

A Small Business Guide to Tax

Contents

- 1** **Chapter 1** - pages 4-5
A small business owner's introduction to tax
- 2** **Chapter 2** - pages 6-13
Choosing a business structure
- 3** **Chapter 3** - pages 14-17
What are the main small business taxes and levies?
- 4** **Chapter 4** - pages 18-21
Maintaining business records for tax purposes
- 5** **Chapter 5** - pages 22-25
Tax registration requirements
- 6** **Chapter 6** - pages 26-31
Tax types in more detail
- 7** **Chapter 7** - pages 32-34
Tax payment due dates
- 8** **Chapter 8** - pages 35-38
Tax forms and when to file them
- 9** **Chapter 9** - pages 39-40
Where to find support and more information
- 10** **Chapter 10** - pages 41-45
How to get money out of your company
- 11** **Chapter 11** - pages 47-48
Getting professional advice



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General:

Afirmo is here to make it easier and quicker for small businesses to understand and comply with government and other regulations and obligations and get on with their businesses and succeed.

We do this by packaging information and advice from across many sources including

government websites into tools and resources, designed with small businesses in mind.

To make our resources as easy to understand as possible and to avoid overwhelming our audience, we aim to provide enough detail to help in the majority of situations, rather than comprehensive detail for all situations.

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1

**A small business
owner's introduction
to tax**

A small business owner's introduction to tax

When you run a business, even if it's just a side gig, it's your responsibility to manage your tax obligations correctly.

Accounting software packages and online services like Afirmo can be a big help. But as a small business owner you're required by law to get it right, or put it right if you make a mistake. And putting it right can sometimes involve penalties and interest payments.

The tax types, processes, dates and forms you need to know about will typically depend on your business structure and whether you employ staff.

So, we'll start by explaining the main business structure options for small businesses. Then we'll take a brief look at the various tax types so you can make a note of the ones that are likely to apply to you.

With those fundamentals sorted, you can quickly identify which parts of the more detailed sections are most relevant to you.



2

Choosing a business structure

Choosing a business structure

There are several common ways to structure your business.

You can operate as a sole trader, a company or a partnership. The best option for you will typically depend on whether:

- There'll be more than one business owner
- The business will be applying for large loans or taking on other risks
- The future includes plans to sell up or attract investors

All of these business structures must pay tax, are able to export goods and services overseas, and can take on employees or contractors.

To help you get started, here are some of the main pros, cons and taxation differences for each main type. There are other considerations but good to understand the basics.



Sole trader business structure

Many people who are self-employed, contracting or starting a small business begin as a sole trader. It's the easiest way to get set up and the simplest to operate. Later on, if a company or partnership structure would suit your business better, you can always change. This does however involve time and cost so getting it right upfront is obviously better.

Benefits of being a sole trader

- You can just start - there's no legal entity to put in place or pay for, because you are the 'sole trader' and you almost certainly already have an IRD number unless you have moved to New Zealand recently
- You have full control
- All profits go to you
- If you make a loss, it can be deducted from other income you might earn before calculating your tax to pay. Other structures can allow this also but normally involves some more forms to fill in

Downsides of being a sole trader

- You're responsible for all business debts, so you could lose personal possessions if you don't pay what you owe. You have no limited liability (but can consider insurance for some risks)
- It's harder to sell a sole trader business, because legally it's just you
- If you employ your spouse the IRD will need to approve their employment terms
- Getting finance or attracting investors can be more difficult, which can limit business growth





Tax as a sole trader

As a sole trader you pay tax on all the income you earn. You can subtract the cost of sole trading work-related expenses from your total income to reduce the tax you pay, like other business structures.

At the end of each financial year, you file a tax return as an individual with Inland Revenue. Your tax return will also include income from all other sources and any tax already paid during the year. Other income sources could include part-time or full-time paid employment, other contracting work, interest earned on savings and investments, any rental income and others.

If you're registered for GST (see below) you have to add GST to what you charge customers and pass it on to Inland Revenue at regular times during the year. At the same time, you can claim back the GST you have paid on expenses related to your sole trader business.

As a sole trader you have to pay ACC levies, which we discuss in a later chapter. [[hyperlink to ACC levies chapter](#)] You can choose to join a KiwiSaver scheme and make your own contributions, or continue contributing to a scheme you already belong to. If you also earn a salary or wages, your employer will still have to take deductions from what they pay you.

Although being a sole trader is relatively straightforward, it still pays to get advice from an accountant or business advisor to check if it's the best structure for you. The Afirmo app also has a business selection tool to help you make this decision. For example, if you're in another country for a good part of the year, you might have to pay tax to that country's government. Spending more than 183 days within any 12 month period in Australia, even if it's spread over several trips, makes you an Australian tax resident. Afirmo takes the hassle out of these pain points for you.

For more information see our [guide to setting up as a sole trader in New Zealand](#).

Company business structure

A company is a different legal structure to you as an individual. This provides limited liability in the event that the business fails, but also results in more tax admin to consider. People tend to choose a company when the desire for protection against failure is more important than the hassle of increased tax admin.

A company has directors and shareholders, but you can be the only one if that suits. Directors run the company and shareholders own the company.

Shareholders are responsible for the company's debts up to the value of each person's unpaid shares. You can however choose to offer \$1 as share capital. There are no minimum limits. Shareholders can also receive an agreed share of the company's profits in the form of a dividend as well as choosing other ways to be paid by the company.

Operating your business as a company is more complex than the other options and can add to administration time and costs. It's important to get trusted professional advice about the legal and financial requirements before you decide to register a company. Ultimately all companies are registered with the New Zealand Companies Office. Afirmio is a registered partner of MBIE (Ministry of Business Innovation and Employment) which runs the Companies Office so we can incorporate the company on your behalf also if that helps.

Benefits of operating as a company

- Companies pay corporation tax at a lower rate than the top personal income tax rates
- Each shareholder's financial responsibility is limited to how much unpaid share capital they have
- A company is often seen to have a higher standing than a sole trader
- It's easier to borrow money or attract investors
- A company's growth is not limited by being anchored to one person (as you can appoint multiple directors and shareholders)

Downsides of operating as a company

- Companies have to manage greater regulatory compliance
- Company directors have legal responsibilities
- Company director and shareholder details are publicly available
- You have to file tax returns for the company, as well as your individual income tax return
- You have to file an annual return with the Companies Office to confirm the public details are still valid

Tax as a company

Companies pay a single rate of tax on their income after business-related expenses have been subtracted from it. If the company decides to pay a dividend from this profit to its shareholders, then the company pays a slightly higher percentage of tax. The shareholders may have to pay additional tax or claim a refund depending on what their total taxable income is in a tax year.

