplies
 - Outside the scope of supplies

Types of Supplies

Standard Rated (15%)

- Meet key elements of section 8
- Most common

Zero-Rated (0%)

- Zero output tax but input tax can be claimed
- E.g.s exported goods, services performed outside NZ, land, going concerns

Exempt

- No subject to GST, not able to claim input tax
- E.g.s financial services, supplies of residential accommodation

Outside the Scope

- No GST applies
- E.g.s non-supplies, supplies by non-registered entities

GST:

Common Errors

GST: Returns

Filing GST returns

- The number of GST returns to be filed each year depends on the annual value of supplies made in a 12 month period:

Return to be filed:	Value of taxable supplies
Six monthly	Less than \$500,000 per annum
Two monthly	More than \$500,000 per annum but less than 24m
Monthly	More than \$24m

Common GST Errors

- Documentation errors
- BCTIs
- Bad debts – write off / recovery
- Sale of assets
- Supplies of services to “non-residents”
- Zero-rating of goods incorrectly
- Output GST due on non-deductible entertainment adjustment
- Associated Persons
- Rebates
- Credit card surcharge

Common GST Errors

- Rebates
 - *Credit adjustments, lack of supporting documentation*
- Customs GST
 - *Which party has incurred the GST?*
 - *Who is entitled to claim the GST input back?*
 - *The value on which GST is calculated*
- Payroll adjustments
 - *Claiming GST input tax credit on GST paid on FBT Return*
 - *Claiming GST on non-NZ expenses*

Common GST Errors

Land Transactions

- Still seems to be uncertainty / confusion
- Adjustments required if zero-rate and partially non-taxable use, e.g. staff accommodation
- Nominees
- Sale of property
 - 5 year rule

Common Errors

Change in use

- Where an assets relates to business and private use
 - e.g. work cars
- Need to determine the percentage intended use and the percentage actual use
- Concurrent use

Common Errors

Agency

- Legal structure matters
- Legal not common meaning
- Important for GST
- Section 60(1B) deemed supplies
 - Practical issues
 - Policy expansion

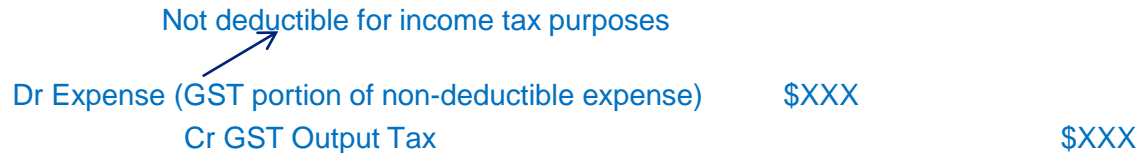
GST on Entertainment

- Claim input tax on full amount of entertainment expenditure upfront
- Yearly adjustment: return output tax on non-deductible portion
- Include in GST return, the earlier of:
 - The GST return that covers the date on which the income tax return is filed; or
 - The GST return that covers the month in which the income tax return is due, whichever is the earlier:

Not deductible for income tax purposes

Dr Expense (GST portion of non-deductible expense) \$XXX

Cr GST Output Tax \$XXX



GST on Fringe Benefits

- Providing or granting of a fringe benefit is treated as a supply of goods or services.
- Claim the input tax at the time the expense was incurred (the vehicle purchase or leasing costs)
- GST calculated on the fringe benefit is an output tax to reflect that you are treated as making a taxable supply (providing the vehicle to the individual).
- GST calculated on your FBT return should never be taken into account on your GST returns. You cannot claim the GST output on the fringe benefits.
- A very common question.
- Some exceptions.

Common GST Errors

- By value:
 - *Time of supply*
- By cases:
 - *GST on fringe benefits*
 - *Bad debts and GST*
- Anecdotally:
 - *Groups – time of supply, not accounting for GST when no GST group*
- Reasons:
 - *Staff turnover*
 - *Inadequate systems*
 - *Inadequate processes/checks*

Common GST Errors

Implications

Errors could lead to:

- Shortfall GST being due
- Potential penalties being applied
- Use of money interest levied
- 4 year period which Inland Revenue can assess
- Damage to reputation and its relationship with Inland Revenue

Common GST Errors

Correcting Errors

Input Tax

- 2 years to claim is general rule
- However, 2 year rule does not apply where deduction was not taken because of inability to obtain a tax invoice, a dispute over payment, a mistaken understanding that supply was not taxable or clear mistake or simple oversight

Output Tax

- Less than \$500 next return
- Should do voluntary disclosure

Timebar

- Assessment can be increased for 4 years
- No limit on decreasing an assessment

GST:

Cashflow Ideas

GST cash flow ideas

- Recovery GST on bad debts
- Disputed invoices
- Prompt payment
- GST offsets
- GST grouping
- Rebates and discounts
- Review GST apportionment
- B2B elections

