



Inland Revenue
Te Tari Taake

IR320
May 2021

Smart business

A guide for businesses and
non-profit organisations

Introduction

Being your own boss and going into business for yourself can be an exciting challenge. So can taking responsibility for running a non-profit organisation such as a kohanga reo or sports club. However, being in business or running an organisation also carries certain responsibilities.

As the rules that apply to businesses generally also apply to non-profit organisations, the term "business" in this guide includes non-profit organisations as well as businesses.

There are, however, certain tax rules that only apply to non-profit organisations. If you are running a non-profit organisation and need more information go to ird.govt.nz or call us.

This guide has information on:

- what records to keep and suggestions on how to keep them
- cashflow forecasting and time management
- your basic tax responsibilities
- how to use your records to save you time and money in meeting those responsibilities.

ird.govt.nz

Go to our website for information and to use our services and tools.

- **Log in or register for myIR** - manage your tax and entitlements online.
- **Calculators and tools** - use our calculators, worksheets and tools, for example, to check your tax code, find filing and payment dates, calculate your student loan repayment.
- **Forms and guides** - download our forms and guides.

Forgotten your user ID or password?

Request these online from the myIR login screen and we'll send them to the email address we hold for you.

How to get our forms and guides

You can get copies of our forms and guides at ird.govt.nz/forms-guides

GST added to myIR secure online services

If you complete your GST registration through myIR, in most cases you'll receive immediate confirmation of your GST number and registration details (which you can save for your own records). Then, each time your return is due for filing we'll advise when the return is available in myIR for you to complete and submit by the due date. See page 66 for more information on myIR.

GST filing through accounting software

You can file your GST return directly to us through your accounting software.

If you use accounting software to prepare your GST return, check with your software provider to see if they offer this service.

For more information go to ird.govt.nz/gst

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Part 1 – General

Getting started

In this part we give you an overview of your tax responsibilities. We also discuss record keeping in general and explain what sort of records you should keep.

Before going any further, you first need to establish whether you're actually in business. You need to be sure because the tax laws are different for individuals and businesses.

How do I know if I'm in business?

In general, you're in business when:

- you start charging others for the goods or services you produce
- you supply these goods or services on a regular basis
- you intend to make a profit from selling your goods or services.

These are the factors we look at to decide if you're in business:

- the nature of the activity
- how much time, money and effort you put into the activity
- how long you've been running or are intending to run the activity
- how much you make from the activity
- whether you run the activity in a similar way to most businesses in the same trade
- if you intend to make a profit.

If you aren't sure whether your activity fits our definition of a business, we can help you.

Your profit is the amount you're left with after deducting expenses from all your sales and income for a certain period. When you're in business you'll have to pay income tax on the profits.

Business types

The chart below gives a brief description of different business types and basic facts about how they're run. While we can explain the tax responsibilities of each of these business types, you may like to talk to an accountant or lawyer about the most appropriate business type for your needs.

Business type	What it is	How it works
Sole trader	A sole trader is a person trading on their own. The business is controlled, managed and owned by that person.	There are usually no formal or legal processes to become a sole trader. The owner or manager is personally entitled to all profits, but is also personally responsible for all business taxes and debts.
Partnership	A partnership is where two or more people run a business together. Each partner contributes something to the business and, in return, each share in any profit or loss. Each partner is also responsible for any debt within the partnership.	<p>A formal partnership agreement can be prepared.</p> <p>Partners share responsibility for running the business, and share the profits and losses equally unless the agreement says otherwise.</p> <p>The partnership does not pay income tax. It distributes the partnership income to the partners who pay tax on their own share.</p>
Company	<p>A company is a formal and legal entity in its own right, separate from its shareholders (or owners). It's formed when a group of people exchange money and/or property for shares in an enterprise registered under the Companies Act.</p> <p>To register a company go to companies.govt.nz</p>	<p>There is a legal registration process you will have to pay for.</p> <p>More money can be raised with more owners.</p> <p>The company owns the assets and liabilities of the business and is responsible for any debts.</p> <p>The shareholders' liability for losses is limited to their share of ownership in the company.</p>
Non-profit organisations	<p>A non-profit organisation is any society, association or organisation:</p> <ul style="list-style-type: none"> • not carried on for the profit or gain of any member, and • whose rules do not allow money, property, or any other benefits to be distributed to any of its members. 	<p>Some non-profit organisations may be incorporated, that is, registered with the Ministry of Economic Development.</p> <p>Non-profit organisations can have profit-making activities taxed as business income in the normal way. These organisations must have written rules to get an income tax exemption.</p>



Getting an IRD number

You can apply for a personal IRD number on our website at ird.govt.nz/irdnumber or you can complete an **IRD number application - resident individual - IR595** form.

The table below tells you what form to use for your business’s IRD number application and what we'll need from you. See page 6 for a brief description of the different business types.

Business type	What you'll need to do
Sole trader	You use your personal IRD number for your business. If you do not have a personal IRD number, complete an IRD number application - resident individual - IR595 form to apply for one.
Partnership	Complete an IRD number application - resident non-individual - IR596 form with a list of the names and IRD numbers of each of the partners.
Company	Apply for an IRD number online at the same time as you incorporate your company through the Companies Office website companies.govt.nz The Companies Office will send your company IRD number information to us electronically once the company is incorporated. Alternatively, use an IR596 with a copy of the company's certificate of incorporation.
Trust	Complete an IR596 with a copy of the trust deed.
Non-profit organisations	Complete an IR596 with a list of the names and IRD numbers of the executive office holders, and a copy of the certificate of incorporation (if you're incorporated), or a copy of the constitution if you do not have a certificate of incorporation.

Note

If you're unsure about any of these requirements, call us on 0800 377 774. When you've been issued with an IRD number please use it in all your business dealings with us.

The image shows two IRD application forms. The top form is IR596, titled 'IRD number application – resident non-individual', dated September 2020. It includes the Inland Revenue logo and instructions to use the form for New Zealand residents. A sample entry for 'Mereana and Jo Moera' is shown in the first field. The bottom form is IR595, titled 'IRD number application - resident individual', dated July 2017. It includes the Inland Revenue logo, a barcode, and instructions to read the notes and use capital letters. A sample entry for 'Janet Wiseman' is shown in the applicant information section, with 'Miss' selected as the title.

Basic tax responsibilities

Here are some of the basic tax responsibilities most businesses will have.

- You'll need to get an IRD number if you do not already have one. If you're a sole trader, you can use your personal IRD number.
- If you're in business as a company or partnership you'll need a new IRD number. This number will be used for GST (goods and services tax) as well.
- You may have to complete financial accounts and various tax returns each year, such as income tax and GST returns.
- If you're an employer, you may have to make PAYE, student loan, child support and KiwiSaver deductions and pay these to us. See page 57.
- Businesses and some organisations must work out their profits, so they can calculate how much income tax to pay. This is explained in Part 4.
- You may have to pay provisional tax during the year. See page 33.
- You have to register for GST if your turnover is over \$60,000. See page 45.
- If you're a sole trader you must pay your student loan repayments direct to us. This is because no repayment deductions are made from income as you earn it. For more information, go to ird.govt.nz/se-repay-student-loan

Our tax system relies on people meeting their tax responsibilities voluntarily, and there are penalties if you do not comply. Our guide **Penalties and interest - IR240** has full details.

Paying your tax before the due date

It's important to pay your tax by the due date to avoid penalties and interest being charged. You can do this by:

- making payments to us before the due date, either regularly or as money is available
- arranging an automatic payment for the whole amount by the due date
- putting money aside in a special bank account for tax and paying in one lump sum before the due date - that way, you may get interest on the money.

How to make payments

Go to ird.govt.nz/pay to find out about paying by:

- internet banking
- credit or debit card, and
- direct debit.

Keeping records is important

No matter what sort of business you're running, you need to be able to see what you've paid and what you're owed so you can budget. Your bank manager, accountant or investors may also need to see your business records at some time to keep track of your progress and help plan your business's future.

Several government departments also require you to keep records by law, especially for statistics and tax reasons.

Record keeping

Your records must be in English or Māori unless you get approval from us to use another language.

Benefits of keeping accurate records

As soon as you decide to go into business, it's important you start keeping accurate records, because it's much harder to work backwards later on.

There are legal reasons for keeping accurate records, as well as good business reasons.

Better control of your business or organisation

Accurate records will help you determine whether your business is making enough money to meet its expenses. They'll show you what you're spending money on and where the money is coming from. This will help you in budgeting and decision making. Non-profit organisations will find accurate records help them keep track of grants or members' fees and how funds are being spent.

Increase your chances of getting finance or funding

Good record keeping makes it easier for others to know whether to invest in your business or project. It's much easier to put a good case together when applying for loans or grants if you've got accurate records to support your intentions. Keeping accurate records is good evidence a business is being run professionally, which makes it a better prospect for investment. This is also true if you're thinking of selling the business. Potential buyers can check your performance by looking at your records.

Save time and money

You'll find that the more up-to-date your records are, the quicker you'll get through your tax returns and other paperwork. If you're doing the day-to-day bookkeeping, your accountant won't have to spend valuable time (that you're paying for) getting your books in order. You'll be able to use the accountant's services for more specialised tax and financial advice instead.

Audits will take less time

If you're in business you can expect to be audited by us at some stage. There will be less time spent on the audit if your records are well kept.

What records to keep

Here is a broad outline of the type of records you must keep.

You must keep enough records to be able to calculate your income and expenses and to confirm your accounts.

For tax records kept in te reo Māori there are some exceptions:

- Certain phrases in the GST Act, for example, "tax invoice" must be in English
- Numerals must be in Arabic, for example, 1, 2, 3 etc.

For business income records, you must keep:

- account books, such as your cashbook, journals, and ledgers
- receipts and invoices issued
- bank statements and deposit slips
- worksheets showing tax return calculations
- any other necessary documents to confirm account entries.

For business expenses, keep records such as:

- your cashbook and petty cash book
- receipts and invoices received
- bank statements and cheque butts
- depreciation calculations (see page 42)
- details of travel expenses
- entertainment expenses (see page 40)
- motor vehicle logbooks, telephone and power bills and other such records (see pages 38 to 40)
- wage records for employees (see page 22)
- legal statements, such as purchase or sale agreements of a business and leases
- interest and dividend statements.

You must also keep records for all your business assets and liabilities at the end of the year, including:

- lists of debtors and creditors
- stocktake figures
- a fixed asset register (see page 41)
- final profit and loss statements and balance sheets.

These are some further records different types of organisations must keep.

Partnerships	a partnership agreement (if you have one)
Companies	the certificate of incorporation, minute books
Trusts	the trust deed and minute books
Incorporated organisations	the certificate of incorporation

It's important to keep all this information, as we routinely audit business records. There are penalties if you have not been keeping full records.

How long to keep your records

Keep all your business records (including those in electronic form) for at least seven years from the end of the tax year or the taxable period they relate to.

Even after you stop operating your business you still have record keeping responsibilities.

If you or your accountant send your tax returns to us electronically, they must be kept for seven years, either electronically or paper based.

If you complete your **Employment information - IR348** electronically, you do not have to keep a paper copy, but you'll need to ensure you can reproduce the schedules you've sent us.

Your payroll records are a base for the data on the schedules and you must keep these records for seven years.

Reducing the time records must be kept

You may apply to us to destroy certain business records four years after the return period they relate to. Call us on 0800 377 774 for more information.

Personal records

It's a good idea to keep all personal records and transactions separate from business records. This is best achieved by using separate cheque and savings accounts for the business. As with business records, you must keep all private records (including private bank account records) for seven years.

Part 2 - Source documents

Source documents show details of money coming in or going out of a business. They show money you've received or expect to receive, and money you've paid or expect to pay. These documents carry all the information you need to put into your bookkeeping system and include banking, income and expense records.

Banking records

Starting up a business account

It's a good idea to keep separate bank accounts for personal and business purposes. When opening a business bank account, use your registered business, trust or organisation name to give a clear indication that it's not a personal account.

You may want to open a separate bank account for large bills and taxes and transfer money from your main account throughout the year to cover these.

Cheque books

You must complete the cheque butts as you write out cheques and keep the butts for your business records.

If you write a lot of cheques, record on the front of each completed cheque book the cheque numbers and the dates the cheques were written. File old cheque books in date order.

Make sure you fill in these details on each cheque butt:

- the date of payment
- the name of the person or business you are paying (the payee)
- the amount of the cheque
- the type of goods or services purchased.

<i>12 November 20 13</i>			Date of payment
To	<i>Ross Rumble</i>		Name of payee
For	<i>Plumbing services</i>		Type of goods or service purchased
	\$	¢	
Balance bt.fwd			
Deposits			
Subtotal			
This cheque	<i>285</i>	<i>00</i>	Amount of cheque
Balance c'd fwd			
GST	<i>GST included</i>		
	<i>290794</i>		

Source documents

Deposit books

Many businesses use deposit books to record their sales. In your deposit book write down:

- the date of the deposit
- the payer's name (the person you got the funds from)
- the amount of each deposit.

The deposit book will usually have columns for recording information about whether the deposit is from a cheque, credit card docket or cash.

IOU Banking Corporation

Date 20 August 2013

Amount \$ 2,752.20

Total \$ 2,752.20

(Proceeds of cheques etc. will not be available for clearing).

