

Tax Made Simple

**BUSINESS COMPLIANCE
SOLUTIONS
WEALTH PROTECTION
ADVICE
BUSINESS LIFESTYLE
OPTIONS**

Good tax management takes a considerable amount of stress out of running a business. Many businesses – especially new business – find complying with tax obligations a burden. A distressing number of businesses get into difficulties because they fall behind with tax payments and/or fail to keep good records. This guide offers you some ideas to help you manage your tax obligations more easily.

Understand your basic obligations

Your first task is to gain an overview of the compliance obligations every business faces. Here are two sources of help:

- **Make use of free help first**

If you are new to business, or you are having difficulty with your tax compliance, make use of the free services offered by the Inland Revenue Department (IRD). Visit www.ird.govt.nz - the IRD's helpful website. It features articles on various aspects of tax, and frequently asked questions (FAQ). You can also download forms and due dates. Note: you may find some of their articles to be a little confusing.

- **Advantages of a chartered accountant**

Few businesses achieve success without the help of good advisors. Give serious consideration to using a chartered accountant as your tax agent (submitting tax returns on your behalf) and as a tax advisor.

Here are some of the benefits:

- Chartered accountants deal with tax issues every day and keep up with the latest tax rulings and changes. It makes more sense to use a specialist than to divert your energies from your core business activities, in an attempt to keep up with changes that might affect your business.
- A chartered accountant can help you set up a good record keeping system and a calendar of tax returns to streamline your tax compliance.
- You'll get reminders of due dates for tax returns, helping you to avoid late payment penalties.
- Submitting your end of year tax returns is time consuming and tricky for beginners. Your chartered accountant has the experience of preparing many returns each year.
- A chartered accountant can help you claim all the expenses you're entitled to – and is likely to be aware of more than you are.
- You also get advice on issues such as the tax advantages of leasing versus buying equipment, using a private vehicle or company car, and other tax matters.

To find a suitable chartered accountant, contact several other businesses similar in size or industry type to yours. They will usually be happy to tell you which accountant they use, and even give an indication of the fees charged.

If you consult your accountant more regularly than just for end of year accounts, you should expect to pay more for the service. Remember though, that low fees are not as important as the value the chartered accountant can add to your business.

It is worth speaking to several accountants before making your choice. Look for a person with whom you can establish a good working relationship. If your business is small or just starting, look for an accountant with a special interest in small business and in helping businesses to grow. Some accountants are more proactive in this area than others. Ask the accountant what they could do for your business.

A tax compliance overview

The three main taxes are income tax, PAYE, and GST. Other taxes include fringe benefit tax (FBT).

▪ **Managing your income tax**

Income tax is payable on the net profit of your business. That is, the difference between your business income for the goods and services you sell, and your business expenses, which you can claim against business income. Note that the net profit includes drawings from the business by the business owner(s).

Generally, claimable business expenses are those expenses incurred in the production of goods and services for sales. Some typical business expenses you can claim include office rent, stationery and supplies, wages, electricity, business phone, etc.

The capital you put into business is not claimable. Also, all plant and equipment you buy for the business must be depreciated over a period of time (so that you can only claim a percentage of the costs each year).

An accountant is the best person to explain to you in more detail how this works, and the different ways of claiming depreciation. The accountant can help you draw up a depreciation schedule for all your plant and equipment.

▪ **Income tax in your first year of business**

Many people starting out in business are under the illusion that they don't have to pay tax in the first year. This is certainly not the case. The illusion of a 'tax holiday' comes about because the income of a new business cannot be properly assessed until the first year's accounts have been completed. Tax is then due on the net profit (if there is any).

If there is a profit, the business may be required to pay provisional tax during the course of the next year, based on the results of this first year, plus a percentage for growth in the coming year, or an estimate of likely profits in the year ahead.

Many new businesses find this 'double' tax bill in the second year (tax on the first year's trading, plus provisional tax for the second year's trading) a difficult burden, as they have not made suitable provision for the tax payments.

Provisional tax is similar to PAYE for a wage or salary earner: it is a way of spreading out taxes for a business, so that instead of the business facing one large tax bill at the end of the year, the payments are evened out during the course of the year. The tax is called

'provisional' because the amounts are only an estimate, until the actual net income is determined at the end of the trading year.

The difference between the actual net income and the provisional tax paid is sorted out in a terminal tax payment, due on 7 February each year (or 7 April if you use a tax agent registered with the IRD). This could mean an additional payment (if the business has done better than expected) or a refund from the IRD (if the reverse is true).

Your accountant will help you sort out the calendar of dates involving provisional and terminal tax and explain the process more fully to you. You can also download a tax calendar (covering all tax payments) from the IRD's website, www.ird.govt.nz to help you plan your tax payments.

