

What is the difference between payments & invoice basis for GST?



The most commonly used basis is **payments** basis. This means you pay GST tax based on what happened in your bank. Most small businesses use this, and we find the admin of it easier. (We have not discussed the Hybrid basis as it is so rarely used. If you wish to know more about that one, go to the IRD website).

Payments basis	Invoice basis
<ul style="list-style-type: none"> You bill customers \$10,000 worth for the month 	<ul style="list-style-type: none"> You bill customers \$10,000 worth for the month
<ul style="list-style-type: none"> You banked \$2,000 from customers for the month 	<ul style="list-style-type: none"> You banked \$2,000 from customers for the month
<ul style="list-style-type: none"> Under payments basis you pay GST to IRD on the \$2000 figure 	<ul style="list-style-type: none"> Under invoice basis you pay GST to IRD on the \$10,000 figure



For the law students – Table below in the language of IRD

<http://www.ird.govt.nz/gst/gst-registering/get-ready/#Accountingbasis>

Payments basis		
How it works	Advantages	Disadvantages
<ul style="list-style-type: none"> You account for GST in the taxable period in which you make or receive payment. The payments basis is different from the invoice basis as you don't account for debtors and creditors as the end of each taxable period. 	<ul style="list-style-type: none"> The payment basis is suitable for a small business, especially if it currently uses the cash system. Cash books can easily be used to account for GST. You usually only account for GST when payment is received from the customer. This is to your benefit if you give a lengthy period of credit to customers. 	<ul style="list-style-type: none"> You may only claim GST on purchases and expenses after making payment to the supplier.
Invoice basis		
<ul style="list-style-type: none"> You claim GST when you receive or issue an invoice or receive and make a payment, whichever comes first. The invoice basis is similar to the accrual basis of accounting in that adjustments are made at the end of the taxable period for creditors and debtors. 	<ul style="list-style-type: none"> You may claim GST on purchases and expenses before making payment to the supplier, except for secondhand goods. 	<ul style="list-style-type: none"> You may have to account for GST before receiving payment. You need to keep a list of debtors and creditors at the end of the tax period to account for items for which you've received or issued an invoice but don't appear in your cashbook.