Deposited for IOU of 20 August 2013

Teller WE INGTON

The stamped deposit book is your receipt from the bank

Use supplementary deposit books and record details of deposits

IOU Banking Corporation **Deposit book**

Branch Wellington Date 20 August 2013

For J. Bloggs Account no. 030584 0048218-00

Name of account

For customer's use (receipt no./analysis code)	Particulars of cheques etc. to be completed by depositor		Amount	
		Bank	Branch	\$ c
286121	1 F. Ross	IOU		1,000 00
529107	2 B. Rewiti	BCA		752 95
649826	3 S. Jones	BMS		1,000 00
	4			
	5			
	6			
	7			
	8			
	9			
	10			
	11			
	12			
	13			

Total cheques

Total cash

Sub total 2,752 95

Less charges 0 75

Total deposit 2,752 20

To be used only as

Date of deposit

Name of each payer and amount of each deposit

Drawer	Bank	Amount
F. Ross	IOU	1,000 00
B. Rewiti	BCA	752 95
S. Jones	BMS	1,000 00

If you do not use a supplementary deposit book, make sure you record all details on the back of your deposit slip

Bank statements

Arrange with your bank to send statements when it's convenient for you. It's a good idea to have the statement issued on the last day of the month - it may assist you in preparing your GST returns and will make it easier to complete your bank reconciliation. There is more information on bank reconciliation on pages 18 and 19.

Keep all your business and private bank statements and file them in date order. You won't be able to complete your end-of-year business accounts until you have them all. Most banks will charge you for replacement statements.

Managing your banking

- All business transactions should go through the business bank account.
- Bank all business income you receive into your business bank account.
- Charge all purchases to the business, and pay for them electronically or by cheque so a permanent record of each payment will appear in your bank statement.
- Transfer money to a separate account for large bills and taxes.
- If you take money out of the business for personal use, clearly identify it as "personal drawings".
- If you need to put some of your own money back into the business, clearly identify it as "personal funds introduced".
- If you want to make purchases for the business on a credit card, you should use a separate card for business expenses only.

Income records

It's good business practice to send invoices to your customers. Invoices help you to keep track of money coming in and going out. There are no special requirements for what an invoice should show, as long as it can help prove a particular transaction took place.

An invoice will generally show:

- the seller's name
- the purchase date
- the amount paid or to be paid
- a description of the goods or services being sold.

GST invoices must show further details - see pages 46-48.

EFTPOS and credit card sales

Keep all copies of the vouchers and voucher schedules from your EFTPOS and credit card sales.

Make sure you include your EFTPOS and credit card sales when working out your total sales for the month.

Debit and credit notes

You must send your customers a debit note if the price of goods or services has increased after the original invoice was issued. If the price has decreased, you must send your customer a credit note.

Debit and credit notes must show the words "debit note" or "credit note" in a prominent place, in addition to the details required for an invoice.

Cash register tape

Some businesses, such as dairies, make a large number of cash sales. These businesses do not have to record the name of each customer in a cashbook or issue a tax invoice for every sale.

It's more appropriate for such businesses to use a cash register tape. Make sure all your cash sales are recorded on the tape. Keep these tapes in a daily order by highlighting the date on each one, and store them with your other sales records.

The amount you deposit as cash sales in your cashbook should equal the total on your cash tape.

Expenses records

You need to keep records of all your expenses for income tax purposes.

Invoices for purchases

If you buy goods or services on credit for the business you'll usually be sent an invoice requesting and recording payment.

Make sure you keep your invoices for purchases. Do not send them back to the supplier with your remittance advice and payment.

If you receive regular supplies from a supplier, it's a good idea to tick off all the invoices you've received against the supplier's monthly statement. That way you can make sure you're not paying an invoice twice.

It's helpful to sort your expenses invoices into those you've paid and those you have not paid yet. You can store those that have been paid with any paid monthly statements in cheque number or date paid order. As a reminder, write the date, cheque amount and cheque number on the statement or invoice.

To tell the difference between paid invoices and those still to be paid, put them into separate files. Store the paid invoices and statements in a file called "accounts paid". Store the invoices yet to be paid in a separate file, until they are due for payment, and call this file "creditors" or "accounts payable".

Credit card purchases

When you make purchases using a credit card for the business, make sure you keep:

- your credit card vouchers
- payment receipts
- monthly statements.

It's good practice to attach your credit card vouchers and receipts to the monthly statement, so they are all in one place.

When you get your credit card statement from the bank listing your credit card expenses, go through it and write down what each expense was for.

Note

If you're registered for GST, your credit card purchases should be claimed in the period the purchase was made (do not claim against the actual payment you make to your credit card company).

Invoices for purchases of \$50 or less

Keep all invoices, cash sale docket, till receipts and other evidence for these smaller purchases.

Note

If you're registered for GST, you'll need to keep all tax invoices for purchases over \$50. See page 46 for more information.

Part 3 – Bookkeeping

Bookkeeping is transferring the information from your source documents, such as invoices and receipts, into:

- cashbooks for recording payments in and out
- petty cash books for smaller purchases
- wagebooks for employees' pay records.

With these three types of record books you can run your business as well as meeting most of your tax responsibilities. We'll take you through setting up and using each book.

Many businesses use computerised bookkeeping systems. There are a number of accounting and bookkeeping packages available built on the basic principles of manual bookkeeping.

Cashbooks

A cashbook is a record of all payments and receipts by cheque, EFTPOS, credit card transactions and direct credit. It shows different types of sales and income, purchases and expenses under the appropriate headings. The headings you'll use depend on the type of business or organisation you run. The headings should describe the type of transactions you make most often.

A well-kept cashbook allows you to:

- keep track of how much money is coming in and how you are spending money
- prepare a cashflow budget of future income and expenses (see page 26 for cashflow budgets)
- prepare end-of-year financial accounts
- complete various tax returns.

New month on new page

Choose revenue items relevant and common to your business

Give yourself space

November sales and income											
DATE	REFERENCE	BANK	GST RECEIVED	SALES	GRANTS	FUNDS INTRODUCED (NO GST)	INTEREST (NO GST)				SUNDRY
3 November	Customer Sale	✓ 2,000 00	260 87	1,739 13							
5 November	Government	✓ 450 00	58 70		391 30						
7 November	Sale of computer	✓ 1,125 00	146 74								978 26
14 November	Joe Bloggs	✓ 200 00				200 00					
21 November	Interest received	✓ 15 35					15 35				
25 November	Customer Sale	✓ 6,750 00	880 43	5,869 57							
27 November	Customer Sale	✓ 2,250 00	293 48	1,956 52							
30 November	Customer Sale	✓ 4,500 00	586 96	3,913 04							
	TOTALS		2,227 18	13,478 26	391 30	200 00	15 35				978 26

Separate column for GST only if you're registered for GST

Choose expense items relevant and common to your business

November purchases and expenses												
DATE	REFERENCE	CHK	BANK	GST PAID	PURCHASES	WAGES (NO GST)	RENT	MOTOR VEHICLE	LOAN REPAYMENT (NO GST)	DRAWINGS (NO GST)	BANK FEES (NO GST)	SUNDRY
3 November	S. Toof Ltd	✓ 273100	3,500 00	456 52	3,043 48							
5 November	Steve Haira	✓ 101	650 00			650 00						
7 November	Landlord (rent)	✓ 102	750 00	97 83			652 17					
14 November	Petrol Co	✓ 103	55 00	7 17				42 83		5 00		
21 November	Joe Bloggs	✓ 104	400 00							400 00		
25 November	GST paid to IRD	✓ 105	310 98									310 98
26 November	S. Toof Ltd	✓ 106	7,000 00	913 04	6,086 96							
28 November	Petrol Co	✓ 107	50 00	6 52				43 48				
28 November	Steve Haira	108	650 00			650 00						
28 November	S. Toof Ltd	✓ 109	1,000 00	130 43	869 57							
30 November	S. Toof Ltd	110	1,125 00	146 74	978 26							
30 November	Petrol Co	111	25 00	3 26				21 74				
30 November	Bank fees	✓ DD	10 25								10 25	
30 November	Term loan	✓ AP	800 00						800 00			
	TOTALS		16,326 23	1,761 51	10,978 27	1,300 00	652 17	108 05	800 00	405 00	10 25	310 98

Combined totals should equal the total in the bank column
Put uncommon items in the sundry column rather than setting up a new expense column

Setting up and managing a cashbook

- If you are using a paper cashbook give yourself space. A 14- or 16-column cashbook is best. This is particularly important in your first year of business, when your income and expenses may not be as expected. Leave a couple of pages at the back of the cashbook for your monthly bank reconciliations.
- Start each month on a new page.
- Choose expense and income titles in your cashbook that are relevant and common to your business.
- Record references for paid expenses, for example, cheque number, EFTPOS, credit card, direct debit. This makes it easy to check your entries against the bank statement.
- Unusual items can be put into a "sundry" column - this is especially useful for one-off payments and receipts. It's a good idea to give these items a written description in the reference column or near the sundry amount for easier identification.
- If you're GST-registered, set up separate columns for GST paid on purchases and expenses and GST received from sales and income. Remember, the totals in your expense and income columns will be the amount banked, less the GST portion.
- Remember, if you are GST-registered, add GST to the selling price of your goods and services. To calculate GST, multiply the selling price by 15% (0.15). For more information on GST see Part 6.
- To separate the GST portion from your purchases and expenses, and sales and income, multiply the amount by 3 then divide the answer by 23.
- Some items do not include GST, such as wages, drawings, bank fees and interest.
- Add up all columns at the end of the month, ensuring all other total columns equal the bank column total.
- Reconcile the cashbook with your business's bank statement each month.
- Rule off each tax year.

Reconciling your cashbook with your bank statement

It's good business practice to reconcile your bank statement and your cashbook on a regular basis (at least monthly). It means balancing your bank account against the amounts of money you've noted down in your cashbook as paid or received.

Before you can reconcile your bank statement with your cashbook you'll need to have your bank statements for the period you're trying to reconcile. Use your bank statements to record items into your cashbook such as automatic payments, bank fees and interest charges and anything else not shown in your cashbook in the month you paid or received them.

To make it easier, ask your bank to send bank statements to you as soon as possible after the end of the month so you can keep your cashbook up-to-date, or use internet banking.

Eight steps for reconciling your bank statements

Complete your bank reconciliation following the example on these two pages.

1. Make sure all your cheques and deposits over the last month have been recorded in your cashbook.
2. Get a copy of all bank statements for the month you are reconciling.
3. Tick off the cheques presented on your bank statement with those recorded in your cashbook. Make sure the amounts are the same.
4. Tick off the deposits in your bank statement with those recorded in your cashbook. Make sure the amounts are the same.
5. Make a list of unpresented cheques from those recorded in your cashbook without ticks.
6. Make a list of outstanding deposits from those recorded in the cashbook without ticks.
7. Make sure all automatic payments, bank fees and electronic transactions are included in your cashbook.
8. Add up the cashbook columns of your sales and expenses and make sure all expense columns match the expenses' "bank" total and all sales columns match the sales' "bank" total.

AC Design Ltd 123 The High Street The Suburb The City	IOU Banking Corporation	Account name: AC Design Ltd Page no. 15 Account no. 00-000-00
Bank Statement		
Important: Please advise any change of address or occupation		
Date: 30 November 2013	Date of last statement: 28 October 2013	
	Opening Balance	\$6,500.21
Name of other party	Mtn	Particulars Ref Debit Credit
30 Nov		6,750.00 ✓ 13,250.21
30 Nov	✓ 105	310.98 12,939.21
30 Nov	106	7,000.00 5,939.23
		2,250.00 ✓ 8,189.23

DATE	REFERENCE	BANK	GST RECEIVED	SALES	GRANTS	FUNDS INTRODUCED (NO GST)	INTEREST (NO GST)	SUNDRY	
3 November	Customer Sale	✓ 2,000.00	260.87	1,739.13					
5 November	Government	✓ 450.00	58.70		391.30				
7 November	Sale of computer	✓ 1,125.00	146.74					978.26	
14 November	Joe Bloggs	✓ 200.00				200.00			
21 November	Interest received	✓ 15.35					15.35		
25 November	Customer Sale	✓ 6,750.00	880.43	5,869.57					
27 November	Customer Sale	✓ 2,250.00	293.48	1,956.52					
30 November	Customer Sale	✓ 4,500.00	586.96	3,913.04					
	TOTALS		17,290.35	2,227.18	13,478.26	391.30	200.00	15.35	978.26

DATE	REFERENCE	CHK	BANK	GST PAID	PURCHASES	WAGES (NO GST)	RENT	MOTOR VEHICLE	LOAN REPAYMENT (NO GST)	DRAWINGS (NO GST)	BANK FEES (NO GST)	SUNDRY
3 November	S. Tool Ltd	✓ 273100	3,500.00	456.52	3,043.48							
5 November	Steve Haira	✓ 101	650.00			650.00						
7 November	Landlord (rent)	✓ 102	750.00	97.83			652.17					
14 November	Petrol Co	✓ 103	55.00	7.17				42.83		5.00		
21 November	Joe Bloggs	✓ 104	400.00							400.00		
25 November	GST paid to IRD	✓ 105	310.98									310.98
26 November	S. Tool Ltd	✓ 106	7,000.00	913.04	6,086.96							
28 November	Petrol Co	✓ 107	50.00	6.52				43.48				
28 November	Steve Haira	✓ 108	650.00			650.00						
28 November	S. Tool Ltd	✓ 109	1,000.00	130.43	869.57							
30 November	S. Tool Ltd	✓ 110	1,125.00	146.74	978.26							
30 November	Petrol Co	✓ 111	25.00	3.26				21.74				
30 November	Bank fees	✓ DD	10.25								10.25	
30 November	Term loan	✓ AP	800.00						800.00			
	TOTALS		16,326.23	1,761.51	10,978.27	1,300.00	652.17	108.05	800.00	405.00	10.25	310.98

Step 4
Make sure the deposits in your cashbook and in your bank statement are the same

Step 3
Compare the amounts in your cashbook with the cashed cheques in your bank statement

	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER
Opening cash book balance	9,268.71	3,716.06	7,283.61	
Add sales and income for month	13,129.75	23,455.65	17,290.35	
Less purchases and expenses for month	18,682.40	79,888.10	16,326.23	
Closing cash book balance	3,716.06	7,283.61	8,247.73	
Add unpresented cheques	1,248.00	1,115.00	2,581.25	
Less outstanding deposits	0.00	0.00	0.00	
Balance per bank statement at end of month	4,964.06	8,398.61	10,828.98	
Unpresented cheques	62 55.00	98 781.25	111 25.00	
	69 78.00	96 333.75	110 1,125.00	
	78 1,115.00		108 650.00	
			98 781.25	
	1,248.00	1,115.00	2,581.25	

Unpresented cheques

Step 7
Check you've included automatic payments and bank fees in your cashbook

Step 5
Note the unpresented cheques

Bookkeeping

Bookkeeping

Petty cash book

Petty cash is a small amount of cash kept on hand to make day-to-day purchases for items such as milk, coffee and tea, stationery, postage and taxi fares.

