



October 2010 Changes to GST

From 1 October 2010, the rate of GST in New Zealand increases from 12.5% to 15%. This document discusses the implications of this change on MYOB EXO Business, and provides advice and directions on how to update your EXO Business system for this change.

Disclaimer

While every effort has been made to ensure the information in this document is correct, it is ultimately the client's responsibility to obtain correct tax advice and meet their tax obligations, such as making any necessary adjustments, filing correct GST returns, and paying the correct amount of taxes. MYOB takes no responsibility for any penalties or other losses incurred by clients due to failing to meet their tax obligations.

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Preparing for the GST Change

While the change in GST rates occurs on 1 October 2010, clients should begin preparations for the change well in advance of this date. Necessary preparations include setting up configuration changes in MYOB EXO Business (which can be put into effect on 1 October), deciding on how pricing changes will be handled, and developing plans to deal with any exceptional circumstances that may apply. These preparation steps are discussed in the sections below.

1 References

The IRD has information relating to the GST change on its website at the following URL:

<http://www.ird.govt.nz/changes/gst/businesses>

Information on the taxation system in MYOB EXO Business is available in the online Help, and in the *Taxation Features* white paper.

2 Upgrading to EXO Business 7.4.1.0

The 7.4.1.0 release of MYOB EXO Business focuses on addressing the change to GST rates. This release includes the following changes:

- Updates to the wording on the NZ GST Return window and on the NZ GST Return report.
- Updates to the tax rate setup in demo NZ databases and new NZ databases.
- Updates to tax rate utilities in EXO Business Config.
- Fixes to tax-related issues.

See the Release Notes document for the 7.4.1.0 release for full information on these changes.

2.1 EXO Business 7.4.0.0 and Earlier

Clients who are not upgrading to 7.4.1.0 can continue to use the EXO Business system as normal after 1 October 2010.

The only exception is the NZ GST Return report; as of 1 October 2010, the text on this report will be out-of-date, meaning that GST returns cannot be lodged using the printed form from EXO Business. The report will still display the correct amount of GST Collected/Paid, however, which can be copied to an IRD-supplied form for lodgement.

Note: *While the GST Collected/Paid total will be correct, the Gross amount will not, as EXO Business 7.4.0.0 and earlier calculates this by multiplying the GST Collected/Paid by 9 (the coefficient of 12.5%). Clients using 7.4.0.0 or earlier must manually calculate the Gross amount by multiplying by 23/3 (the coefficient of 15%).*

3 Steps to Prepare in MYOB EXO Business

Some planning and configuration changes will be necessary to prepare EXO Business for the change in GST rate. These are detailed below.

3.1 Prior to 1 October 2010

3.1.1 Prepare New Tax Rates

New tax rates will be required to account for the change to GST.

In EXO Business Config > Essential > Tax Rates, set up two new tax rates to be used after 1 October 2010 instead of the "DEBTORS STANDARD GST RATE" and "CREDITORS STANDARD GST RATE" tax rates. The new tax rates should be set to 15%, and should be assigned to tax return key points 5 (Debtors rate) and 11 (Creditors rate).

Do not remove or edit the existing "DEBTORS STANDARD GST RATE" and "CREDITORS STANDARD GST RATE" tax rates—these may still be needed after 1 October.

If clients have any other tax rates set up to use the 12.5% GST rate, new rates at 15% must be set up for each of them as well.

Note: See Appendix 1 for an example showing how tax rates should be changed.

3.1.2 Decide on Pricing

The increase in GST will have an effect on the pricing of all stock items. If clients use GST-exclusive pricing in MYOB EXO Business, updating GST to 15% will increase all prices another 2.5%; if pricing is GST-inclusive, the GST increase will not increase prices, but will reduce margins, as a greater amount of the price is now taken up by GST.

Clients must decide how they will adjust their pricing to account for the change in GST. They may want to increase their prices to match the increase in GST, or they may want to keep their prices the same and absorb the increase in GST (or a combination of both approaches).

