

24 May 2022

Amanda Calman
Chief Financial Officer
Manawatu District Council

Via email: Amanda.Calman@mdc.govt.nz

Dear Amanda

Manawatu District Council GST review

We set out below our GST Review Report outlining our findings from Manawatu District Council (“MDC”). The report is in a summary format which outlines our findings along with high level recommendations and is consistent with our discussions with you following the review.

This high-level report provides MDC with a list of potential issues and opportunities that may require follow-up or more detailed consideration.

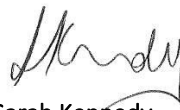
We would like to take this opportunity to thank you and your staff for their assistance during this GST review.

You have requested that we provide this advice to MDC on a confidential basis. Accordingly, it is eligible to be a tax advice document under the non-disclosure rules meaning that it may qualify as a tax advice document that is not required to be disclosed to Inland Revenue in terms of the Tax Administration Act 1994. Deloitte Limited does not place any limitations on your disclosure of this tax advice. However, if you choose to disclose this tax advice MDC’s rights to claim non-disclosure may be forfeited.

Yours sincerely



Phil Stevenson
Partner
for Deloitte Limited (as trustee for the Deloitte Trading Trust)
D: +64 3 474 8665
pstevenson@deloitte.co.nz | www.deloitte.co.nz



Sarah Kennedy
Associate Director
for Deloitte Limited (as trustee for the Deloitte Trading Trust)
D: +64 33633760
sakennedy@deloitte.co.nz | www.deloitte.co.nz



Manawatu District Council

GST Review

April 2022

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Executive Summary

Introduction

As agreed with you, we have undertaken a focused GST review of MDC. While our review of GST compliance processes and procedures for MDC has not identified any significant issues, we have detected some minor areas of risk and have made recommendations in order to mitigate these. We have also identified some opportunities for you to consider further, as well as some process improvement recommendations that may help to mitigate risks arising in the future.

The key recommendation arising from our review is the documentation of MDC's existing processes in relation to GST, and in particular the underlying reasoning for the GST treatment of the various transactions which MDC undertakes.

Scope and approach

The review was completed in the following stages.

1. Questionnaire stage

Deloitte provided a GST questionnaire that was completed by the MDC team. Deloitte then reviewed the questionnaire answers and supporting information provided to facilitate discussion during stage 2.

2. Workshop stage

Using information gathered in the questionnaire stage, Deloitte ran interview-based discussions over Zoom with Amanda Calman, Debbie Fulton and Kathryn McDonald regarding key matters and risks relevant to MDC's industry and practices from a GST perspective to gather more information and discuss the potential issues facing MDC.

3. Reporting

The final stage of the review was to prepare this report to highlight the potential issues or opportunities identified together with the key risk areas in relation to GST.

Report Ranking System

Our report uses a ranking system to represent a high-level overview of the GST risks and opportunities and is intended to allow you to better understand and measure performance and identify areas for further action or consideration.

In each case, our methodology contemplates three possible outcomes:

- Consider (Green) – Indicates the topic should be monitored but immediate action may not be required.
- Review (Orange) – Indicates action may be required but is not as urgent. This is likely to be dependent on additional facts, business strategy, attitude to risk, regulatory developments or similar that management will

need to consider. Items classified in orange are those where we recommend action is taken, however these actions are not of an urgent nature.

- Mitigate (Red) – The strongest categorisation and suggests more immediate remedial action or further analysis is required. We have not identified any aspects which we have classified as red.

Our assumptions and responsibilities

- Our review focused primarily upon discussions with financial staff members and their answers to GST questions surrounding their understanding of the GST systems and procedures in place.
- We have worked through the GST return process with the relevant financial staff and have reviewed a sample GST return and related workings.
- We have reviewed a sample of tax invoices received to identify areas that are potentially exposed to GST risk.
- You remain solely responsible for assessing the conclusions of the review and determining the level and form of action required, with the support of the Deloitte team as required.
- Our Report is not intended to provide assurance with regard to the nature or adequacy of your GST affairs. The review may not identify all sources of GST risks that exist in your business or the risks associated with specific individual transactions.
- Our conclusions are based on our understanding of laws, regulations, administrative and judicial interpretations, and practices at the date of the review, and which may change in future or which may be subject to different interpretation by the relevant taxing authorities.
- This report is intended solely for the information and internal use of MDC and is not intended to be used by any other entity. Deloitte accepts no responsibility, duty of care or liability of any kind to any other person who may obtain sight of this Report or its appendices.