A petty cash book allows you to:

- keep track of small expenses
- keep the cheque account free of lots of small transactions
- avoid paying for smaller items from personal funds
- make purchases that are too small to be paid by cheque.

To start using your petty cash system:

- Write out a cheque for cash, recording it on the cheque butt as "petty cash". The first petty cash cheque can not be claimed as an expense, see page 21 for more information.
- Keep petty cash separate from your personal funds.
- Make sure you receive a receipt for each petty cash purchase. If a receipt is not issued make sure you record the details.
- Record the purchase, with the type of expense, in a petty cash book.
- Keep a running total.

When your petty cash gets low, write out a new cheque for cash to bring the petty cash back up to the original amount.

2013 Petty cash book

Date	Purchase	Amount	Balance
4/4	<i>Opening balance</i>	<i>100.00</i>	
4/4	<i>Milk</i>	<i>2.60</i>	<i>97.40</i>
8/4	<i>Taxi</i>	<i>22.50</i>	<i>74.90</i>
8/4	<i>Coffee</i>	<i>10.95</i>	<i>63.95</i>
8/4	<i>Tea</i>	<i>3.75</i>	<i>60.20</i>
10/4	<i>Stationery</i>	<i>15.00</i>	<i>45.20</i>
11/4	<i>Milk</i>	<i>2.60</i>	<i>42.60</i>
11/4	<i>Tea</i>	<i>5.35</i>	<i>37.25</i>
15/4	<i>Cheque from bank account</i>	<i>(62.75)</i>	<i>100.00</i>
15/4	<i>Taxi</i>	<i>22.50</i>	<i>77.50</i>
16/4	<i>Drinks</i>	<i>35.00</i>	<i>42.50</i>
16/4	<i>Afternoon tea</i>	<i>25.00</i>	<i>17.50</i>
17/4	<i>Milk</i>	<i>2.50</i>	<i>15.00</i>
22/4	<i>Cheque from bank account</i>	<i>(85.00)</i>	<i>100.00</i>

Claiming petty cash expenses

It's important to remember that the first petty cash cheque can not be claimed for income tax and GST - it just opens the petty cash book. You can only claim the second and subsequent cheques. Keep receipts for everything under \$50 and, if you're registered for GST, keep tax invoices for everything over \$50. See page 46.

If any small expenses are paid straight from the cash register, remember to write out a petty cash docket or write out the details on the receipt and put this in the cash register.

Petty cash alternative

Some small businesses, especially those that do not employ staff, may find a petty cash system does not suit their business needs. An alternative method is for the owner or manager to pay for small items using their own personal funds, and reimburse themselves from the business cheque account once the total reaches a suitably large value. Keep all receipts or written details relating to the reimbursement. Staple them together, with the total value and cheque number recorded on a separate piece of paper, at the front of the receipts.

Wagebooks

Whenever you employ someone, you must keep their wage records for seven years. A good way to do this is to use a wagebook.

Each payday, you must complete these details for each employee:

- total gross earnings, including taxable allowances (this is the amount before PAYE is deducted)
- the amount of PAYE deducted
- any child support deductions
- any non-taxable allowances
- any student loan deductions
- any extra student loan deductions requested by your employee or us

- any KiwiSaver deductions
- any gross KiwiSaver employer contributions
- any ESCT (employer superannuation contribution tax)
- any net KiwiSaver employer contributions
- any tax credits for payroll donations
- the net wage.

Non-taxable allowances will include actual expenses employees have incurred on behalf of the employer, for example, meals, mileage, tools and telephone expenses.

See Part 8 for more on your responsibilities as an employer.

Start a new page for each employee

Your employee gives you this code on the Tax code declaration - IR330

Wagebook

(a) Name Employee's IRD number

(b) Address Employee's tax code Date applied

(c) Occupation KiwiSaver member Yes No Finish date

(d) Date started KiwiSaver deduction rate ESCT rate

Week Ending	Gross pay		PAYE calculated		Child support deductions		Student loans deductions		Student loans Extra deductions (SLBOR)		Student loans Extra deductions (SLCIR)		KiwiSaver deductions		Total deductions	Net after Tax & Deductions	Non taxable Allowances	Net Pay to worker	KiwiSaver Employer Gross CEC		ESCT		KiwiSaver Employer Net CEC	
	For Week	For Month	For Week	For Month	For Week	For Month	For Week	For Month	For Week	For Month	For Week	For Month	For Week	For Month					For Week	For Month	For Week	For Month	For Week	For Month
7/04/2019	800.00		132.27				49.80		25.00				24.00		231.67	568.33	5.00	573.33	24.00		4.20		79.80	
14/04/2019	800.00		132.27				49.80		25.00				24.00		231.67	568.33	5.00	573.33	24.00		4.20		79.80	
21/04/2019	800.00		132.27				49.80		25.00				24.00		231.67	568.33	5.00	573.33	24.00		4.20		79.80	
28/04/2019	800.00		132.27				49.80		25.00				24.00		231.67	568.33	5.00	573.33	24.00		4.20		79.80	
April 2019		3,200.00		529.08			201.60		100.00				96.00		926.68	2,273.32	20.00	2,293.32	96.00		16.80		79.20	

Setting up and managing a wagebook

- Start each tax year on a new page and give yourself space.
- Use a fresh page for each employee, even if they were only employed for one day.
- Include all wages for a full tax year in one book.
- Make sure you get new employees to complete their details on the **Tax code declaration - IR330**, and new contractors on the **Tax rate notification for contractors - IR330C**. This will give you their IRD number and tax code.
- As an employer you'll have to complete an **Employment information - IR348** form each payday.
- If you complete paper returns, you can choose to send us your employment information twice monthly, for paydays between:
 - the first and the 15th of the month, and
 - the 16th and the end of the month.

If you choose this option you will still need to show each pay separately.

Page 59 shows you how to use the information in your wagebook to help you fill in these forms.

Time management

- Make bookkeeping part of your regular routine. When you've established a routine you'll find you work through your books quicker.
- Before starting, make sure you have all the information and documents you need.
- Avoid interruptions when doing your bookkeeping. You should set aside a time just for bookkeeping.
- Try to complete each bookkeeping task in one sitting. For example, when filling in your PAYE forms, make sure you finish them before doing something else.
- Keep your books in an organised manner. You'll work quicker if you can find the information you need easily.
- Always try to find better ways to keep your books and records.
- If you're a non-profit organisation, once you've set up a good system, write down a clear description of how it works. This will save the next treasurer time and effort trying to work this out.

Recording methods

Your records should be organised enough to allow you or anyone else to work through them quickly and efficiently.

The paper-based method

Paper-based record keeping simply means keeping all your invoices for sales and purchases as well as all your cheque butts and bank statements. You'll probably also use a cashbook to record all your sales, income, purchases and other expenses.

There are many ways to organise paper records. Choose a filing system that's simple so others can quickly and easily get the information they need. When you find a system that suits your business, stick to it. Remember, it's important to keep it up-to-date and well organised. If you use an accountant, try to ensure your record keeping gives them the information they require.

Remember, when you're in business time is money. Time wasted looking for records that have not been put away in some order is money wasted. This is because bills aren't paid on time and money coming in may not be accounted for. Your business advisor will spend more time doing basic bookkeeping rather than giving financial advice.

The electronic method

There are a number of accounting and bookkeeping packages available that you can use on personal computers. The major software manufacturers also provide standardised business software that includes spreadsheets, databases and word processing packages. These packages build on the basic principles of manual record keeping, so it's essential to understand a manual system first.

Note

If you keep your records on computer, you still need keep cheque butts, invoices, tax invoices (if registered for GST), bank statements and any other documentation to prove your income, purchases and expenses.

Keeping all your records on computer without backups can be disastrous if your system breaks down. If this happens you could lose all the information you've stored on your computer.

A "backup" is a copy of the information you have on your computer, either electronically or copies of vital information printed out regularly. Keep this backup somewhere else - in another building if possible.

Conducting business on the internet

You're required to keep business records of all business-related internet transactions.

More information

For more information on keeping records electronically, you can refer to our **Standard Practice Statement (SPS) 13/01: Retention of business records in electronic format, application to store records offshore and application to keep records in Māori**. You'll find this on our website.

Making your bookkeeping system work for you

Using your cashbook for budgets and cashflow

Having set up a cashbook and organised your books into a system, you can now use your cashbook to monitor and plan your business's performance.

Many non-profit organisations, which rely on members' fees, grants or donations, run out of cash after starting up because they may not have a regular source of income from sales or investments. Cash management is essential for organisations as it is for businesses.

A cashflow budget is basically a summary of the financial future of your business for the next six months to a year. Cashflow budgets are sometimes also called cashflow forecasts. The term "cashflow" is used to describe the movement of money in and out of a business. One of the most important ways to manage your finances is by checking actual cashflow figures (from your cashbook) with your cashflow budget.

A cashflow budget shows:

- forecast monthly cash in (from sales, loans, your own money, grants and other income)
- forecast monthly cash out (for purchases and expenses).

A cashflow budget can show you how well your business is doing so you can plan ahead. That way you'll be able to tell when you can afford new equipment, hire more staff, pay bonuses or arrange finance for the future, if necessary.

You'll be in better control of the business if you know from month to month how the business is doing rather than waiting till the end of the year.

Monitoring your cashflow budget

At the end of each month, enter actual figures into the cashflow budget. Highlight those items that were significantly over or under forecast amounts.

Update the forecasts for the following months as you go. From there you can decide whether you'll be able to invest more in the business or talk to your bank or business advisor if funds are going to be low.

Comparing actual against forecast figures helps you control finances and prevent many problems before they happen.

Forecasting figures

When you've been in business for six months or more, you'll be able to forecast monthly sales and expense figures. These are based on your actual results for that period, plus or minus a little for changing prices.

For new businesses, sales and income are based on what you think others are making in similar businesses. If you do not have any competitors and know you'll have the customers, you may be able to say for sure what cash sales might be by researching what customers might be prepared to pay.

Base your purchases and expenses figures on last year's costs, adjusted for any price changes. Otherwise, make some enquiries about costs from people who supply the goods and services you'll need.

How to do a cashflow budget

This example is for a non-profit organisation that receives income and pays expenses using cash only. If you buy or sell on credit, you'll need to prepare sales and stock purchase budgets.

1. Prepare a cashflow sheet with months along the top. Divide each month into forecast and actual.
2. Down the left-hand column list appropriate headings, including opening bank balance, cash in and cash out, a total of the difference and a closing balance for the month.
3. The opening balance is the closing balance from the previous month. For a new business this may be \$0 unless you've put money in to get started.
4. Enter cash from sales and all other funds you expect to receive. Add in all other sources of income, including grants, loans, members' fees, tax refunds and your own funds introduced.

5. Total cash in for each month.
6. Enter cash out for purchases and other cash items you expect to pay.
7. Total cash out for each month.
8. Calculate the closing bank balance for the month by adding the opening balance to total cash in and deducting the total cash out.
9. The closing balance will be next month's opening balance. Do this for each month of the cashflow budget.

Example

For Nga Tamariki Mokopuna, Janette's cashflow budget showed that in June, parent fees were more than expected because parents paid their fees on time plus any overdue amounts.

Highlight items that are over or under forecast

CASHFLOW BUDGET for Nga Tamariki Mokopuna Early Childcare Unit - Prepared by Janette Wiseman

For the period 1 April 2013 - 31 August 2013

Month Description	APRIL		MAY		JUNE		JULY		AUGUST	
	Forecast	Actual	Forecast	Actual	Forecast	Actual	Forecast	Actual	Forecast	Actual
OPENING BALANCE	1,500 00	1,500 00	287 50	690 50	514 90	511 25	124 19	1,009 66	280 02	
CASH IN										
Parent fees	4,000 00	3,500 00	4,500 00	3,600 00	4,500 00	5,000 00	5,000 00		5,000 00	
Interest received	12 50	12 50	2 40	5 75	4 29	3 41	0 83		1 87	
Fundraising	250 00	180 00	250 00	180 00	250 00	500 00	250 00		250 00	
Wage subsidy	500 00	500 00	500 00	500 00	500 00	500 00	500 00		500 00	
Government grant	2,000 00	2,000 00	2,000 00	2,000 00	2,000 00	2,000 00	2,000 00		2,000 00	
Tax refunds										
TOTAL CASH IN	6,762 50	6,192 50	7,252 40	6,285 75	7,254 29	8,003 41	7,750 83		7,751 87	
CASH OUT										
Resources	500 00	380 00	450 00	450 00	450 00	300 00	500 00		500 00	
Cleaning material	100 00	120 00	100 00	90 00	100 00	120 00	100 00		100 00	
Stationery	500 00	650 00	300 00	450 00	350 00	350 00	500 00		500 00	
Vehicle costs	150 00	160 00	150 00	100 00	120 00	180 00	170 00		170 00	
Power	280 00	255 00	280 00	290 00	280 00	310 00	280 00		280 00	
Phone	80 00	75 00	80 00	75 00	80 00	75 00	80 00		80 00	
Wages and PAYE	4,500 00	3,600 00	4,000 00	3,200 00	4,000 00	3,800 00	4,000 00		4,200 00	
Bank fees	15 00	12 00	15 00	10 00	15 00	10 00	15 00		15 00	
GST paid to IRD	700 00	600 00	500 00	650 00	600 00	710 00	600 00		550 00	
Rent	1,150 00	1,150 00	1,150 00	1,150 00	1,150 00	1,150 00	1,150 00		1,150 00	
Affiliation fees					500 00	500 00				
Accounting fees							200 00			
TOTAL CASH OUT	7,975 00	7,002 00	7,025 00	6,465 00	7,645 00	7,505 00	7,595 00	0 00	7,595 00	0 00
CLOSING BALANCE	287 50	690 50	514 90	511 25	124 19	1,009 66	280 02		486 89	

Step 8 Opening balance 1,500.00
 plus total cash in 6,192.50
 7,692.50
 less total cash out 7,002.00
 Closing balance \$ 690.50

Step 9 Copy this month's closing balance to the next month's opening balance

Part 4 – Income tax

This part covers the basic tax responsibilities for different types of businesses.

