

G.S.T.

What does it mean?

On 1 October 1986 the Goods and Services Tax (G.S.T.) legislation will come into effect. This will be the biggest change to the New Zealand taxation system in the last 30 years, yet, at present, the implications of the change are not well understood.

Personal tax payers

In principle G.S.T. is pretty simple. An example of how it will work is that if you buy a tube of toothpaste, today, it will cost you \$1.87. From 1 October 1986 the same tube of toothpaste will cost \$2.06. This is based on the original price, \$1.87 plus 19 cents (10%) tax.

If your weekly grocery bill is presently \$75, then from 1 October it will increase by 10% to \$82.50.

Many people have asked, "how the heck am I going to pay for that". Well, the answer is that your P.A.Y.E. tax deductions from your wages will reduce. I have listed below the Income Tax cuts that have been proposed.

the club or association, which in turn must pay that money to the Inland Revenue.

	Before G.S.T.	After G.S.T.	Total
Subscription G.S.T.	\$13.00	\$13.00	\$26.00
	—	\$ 1.30	\$ 1.30
			<u>\$27.30</u>

As we have 89 members then our tax liability will be \$115.70. (89 x \$1.30).

Renting a home

Many Maori people rent their homes from private landlords or government institutions. A question I have often been asked is "will my rent go up?" The answer to that is probably. Although G.S.T. is not payable on rentals, you will find that the goods that the landlord buys, say wood or paint for repairs, or services such as plumbing or electrical repairs will increase because of G.S.T. So it is pretty likely that sooner or later

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Labour	\$20,000
Materials	\$30,000
Total costs	\$65,000
Fortnightly repayments over say 30 years (based on \$53,500 1st mortgage @ 9% interest)	\$190.82

After G.S.T.	Price \$	Tax \$	Total \$
Purchase of Land	15,000	1,500	16,500
Construction – Labour	20,000	—	20,000
Materials	30,000	3,000	33,000
			<u>69,500</u>

Fortnightly repayments over say 30 years (based on \$58,000 1st mortgage @ 9% interest)	216.18
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This year many houses will be under construction on 1 October 1986. The uncompleted portion will attract G.S.T. Using the same example, let us say that the land has been purchased, and the house is half built when the new legislation comes into force.

In transition \$	Before G.S.T. \$	After G.S.T. \$	Total \$
Purchase of Land	15,000	—	15,000
Construction – Labour	10,000	10,000	20,000
Materials	15,000	15,000	
Tax	—	1,500	1,500
			<u>66,500</u>

Fortnightly repayments over say 30 years (based on \$55,000 1st mortgage @ 9% interest)	205.00
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The exact cost will depend on a progress report by a Valuer, on 30 September 1986.

Lease money from land alienations

The Maori Trustee collects lease money for land alienated from its beneficial owners. He provides that service for a fee of 7½%. Once G.S.T. is introduced then the Maori Trustee must collect G.S.T. on that service and pay the G.S.T. to the Inland Revenue.

An example of this is as follows:

(a) Before G.S.T.

The Maori Trustee collects the 6 monthly rental, say \$1,000. He deducts his 7½% fee, \$75 (\$1,000 x 7½%) and distributes the balance to the owners, that is, he distributes \$925.

(b) After G.S.T.

INCREASE IN WEEKLY HOUSEHOLD SPENDING MONEY – COUPLE, OR SOLO PARENT WITH TWO CHILDREN:

Principal Income (Weekly)	0	20	40	60	80	100	150	200	250	300	350	400	450	500
120	70.00	70.00	70.00	65.90	55.80	39.80								
140	70.00	70.00	63.92	51.80	35.80	21.10								
160	70.00	62.20	49.77	36.70	23.70	23.70	32.67							
180	63.54	52.51	39.37	26.30	26.30	28.80	36.67							
200	55.25	42.11	28.97	26.30	28.80	30.20	37.21	36.20						
220	44.85	31.71	25.97	28.40	29.80	31.20	34.21	38.20						
240	34.45	25.71	28.08	29.40	30.80	32.20	32.56	41.55						
260	25.45	27.84	29.08	30.40	31.80	33.20	36.95	46.85	42.77					
280	27.60	28.84	30.08	31.40	32.80	34.20	42.25	50.57	43.07					
300	28.60	29.84	31.08	32.40	33.80	35.92	46.29	49.61	42.11	42.15				
350	31.10	32.34	33.58	36.12	38.52	40.92	44.71	42.11	42.15	43.65	45.15			
400	34.12	36.44	38.76	41.12	41.94	39.34	37.21	42.15	43.65	45.15	46.65	48.15		
450	39.12	41.44	39.68	37.04	34.44	31.84	37.24	43.65	45.15	46.65	48.15	49.65	51.15	
500	39.74	37.06	34.38	32.08	33.08	34.08	40.95	47.35	48.85	50.35	51.85	53.35	54.85	58.56
550	38.29	37.75	38.67	39.63	40.63	41.63	48.50	54.90	56.40	57.90	59.40	60.90	62.40	66.11
600	42.65	43.57	44.49	45.45	46.45	47.45	54.32	60.73	62.23	63.73	65.23	66.73	68.23	71.93

Also the Government is reducing the existing sales tax on most items in order to make sure that you don't end up worse off than before the introduction of G.S.T.

The key point for you to note is that as a private individual you don't have to take any special action to pay G.S.T. The tax is included in the price of things you buy, so the shop keeper and the Inland Revenue have to sort it out between them. You have no further obligations.

Social Clubs/Associations

Our community includes many sports and social clubs which raise money by charging subscriptions to members. G.S.T. must be paid by those members to

the increased cost of maintaining a house will be passed on to the tenant.

Purchasing a house

One of the aims of many Maori people is to build or buy their own home. The housing division of Maori Affairs assists about 530 families into their own homes each year.

How will G.S.T. affect home buyers or builders?

Well, the cost of goods purchased after 1 October 1986, and the cost of completing construction work after 1 October 1986, will be subject to G.S.T. An example of this is as follows:

Before G.S.T.	
Purchase of Land	\$15,000