▪ **Dealing with the Goods and Services Tax**

You must register for GST if your business income exceeds \$60,000 per year. This means that you must add GST to all your invoices, but you gain the benefit of being able to claim back the GST you pay out on business expenses. The difference between GST gathered on income and GST spent on expenses is calculated on a GST return that you submit.

Smaller businesses with a turnover of less than \$500,000 per year have a choice between filing GST returns every month, every second month, or every six months.

In the start-up period, for example, you might typically get a GST refund from the IRD because your expenses have been higher than your income. However, your aim is to start sending healthy GST payments to the IRD as soon as possible. If you keep getting GST refunds, your business is likely to be running at a loss!

GST reports are simpler to manage than end of year accounts, and many businesses complete the reports themselves. The task is made easier still if you use an accounting software program that allows you generate GST reports at the click of a button.

You will need some advice at the beginning from your chartered accountant on how to make the returns, which items (such as bank charges, wages) carry no GST, and how to handle other adjustments (such as exported goods, or zero GST rated supplies).

▪ **Avoid the cashflow trap**

Remember that any GST you collect on invoices does not belong to you. Do not fall into the trap of using the GST you accumulate from customers to help fund your business.

▪ **PAYE Tax**

If you employ staff you must always deduct PAYE tax. If the PAYE for your business is less than \$500,000 p.a. you must pay IRD monthly, due on the 20th of the following month. Larger businesses where their annual PAYE is more than \$500,000 are required to pay 2x/month, and must file their PAYE electronically.

In addition to PAYE, employers may also need to undertake deductions for: student loan repayments, child support, Kiwisaver, or any benefits, bonuses or other allowances.

▪ Other taxes

Other taxes include Fringe Benefit Tax (FBT) - essentially a tax on 'perks' provided to employees, such as motor vehicles or low interest loans. Many businesses prefer to leave FBT for their tax advisor to calculate.

Another 'tax' (officially classed as a levy rather than a tax) is ACC. As an employer, or if you are self-employed, you are responsible for paying the annual ACC levy, which provides cover and compensation for work-related injuries. Your annual levy is based on the type of industry you are working in and the amount you pay in wages and/or your annual income.

Home businesses

If you run a business from home, you can claim a proportion of certain costs, such as telephone costs, plus a portion of the home rates and power costs. Typically this is based on the percentage area of your home dedicated to your business. Visit the home business section of the IRD website www.ird.govt.nz for more details, and/or speak to your accountant.

Your duties as an employer

If you employ staff, your responsibilities include:

- Keeping appropriate wage and salary records.
- Deducting Pay As You Earn (PAYE) tax from pay cheques.
- Deducting other relevant taxes such as student loan repayments and child support payments.
- Remitting the PAYE and other taxes to the IRD by the 20th of the following month (if annual PAYE is under \$500,000).
- Providing employment contracts for all employed staff.
- Developing appropriate work place policies, and implementing policies and procedures to meet all Health and Safety Standards.
- Pay employer related expenses including Holiday Pay, Sick Leave, Annual Leave, ACC .
- Meet all employer related KiwiSaver obligations including employee deductions, employer contributions, and KiwiSaver related administration.

Your chartered accountant and/or the IRD can help you set up a system to make this work easier. Also get advice if you employ sub-contractors rather than salaried or waged employees, as the distinction between employee and contractor is not always as clear-cut as it might seem.

Good management eliminates tax 'shocks'

In a well-managed business there should be no such thing as an unexpected tax bill. Just about all your tax obligations are predictable and therefore manageable. Keeping accurate, up-to-date records is essential. These should include:

- **Banking:** cheque books, deposit books, bank statements
- **Your income:** invoices, credit card sales, debit and credit notes
- **Your expenses:** invoices for purchases, credit card purchases
- **Cashbook,** petty cashbook and wage book.

Good management also includes:

- Estimating your tax liabilities at regular intervals and setting aside money to meet tax obligations.
- Opening a separate bank account for this money so that it is not confused with your other funds.
- Being aware of due dates for taxes to avoid penalties. Visit the IRD's website www.ird.govt.nz for details of late payment and late filing penalties. It is important to be on time!

Final tips

- Gain a clear overview of your tax obligations, but get expert advice on details from your accountant.
- Keep good records to take the stress out of your tax work and to minimise accountancy fees.
- Eliminating tax 'shocks' is the sign of a competent business manager. Work with your accountant to prepare for your tax bills.
- Claim the expenses you're entitled to, but don't become obsessed about minimising your taxes. Focus instead on growing your business.
- If you make a mistake calculating your tax, or you don't think you can pay a tax bill, contact your accountant or the IRD early to discuss a plan of action: 'voluntary disclosure' will count in your favour.
- Be happy about paying taxes: it shows you're successful!