



Tax Alert

24 November 2022

GST Rate Change

With the ratification of the Sixth Amendment to the Goods and Services Tax Act (Law Number 20/2022) on 22 November 2022, the expected increase in the GST rate change has come into force.

As per the Amendment, from 1 January 2023 the changes to GST rates will come into effect and will be as follows:

General Sector

6% → **8%**

Tourism Sector

12% → **16%**

Hence, with almost a month left, it is essential that businesses registered for GST are aware of these changes and ready to navigate through the resulting implications, from both an administrative and compliance perspective which is looked at below.

Are you applying the correct rate?

Businesses registered for GST should charge GST at the prevailing rate at the time of supply. Generally, the time of supply is the earlier of:

- * When an invoice in respect of the supply is issued or;
- * When a payment in respect of the supply is received

This means, if the time of supply occurs for a good or service prior to 1 January 2023, GST must be charged at the current rate of 6% for General Sector and 12% for Tourism Sector, respectively.

Similarly, if the time of supply occurs for a good or service on or after 1 January 2023, GST must be charged on the supply at the new rate of 8% for General Sector and 16% for Tourism Sector, respectively.

Example

You are in the business of operating a tourist resort. You have received a booking for the second week of January 2023. An advance payment of USD 2,000 was collected for the booking on 15 December 2022 upon confirmation. An invoice for the remaining amount together with additional charges equivalent to USD 1,000 will be raised upon guest checkout on 14 January 2023.

What is the applicable GST Rate?

GST on the advance payment

Advance payment date: 15 Dec 2022

Time of supply: Triggered prior to 1 Jan 2023

Applicable rate: 12%

Output tax: $2,000 \times (12/112) = 214.29$

GST on the invoice raised at check out

Invoice date: 14 Jan 2023

Time of supply: Triggered after to 1 Jan 2023

Applicable rate: 16%

Output tax: $1,000 \times (16/116) = 137.93$

It is often asked, what if a contract is entered into prior to 1 January 2023 but no invoice is received nor a payment is made prior the rate change date or what if a service is actually supplied after the rate change date while part payment is received beforehand or an invoice has already been raised. The answer to all those questions is, follow the time of supply rules as explained above.

Failure to adhere to the time of supply rules as described above may result in incorrect application of GST rates resulting in increased compliance costs.

Nevertheless, keep in mind that it is also likely that the MIRA will enforce Regulations to address transitional issues, especially situations where businesses deliberately issue tax invoices deviating from normal practices to enjoy the lower tax rate. Likewise, in future GST Audits, it is expected that the auditors will further scrutinise payments received, and invoices raised during the period between the passing of the Amendment and the effective date of rate change.

Other Considerations

In addition to the application of the correct rate, below listed are few additional points that GST registered businesses may take into account:

- * Bring about the necessary changes to the accounting and invoicing systems in order to implement the rate change from the cutoff date and incorporate the same to point of sale billings.
- * Ensure that price display requirements are met inclusive of the new GST rate.
- * Update advertisements (brochures, websites, social media posts that display prices).
- * Review existing contracts to identify whether the rate change is to be borne or charged by the business.

Contact us

If you have any specific questions relating to this publication, feel free to contact one of the following members of our team:



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