

VOLUNTARY GST REGISTRATION—SHOULD MY BUSINESS REGISTER?



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It is often assumed registering for GST is just one of the things you do when you start a new business. This however is not the case. You only need to register for GST when your turnover exceeds \$60,000.00 in any 12 month period.

So if you do not fall into this category there is no obligation for you to register for GST and any registration you do carry out will be considered a voluntary registration.

So should you voluntarily register for GST? While this isn't a straight forward answer and will depend upon the nature of your business, there are certain advantages and disadvantages to both options.

If you choose to register for GST the advantages are:

- You are able to claim back the GST on any purchases you make including on capital items such as machinery and equipment.
- You can claim back the GST on business set up costs.
- If you believe that your business will grow to the point where it does need to register for GST, getting an early handle on it helps keep your records up to date and accurate.

There are of course disadvantages you need to be aware of if you choose to register. These are:

- You will immediately need to account for GST on all of your taxable supplies. Take Robert as an example he has started a small bakery business and decided to register for GST when it first opened. He learns that his registration is voluntary and so doesn't think it's an issue to sell his goods without including GST as he hasn't got the system for this set up yet. Unfortunately for Robert he will need to account for GST on everything he sells from the date he is registered even if he hasn't charged his customers for it.
- GST requirements take time to administer. You need to file returns, make payments and keep track of your GST totals. Take Robert our baker again as an example, Robert is extremely busy setting up his new shop, baking delicious goods for his

customers and getting some publicity out about Robert's Cozy Café. This means he finds himself spending hours late at night trying to get his head around his GST requirements.

Then finally there is the issue of paying GST on the current market value of any assets you either sell or own when you de-register from GST. For example, if Robert sells one of his ovens, he will need to pay GST on the current market value of this to Inland Revenue. This is also an issue that can trip up those who aren't fully aware of their obligations when they register for GST. Take our baker Robert again, because he registered for GST not fully aware of his obligations he hasn't claimed GST on the bakery's company car when he first registered. Six months down the track Robert is completely fed up with GST. He decides to de-register to give himself some more free time to deal with his business. What Robert will probably not be aware of is, he will need to pay GST on the current market value of the Company car. This is regardless of whether or not he's originally claimed this. The reason for this is when you register for GST you are legally obliged to claim and charge GST in accordance with the Goods and Services Tax Act 1985. Not being aware of your obligations isn't an excuse. Robert will need to attempt to adjust his original GST return with the Inland Revenue (which isn't always possible) to include the Company car or he is going to be significantly out of pocket.

What Robert's situation really shows is, if you are starting a new business and thinking about registering for GST you need to be aware of your obligations and think carefully about the advantages and disadvantages before you make the decision to register.

If you have any queries about your legal obligations in relation to GST or any of the issues we have raised in this newsletter please do not hesitate to contact the Collins & May Law Team.

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