Depending on whether clients use GST-inclusive or -exclusive pricing (as set in EXO Business Config), the process of updating prices may be as simple as updating the tax rates (see above), or it may require adjusting the prices of all stock items individually. Where sites require bulk changes, clients should consult their Enterprise Solution Business Partner for possible ways to implement the required changes.

3.1.3 Check All Unprocessed Transactions

Check for any existing transactions that were taxed at 12.5%, but will not be invoiced until 1 October 2010 or later. These transactions may or may not need to have their tax rate updated to 15% on 1 October—time of supply rules determine what period a transaction is considered to fall in and therefore what rate it should have (see section 7 for details on time of supply issues). Transactions to watch for include:

- Sales Orders:
 - Unprocessed or partly processed orders
 - Lay bys
 - Quotations
 - Standing Orders (these are essentially recurring invoices)

- Purchase Orders:
 - Unprocessed
 - Partly processed
- Inward Goods receipts that haven't been costed/invoiced yet
- Jobs:
 - Quotes
 - Timesheets
 - Progress Billing
 - Jobs with lines that have been costed but not invoiced, i.e. Work in Progress lines and/or Ready to Invoice lines
- Subscriptions

Clients should consult their Enterprise Solution Business Partner for possible ways to automate the process of checking and/or updating all transactions.

3.1.4 Determine GST Accounting Basis

Clients must ascertain what GST accounting basis they are using: Payments, Hybrid or Invoice. This affects whether or not they will have to file a GST Rate Change Adjustment (see section 4). EXO Business clients should be on the Invoice basis (this is the only method that MYOB Enterprise Division supports), so will not have to file a GST Rate Change Adjustment.

The IRD has information on how to determine what accounting basis is being used:

<http://www.ird.govt.nz/gst/gst-registering/get-ready>

3.2 On 1 October 2010

3.2.1 Set new Tax Rates

The new tax rates that were set up previously must now be applied to the system:

- Set the new 15% rates as the **Base debtor GST rate** and **Base creditor GST rate** in EXO Business Config at Business Essentials > General Settings.
- For any entities that are not using the default rates, ensure that they are using the correct GST rate, updating their rates as necessary. The following table lists the affected entities and the override properties that must be checked/updated:

Entity	Property	Location
Debtors	Override GST rate	Debtors Account Details screen > Details 2 tab
Creditors	Override GST rate	Creditors Account Details screen > Details 2 tab
Stock items	Sales GST Purch GST	Stock Item Details screen > Details 2 tab
GL accounts	Override GST rate	General Ledger Account Details screen > Details tab
Subscriptions	GST rate	Subscription screen > right-click on line > Tax

Clients can also use the Set Rate Defaults utility in EXO Business Config to update the tax rates on Debtor, Creditor and GL accounts (but not stock items or subscriptions). See Appendix 2 for details.

- Ensure that the User-level profile setting **Allow override of tax amount for invoice lines** is enabled. This is required so that the 15% rate can be overridden back to 12.5% in cases where GST must be applied at the old rate (see section 6).

3.2.2 Implement New Pricing

The pricing plan decided on in section 3.1.2 should be put in place at this time.

3.2.3 Check for and Remove Composite Tax Rates

Some clients may have set up composite tax rates, i.e. single tax rates that combine GST and other taxes in the one rate, e.g. GST of 12.5% plus Import Tax of 5%, set up as a tax rate of 17.5%.

MYOB does not recommend or support the use of composite tax rates in EXO Business. Clients who have been using composite tax rates should remove them and ensure that they are only using the correct GST rates (the only valid tax rates are: 0%, 12.5% and 15%).