Summary of findings

Goods and Service Tax	
Reference	Subject
1.1	GST policy & procedures manual
1.2	Buyer Created Tax Invoices (BCTIs) – Infrastructure Contractors
1.3	GST on land transactions
1.4	Development contributions
1.5	Grants
1.6	Annual GST reconciliation
1.7	Tax invoice review process
1.8	Reasonableness checks
1.9	Business to business election
2.1	Building consent division
2.2	BRANZ levy
2.3	MBIE building consent levy
2.4	GST apportionment calculation
2.5	Rates in advance
2.6	Deposits

Report Comments and Findings

1. Orange – Review

1.1 GST Policy and Procedures Manual

We recommend that a GST manual is created containing a summary of the technical and procedural knowledge held by MDC which can be made available to all staff members who handle GST both currently and in the future. A document outlining the preparation and review of the GST return should be included in this manual. We recommend that the manual also includes details on the process involved as well as the underlying reasoning for the following transactions:

1. Time of supply for common revenue items, including:
 - Rates (and associated penalties)
 - Subsidies from government / other agencies
 - Petrol tax
 - Rental & leases (land & buildings)
 - Regulatory revenue (animal control, building consents etc.)
 - Development & capital contributions
 - Nursery plant sales
 - Insurance claims
2. Buyer Created Tax Invoices
3. Land Transactions
4. Bond receipts
5. Rates in advance
6. BRANZ & MBIE levies
7. Grants
8. Development contributions
9. Second-hand goods
10. Damages/cost recovery
11. Change in use calculations
12. Tax invoice / taxable supply information requirements

We are happy to assist with preparing a skeleton template or reviewing a draft manual for you if required.

Management Comment

MDC and Deloitte are currently in the process of agreeing a scope and fee in relation to Deloitte preparing a GST manual in order to implement this recommendation.

1.2 Buyer Created Tax Invoices (BCTIs) – Infrastructure Contractors

We understand that the current process regarding infrastructure buyer created tax invoices ("BCTIs") is that a contractor will submit a claim to MDC within 8 days of the end of the month in which the work is performed. MDC will review the claim and if accepted, a BCTI is then created.

One of the requirements to issue BCTIs is that the supplier and the recipient agree that the supplier (in this case the contractor) will not issue a tax invoice for the supply. We understand MDC is complying with this requirement as any claims from contractors which are submitted in the form of a tax invoice do not go through the BCTI process.

For those that submit the claim correctly (and do not issue a tax invoice to MDC), MDC creates a BCTI. The BCTI is dated at the end of the month that the claim relates to (month 1), and GST input credits are claimed by MDC at that point, even though the BCTI is not physically issued until the next month (month 2).

The standard time of supply rules for GST purposes apply to BCTIs. This means that MDC is entitled to claim GST input credits at the earlier of:

- The time an invoice is issued by the supplier or the recipient, or
- The time any payment is received by the supplier.

On this basis, GST is not technically claimable until the BCTI is physically issued in month 2.

We understand that MDC has two potential options to correct this position:

- MDC could raise an accrual at month end for the estimated GST on infrastructure BCTIs to be processed. This accrual would then need to be reversed in the following month once the BCTI is issued to ensure that GST is not claimed twice; or
- Manual adjustments could be made to the relevant GST return.

Both approaches would add additional complexity to the month-end or GST return processes and create a risk of human error. We have discussed these options with the Finance team who are comfortable with retaining the current process, given the risk of human error in adding an additional process together with the fact that this is a timing issue only that involves claims being advanced by only a month.

