



GST Rate Rise - Implications for businesses

With the confirmation in the budget that GST will increase from 12.5% to 15%, we have received a number of queries as to how this will affect Sage software. On the whole, as Sage has always had multiple tax rate capabilities, the change will not have a major impact on processing requirements. There will be a requirement for orders entered before the 1st of October i.e. keyed into the system during September (and therefore entered with 12.5% GST) but not shipped and invoiced until the start of October (and thus subject to the new 15% GST rate) to be edited to have the correct GST rate applied. The GST rate to be applied is based on the date of supply - any goods or services supplied after 30 September 2010 must have 15% GST applied. Sage will handle both rates, and will correctly report the GST due for either the invoice or payments basis.



Inland Revenue has not yet released any information about changes that will be made to the GST Return form. We may very well have to use a transitional form which will include sales and purchases for both rates. This means that the first few returns could be more manual than those you complete currently.

It is my intention to provide more detailed information about GST changes in our next newsletter. In the meantime, some of the following items should be considered:

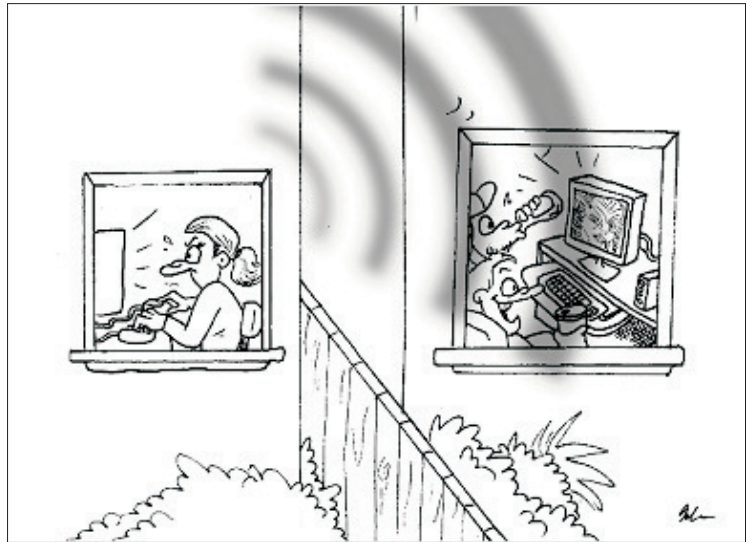
- If you are a retailer you are going to have to reprice all stock items.
- You should consider all prices stated in advertisements or catalogues, especially if your pricing is inclusive of GST. It is often a good idea (even without the change to GST) to include a sunset date on special pricing.
- Think about the cut-off date. Retail customers are going to want to be billed using the 12.5% rate where possible. This will apply particularly in the housing industry, where the amounts of money are large. How about cashflow? You are going to be paying more for your goods and the money owing to you is going to be bigger. You are going to need to fund this.
- When the last GST increase occurred there was a rush to buy goods by 30 September and an unpleasant lull following the introduction of the new GST rate. What can you do, if anything, to combat this? Can you promote your pricing as being held to the 12.5% GST levels until Christmas. You are discounting to achieve this, and therefore reducing your gross profit.
- Many consistent monthly payments, for example, rent or security alarm monitoring, will need to be changed. If your supplier does not ask you to increase your payment, their net income will reduce by nearly 2.2%. The same applies if you have agreements with your customers to pay a regular amount.
- Be careful in the wording of contracts, especially if the supply date could change from September to October, or if the price is GST inclusive. The first instance could have a negative cash flow impact, and the second could make the cost of the goods less expensive. Clauses may be required to cover late supply if pricing is inclusive of GST.
- There will be some cross-over problems. For example, if a credit note is issued in October for goods purchased in September, the GST rate should be 12.5% (Sage can handle this easily, we just set up an additional GST code to handle all transactions at the old rate). The only issue we have is how IRD will want us to report on these cross-over transactions. Some manual reporting may be required, so you may wish to ensure staff have adequate time to prepare these returns.

Note: For those clients on a Cash Payments basis, reconciliation of your GST Return back to your balance sheet GST figure will be a complex task as you will need to identify unpaid invoices for each GST rate. Creating the return from Sage will not be a problem, just the final reconciliation back to the GST control accounts.

Don't let neighbours tap your network

As broadband in New Zealand homes becomes more common, the risks of installing a broadband modem which includes an unprotected, or poorly protected, wireless router increases. The following article may highlight some of the things that you may wish to consider.