If the company doesn't make a profit, it usually doesn't have to pay tax. However, any loss made by your company cannot be subtracted from your personal income for tax purposes, like it can when you're a sole trader, unless you decide to elect the company to be a Look Through Company (LTC), in which case you can get the losses offset against your personal income as well as enjoy the limited liability of being a company.

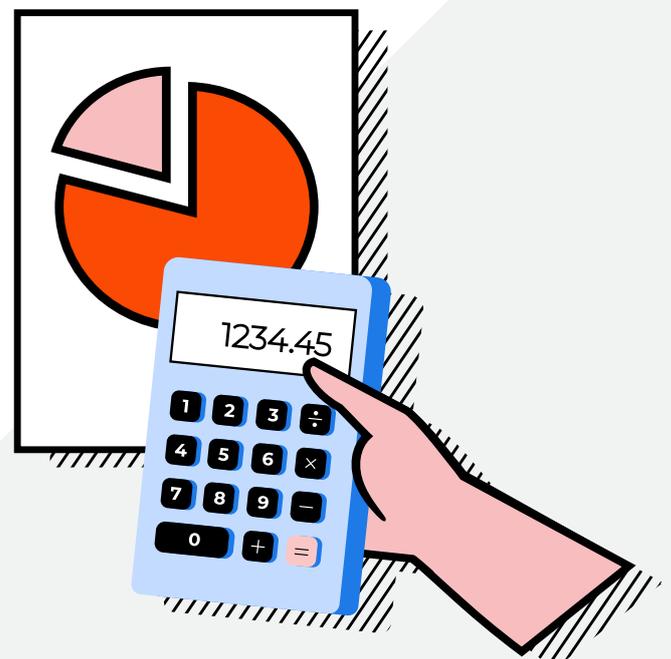
If your company is registered for GST (see below) it has to add GST to what it charges customers and pass it on to Inland Revenue at regular times during the year. At the same time, the company can claim back the GST paid on business-related expenses.

When you work for your own company, you can choose to be either:

- a non-PAYE tax paying shareholder employee, or
- an employee of the company on a regular salary with PAYE tax deductions

The choice you make will affect your KiwiSaver contribution arrangements and how you pay ACC levies, which we discuss in a later chapter. It's important to get professional advice to help you choose the best option for your current situation and future goals.

For more information see our guide to [registering a company in New Zealand](#).



Partnership business structure

A group of people or other entities can choose to form a business as a partnership. The way they share the work, debts and income is documented in a partnership agreement, along with things like how disputes will be resolved and what happens if a partner wants to leave.

It's a structure that typically works well for groups of farmers, lawyers, architects, dentists, accountants, public relations specialists and other professionals.

In many ways, a partnership sits between the sole trader and company business structures. The partners retain a good degree of individual standing, while also forming a recognisable

entity that doesn't rely on one particular person for its existence.

In some cases the partnership can limit its liability through being a limited partnership. This section deals with non-limited liability partnerships as intended to be an introduction to the business structure.

Benefits of operating as a business partnership

- Partners can invest money into the business, either by 'buying in' or, at any later stage, by mutual agreement
- If the partnership makes a loss, each partner can subtract their share of the loss from their other income before calculating their individual tax to pay
- Partners can bring different strengths and experience to leading and managing the business
- The work and responsibility involved in running the business can be shared by the partners, so it doesn't rest on one person's shoulders
- It can be easier to borrow money as a partnership, compared to a sole trader as more people are involved and therefore more capital can be pledged as security

Downsides of operating as a business partnership

- Each partner is personally responsible for all partnership debts, which puts their personal possessions at risk if debts can't be repaid
- If any partners can't pay their share of the business debts, then the other partners are legally required to pay it for them

It is possible to be a 'limited partner', such as an investor, in which case your responsibility for debt is limited to the amount you invested in the partnership. If the partnership does make a loss, being a limited partner also affects how you calculate your personal tax offsetting share of that loss.

Tax as a business partnership

All of the profit from a partnership is shared among the partners according to the partnership agreement. Each partner then pays individual income tax on their share of the profit, plus their income from all other sources. The partnership itself generally doesn't pay tax, but still has to file an IR7 partnership tax return with Inland Revenue at the end of the financial year.

As a partner, you pay ACC levies based on your income from the partnership, unless

you're a partner who has no active role in the day-to-day operation or administration of the partnership, such as an investor-only partner.

Partners can make their own KiwiSaver contributions directly to a scheme provider, unless the partnership pays them a salary or wage with PAYE tax deducted. In that case, the partnership is responsible for deducting and managing the KiwiSaver contributions as an employer would.



3

**What are the main
small business taxes
and levies?**

What are the main small business taxes and levies?

Here's an introduction to the main taxes and levies in New Zealand, to help you identify which ones might apply to you. We explain each of them in more detail in a later section.



Income tax and provisional tax

In New Zealand everyone has to pay tax on the money they earn, whether they're an employee, sole trader, contractor or in a partnership. Companies also have to pay tax on their profit (income less the expenses related to earning that income).

Income tax and provisional tax are actually the same thing. Provisional tax is just a way of paying your income tax in advance instalments during the year, based on your expected annual income. Inland Revenue will let you know if you have to pay provisional tax. It's usually required if you paid more than \$5,000 in income tax the year before.

GST

If you or your company are registered for GST (goods and services tax), you have to add 15% onto what you charge and pay it to Inland Revenue. So you're really just collecting GST on the government's behalf.

If you're registered for GST, you can also claim back any GST you pay on expenses related to the GST-generating work you do.

You have to register for GST and start filing returns with Inland Revenue as soon as you think you'll earn more than \$60,000 in the next 12 months. This excludes any employment income you pay PAYE tax on. Otherwise, registering for GST is optional. There can be benefits of registering for GST even if you have less than \$60,000 in revenue.

Fringe benefit tax

Fringe benefit tax (FBT) applies when a business provides something of personal benefit (a perk) to an employee or shareholder employee and the perk has not already been taxed.