Income

Business income is earned from the goods and services you sell (including invoices you've issued but have not yet received payment for). You can claim expenses against your income to arrive at a net profit. You pay income tax on your net profit.

Your first year in business is not tax-free

If you make a profit at the end of your first year in business you will have tax to pay.

So, although you may not be actually making tax payments on your profit during your first year, that year is still taxed. You'll have to pay this tax by 7 February in the following year, or if you have a tax agent with an extension of time by 7 April.

There may be instances where you may be liable for interest although you do not have to make a tax payment. Please refer to our **Provisional Tax Guide - IR289** for more details.

If you do not want to have a tax bill at the end of the first year you can make voluntary payments at any time. In some situations, small businesses which make voluntary payments towards their end-of-year tax liability may qualify for an "early payment discount" against their end-of-year tax liability (see opposite).

In your second and subsequent years of business you may be required to pay income tax in instalments during the year. This is called provisional tax. You'll find more on provisional tax on page 33.

If you are a sole trader and have a student loan you may also have a student loan repayment to make. After your first year you may be required to make interim payments. For more information, go to ird.govt.nz/se-repay-student-loan.

Early payment discount

We'll give a discount to individual taxpayers who receive self-employed or partnership income, and who make voluntary payments of income tax either in their first year of business, or the year before they start paying provisional tax. The current discount rate is 6.7%.

You qualify for the discount if you:

- are either self-employed or a partner in a partnership
- aren't operating as a company or trust
- derive gross income predominantly from a business (not being interest, dividends, royalties, rents or beneficiary income)
- aren't required to pay provisional tax in the income year
- make a voluntary payment of income tax before the end of the income year (for example, 31 March if you have a March balance date)
- elect to receive the discount in the period for filing a return of income for that year (you can do this on your income tax return)
- have not been liable to pay provisional tax in the previous four years, and
- have not received an early payment discount unless you come within the four-year rule outlined on page 28.

Once you've made a voluntary payment, you must keep a credit balance in your income tax account until the end-of-year tax date. The credit balance must be greater than or equal to the lesser of the following:

- the amount paid as voluntary payment before the end of your income year, or
- the amount of end-of-year tax.

Four-year rule

You can claim the discount again when you have stopped deriving partnership and self-employed income for four years and then started a new business.

Calculation

The discount is calculated on the lesser of:

- the amount of any voluntary income tax payments made for the year
- 105% of the residual income tax for the income year.

Example

Andrew makes voluntary payments for the year ended 31 March 2013 of \$5,000. His residual income tax for 2013 is \$8,000.

The discount is calculated on \$5,000, being the lesser of the voluntary payments made or 105% of his residual income tax amount (\$8,400).

The value of the discount is \$335 being 6.7% of \$5,000.

Election

You can choose whether to receive the discount in your first year of business or in a subsequent year, but you must claim it prior to the year in which you start paying provisional tax, when qualification ceases.

To claim it, tick the box in your **Individual tax return - IR3** after confirming that you meet the criteria in the return guide. If you do not claim the discount in your return, you can apply to us to amend the return and claim the discount but you must do so before the last day for filing your tax return for the income year the discount is claimed in.

More information

You can find out more about the early payment discount, including whether you can claim it, at ird.govt.nz or by calling us on 0800 377 774.

Drawings

Remember that you pay income tax on your profits. This includes any drawings you take from the business.

"Drawings" is the money you take out of the business to live on and pay any personal expenses. It's easier to reconcile your accounts if you take regular cash drawings weekly, fortnightly or monthly.

Balance date

For most businesses, the accounting year ends on 31 March - the balance date. This means you need to have your accounts up-to-date, so you can work out the profit you've made and the amount of tax you need to pay.

If you want a balance date other than 31 March, you must apply to us in writing, giving sound business reasons for the change. You can not use another balance date until you have written approval from us.

Paying income tax

Whether you're in business or running an organisation, you'll need to complete a tax return each year and send it to us. Include income from all sources and work out the tax on your total taxable income. If you've any tax credits (such as PAYE or RWT (resident withholding tax)) these are deducted from your tax in your return.

You'll also need to send us either a copy of your financial accounts or a summary of your income and expenses.

When is my tax return due?

- If you have a balance date between 1 October and 31 March inclusive, you must send your tax return to us by 7 July.
- If you have a balance date between 1 April and 30 September inclusive, you must send your tax return to us by the 7th day of the fourth month after your balance date.

What return to use for income tax

Business type	What return to use
Sole trader	An IR3, with a copy of the accounts or an IR3B, IR3F, IR3R or IR10
Partnership	An IR7, with a copy of the accounts or an IR3B, IR3F, IR3R or IR10
Company	An IR4, with a copy of the accounts or an IR10
Trust	An IR6, with a copy of the accounts or an IR10
Non-profit body	An IR9, with a copy of the accounts or an IR10

Attachments

Instead of sending in your financial accounts, you can prepare a summary of your income and expenses using the following forms.

- IR10** summarises selected account information from your financial records
- IR3B** is for sole traders and partnerships to show business income and expenditure
- IR3F** is especially for farming income and expenses
- IR3R** is for recording any rental income and expenditure.

Using these forms speeds up the processing of the return but they do not replace the need to prepare a set of financial accounts.

The image displays four Inland Revenue tax forms:

- IR3B Rental income (April 2021):** Filled out by Pat Bair, year ended 31 March 2013, IRD number 16423875.
- IR3F Farming income (April 2021):** Filled out by Bernie Savage, year ended 31 March 2013, IRD number 12144456.
- IR3B Schedule of business income (April 2021):** Filled out by Walter Wall, year ended 31 March 2013, IRD number 16422133.
- IR10 Financial statements summary (March 2019):** Filled out by Joe Bloggs, year ended 31 March 2013, IRD number 19128438.



Preparing financial accounts

Most companies must prepare special purpose financial reports which meet minimum Inland Revenue requirements.

These requirements make reporting quick and easy for small and medium businesses, and give us the tax information we need.

Even if you're not legally required to prepare financial accounts, there are good reasons for all businesses (including sole traders, partnerships and trusts) to prepare them.

You'll find more information about our minimum financial reporting requirements at ird.govt.nz/records.

Income tax rates

Different tax rates apply to companies, individuals and partnerships. These rates can change if the legislation changes.

Sole traders

A sole trader manages their own business and is responsible for all the business's income and debts. If you're a sole trader you do not pay yourself a wage - you withdraw money from the business when you need it for personal use. These takings are called "drawings". Drawings must not be included as a deductible business expense when calculating your profit. Make sure you record your drawings in your cashbook (see page 16) so you can reconcile your cashbook with your bank statements, ensuring there's enough money in the business to cover any bills owing.

Example

For the year ended 31 March 2022, income tax would be calculated as follows:

Sales	\$187,000
Less all deductible expenses	\$108,500
Net profit	\$ 78,500

Tax on the net profit of \$78,500 is \$16,825

Net profit up to and including \$14,000 is taxed at a rate of 10.5% ($\$14,000 \times 10.5\% = \$1,470$)

Net profit from \$14,001 to \$48,000 inclusive is taxed at a rate of 17.5% ($\$34,000 \times 17.5\% = \$5,950$)

Example (continued)

Net profit from \$48,001 to \$70,000 inclusive is taxed at a rate of 30% ($\$22,000 \times 30\% = \$6,600$)

Net profit from \$70,001 to \$180,000 inclusive is taxed at a rate of 33% ($\$8,500 \times 33\% = \$2,805$)

Tax payable on a net profit of \$78,500 is $\$1,470 + \$5,950 + \$6,600 + \$2,805 = \$16,825$

Partnerships

The partnership itself do not pay tax on its income or profit, nor do the partners pay tax on any regular drawings they take. Instead, at the end of each year the net profit (without allowing for partners' drawings) is shared in full between the partners. The partners then pay income tax on their share of the profit in their individual tax returns, along with any other income they have. As with a sole trader, the amount the partners take as drawings can be more than their share of the profit.

If we consider that the payment, salary or wages, share of profits or other income paid to a relative or associated person is unreasonable or excessive, any salary or wages, or share of profits or losses can be reallocated for tax purposes. To consider whether the payment or share in the profit or loss is reasonable we look at:

- the nature and extent of the services provided
- the value of the partners' contributions made by way of services or capital
- any other relevant matters.

We can not reallocate partners' share of income or losses if there's a bona fide contract.

A partner who works for the partnership can be paid a salary with PAYE deducted if there's a contract of service. The contract must be written and agreed to by all partners. See our **Employer's guide - IR335** for more information. Wages paid to this partner would then be a deductible expense in the partnership's IR7 return. The partner must include the wages and PAYE in their IR3 return along with their share of any profit or loss.

Companies

Any profits made belong to the company, which must pay tax on them.

Companies can distribute money in three ways.

- Shareholder-employees can periodically draw money from the company. At the end of the year, the company calculates a salary amount on which the shareholder will have to pay income tax.
- Shareholders who are also employees of the company can be paid a salary with PAYE taken out in the normal way. These salaries are deductible as a business expense for the company.
- The company can pay dividends to shareholders out of the profits that remain after tax. It may have to attach tax credits to these dividends - see page 33.

Non-profit organisations

Unless your organisation has been approved by us as being fully exempt from income tax, you must file an income tax return each year. A deduction of up to \$1,000 per year is available for some non-profit organisations. By deducting this amount from the organisation's net income you reduce the amount of tax to pay.

There are a number of income tax exemptions your organisation may be entitled to, as long as none of its income or funds can be distributed to any of its members.

The organisation's main aims and activities must meet the requirements of the particular exemption.

Income tax exemptions are not automatic.

You'll need to apply to us in writing, stating the exemption you're applying for, and include:

- a copy of the organisation's written rules, constitution or founding documents
- a copy of the certificate of incorporation, if your organisation is incorporated
- details of how the organisation will operate.

An incorporated organisation (ie, registered under a specific Act) is taxed at the company rate. Unincorporated organisations not entitled to an exemption are taxed at the same rate as individuals.

If the organisation has profit-making activities, it must pay income tax. You may use an IR10 to show account information or send in a set of financial accounts with the return.

Charities register

Charitable organisations are eligible for various tax benefits. A charity must register with the Charities Commission to receive tax exemptions. For more information go to charities.govt.nz

Sale and Purchase of assets

When 2 or more assets are sold together, they are mixed supplies, meaning they involve a mixture of:

- revenue (taxable) assets like trading stock, property held on revenue account or patents
- depreciable assets like plant or machinery
- capital (non-taxable) assets like goodwill.

When sold, the allocation of the sale price determines the seller's tax liability from the sale, and the buyer's cost base for calculating depreciation or deductions. Generally, the allocation must be based on market values.

From 1 July 2021 for any transaction such as a sale or purchase of a business or property involving mixed supplies of certain assets, the seller and buyer should document and use the same allocation price for different classes of assets in their returns.

The agreement should be made and documented before either the seller or buyer files their income tax return which includes the tax position for the sale. Notification of the agreement to Inland Revenue is not required.

If we consider the agreed amounts do not reflect the asset's market value, we may allocate amounts subject to certain thresholds for low value depreciable assets.

If they do not agree on an allocation amount and the total purchase price is \$1 million or more, or where the only assets are residential land (including land and chattels) with a total purchase price of \$7.5 million or more the seller has 3 months from the settlement date to:

- determine and notify both the buyer and Inland Revenue the allocation amount.

The allocation amounts should be the greater of the relative market value or for depreciable property, the tax book value.

If the seller does not make an allocation and valid notification, then the buyer has a further 3 months (within 6 months of settlement) to:

- determine and notify the seller and Inland Revenue the allocation amount.

The allocation amounts cannot be less than the market value for the assets.

Once a valid notification is made by either party the amounts must be used by both the seller and buyer for income tax purposes.

If the buyer does not make a notification within the further 3-month timeframe then:

- we may allocate amounts to each asset, and
- any tax deduction that the buyer is entitled to may be denied until the following years tax return.

The parties may still make and notify allocations after the 3 or 6 month timeframes, but we will be able to choose which allocation is used, or decide the allocation based on market values subject to certain thresholds for low value depreciable assets.

Notification

Notification to Inland Revenue can be made through myIR as a web message or in writing.

In the notification use the subject line "**Purchase Price Allocation**" and include:

- Both parties name and IR/GST number
- Date of agreement to the transaction
- Date of settlement
- Global/total sale price
- Price allocation at the level of asset classes that are subject to particular income or deduction rules.

Tax on interest and dividends

RWT (resident withholding tax) on interest

If you receive interest from a person or organisation, RWT (resident withholding tax) is usually deducted from those interest payments before they are credited to you. This might be interest from financial institutions (for example, banks, finance companies, building societies or credit unions).