3.3 Processing On/After 1 October 2010

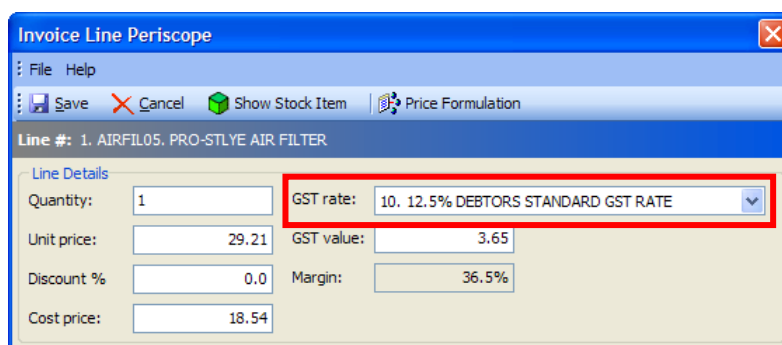
3.3.1 Check and Update GST Rates on Transactions

Ensure that all transactions have the correct GST rate applied, especially those transactions that were identified in section 3.1.3 as needing their rates changed. In most cases the correct rate will be 15%. If you have set up the new tax codes and Debtor/Creditor/stock/GL account defaults correctly (as described in sections 3.1.1 and 3.2.1) then this should happen automatically.

Be aware that some transactions will need to be manually overridden back to 12.5%. This is generally only in relation to time of supply issues (see section 6) and Debtor/Creditor Notes on transactions prior to 1 October (see section 6.1).

For example, time of supply rules mean that Inwards Goods received before 1 October 2010 should be taxed at 12.5%; however, if a Creditors Invoice is raised after 1 October 2010, it will have a GST rate of 15%, and as such will need to be manually altered back to 12.5%.

If you need to override the GST rate back to 12.5% use the Periscope on the invoice line to change the rate:



Note: The User-level profile setting **Allow override of tax amount for invoice lines** must be enabled for users to be able to manually override GST rates on invoices.

There may be cases where it is not possible to override a transaction's GST rate, e.g. Inwards Goods receipts or partially-processed Sales/Purchase Orders where some of the stock lines have already been invoiced. In these cases it may be necessary to abandon the existing transaction and create a new one with the new GST rate.

3.3.2 File GST Return

File a GST return to 30 September 2010.

- Clients who are on a hybrid or payments basis, or who deal in second hand goods, will need to manually calculate and make a special one off GST Rate Change Adjustment—see section 4.
- If the GST period spans 1 October 2010, clients will need to complete a special one-off Transitional GST Return—see section 5.

Note: MYOB recommends that the **Gross derived from GST** option on the NZ GST Return window is always ticked when preparing GST Returns, as this matches how the IRD calculates GST. If this option is not ticked, the system calculates the gross by summing all the relevant transactions' gross amounts. However, the sum for a period may include transactions that still have a GST rate of 12.5%, which could result in the wrong amount of GST being refunded/paid to the IRD.

3.3.3 Update Tax Return Key Points on Old Rates

Edit the old 12.5% tax rates and assign them to tax return key points 9G (Debtors rate) and 13D (Creditors rate). See Appendix 1 for a sample setup.

Note: This must be done after the September GST Return is filed. If the key points are changed before the return is filed, all transactions that were taxed with the old 12.5% tax rates will be assigned to the 9G/13D key points (and therefore treated as adjustments).

4 GST Rate Change Adjustment

Clients who use the payments (or cash) basis or the hybrid basis to account for their GST will need to manually calculate a one off "Rate Change Adjustment". This is an adjustment required by the IRD to account for the change in GST rate to 15%.

Clients using the invoice basis will be required to make this adjustment only if they have purchased second-hand goods for their business.

Note: MYOB EXO Business supports the accounting of GST on an invoice basis only. The payments basis is not supported, nor is the hybrid basis. Consequently the system will not be able to automatically calculate the "Rate Change Adjustment".

The IRD will provide a guide with detailed instructions on how this is to be calculated in late August. You should refer to the IRD instructions for details on how to go about manually calculating and reporting on this in the GST period to 30 September 2010.