1.3 GST on land transactions

We note that land transactions present a high level of risk as they are generally of a larger value and can either be GST standard or GST zero-rated with the ability for this status to change over the course of a transaction. While MDC does not have a large number of land transactions, given their value and the non-standard nature of these rules, we recommend that additional processes are put in place.

The Finance team is notified of upcoming property sales and purchases by the relevant business unit to ensure that the GST consequences can be determined before the transaction proceeds. This provides the Finance team with the opportunity to review all property transactions and/or seek external advice prior to preparing the relevant GST return.

MDC should consider designing a GST land transactions flowchart or checklist as a resource for staff. The purpose of this document would be to use a number of questions to determine the likely level of complexity in respect of the transaction and to assist with identifying when external advice should be sought. We would be happy to assist with drafting this document and supporting guidance if required.

Management Comments

MDC have advised that they intend to design a GST land transaction flowchart to assist staff in determining the correct GST treatment of land transactions.

1.4 Development Contributions

As part of the review, we considered whether the treatment of development contributions was compliant with the GST time of supply rules. We understand that a development contribution worksheet is issued to the applicant to show the calculation of the development contribution payable. No GST is returned at the time this worksheet is issued. Customers can then either make payment based on the worksheet amount or request a tax invoice from MDC. GST is then returned by MDC at the earlier of payment being received (based on the worksheet amount) or the tax invoice being issued.

GST time of supply is triggered by the earlier of a payment being received or an invoice being issued. The definition of invoice is broad which means that any document notifying of an obligation to pay can trigger time of supply. We are comfortable that the development contribution worksheet issued is not sufficient to constitute an invoice as it is an excel based calculation only that does not include any details of how to make a payment or a due date. It is therefore likely that GST is being returned at the correct time, however, we recommend that MDC undertakes some further work to confirm that there are no aspects of the emails or other documentation issued by the team with the development contribution workbook that could be considered as notifying the recipient of an obligation to pay.

Management Comment

MDC intends to undertake further work as recommended in order to confirm that there is no risk that the documents issued as part of the development contribution process could constitute an invoice for GST purposes.

1.5 Grants

We understand that MDC receives grant income from the Crown or public authorities as well as other organisations. We note that the GST treatment of grant receipts can be complex. We have set out a high-level summary of the GST treatment below:

1. Grants to MDC from the Crown or a Public Authority
 - A grant made to MDC by the Crown or a public authority is deemed consideration for a supply of goods and services by MDC. As such, MDC should account for GST on these receipts.
 - We understand that the majority of MDC's grants fall within this category and as a result, MDC is returning GST on these grants.
2. Grants to MDC from Crown or a Public Authority received "as agent"
 - This includes grants provided by public authorities which MDC administers, but are made to the recipient by the public authority. Where MDC is acting as an agent for the public authority, MDC should not account for GST output tax on the grant receipts. MDC should also not account for GST on the payment to the grant recipient.
 - We understand that MDC have not recently received any grant payments that would fall within this category. However, there may have been some "as agent" grants received historically. GST advice should be sought in the event any grants of this type are received in the future to confirm the correct GST treatment.
3. Grants MDC receives from other organisations (i.e. not Crown or Public Authority grants)
 - Grant income received by MDC will not be subject to GST if received in consideration for a supply of goods and services by MDC. The definition of "consideration" for GST purposes is

broad and includes payments “whether or not voluntary, in respect of, in response to, or for the inducement of a supply”.

- Given the breadth of the definition of consideration, GST advice should be sought in the event any grants from non-crown entities are received in the future to confirm the correct GST treatment.

In addition to the points noted above, the treatment of each type of grant should be noted in MDC’s GST manual. As the manual should be a “living document”, details of grant treatment can be added as examples of grants that fall within category 2 and 3 are identified.

Management Comment

Once the analysis of grants received into the three categories above is completed by MDC (with assistance of a tax advisor as required), the treatment of grants will be included in the GST manual.