Common examples include providing an employee with:

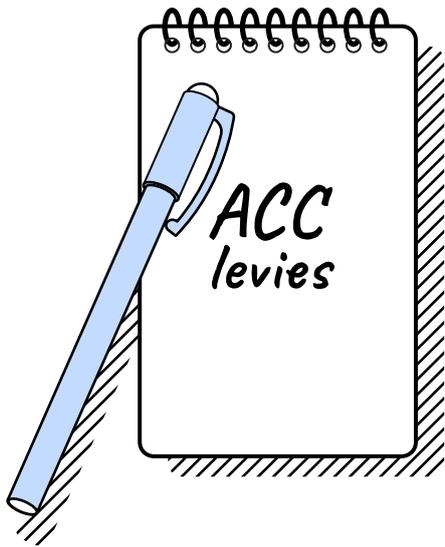
- Financial contributions towards insurance premiums or gym memberships
- Private use of a vehicle owned by the business
- Discounted goods or services, such as making your products available at staff rates
- Low interest loans

KiwiSaver-related taxes

Here's a quick summary of how tax works with KiwiSaver in New Zealand.

- Individuals' percentage contributions are calculated on their pre-tax income, but they still pay tax on their full income
- Employer contributions are taxed (see ESCT below)
- KiwiSaver investment earnings, such as interest and dividends, are taxed - but when you withdraw money from KiwiSaver it is not taxed



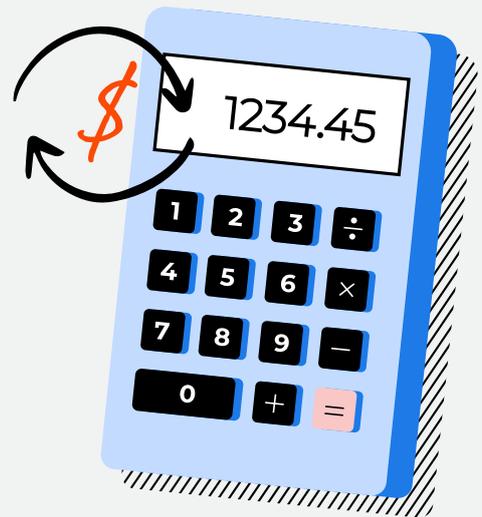


ACC levies

ACC collects three levies to fund people's claims when they're injured and to pay for injury prevention programmes. Based on income and the type of work you do, they're known as the work levy, earners' levy and working safer levy. Sole traders pay all three levies. Employers pay the work levy and working safer levy and deduct the earners' levy from each employee's pay on Inland Revenue's behalf.

PAYE tax

PAYE stands for 'pay as you earn'. PAYE tax is deducted from an employee's pay by their employer according to the employee's income and tax code. The employer forwards the deductions to Inland Revenue.



ESCT

As its name suggests, employer superannuation contribution tax (ESCT) is the tax an employer deducts, on Inland Revenue's behalf, from cash contributions they make to an employee's superannuation account, such as KiwiSaver.

4

**Maintaining business
records for tax
purposes**

Maintaining business records for tax purposes

Good business records make it easier to calculate your income, expenses, tax returns, GST returns, employer costs and annual accounts as a business. Good business records also help you to run your business well and manage your cash flow. If you end up looking for investors, applying for loans, or selling your business, you'll be expected to provide detailed and accurate financial records.

When it comes to tax, these records have to be kept for seven years, in case Inland Revenue decides to audit you. If you're keeping your records on a computer, make sure you back up regularly. It's a good idea to store the back-ups off site. If you use a cloud based accounting package, or use Afirmo then these back ups are part of the standard product offering.

Below is a summary of the records you should keep - some apply to all businesses and some depend on what you do and how you do it.

There are changes coming effective 1 April 2023. We will deal with these after this e-book as the details may change between writing this e-book and 1 April 2023. You can also keep the existing record keeping after 1 April 2023 so the below comments will remain relevant.

It's important to keep your business and personal finances clearly separated. This usually starts with opening separate bank and credit card accounts for your business, so you can easily record and explain all transactions that flow in and out of your business.



What tax records should all New Zealand businesses keep?

Here's a list of records according to Inland Revenue.

Main records:

- A cash book that records what you sell and buy and how the transactions were made, e.g. cash, ATM, direct credit, internet banking
- Petty cash book showing cash added and what it was spent on, such as postage, milk and taxi fares
- An up-to-date list of who owes you money and who you owe money to

Banking:

- Deposit books with completed stubs
- Bank statements for all accounts, including credit cards
- Statements showing all interest earned or paid

Income:

- Invoices, credit card sales records
- Debit and credit notes (you send these to customers if your prices for goods or services change after you've sent them an invoice)

Expenses:

- Invoices and credit card receipts for your purchases

Records showing how you calculated:

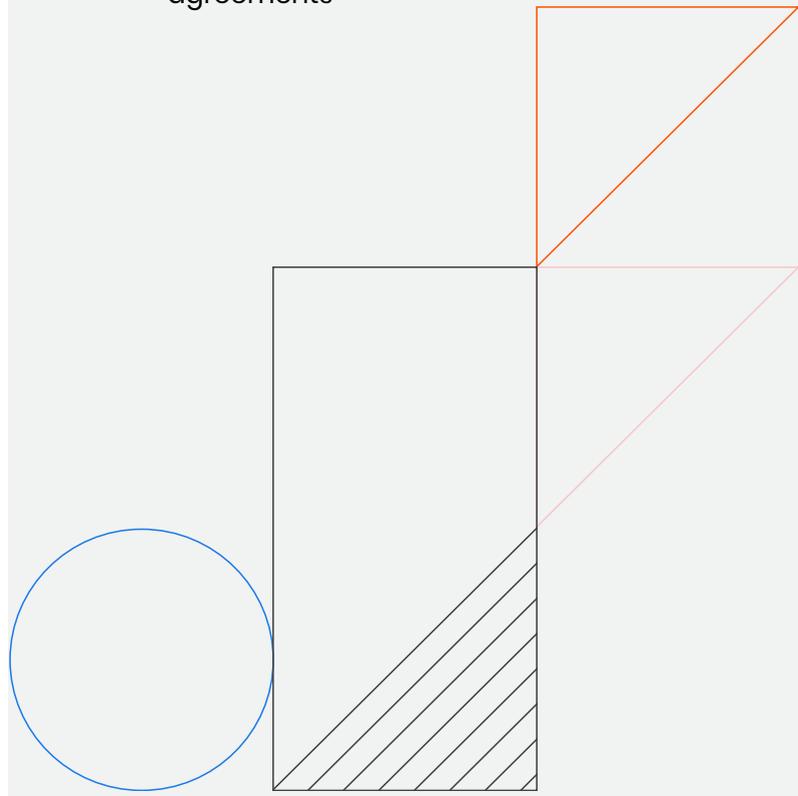
- Tax returns
- Home office expenses
- Private vs business use vehicle expenses (logbook)

Financial accounts that include:

- Balance sheets
- Final profit and loss statements
- A list of assets and liabilities (what you own and what you owe)
- An asset schedule and depreciation calculations
- Dividend statements

Legal documents:

- Lease, credit, and sale and purchase agreements



What additional tax records do some businesses have to keep?