5 Transitional Returns

If any clients' GST return periods span 1 October 2010, they must file a special one-off transitional GST return for that period (the IRD will supply the form for this return in early October). This return contains two sections: one for the portion of the return period up to 30 September 2010, and one for the portion from 1 October 2010.

In order to fill out this return, clients will need to use the NZ GST Return window to produce a GST Return report up to September 30, and another from 1 October until the end of the return period. The figures on these two reports can then be used to manually fill in the first and second sections of the transitional return respectively.

The transitional return is only required for the transitional period—clients will go back to using the normal GST return for all subsequent periods. See the IRD’s website for more information:

<http://www.ird.govt.nz/changes/gst/businesses/returns>

6 Time of Supply Issues

Where a transaction takes place across the GST changeover, it may be unclear which period it falls into, and therefore which rate it should be taxed at. Transactions are considered to take place at the “time of supply”. As MYOB EXO Business does not identify the time of supply, clients must ensure that all transactions are taxed at the correct rate.

Time of supply rules determine when a transaction is considered to take place. The standard rule is that supply is considered to take place at the earlier of:

- the date an invoice is issued by a supplier, or
- the date any payment (in part or whole) is received by the supplier.

However, be aware that there are some special rules that apply to certain types of transactions (e.g. Lay-bys, Hire Purchase Agreements, Progress Payments, Subscriptions, Rental/Hire Agreements, Imported Goods and many more)

The IRD website provides advice on how to identify and deal with time of supply issues relating to the GST change:

<http://www.ird.govt.nz/changes/gst/businesses/supply>

If you are entering a transaction after 1 October that, due to time of supply rules, needs to be taxed at 12.5%, then you will need to manually override the 15% defaults in the invoice to use the old Tax Codes of 12.5%.

Note: *The User-level profile setting **Allow override of tax amount for invoice lines** must be enabled for users to be able to manually override GST rates on invoices.*

Providing you have set up the key points on the old 12.5% tax codes correctly (see above), then the GST on these transactions will appear in the correct adjustments section of the next GST return.

6.1 Reversals and Credit Notes

If clients issue or receive a credit or debit note, the GST must be calculated at the rate that applied at the time of the original tax invoice:

- Credit or debit notes issued with respect to invoices issued before 1 October 2010 will have GST calculated at 12.5% for the amended GST-inclusive price.
- Credit or debit notes issued with respect to invoices issued on or after 1 October 2010 will have GST calculated at the new GST rate of 15%

The GST component of any credit or debit notes with 12.5% received or issued after 1 October 2010 should be accounted for as an adjustment on the GST return, in either Box 9 or Box 13 of a future GST return.

This will happen automatically in the next GST return, provided that you create the debit/credit note and assign the old GST codes to the relevant transaction lines (and provided that the old GST codes have been set up to use the correct key points, as detailed in section 3.2.1).

GST Preparation Checklist

Prior to 1 October 2010

		see section
Set up new tax rates to be assigned on 1 October	<input type="checkbox"/>	3.1.1
Investigate the effect on pricing	<input type="checkbox"/>	3.1.2
Decide, plan and test pricing changes to implement on 1 October	<input type="checkbox"/>	3.1.2
Identify unprocessed transactions that will need to have the line details updated from 12.5% GST to 15% GST on 1 October	<input type="checkbox"/>	3.1.3
Determine which GST accounting basis is in use	<input type="checkbox"/>	3.1.4
Determine whether a GST Rate Change Adjustment is required	<input type="checkbox"/>	4
Prepare to file a transitional return if necessary	<input type="checkbox"/>	5
Identify any issues with time of supply	<input type="checkbox"/>	6
Determine processes to manage these issues	<input type="checkbox"/>	6