1.6 Annual GST reconciliation

MDC’s GST return process currently involves a monthly GST reconciliation. This reconciliation is essentially a check to ensure that the GST ledger balances are correctly transferred to the GST return. We understand that MDC does not undertake a reconciliation of management accounts or financial statements to the GST returns filed. While it is not a legislative requirement, Inland Revenue generally expects that taxpayers will undertake a reconciliation between the management accounts/financial statements and the GST returns on (at least) an annual basis. These reconciliations, while not required to be calculated to the last dollar, should at least provide comfort that the GST returns prepared are materially correct.

We recommend that MDC adopt a GST reconciliation process annually to ensure that the GST returns prepared are materially correct. We are happy to work with you to develop a GST reconciliation template that would be appropriate for MDC.

Management Comment

MDC and Deloitte are currently in the process of agreeing a scope and fee in relation to Deloitte assisting MDC to prepare a GST reconciliation template in order to implement this recommendation.

1.7 Tax invoice review process

MDC must hold a valid tax invoice to claim an input credit for GST paid on goods and services. The Accounts Payable Officer currently checks all new creditor invoices to ensure that they comply with IRD requirements for a valid tax invoice and have notified suppliers in the past if their invoice doesn’t meet these requirements. Where this is the case, the majority of GST registered suppliers will re-submit a new valid invoice. If they do not, MDC will not claim GST on the purchase.

We recommend that MDC undertakes tax invoice testing of a sample of invoices from your top suppliers each month. This could involve checking the top 10 suppliers in the first month, and then stepping down to the next 10 in the following month so that over time a number of suppliers are reviewed. Appendix A details the requirements of a valid tax invoice that should be used for this review.

For completeness, we note that these requirements will be changing from 1 April 2023 when taxable supply information rather than tax invoices will need to be provided. We discuss this and other upcoming changes at Appendix A.

Management Comment

MDC have advised that they intend to undertake a sample check of tax invoices from their largest suppliers each month.

1.8 Reasonableness checks

We understand that high-level reasonableness checks are performed by you as part of the GST review process, however these are not being documented as part of the return preparation and review process. We recommend that the reasonableness checks you perform are documented. As part of your reasonableness checks you may consider incorporating trend analysis into your GST return process which is useful for identifying outliers for targeted testing. This would help ensure GST compliance and provide evidence of reasonable care having been taken in the event of Inland Revenue review.

Management Comment

MDC have advised that they intend to undertake high-level reasonableness checks as part of the return preparation and review process.

1.9 Business to business election

We understand that no business-to-business election (B2B) has been made for MDC and as a result, no GST input tax credits are available to be claimed on costs that relate to the making of any exempt financial service supplies. The B2B mechanism preserves the ability to claim input tax credits where the financial service supply is to another registered party which itself makes at least 75% taxable supplies. While this is a low risk as we understand that MDC does not currently make financial service supplies, we recommend a B2B election is made as a precaution should MDC inadvertently make financial service supplies in the future. There is no downside to making this election.

Management Comment

MDC have advised that they intend to make a B2B election for MDC.

2. Green – Consider

2.1 – Building Consent Division

We reviewed the treatment of building consent payments to determine whether MDC's processes follow the GST time of supply rules. We understand that GST is returned at the time a building consent application is lodged. Payment is made to MDC at the date of lodgement. We understand that this payment is the fee for building consent work to be undertaken. In some cases, there will be subsequent additional charges to the applicant (for example if additional MDC inspections are required), however whether these will be needed is not clear at the time of application. For this reason, we are comfortable that MDC is correct in returning GST on the initial payment at the date of receipt of the lodgement payment and then in respect of additional charges at the date that these are invoiced.

2.2 – BRANZ Levy

A Building Research Association of New Zealand (BRANZ) levy of \$1 per \$1,000 is applied to all building consents that have building work valued at over \$20,000. We understand that the BRANZ levy is not subject to GST.