The following tax records are only required if you:

Use a home office:

- Records of home expenses, such as rates, water, power, gas, internet, insurance and maintenance. Also details to prove what percentage of the home is used for business purposes, as this will impact the claim

Register for GST:

- Invoices showing GST you charged
- Invoices or receipts showing GST you paid

Keep stock:

- Manual or computer-based stock inventory/movement records, regular stock-take records

Use a private vehicle for business:

- Records of all vehicle running costs and a logbook

Offer fringe benefits (perks):

- Records of all benefits, such as private use of business vehicles, entertainment expenses, business-paid gym memberships, and free or discounted goods and services (staff rates)

Use a cash register:

- Day books, till tapes and reconciliation records

Use a cash register:

- Employment agreements
- A wage book that keeps separate records for each employee of all wages and deductions, such as total earnings before tax; deductions for PAYE, student loan and child support; KiwiSaver employee deductions and employer contributions; employer superannuation contribution tax and so on.



5

**Tax registration
requirements**

Tax registration requirements

These will depend on how you structure your business, whether you want or need to register for GST and whether you employ staff.

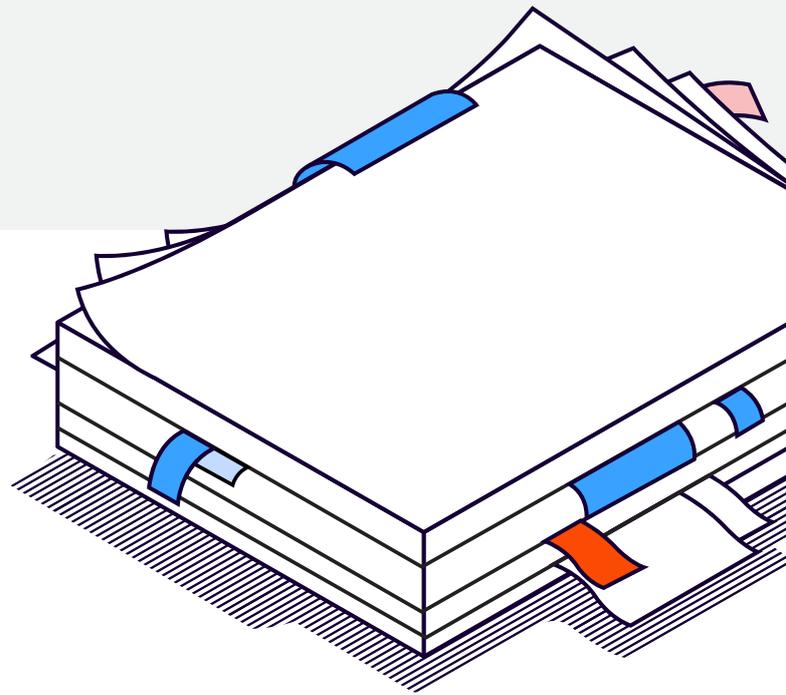
Freelance or sole trader

With this business structure you're working as an individual. The profits from your business are simply added to your income from all other sources and you pay individual income tax on the total amount.

If you already have an individual IRD number, you just keep using that. If you don't have an IRD number you apply to Inland Revenue by completing an IR595 form (IRD number application – individual). The Inland Revenue website has more on [IRD numbers for individuals](#)

Company

If you choose to structure your business as a company, it will need its own IRD number. When you register your company, you simply apply for an IRD number at the same time.



Partnerships

A partnership needs its own IRD number, even though the profits or losses are shared amongst the partners and become part of their individual tax returns. To apply for a partnership IRD number you usually complete an IR596 form (IRD number application – resident non-individual). The Inland Revenue website also explains [how to get a partnership IRD number online](#).

GST

All businesses, regardless of their structure, have to register for GST if their turnover was more than \$60,000 in the previous 12 months or as soon as they expect to earn that amount in the next 12 months. Otherwise, it's optional. There can be benefits of registering for GST even if you have less than \$60,000 in revenue, for example when your customer(s) are all GST registered (so they can claim back your GST charge and you can claim GST on all your expenses before you reach the mandatory GST registration threshold).

You register for GST online by logging into myIR. You'll need to choose an accounting basis (payments or invoices) and a filing frequency. You'll also need an IRD number (for you as a sole trader, your company or your partnership), a bank account number for refunds and your business industry classification (BIC) code.

Most people choose a 'payments' accounting basis. That's because your GST return simply shows the GST actually paid to you, as well as the GST you have paid on expenses each period. Some businesses however have better cashflow by choosing 'invoice' basis.

This is normally when they get paid instantly on raising a sales invoice and so are better off claiming GST on expenses whether they have been paid for or not. Loss making businesses also generally benefit from this basis as GST on expenses are higher than GST on income. There is also a hybrid basis, but rarely does that provide a benefit (pay GST on sales invoices and claim GST on actual expenses paid).

If your sales are less than \$500,000 in any 12-month period you can choose a filing frequency of one month, two months or six months. Short periods can be best if you usually get refunds, or you want to avoid getting behind with the admin. The six-month period usually only suits people who make very few sales or purchases, so there's not too much involved in filing each return.

The Inland Revenue website has more on **how to register for GST.**



Employers

When you employ someone, you have to register as an employer with Inland Revenue. This includes employing your partner or another family member. It also includes contractors when you make schedular payments. Schedular payments are where you take tax out of what you pay a contractor and forward it to Inland Revenue on a contractor's behalf.

When you register as an employer, you may also have to register for fringe benefit tax if employees will receive benefits (perks) in addition to their pay. Chances are you'll also have to register for employer superannuation contribution tax (ESCT).

To register as an employer you log into myIR, choose 'register for new tax accounts' and fill in the online form. You'll need your contact and bank account details, your business industry classification (BIC) code and the employment details. You can also wrap this step into the company formation process.

The Inland Revenue website has more on employing staff, including options for **how to register as an employer**.

ACC

You don't have to register for ACC. It happens automatically because Inland Revenue sends your income details to ACC who then sends you an invoice. You normally get this a year after you have set up in business and file your first tax return. However, self-employed people can choose between two types of ACC cover - CoverPlus (the default) and CoverPlus Extra (the option). CoverPlus Extra lets you choose how much of your income ACC will pay if you're injured. Reducing the cover reduces your levies. You can register for ACC Cover Plus through Afirmo.