The rates from 1 October 2010 are:

Rate for deducting RWT	Who should use this rate
10.5%	<ul style="list-style-type: none"> Individuals who have a reasonable expectation of their annual income being \$14,000 or less* if they've provided their IRD number. Testamentary trusts may elect this rate if they provide their IRD number.
17.5%	<ul style="list-style-type: none"> Individuals whose annual income is from \$14,001 to \$48,000* if they've provided their IRD number. Individuals, Māori authorities and trusts who have not elected a rate but have provided their IRD number (if they have not opened a new account since 31 March 2010). Trusts and testamentary trusts may elect this rate if they've provided their IRD number.
28%	<ul style="list-style-type: none"> Companies may elect this rate if they've provided their IRD number.
30%	<ul style="list-style-type: none"> Individuals whose annual income is from \$48,001 to \$70,000* if they've provided their IRD number. Trusts and Māori authorities can elect this rate if they've provided their IRD number.
33%	<ul style="list-style-type: none"> All interest recipients can elect this rate, eg, individuals whose annual income is \$70,001 or over*. Use this rate for all interest recipients who open a new account and do not elect a rate.
45%	<ul style="list-style-type: none"> From 1 April 2020, use this rate for all interest recipients who have not provided an IRD number.

Individuals and others

Make sure your interest payer has your IRD number.

Some people or organisations can apply for a resident withholding tax exemption. This means you get the full interest payment with no tax deducted. You can find out more about the exemption register, eligibility and how to apply at ird.govt.nz/rwt-exemption or see the **RWT on interest - payer's guide - IR283**.

Interest payers

If investors other than banks or other financial institutions have money invested in your business or organisation, and the business pays more than \$5,000 interest a year to these investors, you'll need to register as a payer for RWT. Our booklet **RWT on interest - payer's guide - IR283** has the information you'll need if you pay interest and deduct RWT.

Dividends and imputation

If you're running a company, you may attach imputation credits to dividends you pay to shareholders. Shareholders can then be credited with the amount of tax paid by the company. This ensures tax is not paid on the dividend by both the company and the shareholder.

The company paying the dividend also has to deduct 33% RWT from any part of the dividend that do not have imputation credits attached.

For more information on dividends and imputation, read our booklets **Resident withholding tax (RWT) on dividends - IR284** and **Imputation - IR274**.

Provisional tax

Provisional tax is not a separate tax but a way of paying your income tax as you receive income through the year. With provisional tax, you pay instalments of income tax throughout the year. For more information, read our booklet **Provisional tax guide - IR289**.

Are you liable for provisional tax?

If your residual income tax is more than \$5,000 in the 2020 income year and onwards, you will have to pay provisional tax for the following year. For 2019 and previous tax years, the threshold is \$2,500.

* You are not required to confirm an individual's income level; you can accept the rate they provide.



Residual income tax (RIT)

RIT is the amount of tax to pay on your taxable income, less any PAYE deducted and any other tax credits you may be entitled to (except Working for Families Tax Credits). You will know what your RIT is from your last tax return.

Paying provisional tax

There are four options for working out your provisional tax: Accounting Income Method (AIM), standard, estimation or ratio.

AIM option

The Accounting Income Method (AIM) bases your provisional tax instalments on your cash flows during the year.

You need AIM-capable accounting software that will calculate your provisional tax payments for you (if any) at each instalment date using your accounting records.

Standard option

Your payments are calculated from either your:

- last year's residual income tax + 5%, or
- residual income tax from two years ago + 10% if you have not completed last year's return yet.

Estimation option

Another way to work out your provisional tax is to estimate what you think your RIT will be. To get the right rate, add up all your estimated income, work out the tax on the total, then subtract any tax credits (such as PAYE).

Note

If the amount you estimate is less than your actual RIT for that year, you may be charged interest on the underpaid amount.

Ratio option

You can only use this option if you're GST-registered and file either monthly or two-monthly GST returns.

Under this option, provisional tax is based on your GST turnover. We'll calculate the ratio based on your previous year's RIT and the total GST taxable supplies for the same year.

The ratio calculation is:

$$\text{GST ratio percentage} = \frac{\text{RIT from your latest income tax return}}{\text{total GST taxable supplies from the same tax year (less ratio percentage adjustments)}} \times \frac{100}{1}$$

To calculate provisional tax payments, you multiply the ratio percentage by your total taxable supplies for the two-month period. If you file monthly, add (the taxable supplies for two return periods). You'll need to:

- Let us know if you want to use the ratio option at the beginning of the tax year.

You must meet all these criteria to use it:

- You've been in business and registered for GST, for the whole of the previous tax year, and part of the tax year before that.
- Your RIT for the previous year is greater than \$5,000 (or \$2,500 for 2019 and previous years) and up to \$150,000.
- You file your GST returns monthly or 2-monthly.
- You're not a partnership.
- Your ratio percentage that we calculate for you is between 0 and 100% (we'll let you know if it's not).

Example

Leonie is a kiwifruit grower in Te Puke. She files two monthly GST returns. On 20 February 2019, she applies to use the ratio option to work out her 2020 provisional tax.

We approve this and review her latest returns, which are for the 2018 year. Her 2018 RIT is \$51,000, and her taxable supplies are \$2,114,723, broken down as follows:

GST return period	Taxable supplies (\$)
April - May 2017	690,025
June - July 2017	580,121
August - September 2017	145,859
October - November 2017	90,412
December 2017 - January 2018	152,681
February - March 2018	455,625
Total taxable supplies	\$2,114,723

Leonie’s ratio percentage is: $\frac{\$51,000}{\$2,114,723} \times \frac{100}{1} = 2.4\%$

*Your ratio percentage is rounded down to one decimal place.

If you elect to use the ratio option, you'll need to either write to us or call us on 0800 377 774.

Provisional tax instalments

The number of provisional tax payments you'll need to make depends on how often you file GST returns and which provisional tax option you're using.

If you're not registered for GST, you'll need to make three provisional tax payments.

If you file your GST returns six-monthly, you'll need to make two provisional tax payments.

If you file your GST returns monthly or two-monthly, and use the standard or estimation option for provisional tax, you'll need to make three provisional tax payments.

If you use the ratio option, you'll need to make six provisional tax payments.

If you use the AIM option your due dates for provisional tax are generally the same as your GST due dates:

- monthly (if you're registered for monthly GST filing) or
- two- monthly (if you're registered for two or six-monthly GST filing).

If you're not registered for GST, your dates would be the two monthly GST due dates that align to your balance date.

The table below shows when your provisional tax is due, if you have a 31 March balance date.

We can tell you when your payments are due if your balance date is other than 31 March.

You'll have to pay a late payment penalty and interest if you pay late or do not pay the full amount.

Due dates for provisional tax

Number of instalments	Payments due
2	28 October and 7 May
3	28 August, 15 January and 7 May
6	28 June, 28 August, 28 October, 15 January, 28 February and 7 May
12	15 January, 28 January, 28 February, 28 March, 7 May, 28 May, 28 June, 28 July, 28 August, 28 September, 28 October, 28 November



How do I pay provisional tax?

Go to ird.govt.nz/pay to find out about making payments by:

- internet banking
- credit or debit card, or
- direct debit.

Provisional tax and GST

If you're GST-registered and pay provisional tax, you make a combined payment on your GST provisional tax return.

Budgeting for provisional tax

Like all other business expenses, you have to budget ahead for your taxes, so it's important to know when the provisional tax payments are due and how much they will be. It's a good idea to use a separate bank account to put aside income to cover provisional tax payments.

Provisional tax in your first year

If you have not been budgeting and putting money aside in your first year, you'll have to pay all first year income tax in February, as well as paying provisional tax instalments for the coming year.

Your end-of-year tax could be a significant amount if you do not have any voluntary payments to deduct. Voluntary payments will help and may entitle you to an early payment discount (see page 27).

Provisional tax paid is deducted from the following year's residual income tax. The balance is either tax to pay or a refund.

Interest

In some circumstances you can be charged interest if the provisional tax you paid is less than your RIT.

If the provisional tax you pay is more than your residual income tax, we may pay you interest on the difference.

For more help

If you have any income tax or general enquiries, call us on 0800 377 774.

Part 5 – Expenses

Claiming expenses for income tax

All businesses have expenses in generating taxable income. Most of these expenses can be deducted from your sales and income to arrive at a net profit, and you pay income tax on this.

Examples of **deductible expenses** are:

- rent paid on business premises
- repairs and maintenance on business items
- stationery and supplies for the business
- purchases of raw materials or trading stock
- any FBT you've paid (see page 65)
- electricity and telephone costs
- business vehicle and transport costs
- interest on money borrowed for the business
- interest on underpayments of tax
- gross wages paid to employees
- employer superannuation contributions
- insurance of business assets or premises
- premiums paid for accident insurance
- ACC levies
- 50% of business entertainment costs (see page 40 for the tax rules on entertainment expenses)
- for the 2010 income year and beyond, legal expenses incurred when buying capital assets used to derive taxable income, provided your total legal expenses for an income year are equal to or less than \$10,000
- depreciation.

Some business expenses paid for out of business income can not be claimed as an income tax deduction.

Examples of **non-deductible expenses** are:

- the cost of plant and machinery
- loan principal repayments
- improvements to equipment (apart from repairs and maintenance)
- private expenses, such as life insurance, interest on money borrowed for private purposes
- drawings from the business
- for the 2010 income year and beyond, legal fees for capital assets used to derive income when your total legal expenses exceed \$10,000
- prior to the 2009-10 income year, any legal fees associated with the cost of buying capital assets for the business.

Capital expenses

It's important to be able to tell the difference between capital and revenue expenses. This is because revenue expenses are deductible while capital expenses are generally not. Capital expenses are usually one-off payments to buy assets that will be used to run the business. If you're unsure whether something you've bought is a capital expense, contact your business advisor or us. You can not claim the full cost of capital items in the year they were purchased. Instead, their cost must be written off over a number of years. This is called depreciation and you'll find more information on page 41.

Using your own vehicle in the business

If you're a sole trader or in a partnership and you use your own vehicle in the business, you can claim the running costs for income tax. If you use the vehicle strictly for business only, you can claim the full running costs, without making any adjustments. If you use it to travel from home to work, or any personal travel, you'll need to separate the running costs of your vehicle between business and private use.

To do this, you must keep a logbook for at least three months, every three years, to work out the business share of the running costs. You'll need to record the distance, date and reason for the trip in the logbook. You can use the difference between the odometer readings at the start and end of the three months to work out the percentage of vehicle expenses you can claim.

Example

Sometimes Ross needs his own car for his plumbing business. The details Ross recorded in his logbook are shown below.

Total distance travelled in three months: 2,610 km

Distance travelled for business: 360 km

$$\frac{360}{2,610} = 13.8\%$$

Ross can claim 13.8% of his vehicle expenses as a business expense.

You can use the result of your three months' recording to claim the business share of your vehicle expenses over the next three years, provided your business use of the vehicle do not change by more than 20%. You should still keep records of the total vehicle running costs and record the total distance travelled for the income tax year.

If you do not keep a vehicle logbook you may claim up to 25% of the vehicle running costs as a business expense. However, you could be asked to verify the percentage claimed.

Alternatively, you may use the New Zealand Automobile Association Inc. or Inland Revenue mileage rates to make a claim on your vehicle. You can view these at ird.govt.nz/vehicle-expenses or call us on 0800 377 774 for more details.

When a company owns a car, it claims all the expenses without making a private use adjustment. However, the company must pay FBT if the vehicle is available for employees' or shareholder-employees' private use. The company will also have to calculate GST on the fringe benefit.

See page 65 for more information on fringe benefit tax.

Vehicle logbook (3-month period) 1/1/14 - 31/3/14

Vehicle logbook (3-month period) 1/1/14 - 31/3/14						Meter reading (at start of period)	15,165
Date	Journey		Meter reading			Reason for trip	Driver's signature
	From	To	Start	Finish	Dist.(km)		
1/1/14	Workshop	Porirua	15,165	15,210	45	Business - seeing P.U. Ltd	RR
5/1/14	Workshop	Levin	15,718	15,918	200	Business - Plumber's Guild conference	RR
6/2/14	Workshop	Petone	16,485	16,525	40	Business - Supplier X4Z	RR
26/3/14	Workshop	Airport	17,525	17,600	75	Business - Errol Plane to airport	RR
Business distance			360			Meter reading (at end of period)	17,775
Total distance travelled (17,775 - 15,165)						2,610	

Using your home for the business

Many people who run a small business use an area in the home for work purposes. You do not have to have an area specifically set aside for the business. If you're doing this, you can make a claim for the area so long as you keep a full record of all expenses you wish to claim.

If there is not a separate area used for the business, the apportionment will need to take into account criteria such as the amount of time spent on income-earning activities and the area used at home.

No deduction is permitted for any private or domestic expenditure.

The responsibility for keeping invoices and records for a home office is the same as for any other business expenses you're claiming.

You can claim a portion of the household expenses, such as the rates, insurance and power. You can also claim a portion of the mortgage interest and depreciation, if you own the house. You must keep invoices for these expenses.

You can only claim the expenses that relate to the area used for business. Work out the percentage of the work area, compared to the total floor area of the house, then apply this percentage to the total house expenses.

You may claim a proportion of the mortgage interest (not principal) paid during the year. From 1 April 2011 you're no longer able to claim depreciation on the house itself. If you've claimed depreciation on the house in the past, depreciation recovery will still apply. For more information on depreciation recovery see page 43.

You can claim the depreciation on capital items such as a computer, office furniture and fittings, or shelving, used for business purposes in your home. See page 41 for more information on depreciation.