MDC charges applicants this levy on behalf of BRANZ. No GST output tax is charged on applications or returned by MDC on the levy. MDC is entitled to retain an administration fee of 3% from this levy to cover its administration costs. As this is a service provided from MDC to BRANZ, MDC issues a tax invoice to BRANZ for this fee and returns GST on the administration fee when the invoice is been issued. The remaining amount of the levy (i.e. the 97%) is then paid to BRANZ without MDC making any GST input tax claims. The net effect for GST purposes for MDC is that GST is returned on the 3% fee.

The administration fee invoice is issued by MDC in the two weeks following the end of the month in which the levy was collected. However, this invoice is dated the final day of the levy connection period (month 1) which means that MDC is returning output early in month 1 rather than in the period in which the invoice is issued (month 2). However, the Finance Team are keen to continue with this process as there would be additional complexity involved in returning this fee in the later month.

Management Comment

MDC have advised that going forward, BCTI's issued to BRANZ will be dated the day that the invoice is issued, in line with the treatment of the BCTI's which are issued to MBIE.

2.3 – MBIE Building Consent Levy

MDC charges the MBIE Building levy of \$1.75 per \$1,000 on all building consents that have building work valued at \$20,444 or more. As this levy is subject to GST, MDC returns GST output tax on receipt of this levy and claims GST on the payment of the levy amount to MBIE.

Similar to the BRANZ levy, MDC is entitled to retain an administration fee of 3% to cover administration costs. MDC deducts this levy from the total amount payable to MBIE. GST output tax is returned on this administration fee. This means that the net effect for GST purposes for MDC is that GST is returned on the 3% fee.

However, the invoicing process differs to the BRANZ levy. MDC issues a buyer created tax invoice (“BCTI”) which is issued to MBIE. The BCTI shows a reduction in the amount paid to MBIE for the administration fee. As requested by MBIE, the BCTI is dated the day that the invoice is issued (rather than the end of the month in which the levy revenue was received). We understand this is typically within the first 8 days of the following month. This means that the GST in relation to the MBIE administration fee is correctly returned in the month that the BCTI is issued.

2.4 – GST Apportionment Calculation

We understand that MDC makes a monthly adjustment to reduce MDC’s GST input tax deduction claimed, based on the level of exempt supplies made by MDC. This monthly adjustment is an estimate based on an annual budgeted amount, and a yearly ‘wash-up’ calculation is performed to correct any under/over payment of GST.

This apportionment calculation is performed using a spreadsheet which was designed by a former staff member in conjunction with MDC’s tax advisors several years ago. Given its age, current staff do not have a clear understanding of the reasoning behind the spreadsheet. Although the spreadsheet is relatively complex, the actual process of inputting the data into the spreadsheet each month is comparatively straightforward.

We note that Inland Revenue’s key requirement is that the apportionment calculations are “fair and reasonable”. Given this and the small level of adjustment being made, the Finance team could consider migrating to a simpler method of calculating the monthly apportionment at some point. This could be undertaken as part of a move to a new system if this occurs in the future. In the meantime, we consider that the spreadsheet appears to be a reasonable basis for calculating the monthly apportionment.

For completeness, we note that Inland Revenue is currently reviewing the GST apportionment rules. One of the potential outcomes of these changes is to reduce the number of taxpayers that need to make adjustments as well as to simplifying the calculations required. The current method of apportionment should be re-considered once there is some further certainty from Inland Revenue in respect of the changes to these rules.

2.5 – Rates in Advance

The GST Act deems a local authority to supply goods and services to any person where any amount of rates is payable by that person to the local authority. MDC will often receive rates in advance of the issue of a tax invoice for the rates instalment. MDC makes monthly GST adjustments to account for the GST on the property rates income received in advance. We consider that this adjustment is correct from a GST perspective.

2.6 – Deposits

In situations where MDC pays a deposit in relation to the purchase of goods or services, it may be possible to claim the input tax credits in relation to the total purchase price rather than only in respect of the deposit paid. This could provide a timing advantage in respect of deposits paid for significant assets.

Law Update

The Taxation (Annual Rates for 2021–22, GST, and Remedial Matters) Act received Royal Assent on 30 March 2022. The Act includes various significant GST changes, particularly in relation to modernising GST documentation and record-keeping requirements.