6

**Tax types in
more detail**

Tax types in more detail

In this section we provide more detail on the main taxes and levies we briefly mentioned above.

Income tax and provisional tax

In New Zealand all individuals and companies pay tax on their income or profit.

Provisional tax is a way of paying income tax in advance instalments during the year, based on your expected annual income. It's usually required if you paid more than \$5,000 in income tax the year before.

Setting tax money aside as you earn



When you're starting out, it's important to put money aside for income tax as you earn money. This can also help avoid a common problem people run into in their first year of paying provisional tax. The catch is that your first provisional tax advance instalment will overlap with the income tax payment due for the previous year, which can put stress on your cash flow.

Schedular payments for contractors



If you work as a contractor through a labour hire company or recruitment agency, those organisations have to take tax from what they pay you and send it to Inland Revenue on your behalf. These are known as schedular payments. Most other contractors can also choose to have schedular payments made on their behalf, if the organisation paying them agrees to do it. Contractors can choose their schedular payment rate. It's just a way to pay tax as you earn – a bit like employee PAYE – and avoid a large tax bill at the end of the year.

GST

One way to get an idea of the freelance hourly rate that might work for you, is to pick an annual salary you can live with and work back from there.

You have to register for GST and start filing GST returns with Inland Revenue as soon as you think you'll earn more than \$60,000 in the next 12 months. Otherwise, registering for GST is optional.

How often you file GST returns and make payments depends on your annual income. If it's less than \$500,000 a year you can choose to file monthly, every two months or every six months. It usually comes down to how much work is involved for you and not letting it build up for too long. Using **Afirmo** can make managing GST and filing returns really easy.

If you register for GST and file returns, you have to keep records for up to seven years in case Inland Revenue wants to audit your returns.

To help you add GST to any price or remove it to get back to the excluding GST amount, Afirmo created a **handy GST calculator**. The page it's on also has more detail about managing GST in New Zealand.



Fringe benefit tax

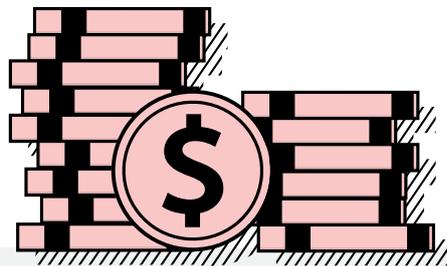
A business pays fringe benefit tax (FBT) when it provides something of personal benefit (a perk) to an employee or shareholder employee and the benefit provided has not already been taxed.

As mentioned earlier, common examples include:

- Private use of a vehicle owned by the business
- Financial contributions towards insurance premiums or gym memberships
- Discounted goods or services, such as making your products available at staff rates
- Low interest loans

For clarity, here are some employee benefits that are normally already taxed, which means they don't attract FBT.

- Wages or salary payments
- Allowances
- Cash bonuses
- Compulsory KiwiSaver employer contributions



FBT is calculated on what the benefit to the employee cost. For private use of a business-owned vehicle for example, that means a portion of the vehicle's ownership cost based on the time it's available for personal use. In other words, it's what it would have cost the employee to have the vehicle available to them as though it was their own. That's what the business is effectively giving the employee, so that's the amount the business pays FBT on.

FBT returns are filed quarterly, unless you meet the criteria and apply for either annual or income year returns. FBT payments are made at the same time you file the return.

The Inland Revenue website has **[more on fringe benefit tax \(FBT\)](#)**.

If you're ever unsure about FBT, it pays to get professional advice as soon as possible. If it turns out you should have been paying FBT for a while, your payments will be backdated to when they should have begun. That can add up to a large sum if you're not careful.

It's also important to get advice before providing an employee with something that attracts FBT. It may well be cheaper for the business to simply pay them more instead.

ACC levies

ACC levies are based on income and the type of work you do. There are three types:

- **Work levy** – paid by a business or sole trader, it covers claims for work-related injuries
- **Earners' levy** – paid by a sole trader or deducted by an employer from employees' wages, it covers claims for injuries that are not work-related
- **Working safer levy** – paid by a business or sole trader to ACC, who pass it to MBIE to support WorkSafe NZ activities

ACC sends business owners and self-employed people an estimated invoice for their levies once a year. Then there's an adjustment invoice/refund based on your actual annual income from your end-of-year tax return. If you're just starting out it's important to set money aside for ACC levies. You can work out an estimate using ACC's online levy calculator.

KiwiSaver related taxes

Here's a quick summary of how tax works with KiwiSaver in New Zealand:

- An individual's percentage KiwiSaver contributions (you can choose to pay 3%, 4%, 6%, 8% or 10%) are based on their pay before tax is deducted, but they still pay tax on their full earnings. So, if you earn \$100 and you're on the minimum three percent KiwiSaver contribution level, three dollars goes to your KiwiSaver fund and you pay tax on the full \$100.
- Employer contributions are also taxed, so an individual may not see the full employer contribution appearing in their KiwiSaver account.
- An individual's KiwiSaver investment earnings are taxed and this is managed by their fund provider on behalf of Inland Revenue.
- When someone withdraws money from their KiwiSaver account it is not taxed.



PAYE

Employers deduct PAYE (pay as you earn) tax from each employee's pay and forward the deductions to Inland Revenue. The deductions are based on each employee's tax code and income.

As an employer you have to provide Inland Revenue with details of starting and leaving employees. You also have to file their pay details every payday. Inland Revenue has online PAYE calculators you can use, but you also need to know the rules around things that are taxed differently, like lump sum payments.