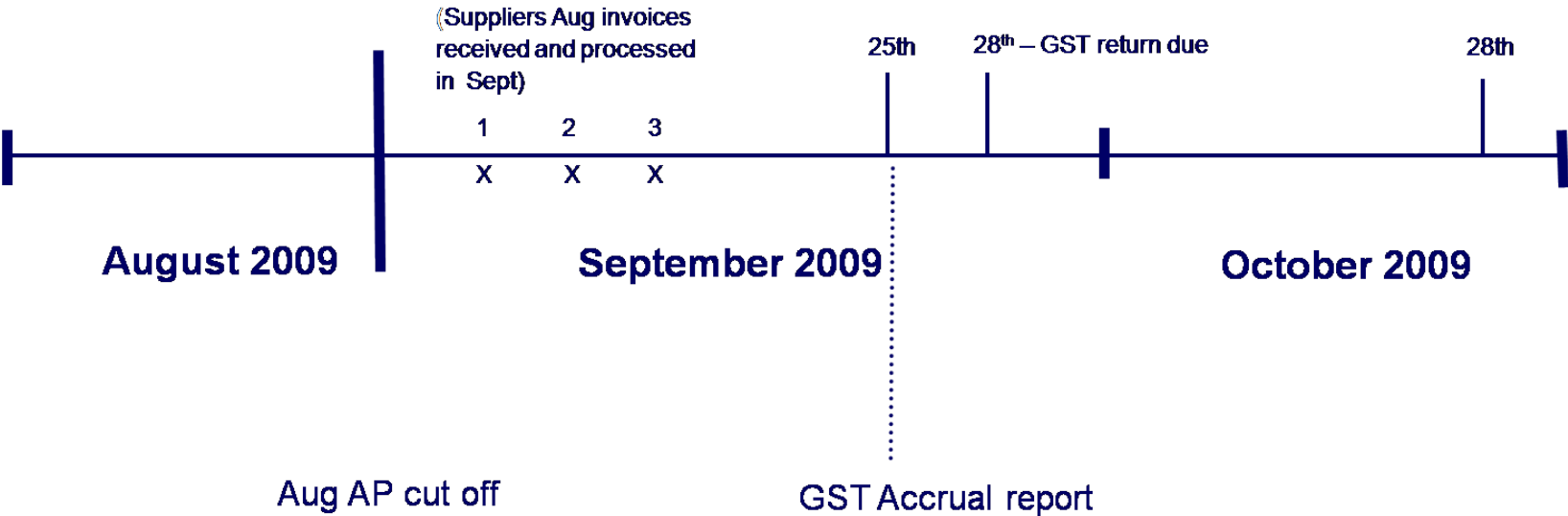
Accelerating Input Tax Credit Claim

Difference between GST time of supply and accounting system process date

Need GST tax invoice when file GST return

Claim GST via an accrual report run, say, 25th of month

One-off permanent cash flow injection of 20% - 50% of AP monthly spend



GST:

Best Practice

Best Practice

- Reconciliation to sales/purchases
- Historical reasonableness check
- Suspense accounts
- Unusual / significant transactions
- Process and procedures documentation
- Education

Best Practice

Tax Policy / Reviews

- Important to have documented procedures
- Helps to reduce risk
- Things to include:
 - GST return preparation and review process
 - Process for setting up new codes
 - Income streams
 - Expenses
 - When to seek advice
- Important to document the why

GST on Crown Revenue

- Time of supply issue
- Legislation:
 - Revenue from the supply of outputs by public authority deemed to take place in GST period when supply “brought to charge as revenue from the Crown”
 - Distinguish between the supply of outputs, and the supply of other services
 - Accrued income v income in advance
- Increased focus by Inland Revenue
- Amendments may be required to past returns even if just a timing error
- UOMI and penalties

GST Refund for Non-Residents

- Non-resident is not carrying on a taxable activity in NZ
- Is registered for consumption tax in their own jurisdiction
- Input tax over \$500 for first taxable period
- Not involve services in NZ to non-registered persons.
- Registration forms released on 1 April 2014
- Similar to GST registration form
- GST return the same as GST 101A

GST Refunds for Non-Residents

- Similar to GST registration form
 - Requires declaration that a taxable activity is not being carried out in NZ
 - Registration form (IR564) submitted with first GST return
 - Invoices to be provided with GST returns (TBC)
 - Proof of registration in home country
 - Proof of identity of one of the directors
 - Payments basis
- GST return the same as GST 101A

FSI

B2B

- 'Magic wand' – turns some exempt supplies to zero-rated
- Supply by a registered person to a registered person
- Recipient makes at least 75% taxable supplies
- Election needs to be made
- Prospective only
- No downside
- No change to day to day activities / return preparation

FSI

Apportionment Calculations

- Mix of taxable and exempt supplies
- Direct attribution v overhead costs
- Specific agreements
 - Bankers Association
 - Life Insurers
- B2B election
- Supplies to other financial service providers
- Fair and reasonable

Share Transactions

Sales and Purchases

Sales:

- Exempt
- Location of purchaser – non-resident?
- B2B Election – zero-rate

Purchases:

- Does the purchase relate to a supply?
- Actively Managed Investments

Importers

GST Recovery

- Is there a taxable activity?
- Who is the importer of record?
- What documentation is held, and by whom?

Exporters

Zero-Rating

Exported Goods:

- In most cases the supplier needs to be the exporter
- Goods need to be exported with 28 days of the time of supply
 - Can be extended on application

Exported Services:

- Supplied to a non-resident
- Outside New Zealand at the time the services are performed
- Not directly in connection with land or moveable personal property in NZ

Non-Profits

- Taxable activity is important
- Claim all GST that doesn't relate to exempt supplies
- Branches
- Grants/Donations