"I rebuilt my cousin's home network a couple of weeks ago. She had complained her family had used in a week more than the 5Gb cap in her contract with her internet supplier. They had never used that much before. After doubling her limit with her supplier, she then used another 7Gb in three days!



A year ago her partner had plugged in a new wireless router, which worked perfectly. It also worked perfectly for her neighbours, and had done from the start. Why? Because many routers have little security enabled. She was providing a free internet connection for her neighbours, who were probably downloading large files, such as movies, and she was paying for the service. If they were to download illegal material, the police could track it to her, because it's her internet connection.

What did I do for her? I implemented security in depth. I turned WPA2 encryption on. WEP is weak - don't use it.

I made the password 20 characters long using UPPERCASE, lowercase, numb3rs and ch@ract3r\$. It will be changed every three months.

Every device on a network needs an address: these can be issued either automatically (easy for any new device to connect to the network), or manually (difficult for a new device to connect). A new router goes with the easy option. By choosing the difficult option, I made it harder for her neighbours to connect.

I set up the network so only six devices could exist on the network, cutting off any unwanted neighbourhood connections.

I set up MAC address filtering so it would accept only 'known' devices.

When you set your laptop or PC to search for available networks, a list with network names, called the SSID, appears. By default they include the name of the router a clue to hackers that other settings might be defaults and therefore an easy target. I changed the SSID to 'GoAwayNotFree' to indicate her network was going to be difficult to crack.

It will now be much harder to enter her network than the networks of her three neighbours."

I hope this article will help you understand how important it is to make a wireless network more secure. It will also help you to understand what your technical people should be doing for you. You should also make certain that all your anti-virus software is up-to-date and functioning correctly, otherwise you may be inadvertently inviting other internet users to invade your system ...

Reduce dependence on a few customers

If you have one or two major customers and your business depends on them, take steps to reduce this dependence, if at all possible. As a contractor or supplier, you have little influence on your customers' business decisions. Unless you have a solid contract, they can cut you loose any time they like. Reducing your dependence on them is important because:

- The customer has too much negotiating power.
- You can spend a lot of time looking after them and possibly losing money just to keep their business.
- If the customer's business becomes shaky, you could become just as vulnerable.

Look at ways of getting new customers (or getting old customers back), or consider changes to the services that you provide.

You don't need to complete the IR 886

Do it yourself is a great Kiwi attribute, but not when it comes to tax. If you are going overseas and need to know whether you will become a non-resident, ask your accountant, not the IRD. The department will probably give you an IR886 form to complete to help it assess your residency. Completing it is not compulsory and is best avoided.

Recently a tax consultant had three cases referred to him where the taxpayers had filled in IR 886s and were told they were tax residents. He says, "in each case we were fortunately able to get IRD's position over-ridden and protect the taxpayer's position (and hard earned income)."

Annual accounts and your bank

A big frustration at year end is when bank statements are not available because the bank only sends them out once the statement is full. Your accountant needs to be able to verify your bank balance for all accounts at your balance date. If any statements are missing copies need to be obtained. This should also include summary copies of interest received and Resident Withholding Tax (RWT) deducted. Your bank can also be asked to ensure that a statement is sent to you at balance date for all future years.

If you forget to print your reconciled statement from Sage at year end, we have a custom report which enables you to reprint any statement at any previous month end, with a full listing of all unrepresented transactions at that date. If you would like a copy of this report (only available for Sage 50 v13 and later) please email me and it will be provided free of charge.

Suggestions

Please let me know if you would like a particular topic covered in our newsletter, or if you have any other suggestions that may make it better and more relevant for you.

Our contact details are:
Bean Counters Ltd
P O Box 13-605
Wellington
Ph. 04 477 4411

Best regards,
Shane Durrant

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July 7 2010

Income Tax Returns (non-agent, March balance date)

July 28 2010

3rd instalment 2010
Provisional Tax (June
balance date)
GST for June 2010

August 28 2010

1st instalment 2011
Provisional Tax (March
balance date)
GST for July 2010

Provide WOW factor service!

Our client's plasma TV broke down. He asked the repair company if the job could be done quickly because his infant son was unwell, and the one thing which kept him happy was being able to watch DVDs. The repair firm pulled a real surprise. They provided another plasma TV and installed it. Our client was told he could use it until his own set was repaired. Was our client impressed? Let's say he can't stop telling people about his amazing experience. If you want your customers to talk about you (in a good way), do something big and impressive. It provides WOW! Factor. It builds businesses.