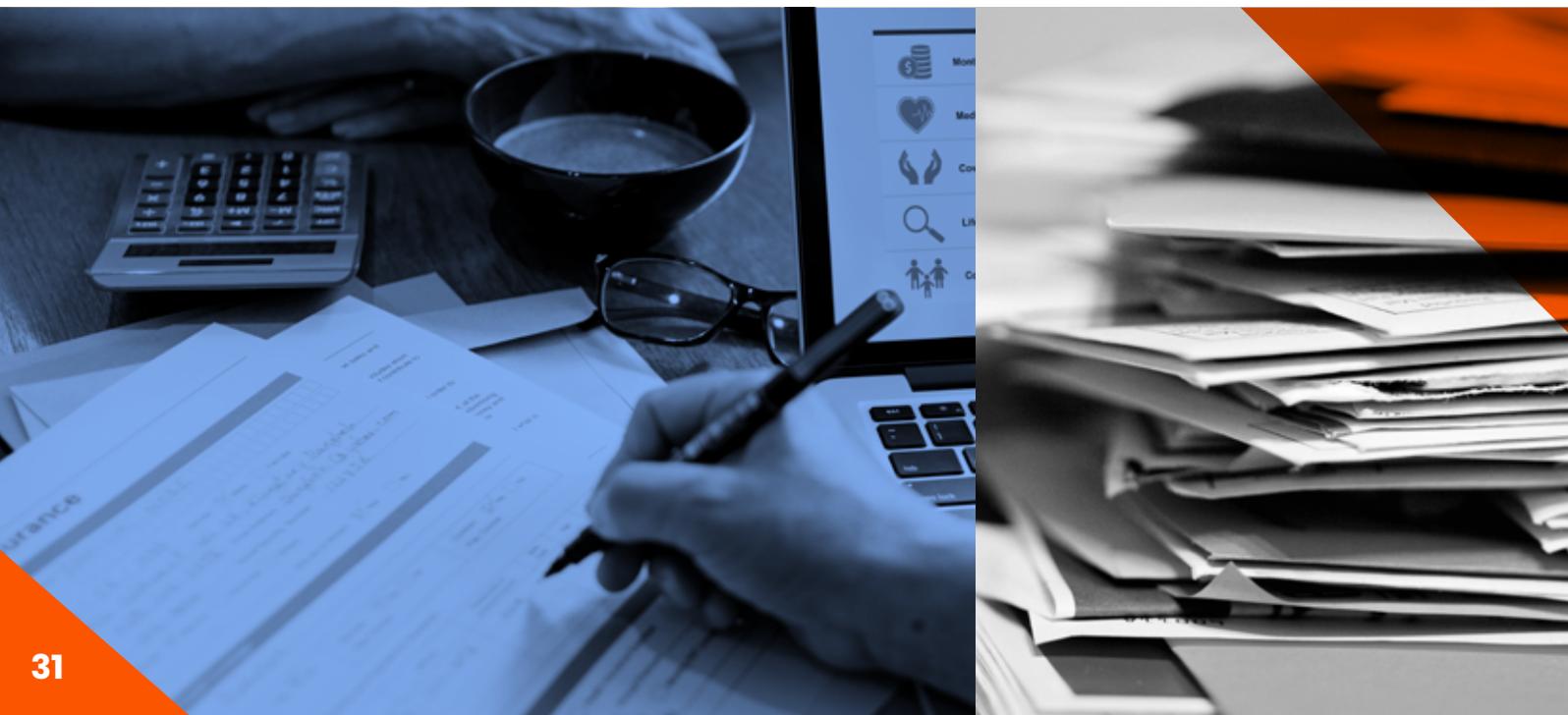
PAYE makes tax payments easy for employees, but adds quite a bit of admin for employers. However, some accounting software packages allow direct payday filing, which can make a big difference. Employers also make other deductions on Inland Revenue's behalf, such as student loan and child support payments.

Check out our helpful [PAYE calculator](#).

ESCT

As mentioned earlier, employer superannuation contribution tax (ESCT) is the tax an employer deducts, on Inland Revenue's behalf, from cash contributions they make to an employee's superannuation account, such as KiwiSaver.

For KiwiSaver, the minimum contribution an employer must make is three percent of each employee's pay before tax. An employer can choose to contribute more. Employer's contributions are then taxed at each employee's ESCT rate, which depends on the employee's annual income.



7

**Tax
payment
due dates**

Tax payment due dates

The dates when tax payments are due depend on a range of things, such as the type of tax, your annual earnings, your tax payment choices and whether you have someone like an accountant as your tax agent. If it falls on a weekend or national holiday, the due date becomes the next business day.

To give you a starting overview, here are the main dates for small businesses, which typically have a financial year ending 31 March.

End-of-year income tax payment dates

For the year ending 31 March the year before.

- 7 February if you don't have a tax agent
- 7 April if you have a tax agent and a valid time extension

GST payment dates

If you earn less than \$500,000 a year you can choose to file monthly, two-monthly or six-monthly.

- 28th of the month after each of your GST periods ends, except for the period ending 31 March (due 7 May) and the period ending 30 November (due 15 January)



Provisional tax payment dates

These are income tax instalments paid in advance during the year.

- 7 May, 28 August and 15 January if you file GST returns every month or two months
- 7 May and 28 October if you file GST returns every six months
- The same as the two-monthly GST dates, if you use the ratio method for calculating provisional tax i.e. 7 May, 28 June, 28 August, 28 October, 15 January, 28 February

Fringe benefit tax (FBT) payment dates

These are income tax instalments paid in advance during the year.

- The same as your end-of-year tax payment date if you file and pay FBT on an income year basis
- 31 May, 20 July, 20 October 20 Jan if you file and pay FBT quarterly
- 31 May if you file and pay FBT annually

Employer deduction payment dates

- 20th of each month if you deduct less than \$500,000 total PAYE and ESCT a year
- 5th and 20th of each month if you deduct more than \$500,000 PAYE and ESCT a year

The Inland Revenue website has a table that lets you search, filter and sort key New Zealand tax dates.

For example, if you don't employ staff and only need income tax (including provisional tax) and GST dates, you can click both those in the filter. You can then sort by 'soonest first' to see the results in date order from the date you're using the table.

Afirmo makes keeping track of your particular tax payment dates easy. One of the free tools provides crucial tax event reminders.



8

**Tax forms
and when to
file them**

Tax forms and when to file them

Most tax forms can be completed and filed through Inland Revenue's online service, myIR. Once you've registered and have a login, it's by far the easiest way. Paper-based and downloadable pdf forms are also available if you can't access myIR for some reason.

End-of-year income tax forms and filing dates

Most businesses file their end-of-year income tax return through myIR. The common online and paper-based forms are:

- Sole traders - IR3 individual income tax return, including income from all other sources
- Companies - IR4
- Partnerships - IR7, plus each partner files an IR3 individual income tax return

For each accounting year ending 31 March, you file your return by:

- 7 July the same year if you don't have a tax agent or extension of time
- 31 March the following year if you have a tax agent and a valid time extension

GST forms and filing dates

Most people file GST returns through myIR. Some accounting software packages will also do this for you. If you don't have a myIR account Inland Revenue will send you a form.

If you earn less than \$500,000 a year you can choose to file monthly, two-monthly or six-monthly. The filing dates are:

- 28th of the month after each of your GST periods ends, except for the period ending 31 March, which is due 7 May, and the period ending 30 November, which is due 15 January



Provisional tax forms and filing dates

Provisional tax is just income tax paid in advance instalments during the year, so the forms and return filing dates are the same as the end-of-year income tax dates above.