Example

In a house of 100 square metres Mereana uses 10 square metres as an office (10% of the total floor area). House expenses (GST-inclusive) for the full year were:

Rates	\$ 2,100.00
Insurance (house)	\$ 700.00
Power	\$ 1,680.00
Total costs (including GST)	\$ 4,480.00
Multiply total costs by 3 and divide by 23 to get the GST content	\$ 584.35
Total costs (excluding GST)	\$ 3,895.65

If Mereana is not registered for GST, the amount to claim is 10% of the total costs including GST:

$$\$4,480 \times 10\% = \$448$$

If Mereana is registered for GST, the amount to claim is 10% of the total costs excluding GST:

$$\$3,895.65 \times 10\% = \$389.56$$

Mereana can also claim 10% of the GST content on these items in the business's GST returns. This is claimed throughout the year as the bills are due or paid.

Square metre rate option

Instead of working out how much of your household expenses will be apportioned to your business, you can use the square metre rate option. This uses a rate that is set each year based on the average cost of utilities per square metre of housing for the average New Zealand household. The rate for the current year can be found on ird.govt.nz

This rate does not include premises costs of mortgage interest, rates or rent. You can also claim a portion of these based on the percentage of floor area used for the business.

The equation for the square metre rate option is:

$$(a \times b) + (c \times d)$$

Where:

- a* is the total amount of mortgage interest, rates and rent you have paid during the year
- b* is the area calculated by *c*, divided by the total floor area
- c* is the total area (in square metres) of your home that is separately identifiable and used primarily for the business
- d* is the square metre rate that is published by Inland Revenue.

Claiming home internet used for business purposes

Home internet costs will generally be a private expense of the household and not claimable. However if you run your business from home you may sometimes need to use the internet as part of carrying on your business.

The portion of the expenditure relating to business usage may be claimable as a business expense. You can not claim any part of the internet expense relating to the household's private usage.

How the proportion of business-related internet expense is calculated will depend on the type of internet plan you have. You must calculate the business proportion you claim by a method that ensures a fair and reasonable result. You must also meet normal record keeping requirements.

Telephone costs

You may claim a deduction for telephone rental if you run your business or organisation from your home. If your home is the centre of operations or management for the business, you may claim a deduction of 50% of the telephone rental.

Identify those toll calls that are business related and highlight them on your phone bill.

If you have a separate commercial and domestic line rental, you can claim the full cost of the commercial line for both income tax and GST, but none of the domestic rental. If you make any private calls on the business line, you'll have to make an adjustment for them.

Travel expenses

If you spend time travelling as part of your business, you can claim business travel as an expense. A good way to prove the business portion of your travel expenses is by keeping a diary of your travels.

In addition to invoices and tickets you should also keep details of:

- the reasons for the trip
- the date of the trip
- your itinerary
- the cost of car hire and air, bus and taxi fares
- the cost of accommodation, meals and incidentals
- the time spent on business and non-business activities.

Note

The cost of travelling from home to work is not a tax-deductible expense.

Entertainment expenses

If you provide entertainment for staff or clients, some of these business entertainment expenses are tax deductible.

Some examples of fully deductible entertainment expenses are food and drink:

- while travelling on business
- at promotions open to the public
- at certain conferences.

Some other entertainment expenses are only 50% deductible.

To support your claims for business entertainment expenses you should keep invoices and receipts.

For more help

The rules on entertainment expenses are fully explained in our booklet **Entertainment expenses - IR268**.

Website expenses

In general a website is a capital asset and the costs must be capitalised and depreciated.

Ongoing costs of updating or adding to the information on a website are of a revenue nature, and are deductible when incurred if they meet the general test of deductibility.

For more help

Go to ird.govt.nz/business-expenses

Fixed assets records

An asset is something the business owns. A fixed asset is an asset you generally expect to use in your business for more than a year.

You can not deduct the full cost of purchasing these assets from your taxable income in the year of purchase. You can, however, claim depreciation.

You need to prove the purchase and sale of any fixed asset with a tax invoice. If you start using a private asset for business purposes or if you keep business assets for private use after you stop operating, you must confirm that the asset is valued at market value. This may mean getting an independent valuation.

Using a fixed asset register is a good way to keep track of these assets.

Note

The cost or value excludes GST if you are registered for GST.

Depreciation

Depreciation allows for the wear and tear on a fixed asset and must be deducted from your income. You must claim depreciation on fixed assets used in your business that have a useful lifespan of more than 12 months. However, not all fixed assets can be depreciated - for example, land.

You'll have to keep a fixed asset register to show assets you'll be depreciating. This should show the depreciation claimed and adjusted tax value of each asset. The adjusted tax value is the asset's cost price, less all depreciation calculated since purchase.

Depreciation rates

The depreciation rates for various assets are set by us, and are based on the cost and useful life of the asset being depreciated.

Fixed assets register

Description	Serial number	Cost or value	Date purchased	Remarks
<i>Laser printer</i>	<i>721</i>	<i>\$890.00</i>	<i>1/10/09</i>	
<i>Personal computer</i>	<i>722</i>	<i>\$2,500.00</i>	<i>1/10/09</i>	
<i>Software</i>	<i>723</i>	<i>\$1,000.00</i>	<i>1/10/09</i>	
<i>Desk</i>	<i>724</i>	<i>\$520.00</i>	<i>1/10/09</i>	
<i>Car</i>	<i>726</i>	<i>\$30,000.00</i>	<i>1/06/10</i>	
<i>Reception desk</i>	<i>728</i>	<i>\$1,000.00</i>	<i>28/08/11</i>	
<i>Telephone system</i>	<i>729</i>	<i>\$550.00</i>	<i>28/08/11</i>	
<i>Cafeteria table</i>	<i>732</i>	<i>\$700.00</i>	<i>14/05/12</i>	
<i>Refrigerator</i>	<i>733</i>	<i>\$900.00</i>	<i>10/08/12</i>	



Depreciation methods

In most circumstances you can choose between the diminishing value and straight line methods of calculating depreciation. You do not have to use the same method for all your assets, but you must use whatever method you choose for an asset for the full year. You can change methods for any asset from year to year.

Any asset purchased from 21 May 2010 onwards is not entitled to the 20% depreciation loading. If you've entered into a contract to purchase an asset prior to or on 20 May 2010, then you can still depreciate this asset with the loading. Any asset being depreciated at a rate with loading before 21 May 2010 can continue to be depreciated at that rate for that asset's lifetime. However, if there is a capital improvement to an asset with the 20% loading, this improvement will need to be depreciated separately from the original asset, and will be depreciated without the loading allowance.

To use our depreciation calculator go to ird.govt.nz/tools-calculators

Diminishing value depreciation

The amount of depreciation is worked out on the adjusted tax value of the asset. This value is the original cost, less any depreciation already claimed in previous years. If you're registered for GST, the original cost price should not include GST you've already claimed in your GST return.

Example

A New Zealand-new car was purchased on 1 April 2009 using the depreciation rate of 24% diminishing value. The cost (excluding GST) was \$30,000.

	Year 1	Year 2	Year 3
Cost price	\$30,000	\$30,000	\$30,000
Less depreciation already claimed	\$ 0	\$ 7,200	\$12,672
Adjusted tax value	\$30,000	\$22,800	\$17,328
Depreciation rate	24%	24%	24%
Claim this amount	\$ 7,200	\$ 5,472	\$ 4,159

Straight line depreciation

Depreciation is calculated on the original cost price of the asset, and the same amount is claimed each year. If you're registered for GST, the cost excludes any GST you've already claimed in your GST return.

Example

The car in the previous example is depreciated using the straight line method, at a rate of 16.2%.

The GST-exclusive cost is \$30,000 so the depreciation to claim each year is:

$$\$30,000 \times 16.2\% = \$4,860$$

Pooling assets

You may use a pool system to depreciate low-value assets collectively rather than individually and depreciate them as though they were a single asset. You must use diminishing value depreciation rates for pooled assets.

You can pool assets that:

- individually cost \$2,000 or less, or have been depreciated so the adjusted tax value is \$2,000 or less, and
- are used 100% for business, or are liable for FBT if the business use is less than 100%.

Each pool is depreciated using the diminishing value method, at the lowest rate applying to any asset in the pool.

Electing not to depreciate

Although it's mandatory for you to claim a depreciation deduction, we recognise there can be instances where you may not want to.

If you do not want to claim depreciation on an asset, and you want to avoid paying tax on depreciation recovered when that depreciation was not claimed, you should elect not to treat the asset as depreciable. Let us know if you're making an election by notifying us in your tax return for the income year when:

- you purchase your asset
- you change the use of your asset from non-business to business

- you elect not to depreciate an asset that you have never claimed depreciation on. The election for this asset will apply for each year after the asset was purchased.

The focus is on an asset-by-asset election as to whether to depreciate each item or not. Once you have notified us of your election not to depreciate an asset you cannot claim depreciation on it in future years.

An example of where you may not want to claim depreciation is where you work from home and you have a small area set aside for business purposes, such as an office.

Where depreciation has been claimed and the asset is then sold

If you claim depreciation on an asset, you must include the depreciation recovered in your tax return when you cease using the asset for business purposes, or you sell the asset. This also applies to buildings that were previously depreciated.

Where depreciation has been claimed on the business area of your home

If you claim depreciation on the business area set aside in your home, you must include the depreciation recovered in your tax return when you cease using your home for business purposes, or when you sell your home. The following example is based on a house owned between 1 April 1993 and 1 April 2005. Using the straight line method, 3% depreciation was claimed on a home office for five years. The business uses 10% of the total floor area of the house.

<i>Example</i>	
Original purchase price of house (excluding land value)	\$250,000
Total depreciation claimed (over 5 years)	\$ 3,750
Adjusted tax value	\$246,250
Sale price	\$440,000
Gain on sale	\$193,750
Depreciation recovered	\$ 3,750

When a building is sold for more than its adjusted tax value, the depreciation recovered is taxable income. The amount of depreciation recovered is the lesser of:

- the original cost price of the building, minus the adjusted tax value, or
- the sale price, minus the adjusted tax value.

Computer software

The cost of software is a capital expense and must be depreciated. The cost includes paying for rights to use, purchasing upgrades and developing inhouse packages.

For more help

If you'd like more information about depreciation, or you need a full table of rates, see our booklets **Depreciation - IR260** and **General depreciation rates - IR265**.

We also have an interactive depreciation rate finder and calculator available at ird.govt.nz/tools-calculators



Part 6 – GST (goods and services tax)

GST is a tax on most goods and services in New Zealand. It also applies to imported goods and certain imported services. It's charged and accounted for at a rate of 15% on the selling price or market value of goods and services.

GST is not a tax on your business income. Your customer pays this tax when buying your goods and services. If your business or organisation is registered for GST, you collect the GST and pay it to us.

Registering for GST

You must register if you are an entity and either of these apply to you:

- you carry out a taxable activity and your turnover was at least \$60,000 in the last 12 months, or you expect it will be at least \$60,000 in the next 12 months
- you carry out a taxable activity and you add GST to the price of the goods or services you sell.

A good guideline is to regularly look at your monthly turnover. If it's \$5,000 or more, you should register for GST.

If you are required/decide to register, you can do this through myIR secure online services. In most cases you'll receive immediate confirmation of your GST number and registration details. Register at ird.govt.nz/gst

Once registered for GST, your GST returns will be available in myIR to complete and submit online each time they are due.

Our factsheet, **GST - do you need to register?** - IR365 tells you more about who must register for GST.

Charging GST

If you're registered for GST, you'll need to charge GST at 15% on most taxable supplies you make. This means you pay 15% of the price you charge for your goods and services to us.

Claiming GST

As a GST-registered business, you are able to claim back the GST you have been charged on goods and services used in your taxable activity - see page 46.

GST on grants and subsidies

GST is also included in grants and wage subsidies from the government and public authorities. If you're registered for GST and you receive a grant or subsidy, you need to pay the GST to us.

For more help

Our booklet **Grants and subsidies - IR249** provides more help for non-profit organisations in working out their GST.

GST and secondhand goods

If you're registered, you'll need to account for GST on secondhand goods supplied to or by you as part of your taxable activity. The same rules for GST and tax invoices apply to secondhand goods as for all other goods liable for GST.

However, if the seller is not registered for GST there will be no tax invoice. In these cases the purchaser must record the:

- name and address of the supplier
- date of the purchase
- description of the goods
- quantity of the goods
- price paid.

Note

Special rules apply if you purchase secondhand goods from an associated person. For more information see our [GST guide - IR375](#).

Exempt and zero-rated goods and services

There are certain goods and services you do not charge GST on. These are either exempt from GST or zero-rated - this means that GST is charged at 0%.

Common examples of zero-rated supplies are:

- the sale of a going concern
- exported goods
- transactions between registered parties that totally or partly consist of land.

Certain conditions apply when zero-rating supplies - refer to the [GST guide - IR375](#) and [GST plus guide - IR546](#).

Examples of exempt supplies are:

- certain financial services
- rent for a private home (domestic rental)
- donated goods supplied by a non-profit organisation
- bank charges
- EFTPOS charges
- wages (includes drawings).

Tax invoices

Business supplies can be either supplied by you (your sales) or supplied to you (your expenses and purchases).

A copy must be kept of all invoices you give to your customers. This will confirm the entries you make in your deposit book and cashbook.

You need to get a tax invoice if you want to claim GST on any supplies costing more than \$50 including GST, which you buy for your taxable activity. If you have not received a tax invoice you can ask the supplier to send you one. Keep all your tax invoices so you can claim the expenses in your income tax and GST returns.

Supplies of \$50 or less

To claim for GST, you do not need a tax invoice for supplies of \$50 or less (including GST). However, you must keep records (such as invoices, vouchers or receipts) for these supplies so they can be included in your income tax return.

