

GST 2010

How it affects your business

GST Changes

- Rate increases to 15% from 1 October
- Some businesses will have complex changes to administer
- We have a new tax fraction

Example of GST increase being passed on

Current price	Price from 1 October	Price increase
\$1,125 Made up of: \$1000 (GST exclusive price) + \$125 (GST)	\$1,150 Made up of: \$1000 (GST exclusive price) + \$150 (GST)	2.22% Calculated as: \$25 / \$1,125 Not 2.5%

Calculating the GST component

- Prior to the GST rate increase, to calculate the GST component in a GST inclusive price is as simple as dividing by 9
- When GST increases to 15%, you will now need to multiply by 3, then divide by 23

For example:

Price is \$1,000 plus GST, = \$1,150 incl GST

GST component is $\$1,150 \times 3 / 23 = \150

GST Threats (and Opportunities)

1. Registration issues
2. Marketing
3. Pricing
4. Contractual
5. Systems and processes
6. Transitional problems and adjustments
7. Cash flow and profit consequences

1. Registration Issues

1. For some clients who are below the registration threshold, deregistration should be considered but will result in GST having to be paid on business assets
2. It may be time to revisit the basis of your GST registration (payments, invoice, hybrid)

2. Marketing

1. Will sales spike prior to and then decrease after 1 October?
2. How can you maximise sales between now and October?
3. What will be the impact on your profit and your cash flow?

3. Pricing

1. What's your pricing strategy?
 - Absorb the GST in part or whole?
 - Pass on the GST rate increase?
 - Increase price beyond the GST rate hike?
2. Your strategy will depend on many things:
 - Your customers – GST registered or end consumers
 - Market factors – demand for your product/service
 - Your competition
3. You'll need to update all of your marketing, selling and website collateral
4. What's your plan for updating shelf and catalogue prices?

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%

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

1. Do customer contracts give you the ability to pass on the GST rate increase?
2. Do you have periodic supply agreements in place that span the GST rate increase?
3. What are your additional invoicing requirements?
4. Do you have goods for sale on lay by?
5. Do you collect a deposit as part of your trade terms? Will this need to increase?

5. Systems and Processes

1. Is it time for a health check of your GST systems?
2. There are a multitude of issues here. Just some include:
 - Issuing tax invoices, debit/credit notes at both old and new rates
 - Obtaining timely software updates
 - POS and till systems
 - A review of any internal spreadsheets and templates
 - Testing software and template updates for the new rate
 - Training your staff

6. Transitional Issues

1. Cash basis - all payments made or received after 1 October will be accounted for using a new tax fraction
2. To compensate, taxpayers on a cash basis will get an adjustment based on creditors and debtors as at 30 September
3. Where returns straddle 1 October, a transitional return will be required

7. Profit and Cash Flow

1. Consider the impact on profit and cash flow:
 - Your deposit rate
 - Your debtors' ledger management
 - Likely impacts on sales pre and post 1 October
 - Your pricing strategy
2. Do you need to re-do your Budget and Cash Flow Forecast?

What Next?

This presentation is not about giving you detailed and specific advice – We can't do that in such a general manner

For more specialised attention please register for the GST Workshop or request a Site Visit by one of staff.