On 1 October 2010

		see section
Set new tax rates as defaults:		3.2.1
in EXO Business Config > Essential > General Settings	<input type="checkbox"/>	
for all relevant Debtor accounts	<input type="checkbox"/>	
for all relevant Creditor accounts	<input type="checkbox"/>	
for all relevant Stock items	<input type="checkbox"/>	
for all relevant GL accounts	<input type="checkbox"/>	
for all relevant Subscriptions (if any)	<input type="checkbox"/>	
Enable Allow override of tax amount for invoice lines profile	<input type="checkbox"/>	3.2.1
Implement new pricing plan	<input type="checkbox"/>	3.2.2
Check to ensure items are priced as per business requirements	<input type="checkbox"/>	3.2.2
Identify and remove composite tax rates	<input type="checkbox"/>	3.2.3

After 1 October 2010

		see section
Check that the correct GST rate is being applied to transactions	<input type="checkbox"/>	3.3.1
File GST return:		
File return to end of September, if GST return period ends then	<input type="checkbox"/>	3.3.2
File Transitional GST return, if GST period spans 1 October	<input type="checkbox"/>	5
Manually calculate and apply the Rate Change Adjustment, if it applies	<input type="checkbox"/>	4
Set old Debtors default tax rate key point to 9G	<input type="checkbox"/>	3.3.3
Set old Creditors default tax rate key point to 13D	<input type="checkbox"/>	3.3.3

Appendix 1: Sample Tax Rate Setup

Below is an example showing how new rates are created and set up to account for the change in GST.

Initial Setup

Tax Rate No.	Tax Rate Name	Short name	Rate %	Key point
10	DEBTORS STANDARD GST RATE	DR	12.5	5
11	DEBTORS GST EXEMPT	DR-EX	0	N/A
12	DEBTORS ZERO RATED	DR-ZR	0	5
13	CREDITORS STANDARD GST RATE	CR	12.5	11
14	CREDITORS GST EXEMPT	CR-EX	0	N/A
15	CREDITORS ZERO RATED	CR-ZR	0	11Z
16	BAD DEBTS	BAD	12.5	13D
17	BAD DEBTS RECOVERED	BADREC	12.5	9G
18	CUSTOMS GST	CUSTOM	0	13D

Four tax rates set up with 12.5% GST:

- Two defaults rates
- Two rates for bad debts

Default rates set to key points 5 and 11.

Final Setup (after September GST Return has been filed)

Tax Rate No.	Tax Rate Name	Short name	Rate %	Key point
10	DEBTORS STANDARD GST RATE	DR	12.5	9G
11	DEBTORS GST EXEMPT	DR-EX	0	N/A
12	DEBTORS ZERO RATED	DR-ZR	0	5
13	CREDITORS STANDARD GST RATE	CR	12.5	13D
14	CREDITORS GST EXEMPT	CR-EX	0	N/A
15	CREDITORS ZERO RATED	CR-ZR	0	11Z
16	BAD DEBTS	BAD	12.5	13D
17	BAD DEBTS RECOVERED	BADREC	12.5	9G
18	CUSTOMS GST	CUSTOM	0	13D
20	CREDITORS DEFAULT GST RATE NEW	CR-NEW	15	11
21	DEBTORS DEFAULT TAX RATE NEW	DR-NEW	15	5
22	BAD DEBTS NEW	BADNEW	15	13D
23	BAD DEBTS RECOVERED NEW	BR-NEW	15	9G

Old default rates' key points changed to 9G and 13D.

Change after filing September GST Return.

New rates set up at 15%.

New default rates set to key points 5 and 11.

Change on 1 October.