Supplies between \$50 and \$1,000

For supplies between \$50 and \$1,000 (including GST), a simpler tax invoice is acceptable. It must clearly show:

- the words "tax invoice" in a prominent place
- the name (or trade name) and GST registration number of the supplier
- the date the invoice was issued
- a description of the goods and/or services supplied
- the total amount payable for the supply, and a statement that GST is included.

Multiple supplies

Sometimes, a tax invoice will show details of supplies made over a period of time. This type of tax invoice may be issued as long as the price for each supply is the same. A common example would be if you were leasing premises.

So, for example, even though you must describe each lease payment on an invoice separately, you can just show a total of GST for all lease payments.

The invoice may show future supplies as in the example below, but both the recipient and the issuer will only account for GST for the supplies that have been made over that period.

Foreshore Properties Limited	TAX INVOICE Private Bag Petone
GST No. 12-345-678	
Date: 14 October 2019	
To: Faye Kantze Temping Agency Main Road Petone	
<p>Rent on the premises at Main Road, Petone for the month ending October 2019, and for each successive month up to and including 31 December 2020.</p> <p>Payment due by the twentieth (20th) day of each month commencing 20 October 2019.</p>	
\$3,200 per month, including GST.	
Total for 15 months: \$48,000 including GST.	

Organising your tax invoices

- File them according to their cheque number or the date they were paid.
- Put a file divider between each month or GST return period.
- Use a numbered invoice book in duplicate so you can send the original to the customer and keep the second copy in the invoice book.
- Write an invoice for every sale on credit, including lay-by sales.
- Make sure you record all your unpaid invoices as debtors, ie, customers who still owe you.

GST returns

If you're registered, you need to file GST returns regularly. You add up the GST you've received, then deduct the GST you've paid from this total. If you've collected more GST than you've paid, the difference is payable to us. If you've paid out more in GST than you've charged, we'll refund the difference.

How often you have to file GST returns

A taxable period is the length of time covered by a GST return. This determines how often you file them. When you register you can choose your filing frequency. The standard period is every two months.

Instead of two-monthly GST returns, you can choose to file monthly returns - this is sensible if you are likely to be receiving GST refunds regularly, or if you find it easier to deal with your GST return every month.

Alternatively, if your annual business turnover is \$500,000 or less, you may wish to reduce the paperwork by choosing to file your GST returns every six months, possibly timed to coincide with your half-yearly and yearly balance dates. However, working out six months' worth of GST at once can be a major administrative and budgeting task.

To change your taxable period, you need to apply to us in writing.

Due dates

It's important that you give yourself enough time to fill it in before the due date for payment, because penalties and interest are charged on any late GST payments.

Your GST return is due by the 28th of the month after the end of your taxable period.

There are 2 exceptions to this date:

- The GST return for the taxable period ending 31 March is due by 7 May.
- The GST return for the taxable period ending 30 November is due by 15 January.

Late filing penalty

By law you must file your GST returns by their due dates. If you do not file your **GST return - GST101A or GST103** by the due date, you may have to pay a late filing penalty.

The late filing penalty is:

- \$50 for each late GST return on the payments accounting basis
- \$250 for each late GST return on the invoice or hybrid basis.

We'll send you a statement advising you of the late filing penalty and the due date for paying it. Late payment penalties and interest are also charged on late filing penalties that aren't paid by the due date.

Electronic filing

You can file your GST returns in myIR secure online services or through your accounting software.

Benefits of filing electronically:

- calculations are done for you
- instant confirmation once your GST is filed, so you know we've received it
- you can save a PDF for your own records
- it saves you time in the long run by having all your GST electronic records in one place
- it's simple and secure.

You'll need to print a copy of the return, sign it and keep it for seven years.

Accounting for GST

When you register, you must choose how you're going to account for GST on your sales and purchases. This means how you're going to report your GST transactions to us and record them in your bookkeeping system.

There are three ways to account for GST. These are the:

- payments basis
- invoice basis
- hybrid basis.

Under the payments basis, you account for GST only when payment is made or received. The invoice basis is different in that you account for GST when an invoice is issued or any payment is made or received, whichever is earlier. The hybrid basis is a combination of the two, that is, GST on sales and income is accounted for on the invoice basis, and GST on expenses is claimed when payment is actually made.

Using your cashbook to do your GST return

If you're using the payments basis of accounting you'll find the cashbook a very easy and convenient way of showing GST paid and received. Once you've reconciled your cashbook with your bank statement, transfer the GST totals from your cashbook to your GST return.

Try to do your private use adjustments as you go, rather than just before you do your GST return.

Using the GST101A example on page 51, transfer GST on sales to Box 8. Multiply the figure in Box 8 by 23 and divide by 3. This will give you the total sales amount to put into Box 7.

Boxes 9 and 13 are for any adjustments that you've made for private or business use of goods and services.


Similarly, GST on purchases should be transferred to Box 12. Multiply that figure by 23 and divide by 3 to give you the total purchases for Box 11.

For more help

Our **GST guide - IR375** has full details on GST obligations and adjustments.


DATE	REFERENCE	INV#	BANK	GST RECEIVED	SALES	GRANTS	FUNDS INTRODUCED (NO GST)	INTEREST (NO GST)	SUNDRY
3 June	Customer (sale)	7	2,000 00	260 87	1,739 13				
5 June	Government (grant)		450 00	58 70		391 30			
8 June	Sale of computer (fixed asset)		1,125 00	146 74					978 26
15 June	Owner - Partner		800 00				800 00		
22 June	Bank interest		15 35					15 35	
25 June	Customer (sale)	8	1,750 00	228 26	1,521 74				
26 June	Commission sales	9	2,500 00	326 09	2,173 91				
	TOTALS		8,640 35	1,020 66	5,434 78	391 30	800 00	15 35	978 26

DATE	REFERENCE	CHK	BANK	GST PAID	PURCHASES	COMMERCIAL RENT	MOTOR VEHICLE	WAGES (NO GST)	LOAN REPAYMENT (NO GST)	PRIVATE DRAWINGS (NO GST)	SUNDRY
3 June	Stock Ltd (purchase)	100	3,500 00	456 52	3,043 48						
3 June	H. Elp (wages)	101	881 00					881 00			
8 June	Landlord (commercial rent)	102	750 00	97 83		652 17					
15 June	Petrol co	103	55 00	6 52			43 48			5 00	
22 June	PAYE paid to IRD	104	195 00					195 00			
25 June	Partner drawings	105	400 00							400 00	
28 June	GST paid to IRD	106	310 98								310 98
30 June	Bank fees	DD	10 25								10 25
30 June	Loan	AP	800 00						800 00		
	TOTALS		6,902 23	560 87	3,043 48	652 17	43 48	1,076 00	800 00	405 00	321 23



Inland Revenue
Te Tari Taake

Goods and Services Tax Act 1985



GST101A
May 2017

Goods and services tax return

For help in completing this return go to www.ird.govt.nz (keyword: IR375)

A M BROWN AND M A SMITH PARTNERSHIP
PO BOX 2198
WELLINGTON 6000

Registration no. **1** ▶ 909-128-438

Period covered by the return
01/06/XX **2** ▶ 30/06/XX

Return and payment due **28 JULY 2019**

If your correct postal address for GST is not shown above, print it in Box 3. **3** ▶

If your correct daytime phone number is not shown here, print it in Box 4. **4** ▶ 04 497 7777

Goods and services tax on your sales and income

Total sales and income for the period (including GST and any zero-rated supplies) **5** ▶ \$ 7 825 06

Zero-rated supplies included in Box 5 **6** ▶ \$

Subtract Box 6 from Box 5 and enter the difference here **7** ▶ \$ 7 825 06

Multiply the amount in Box 7 by three (3) and then divide by twenty-three (23) **8** ▶ \$ 1 020 66

Adjustments from your calculation sheet **9** ▶ \$

Add Box 8 and Box 9. This is your **total GST collected** on sales and income **10** ▶ \$ 1 020 66

Goods and services tax on your purchases and expenses

Total purchases and expenses (including GST) for which tax invoicing requirements have been met—excluding any imported goods **11** ▶ \$ 4 300 00

Multiply the amount in Box 11 by three (3) and then divide by twenty-three (23) **12** ▶ \$ 560 87

Credit adjustments from your calculation sheet **13** ▶ \$

Add Box 12 and Box 13. This is your **total GST credit** for purchases and expenses **14** ▶ \$ 560 87

Print the difference between Box 10 and Box 14 here **15** ▶ \$ 459 79

Area code Phone number

Area code Phone number

Declaration

The information in this return is true and correct and represents my assessment as required under the Tax Administration Act 1994.

Signature: *AM Brown* Date: 20/07/19

If Box 14 is larger than Box 10 the difference is your GST refund Refund
If Box 10 is larger than Box 14 the difference is GST to pay GST to pay

Has payment been made electronically? Yes No

A M BROWN AND M A SMITH PARTNERSHIP

28 JULY 2019

909-128-438

30 JUNE 2019

459 79

Please turn over to complete any additional information and payment slip

Part 7 – More information

Accident compensation

The Accident Compensation Corporation (ACC) invoices you directly for levies, based on your self-employed income. We're required to give ACC information about your self-employed income.

Income tax, GST and ACC levies

Your ACC levies are deductible for income tax purposes. This means you can claim them as a deduction from your business profits.

If you're registered for GST, you can also claim the GST component of the levies as an expense.

Independent earner tax credit (IETC)

IETC is a tax credit for individual New Zealand tax residents whose annual net income* is between \$24,000 and \$48,000. You'll qualify for it if:

- you or your partner aren't entitled to Working for Families Tax Credits
- you or your partner do not receive any overseas equivalent of Working for Families Tax Credits
- you aren't receiving an income-tested benefit, NZ Super, a veteran's pension, or an overseas equivalent of these.

Entitlement to IETC is determined monthly. If you do not meet the criteria for any part of a month, you won't qualify for that whole month.

If your annual net income is between \$24,000 and \$44,000 inclusive you'll receive a tax credit of \$520 (\$10 per week). If you're eligible but earn over \$44,000 your annual entitlement to IETC decreases by 13 cents for every additional dollar earned.

If you're an employee, you can receive the IETC as part of your regular pay. You'll need to select a new tax code by completing a **Tax code declaration - IR330** and give it to your employer.

* Net income means your total income from all sources less any allowable deductions or current year losses (not including any losses brought forward).

If your only income is from salary or wages (and you do not have any allowable expenses, eg, income protection insurance) your net income will be your annual salary or wages before tax.

You can only choose a new tax code for your main, or highest, source of salary/wage income. If you're unsure if you will qualify for the IETC you can continue to use the same tax code. Any IETC entitlement will be calculated in your income tax assessment at the end of the tax year.

The new tax codes are:

- ME for non-student loan borrowers who qualify
- ME SL for student loan borrowers who qualify.

If you're self-employed you can claim the IETC when you complete your **Individual tax return - IR3** at the end of the year.

Student loan repayments

Self-employed people may have to repay their student loans by making interim payments throughout the year.

Interim payments are generally due in three instalments. The instalment due dates are:

- 28 August
- 15 January
- 7 May.

You pay 12 cents for every dollar of your income over the repayment threshold. If you're self-employed or you have other income, you'll need to file an IR3 tax return, and we'll send you an end-of-year repayment obligation notice once we process your return.

The interim payment amount you have to pay will be calculated at the same time as your end-of-year repayment obligation and will be shown on your student loan end-of-year repayment obligation notice.

Budgeting for student loan repayments

When you're self-employed it's important to budget for your student loan repayments. If you do not budget and/or put money aside for this, you could end up having to pay all your repayments in one go in February, and you may be required to make interim payments for the coming year.

Note

Interim payments are based on your previous year's end-of-year repayment obligation.

Some ideas to help you budget for student loan repayments include:

- setting up a separate bank account and putting money aside for student loan repayments (and taxes)
- making voluntary repayments. You'll pay your loan off faster and you're less likely to have to pay a lump sum at the end of the year.

For more help

If you'd like more information, go to ird.govt.nz/se-repay-student-loan

Working for Families Tax Credits

Working for Families Tax Credits (WfFTC) is an entitlement for families with dependent children 18 years or under. There are different types of payments and you may qualify for one or more, depending on your family situation.

How much you can get depends on:

- how many dependent children you have (children who are 18 years or younger who you support financially)
- the age of the children in your care
- your family income - how much you and your spouse or partner earn
- where your family income comes from, for example, salary or wages, business, a student allowance or a benefit
- any shared care arrangements
- the number of hours you work each week.

The payment types are:

Family tax credit

The most widely received payment, paid regardless of your source of income. The amount you receive depends on how much you earn, the number of children you have and any shared care arrangements.

In-work tax credit

In-work tax credit is for families who are in paid work. You can not get in-work tax credit if you get an income tested benefit or student allowance.

From 1 April 2021, you will keep receiving the in-work tax credit payments for up to two weeks during an unpaid break from work. For example, changing jobs, leaving employment, or unpaid time such as school holidays.

If you or your partner start receiving an income-tested benefit or student allowance, your payments will stop.

Minimum family tax credit

Minimum family tax credit is a payment made to families with dependent children aged 18 or younger, so they have a set minimum income each week after tax. If their annual family income is below a set amount after tax, they may be able to get the minimum family tax credit. The rates change every year, go to ird.govt.nz/new-to-wff for the current rates. A single parent must be working at least 20 hours a week as an employee. In a two-parent family, the parents must be working at least 30 hours a week between them as an employee.

If you and/or your spouse or partner would normally work the required weekly hours but are injured and are paid accident compensation instead, you can still qualify for the minimum family tax credit.

Best Start tax credit

Best Start tax credit is available for children due or born on or after 1 July 2018.

You can get this payment for up to three years after a new child arrives. You can receive up to \$3,120 per year or \$60 a week.

Best Start tax credit is not adjusted for income levels in the child's first year but is adjusted for income levels in the second and third year.

