

BUSINESS TAX UPDATE

Inland Revenue's tax news for businesses

Issue No 66 • September 2015 • IR381

Purchased secondhand goods for your business?

In some situations you may have purchased secondhand goods to use in your business but didn't pay GST on the purchase because the seller wasn't GST registered. The good news is you can still claim a GST credit as long as the goods were located in New Zealand at the time of purchase and the details of your purchase have been recorded.



You may consider buying secondhand items for your business to save money. Even if the seller isn't GST registered you can still make a claim for GST.

Regardless of which accounting basis you use, you must make a payment for the goods before you can claim a GST credit for the purchase.

Example

Alice purchased a secondhand sewing machine for her dressmaking business. She bought the sewing machine for \$160 at a garage sale. To calculate the GST amount to claim as a credit she would use the following formula:

$\text{purchase price} \times 3 \div 23 = \text{GST credit that can be claimed}$

$\$160 \times 3 \div 23 = \20.86

Alice can claim this amount on her GST return.

Secondhand goods are commonly defined as goods previously used and paid for by someone else. In the context of GST, secondhand goods **don't** include:

- new goods
- primary produce - unless previously used
- goods supplied under a lease or rental agreement
- livestock
- fine metal, or goods manufactured from fine metal of any degree of purity.

Secondhand goods purchased from an associated person

When purchasing secondhand goods from associated people, the GST credit you can claim is treated differently.

Associated people are:

- companies controlled by the same persons
- companies and persons with a 25% or greater interest in the company
- partnerships and partners in the partnership
- relatives by blood, marriage or adoption, to the second degree (including people in a de-facto relationship)
- trustees of a trust and persons who have benefited or are eligible to benefit under the trust
- settlors of a trust and persons who have benefited or are eligible to benefit under the trust
- trustees and the settlor of a trust, except where the trustee is a charitable or non-profit body
- trustees of two trusts that have a common settlor

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Inland Revenue
Te Tari Taake

Welcome to Business Tax Update

In this issue: Purchased secondhand goods for your business, getting your GST registrations right, having trouble with your return, self-service calling aid removed.

If you have any suggestions for topics you'd like covered in this newsletter, email

BusinessTax.Update@ird.govt.nz



REMINDERS

20 September: RWT on interest (IR15P), RWT on specified dividends/Māori authority distributions (IR17P) and Resident withholding tax (IR4K) returns and payments are due for the period ending 31 August 2015.

28 September: GST returns and payments are due for the period ending 31 August 2015.

FBT rate change: FBT on low-interest employment-related loans should be calculated using the 1 July 2015 rate of 6.22% for the September 2015 quarter return. This is a decrease from 6.70% last year. The return and payment are due 20 October 2015.

Note: If a due date falls on a weekend, public holiday or provincial anniversary day, we can receive your return and payment on the next working day without a penalty being applied.

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- two persons who are each associated with a third person.

If you purchase secondhand goods from an associated person who is not GST registered, the GST claim is based on the lowest of:

- purchase price
- current market value, or
- GST component (if any) of the original cost of the goods to the supplier.

Example

Alex bought a skill saw from his brother Nathan to use in his building business. The current market value of the skill saw is \$350, but Nathan sold it to Alex for \$250. Nathan is not GST registered and doesn't give Alex an invoice.

Alex can claim GST on the purchase price (\$250) as he paid less than the current market value (\$350). Alex can claim \$32.60 ($\$250 \times 3 \div 23$) as a GST credit on his return.

Getting your GST registrations right

We've noticed some common errors in *GST registration (IR360)* forms that can delay your GST registration. When you complete the form ensure:

- your street address is given in question 4
- a correct business description or business description code (BIC) is given in question 8
- you put information in the "Application to account for GST using the payments basis" section when you choose "Payments basis" at question 10
- you put information in the "Application for alternative taxable period" section when a one or six month option is selected at question 11
- the start date is given in question 12
- your signature is given in question 19.

We're also getting GST registrations with "Family Trust" as the business description, which isn't a business activity. Please provide the actual business activity the trust is engaged in, eg, "farming".

For more information on GST registrations go to www.ird.govt.nz (search keyword: IR365).

Finding the right BIC

If you're not sure what your business description code (BIC) is, go to www.businessdescription.co.nz/ and choose "search" on the home page. Type the closest industry description for your business activity and select the most appropriate code from the list generated. Use this code to complete question 8 on the *GST registration (IR360)*.

Record keeping

When purchasing secondhand goods you may not always receive a tax invoice. In this case you must record the following:

- name and address of the supplier
- date of the purchase
- description of the goods
- quantity of goods
- price paid.

To read more about record keeping go to www.ird.govt.nz (search keywords: record keeping).

Having trouble with your return?

If you have an overdue tax return, are having trouble completing it, or think you're not required to file it, please contact us so we can help you. If the return isn't required we'll update our records to show this. If the return is required, we'll work with you to help you get it in as soon as possible. You'll need to file your returns so we can confirm your correct tax position, You may even be entitled to a refund.

If you've held off filing a return because you're worried you won't be able to pay your tax bill, please send it in anyway. Once you've filed, we can look at options for payment. You might be able to enter into an instalment arrangement so you can pay it off over time. Filing before the due date will help you avoid late filing penalties and if we enter into an instalment arrangement the amount of late payment penalties that we may charge may be reduced.

Depending on the type of the overdue return, we may estimate the amount of tax we think you owe. This is called a "default assessment". We may also charge you a late filing penalty. The default assessment will be replaced by the correct assessment once your return is filed and processed. Even if you pay the default assessment, you'll still have to file the overdue return.

If we don't hear from you, we'll start a recovery process to collect the amount owing and you'll be charged late payment penalties and interest on any overdue amounts. We may also consider taking prosecution action for any unfiled returns.

To find the correct number to call, go to www.ird.govt.nz (search keywords: contact us).

Self-service calling aid removed

We've withdrawn our *Customer self-service calling aid (IR352)* from StationeryXpress and "Forms and guides" online. Our 0800 phone systems talk you through the self-service options so the IR352 isn't needed anymore. Please dispose of any copies you hold as some of the phone functions may have changed.