Fringe benefit tax (FBT) forms and filing dates

You can file FBT returns online through myIR. Paper-based forms are also available. They range from IR418 to IR422, depending on whether you file and pay FBT on an income year, quarterly or annual basis.

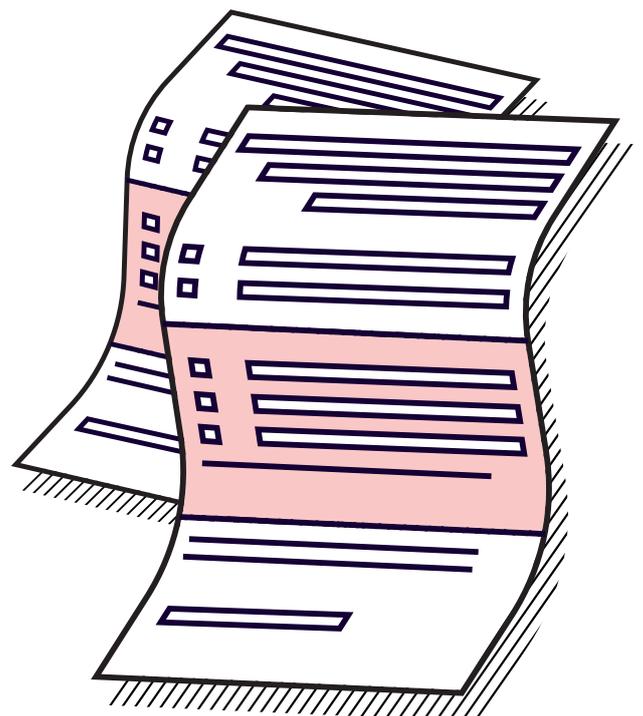
The FBT filing dates are the same as the FBT payment dates mentioned above, which are:

- The same as your end-of-year tax payment date if you file and pay FBT on an income year basis
- 31 May, 20 July, 20 October and 20 Jan if you file and pay FBT quarterly
- 31 May if you file and pay FBT annually

Employer deductions forms and filing dates

You file an employment information form - which includes deductions made - for each employee and for every payday. The filing dates are:

- If you file online through myIR, within two working days of each employee's payday
- If you file by paper (your annual PAYE and ESCT must be less than \$50,000):
 - Within 10 working days of each employee's payday, or
 - For paydays between the 1st and 15th of the month, within 10 working day of the 15th; for paydays between the 16th and the end of month, within 10 days of the end of the month



If you file by paper, Inland Revenue will send you these forms:

- IR348 – Employment information
- IR349 – Employment information (if you have more employees than rows on the IR348)
- IR346 – New employee detail
- IR344 – Employment information amendments (to correct an IR348 you've already filed)

Filing employment information works differently for:

- Lump sum payments
- Out of cycle payments
- Holiday pay paid in advance
- Employee share scheme benefits
- Scheduling payments (taxes deducted and paid to IRD on behalf of contractors)
- IR56 taxpayers, such as part-time private domestic workers who are not self-employed but pay their own taxes

The Inland Revenue website has more on these examples of non-standard filing for employment information.



9

**Where to find
support and more
information**

Where to find support and more information

The Inland Revenue website has a huge amount of useful information, but there's a lot to get your head around, particularly if you're starting out or stepping up. That's why it's important to get professional advice from a business coach, accountant or business lawyer – even if it's only to get you started on the right footing.

Afirmio makes this easy for small business owners by giving you free tools like set-up wizards, tax registration guides and even crucial tax event reminders. We also have heaps of helpful resources in our learning hub, such as our **articles on money and tax** and handy **tax calculators**.



Government websites:

- The Inland Revenue website's section for **businesses and organisations**
- The Ministry of Business, Innovation and Employment's website **Business.govt.nz**

10

**How to get money
out of your
company**

How to get money out of your company

If you operate your small business as a sole trader, basically you are the business, so paying yourself or getting money from what the business earns is quite straightforward, you just take the money that is left after all expenses and taxes.

In this section, we look at the more complex topic of paying yourself when your business is a registered company. There are three ways to do this, and each has different tax obligations and each impacts the company's taxable income in different ways. It's possible to use a combination of these if you wish.

Have a look at the [Afirno company tax tool](#) to play around with what a good mix might look like.

When taking money out of a company or putting it in, the most important thing is to keep clear and accurate records. These records should describe the purpose or intent of the transactions, not just the amounts. It should also be done in a reasonable/normal way, so Inland Revenue doesn't think you're just trying to avoid paying tax.

Repaying a shareholder loan

Most small businesses are started with money from the owner. This should be recorded in one of two ways. Either it was money paid to buy shares in the company (share capital) or it was a loan.

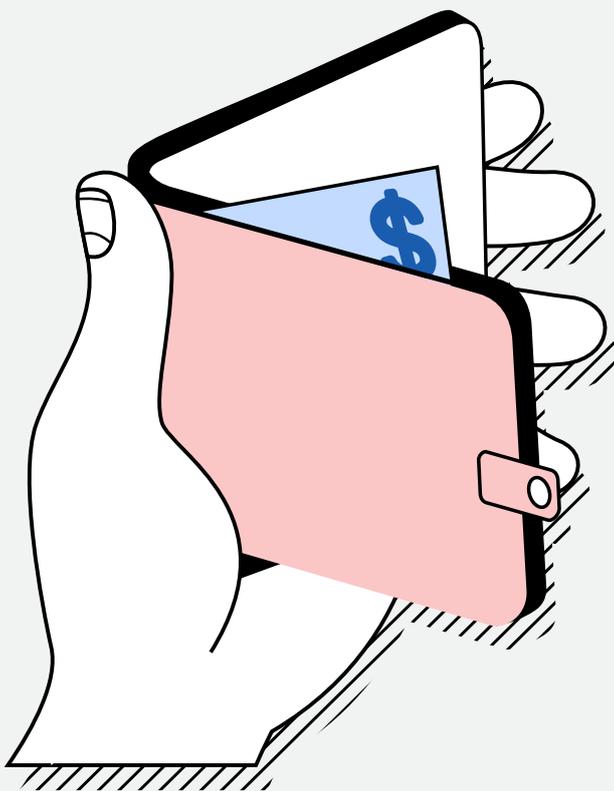
If it was a loan, it should be recorded in a shareholder's loan account in the company's accounts (books). Any further personal money you invest as a loan to the company adds to the total in this shareholder's account. When the company makes sufficient profit, it can choose to repay some of this loan to you, which would then reduce the balance in the shareholder's account. Since these payments are simply returning money you lent to the company, they are not subject to income tax.