The Act includes amendments that modernise the GST invoicing rules by replacing the requirements for registered persons to issue GST Tax Invoices, and Credit/Debit Notes, and instead be required to provide the invoice information with no prescribed formats. In addition, the low value supply threshold is proposed to be lifted from \$50 to \$200.

The actual supply information required to be provided remains largely unchanged to the content of the current tax invoices however the proposed changes permit the supplier to choose the form and manner of creating, providing and retaining supply information to be determined by registered persons (including e-invoicing initiatives and electronic recordkeeping). Registered persons will be entitled to claim input tax credits (ITCs) on their purchases once they hold the necessary supply information in whatever form that information comes (rather than needing a valid tax invoice).

The requirement to gain Inland Revenue approval to issue buyer created tax invoices has been removed with a written agreement between the parties introduced in its place.

There is a range of application dates for the changes with some taking effect from the date of enactment and others (which are more likely to involve system changes or similar) deferred until April 2023.

We have briefly summarised the changes in respect of modernising the GST documentation requirements above. Other material GST changes include:

- Input credits for capital raising
- Ability to agree an apportionment method with IR
- Disposal of assets with a mix of taxable and non-taxable use
- Domestic transport services supplied as part of the international transport of goods
- Second-hand goods input tax credit in supplies between associates
- Exports of goods that are delivered to a recipient's vessel in New Zealand
- GST B2B compulsory zero rating of land rules
- GST groups
- More flexibility for changing end date for taxable period
- Taxable supplies of goods not yet in physical possession

Appendix

Appendix A: Tax invoices requirements (until 31 March 2023)

The GST Act ordinarily requires you to hold a valid tax invoice in order to claim an ITC. The requirements for a valid tax invoice varies depending on the value of the supply:

- supplies of \$50 and below – a ‘tax invoice’ is not required (e.g. a receipt may suffice)
- supplies not exceeding \$1,000 – short form tax invoice
- supplies exceeding \$1,000 – full tax invoice

Particulars	Supplies more than \$1,000 (incl. GST)	Supplies between \$50 and \$1,000 (incl. GST)	Supplies of \$50 or less (incl. GST)
Tax invoice required?	✓	✓	X
The words "Tax Invoice" in a prominent place	✓	✓	
The name (or trade name) and GST number of the supplier	✓	✓	
The name and address of the recipient	✓	X	
Date the invoice was issued	✓	✓	
Description of the goods and/or services supplied	✓	✓	
Quantity or volume of the goods and/or services supplied (e.g. litres of petrol or hours of labour)	✓	X	
One of the following: 1. Amount, excluding tax, charged for the supply, and the GST and the total amount payable for the supply, or 2. A statement that the GST is included in the final price (if it has been)	✓	✓	<i>It is best practice to keep records for these purchases, such as invoices, vouchers or receipts. As a minimum, record the date, description, cost and name of supplier.</i>
Invoice total and GST content recorded in NZD ¹	✓	✓	<i>As above.</i>

¹ All foreign currency invoices are required to be converted to NZD at time of supply for GST purposes.

Appendix B Requirements of a valid BCTI (until 31 March 2023)

Where a recipient, being a registered person, creates a document containing the particulars specified in this section and purporting to be a tax invoice in respect of a taxable supply of goods and services made to the recipient by a supplier, being a registered person, that document shall be deemed to be a tax invoice provided by the supplier under subsection (1) where –

- a) the Commissioner has granted prior approval for the issue of such documents by a recipient or class or classes of recipients in relation to the taxable supplies or class or classes of taxable supplies to which the documents relate; and
- b) the supplier and the recipient agree that the supplier shall not issue a tax invoice in respect of any taxable supply to which this subsection applies; and
- c) the document is provided to the supplier and a copy is retained by the recipient; and
- d) the words “buyer created tax invoice—IRD approved” are contained in a prominent place on that document:

provided that where a tax invoice is issued pursuant to this subsection any tax invoice issued by the supplier in respect of that taxable supply shall be deemed not to be a tax invoice for the purposes of this Act.