

Further changes to GST

By Dale Adamson, PKF Francis Aickin Ltd

Just as we were getting used to 15 per cent GST and the 'divide by 23 multiply by 3' formula, new legislation was introduced to complicate our lives again from April 1, 2011, so here is a brief summary of some of those changes.

■ Apportionment of GST for private or exempt use. Previously, as long as an asset was to be used at least 50 per cent for taxable purposes, all the GST could be claimed on purchase and adjustments made over the ensuing years for the private use. For large-value assets, this could greatly assist cash flow at the time of purchase. But under the new rules, when an asset (apart from land) is acquired, the purchaser can only claim GST on the estimated business use of the asset.

It doesn't stop there. In subsequent years the percentage use must be reviewed and GST adjustments made. And then finally all assets are subject to a wash-up on sale. Detailed records will

need to be kept to monitor the private use over the life of the asset.

■ For existing assets at April 1, the number of years for adjustment has been limited. This will solve the problem that could occur if an asset was kept for a long period of time, where more GST may have been paid back as adjustments than the amount originally claimed as an input tax.

■ Compulsory zero rating of some land transactions. Land transactions could only be zero-rated previously if they met the 'going concern' rules. Now a GST-registered person must zero-rate a sale of land to a GST-registered buyer who meets certain requirements.

There are some exceptions, particularly if the land is intended to be used for a principal place of residence. Standard sale and purchase agreements have been amended to include the appropriate GST clauses, but these must be completed correctly to avoid surprises.

If zero-rating applies to the land, any other items included in the transaction,

such as equipment, will also be zero-rated as long as all conditions are met. There are special requirements if the purchaser is not going to use the goods wholly for making taxable supplies.

Land transactions are very complicated from a tax and GST point of view, and seeing your tax advisor prior to signing documents can avoid potential problems and cost later.

■ Definition of dwelling (exempt) and commercial dwelling (subject to GST). The commercial dwelling definition has been expanded to include homestays, farmstays, B&Bs and some serviced apartments.

This means that these businesses now have the right to claim GST on the portion of their property that is applied to the taxable activity. However, careful consideration has to be given to registering for GST, as there are further complications down the track.

As with most tax legislation, there are many exceptions or complications to the rules, so please discuss with your tax advisor.

PKF

Accountants &
business advisers

PKF Francis Aickin Limited

right size, right people, right answers

- Experienced business advisers
- Tax experts with proactive advice
- Audit specialists

Kaitiaki: 2 Redan Road email: kaitiaki@pkffa.co.nz
Mangonui: Waterfront Road phone: (09) 408 9366
Office hours: Monday - Friday 8am to 5.30pm

