

How GST works

GST is a 'goods and services tax' on most of the things we buy. This means that each time you buy a product such as a desk or a service such as a haircut, the invoice or till receipt will include GST of 12.5% tax (provided the supplier is GST registered, as most businesses are). Most of the time you probably don't even notice.

This GST portion of the bill eventually goes to the Government as a 12.5% tax on nearly all supplies.

But there is a difference between how GST affects your business and how GST affects the end customer (the consumer).

Here's the difference:

Consumer versus business

If you're buying goods or services in your private capacity, such as a book at Whitcoulls or groceries at the supermarket on your way home from work, you pay 12.5% GST on the cost of the book and the groceries. It's a simple consumer tax you have to pay--end of story.

But if you're a GST-registered business then you both pay GST on your supplies and collect GST on your sales. What you end up paying to Inland Revenue is the difference between the two.

Here's an example:

Suppose you run a hairdressing salon and you are registered for GST. Let's look at a day's trading.

1. Your order for various shampoos, conditioners and other hair products you need for your salon has arrived. You pay the manufacturer's bill of \$300 for hair products which includes GST of \$33.33
2. During the same day you sell 10 haircuts of \$80 (total \$800) which includes GST of \$88.89

You owe Inland Revenue the difference between the two GST amounts:

GST collected on sales:	\$88.89
GST paid out on products:	\$33.33
GST you owe Inland Revenue:	\$55.56

Handy hint

1. If you want to find out the GST amount of a GST inclusive bill, divide it by 9
For example, cost of product: \$90 (GST included) divided by 9 = \$10 GST included in the cost.
2. If you want to add the right GST amount to your invoice, divide the amount by 8.

For example, you want to charge \$100 plus GST. Divide 100 by 8 = \$12.50 GST to add on (total charge \$112.50).