If a shareholder current account develops a negative balance the shareholder is effectively borrowing from the company. As a result, the company has to pay fringe benefit tax on the negative balance or charge the shareholder use-of-money interest at the IRD rate. A negative balance can be avoided or brought back to zero by the shareholder repaying the company. If the company makes a profit, other options include making a shareholder employee salary payment (non-PAYE) or declaring a dividend.



Paying yourself a PAYE salary

Since you probably started your business to earn an income, the company can take you on as an employee. For record keeping, this should include an employment agreement, signed by you as the company owner and as the employee. The company can then pay you a regular PAYE salary, which needs to be an amount that's consistent with the type of work you do.



Benefits:

- You get a regular salary to live on, which can also help when applying for a mortgage or credit in your own name. Banks and lenders tend to like to see routine contracted income like a salary and not ad-hoc sums, even if you own the company yourself
- The company makes employer contributions to your KiwiSaver account and pays some of your ACC levies
- Your personal taxes are taken care of as you earn

Downsides:

The salary has to have a 'fair market value', so you're on an appropriate tax rate - otherwise Inland Revenue might think you're underpaying yourself to avoid tax

- The company has to pay your salary and PAYE taxes, even if its earnings unexpectedly decrease
- You can't switch paying yourself an annual PAYE salary off and on as it suits, you have to keep it going year after year, but you can reduce the salary from one year to the next if the company becomes less profitable

In addition there are specific rules about how much you will need to pay yourself as a salary if you have a small amount of customers or earn the majority of your income from a few customers. We do not cover these here but your accountant/tax agent or Afirmo if you use us to file your returns will ensure these rules are followed.

Making a shareholder salary payment to yourself

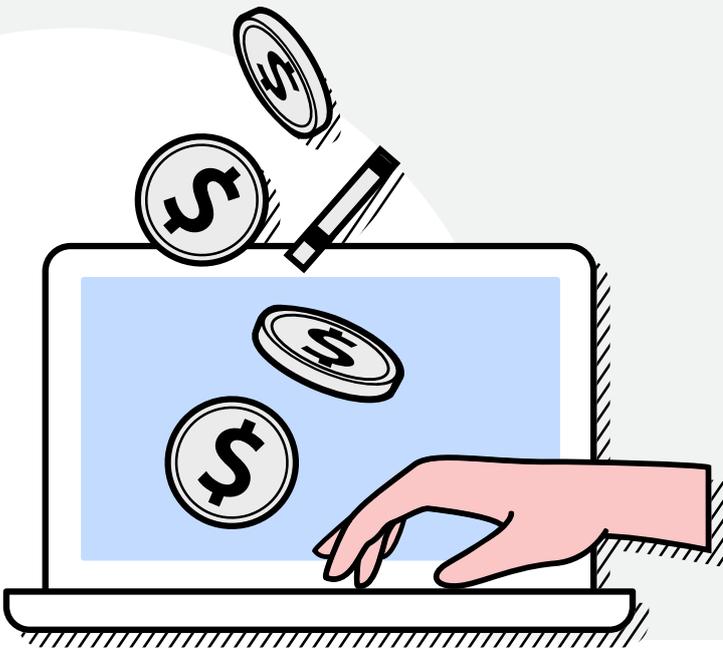
Another option is to make an end-of-year shareholder-employee payment to yourself. The company does not deduct PAYE from these payments. As a recipient of the payment, you must include it in your personal tax return. This typically requires making provisional tax payments during the year as an individual, because you paid more than \$5,000 in income tax the year before.

Benefits:

- Money can be left in the business until you need it
- Fluctuations in the company's performance are easier to manage
- There's less need for dividend payments and keeping retained earnings (cash reserves) on the company books

Downsides:

- You have to estimate your annual personal income and set aside money to make appropriate provisional tax payments in advance during the year
- If you underestimate your provisional tax payments during the year, Inland Revenue may charge use-of-money interest (you can usually use a tax pooling service to reduce any penalties and interest costs)
- Not appearing to have a regular steady income could make it more difficult when applying for a mortgage, personal loan or credit card
- The company must allow for paying an ACC earners' levy invoice, which ACC will send at the end of the year based on the company's IR4 declaration of shareholder employee remuneration



Following a law change in 2017, you are now allowed to pay yourself a (fair) base PAYE salary as well as an end-of-year shareholder salary payment if you wish. This can make it easier to pay yourself a regular income, but also align the total income you receive with the eventual end-of-year company profit.

Paying yourself a dividend

The third option is to retain profits in the company and, at the end of the financial year, distribute some of the after-tax profit to particular shareholders, such as yourself. However, there are some legal and tax requirements to consider, so it's important to get professional advice before paying yourself a dividend. Here are some of the main points to help your initial understanding:

- Before paying a dividend to shareholders, a company is legally required to ensure it still has enough cash to keep operating and not become insolvent
- The dividend does not reduce the company's taxable profit unlike salaries which are a cost to the company. This needs careful planning to make sure the mix of dividends and salaries is optimal
- Directors have to sign a statement (certificate) explaining why they decided to pay a distribution
- If the company ends up going into liquidation, the shareholders can be made to repay the distribution



Tax on dividends

The company's profit that's used to pay a dividend will have already been taxed at the company tax rate (currently 28%). The company can attach this paid tax to the dividend as an imputation credit. This effectively passes the tax paid on to the shareholder, so they don't have to pay it and it's not paid twice. However, dividends usually have to be distributed taxed at 33%, so the company has to deduct the extra five percent and pay it to Inland Revenue. If a shareholder's top tax rate is less than 33% they can claim back the difference in their individual tax return. If the shareholder's top tax rate is more than 33% then they don't need to pay any additional tax on this dividend income.

How useful is this resource?

Tell us what you think,
give us a score out of 5.

Click a star rating below to vote.



11

**Getting
professional
advice**

Getting professional advice

As we've mentioned several times in this e-book, it's important to get professional advice before making decisions about how your business should be set up for tax purposes. This e-book is meant for general guidance to introduce these topics to you in an easy to understand format.

Once you're set up, using an accountant, accounting software and a suite of time-saving tools like those **Afirmio** provides can clearly help. However, as the business owner you are ultimately accountable for getting the right things done at the right time.

We hope this e-Book has helped you to understand more, so you can ask the right questions when getting trusted advice and planning for business success.