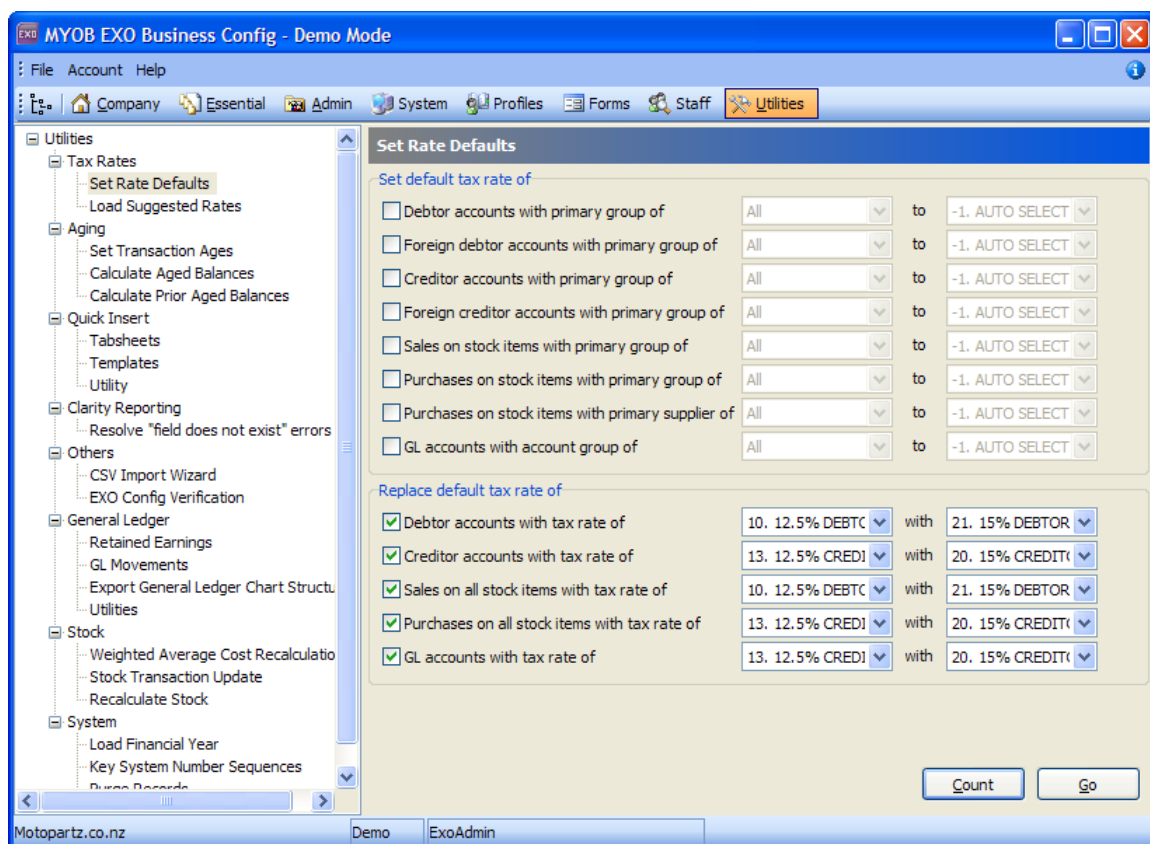
Appendix 2: Set Rate Defaults Utility

The Set Rate Defaults utility can be used to update the tax rates assigned to:

- Debtors
- Creditors
- Sales
- Purchases
- GL accounts

This allows clients to make bulk changes to accounts or transactions that need to have their GST rates updated from 12.5% to 15%.

The utility is available in EXO Business Config at **Utilities > Tax Rates:**



To use the Set Rate Defaults utility:

1. Tick all of the boxes in the **Replace default tax rate of** section.
2. For each line, select the current 12.5% rate in the first combo box and the new 15% rate in the second. (Alternatively, select "-1. AUTO SELECT" for the second box.)
3. Click **Count** to display the number of affected accounts or transactions in each line.
4. Click **Go** to update all accounts/transactions.

This process may need to be repeated multiple times, if there are several different 12.5% rates in use, e.g. if some Debtor accounts use the 12.5% DEBTORS STANDARD GST RATE tax rate and others use the 12.5% BAD DEBTS RECOVERED rate.