VAT TRANSITIONAL PROVISIONS

From 1 April 2014, VAT must be accounted for at 15%. How will this affect registered persons and how do they account for any adjustments in their VAT returns? That will depend on the time of supply of the goods or services provided and the accounting basis used. This information discusses both issues.

<u>Time of Supply</u>

Under the VAT Act, the time of supply is the earlier of invoice or payment. So, if you are on an accruals or invoice accounting basis and have provided an invoice, then the time of supply is the date of the invoice. If however, you receive payment before you issue the invoice, then the time of supply is the date of payment.

If you are on a cash or payments basis, then the payment date will determine the time of supply.

How does the new rate impact on the time of supply? The answer lies in the accounting basis used.

<u>Invoice Basis</u>

For all invoices issued prior to 1 April 2014, you should account for VAT at a rate of 12.5%. All invoices issued in March 2014 will be accounted for at the old VAT rate. From 1 April, the new rate of 15% should be used, and your income declared in April will account for VAT at this rate.

<u>Payments Basis</u>

Where payments are received or payments are made after 1 April, for invoices issued or received in March (or earlier), then an adjustment will be required. The following shows how the adjustment is calculated for payments received:

<u>Example</u>

A business sells its product on 28 March 2014 for $1,500. The invoice shows VAT of $166.66 (12.5%). However, payment is not received until 21 April 2014.

The VAT rate change adjustment for this sale is a $28.99 credit, which is claimed in the April 2014 VAT return.

When the return is completed, it shows the $1,500 sale and accounts for VAT at 15% ($195.65). Although VAT is accounted for at 15% ($195.65), a $28.99 credit adjustment is allowable, so that overall the business is only paying 12.5% VAT ($166.66) on the pre-April sale.

VAT at 15%	$195.65
Less VAT at 12.5%	<u>$166.66</u>
Difference = credit available (to be claimed in box 14 of the VAT return)	$28.99

The following shows how the adjustment is calculated for payments made:

Example

A business purchases products on 25 March 2014 for $800, but pays for them on 15 April 2014. The invoice shows VAT of $88.89.

The VAT rate change adjustment for this purchase is a $15.46 debit, which is paid in the April 2014 VAT return.

In the April 2014 VAT return the business shows purchases of $800 and claims a VAT credit of $104.35. Although VAT is accounted for at 15% ($104.35), a $15.46 debit adjustment is payable, so that overall the business is only claiming 12.5% VAT ($88.89).

VAT at 15%	$104.35
Less VAT at 12.5%	$ 88.89
Difference = amount payable (to be shown in box 9 of the VAT return)	$ 15.46

Credit/Debit Notes & Bad Debts

If you issue or receive a credit or debit note, or you are writing off debts that you consider are uncollectable, you should make the VAT adjustments in either box 9 or box 14 of the VAT return.

If you are making any adjustments after 1 April 2014 in respect of invoices issued prior to this date, i.e., the VAT has been previously imposed at the rate of 12.5%, then you should claim/pay on the VAT **component only** on these transactions at the old rate (12.5%).

Further Assistance

Should you have any questions on this Information Sheet or require additional information, you are invited to contact Revenue Management to discuss your concerns.