Refer to our website for more information ird.govt.nz/new-to-wff

You can use our calculator "Estimate your Working for Families Tax Credits" on our website to get an estimate of what your entitlement will be.

How to register

The quickest and easiest way to register for WfFTC is in your myIR account at ird.govt.nz otherwise, you can call us on 0800 227 773 to register over the phone. Make sure you have your IRD number handy.

If you have business income you'll need to include details, for example, a set of accounts to support your estimate, when you register.

Note

If you register for Best Start tax credit only, you will not need to provide your income details until just before your child turns one.

Once we process your registration, we'll work out the amount you're entitled to receive. If you asked to be paid weekly or fortnightly you'll get a letter showing how much you're entitled to receive. This letter is your notice of entitlement. If you've chosen the lump sum option, we'll send you a letter acknowledging your application and work out your lump sum entitlement after the end of the tax year. If you're in business, you'll need to file an IR3 to allow us to calculate your entitlement based on your income.

Research and development (R&D) loss tax credit

For income years beginning on or after 1 April 2015, you may be able to "cash out" (have refunded) up to 28% of any tax losses associated with an eligible research and development (R&D) activity, if your business is a company.

You may be eligible to apply for the credit if your business is:

- a loss-making company,
- a tax resident in New Zealand, and
- your expenditure on R&D salary and wages is 20% or more of your total salary and wage expenditure.

For more information go to ird.govt.nz/research-development

Part 8 – Employer responsibilities

If you decide to employ staff, you must register as an employer. You can get a **First-time employer's guide - IR333** from our website. It tells what you need to know before you register, and how to register.

Once you've registered we'll send you all the information you need. You can view or download the **Employer's guide - IR335** and **KiwiSaver employer guide - KS4**, which explains all your responsibilities as an employer, at ird.govt.nz/forms-guides

Main responsibilities

- You must deduct PAYE from your employees' wages and pay the deductions to us either once or twice a month, depending on the total amount of PAYE deducted by the business.
- Make your payment by the due date either electronically through your bank, or by credit or debit card through our website.
- Get new employees to fill in a **Tax code declaration - IR330**. This tells you the tax code to use. If any employees do not give you a completed IR330, you must deduct tax from their wages at a higher rate (the non-notified rate - see the IR335).
- Get new contractors who receive schedular payments to fill in a **Tax rate notification for contractors - IR330C**. This tells you the tax rate to use. If any contractors do not give you a completed IR330C, you must deduct tax from their schedular payments at a higher rate (the non-notified rate - see the IR335). If they have completed the IR330C but have not chosen a tax rate to apply to their schedular payments on page 1, use the standard rate listed on the back of the IR330C.
- Give new employees a KiwiSaver information pack. This includes our factsheet **Your introduction to KiwiSaver - employee information - KS3**, **KiwiSaver deduction form - KS2** and the **New employee opt-out request - KS10** form within seven days of their starting work.

- Deduct KiwiSaver from employees' wages, if required.
- Make KiwiSaver compulsory employer contributions, if required.
- Calculate and deduct any ESCT (employer superannuation contribution tax), if required (see page 63).
- Deduct child support from employees' wages, if required.
- Deduct loan repayments from any student loan borrowers who work for you.
- Deduct extra student loan deductions if requested by your employee or us.
- Provide new and departing employees' address information, along with their date of birth – if they have provided it to you.
- Complete an **Employment information - IR348** with the details of each employee's income and deductions (see pages 59 and 60).
- Pay FBT on any fringe benefits (perks) you give to your employees (see page 65).
- Deduct employee donations for payroll giving, if required.
- Include the value of any employee share scheme benefits in a separate line on your **Employment information - IR348** (see the IR335 for more information).

Is your worker an employee or a contractor?

The tax laws are different for employees and self-employed people, so it's really important you know whether the people working for you are your employees or are self-employed contractors. Generally, if you control what the person does and how and where the work is done, that person is your employee.

If you treat a true employee as self-employed to avoid deducting tax, you could be prosecuted and fined and still have to pay the PAYE you should have deducted.

If you hire a self-employed contractor to do a job for your business, that contractor is not your employee. However, if the job done is one of those listed in the PAYE deduction tables or on the back of the IR330C, you must deduct tax and pay this to us. The contractor must fill in an IR330C form.

If the contractor shows you a current **Certificate of exemption - IR331** or is a company (except a company that is a non-resident contractor or non-resident entertainer or involved in agriculture, horticulture or viticulture), you do not have to deduct tax. Generally, a COE can not apply to any payments made under a labour hire arrangement by a labour hire business. Similarly, if the type of work done is not listed in the PAYE deduction tables, you do not need to deduct tax. In these cases, the contractor is responsible for paying their own tax. The exception to this is if you have a written agreement with the contractor stating their payments will be treated as schedular payments.

For more help

Our pamphlet **Self employed or an employee?** - IR336 can help you work out whether your worker is an employee.

Deducting PAYE

New employees must fill in a **Tax code declaration - IR330**. This involves filling in their personal details and choosing a tax code. Employees need to fill in a new IR330 if they want to change their tax code. You must keep all IR330s with your business records for seven years after the last wages paid to the employee.

The tax code is important because you work out how much PAYE to deduct from the worker's wages, based on the tax code they've chosen.

Most employees use a primary tax code (M or ME) because they have one regular job. If an employee is already using the primary code for another job, they must use a secondary code (SB, S, SH, ST or SA) or a tailored tax code for their job with you. If they have a student loan to repay, they will need to use M SL, ME SL, SB SL, S SL, SH SL, ST SL, or SA SL.

Working out the PAYE

Your employee gives you an IR330 with their personal details and a tax code. The employee will need to read the notes on the IR330 to work out the correct tax code.

Using our online calculator or the PAYE deduction tables, work out the PAYE and any KiwiSaver and student loan deductions from the employee's gross earnings.

Earnings	PAYE					KiwiSaver					Net CEC and ESCT									
	M	ME	SL Loan ded	3%	4%	6%	8%	10%	CEC	10.5%	CEC	17.5%	CEC	30%	CEC	35%	CEC	35%		
\$ 781.00	128.68	118.68	46.92	23.43	31.24	46.86	62.48	78.1	21.02	2.41	19.41	4.02	16.53	6.9	15.84	7.59	14.46	8.97		
\$ 800.00	132.27	122.27	47.04	23.46	31.28	46.92	62.56	78.2	21.05	2.41	19.44	4.02	16.56	6.9	15.87	7.59	14.49	8.97		

Using your wagebook to complete your Employment information

Transfer all the deductions from the PAYE deduction tables, plus any child support, to the wagebook. Each payday copy the totals for each employee to the Employment information.

Declaration
I declare that the information given in this return is true and correct.
Signature: *R. Munro* Date: 29/04/2019

Print each employee's name, IRD number and tax code on the schedule. We'll then preprint these details on all later schedules we send you.

Employer responsibilities

Employer responsibilities

You must deduct student loan repayments along with PAYE from employees who use an M SL, ME SL, SB SL, S SL, SH SL, ST SL or SA SL tax code. Use the PAYE tables to work out how much to deduct, then transfer this figure into your wagebook.

You need to show extra student loan deductions, either requested by us or your employee, separately in your wage book. If we've requested the deductions we'll tell you how much to deduct. If your employee has requested them, they'll tell you how much they want deducted.

If any of your employees are liable for child support, we'll work out the amount to be deducted and contact you.

Completing your employment information

Each payday you must complete an **Employment information - IR348** form, which has details of your employees' gross wages and deductions.

Electronic filing

From 1 April 2019 you must file electronically if your gross annual PAYE and ESCT is \$50,000 or more, unless you have an exemption from us. You must complete your employment information electronically within two working days of the payday. To file your employment information electronically you have three options:

- onscreen form via myIR,
- file transfer via myIR, or
- direct from payroll software using our Gateway services.

Paper return filing

If your annual PAYE and ESCT is less than \$50,000, you can choose to file by paper. You'll need to complete your employment information within 10 working days of the payday, or the 15th and end of the month if you choose to send us information twice a month.

Paying PAYE

If your gross annual PAYE and ESCT is less than \$500,000 in the previous year ended 31 March, PAYE is due on the 20th of the month following the month of deduction.

If your gross annual PAYE and ESCT is \$500,000 or more, you are required to pay PAYE:

- from wages paid between the 1st and the 15th of the month by the 20th of the same month
- from wages paid between the 16th and the end of the month by the 5th of the following month, except for the second period of December, which is due 15 January.

It's a good idea to put PAYE aside from all other funds until it's time to pay it. There are penalties if you do not deduct or account for PAYE properly.

Penalties and interest are charged for any late payments.

For more information see our **Employer's guide - IR335**.

Accident Compensation Corporation (ACC)

Employees' ACC earners' levy and earners' account residual levy

The PAYE deductions you make from employees' salaries and wages are made up of two components - a tax deduction and an ACC earners' levy deduction. Because the PAYE deduction already contains an ACC amount, you do not need make a separate calculation for the ACC deductions. We calculate this each month and pay it to ACC.

Most earnings you deduct PAYE from are also liable for earners' levy. The main exceptions are redundancy and retirement payments - how to correctly tax these is covered in the **Employer's guide - IR335**.

Earners' levy is deducted from income earned up to a threshold specified in the PAYE deduction tables.

Other ACC levies

As an employer you must pay ACC levies to cover work injury claims and other costs. ACC will invoice you directly for these levies. We are required to give ACC relevant employee information.

Income tax, GST and ACC levies

The levies you pay as an employer are deductible for income tax purposes. This means you can claim them as a deduction from your business profits. You can also claim a deduction for the total gross wages paid.

In your GST return, you can also claim the GST component of the levies you pay to ACC as an expense.

You can not claim GST on the earners' levy included in your employees' PAYE deductions.

Student loan deductions

When an employee has a student loan they must use the M SL, ME SL, SB SL, S SL, SH SL, ST SL or SA SL tax code on their IR330. You must then start deducting loan repayments. The amount to be deducted is included in the PAYE tables.

Student loan extra deductions

Your employee may ask you to make extra deductions to pay off their loan faster. We may also ask you to make compulsory extra deductions to catch up on an underpayment. These deductions are in **addition** to the amount you normally deduct using the tax code they've given you.

You must show extra deductions separately on your **Employment information - IR348** in either:

1. SLBOR - employee requests voluntary extra deductions
2. SLCIR - we request you to make compulsory extra deductions.

You'll need to keep records of PAYE and student loan repayments separately in your wagebooks. See page 22 for an example of a wagebook.

Note

You do not have to deduct student loan repayments from schedular payments to contractors.

Child support deductions

Inland Revenue Child Support assesses and collects child support from parents not living with their children. We then pass on payments to the person caring for the child or children, or the government, if that person receives a benefit.

If you are required to deduct child support payments from an employee's pay, we'll send you a notice advising you of the amount to deduct.

Protected earnings

If an employee pays their child support through employer deductions, 60% of their wage is protected. This means that Child Support can take up to, but no more than, 40% of an employee's wage or salary.

However, if a paying parent has more than one source of income, they can have more than 40% of their wage or salary deducted. We'll advise you how much to deduct.

Information about your employees' child support commitments are confidential and should not be disclosed to anyone except Child Support staff and the employee.

If you have any questions please call us on 0800 220 222.

KiwiSaver

You must make KiwiSaver available to all employees (unless you've received an exemption).

As an employer you're required to:

- check whether new employees are eligible to join KiwiSaver
- check whether new employees should be automatically enrolled
- give the KiwiSaver information pack to:
 - new employees who qualify for automatic enrolment, and
 - existing employees who want to opt in
- provide information to us about:
 - all new employees who qualify for automatic enrolment, and
 - eligible employees who want to opt in to KiwiSaver
- provide new employees with a written statement if you have an employer-chosen scheme, and also that scheme's investment statement.

KiwiSaver employee deductions

If your employees are enrolled in KiwiSaver you'll need to:

- make deductions from your employee's gross pay at the rate they have specified (either 3%, 4%, 6%, 8% or 10%) or at the default rate of 3% if they do not choose a rate
- forward the deductions to us by the due date along with your PAYE payments
- action opt-out requests and savings suspension notification
- stop or start deductions when we advise you to make compulsory employer contributions.

KiwiSaver employer contributions

You must make compulsory employer contributions to all employees enrolled in KiwiSaver (or any other complying superannuation scheme) at the rate of 3%.

Note

You can find more information about KiwiSaver at ird.govt.nz/kiwisaver or in the **KiwiSaver employer guide - KS4**.

Employee Share Scheme (ESS) benefits

If you provide employee share scheme (ESS) benefits you can choose whether or not to deduct tax from them. Deducting tax is optional because it won't suit all employee share schemes. If PAYE is withheld then student loan and child support amounts must also be deducted (if applicable). Employee share scheme benefits are not liable for earners levy or KiwiSaver deductions.

You can choose whether or not to deduct tax on an employee by employee basis and on a benefit basis for each employee.

Whether you choose to deduct taxes from the ESS benefit or not, you're still required to list the value of the shares on the Employment Information unless it arises from an exempt employee share scheme.

You will need to report the taxable value of any ESS benefit based on the 20th day after the share scheme taxing date.

There are two methods an employer can use to determine when the taxable value of an ESS benefit needs to be reported.

Option 1

- If the 20th day falls between the 1st and the 15th of a month the information must be reported treating the 15th as the payday
- If the 20th day falls between the 16th and the end of the month the information must be reported treating the last day of the month as the payday.

Option 2

- The employer can treat the 20th day as the payday and report the value of the ESS benefit to us more regularly.

Payroll giving

Payroll giving is a voluntary scheme where employees can make donations from their pay to support chosen approved donee organisations.

You choose whether to set up payroll giving and how it will run. If you do it's up to your employees whether or not they participate.

You'll need to be filing your **Employment information - IR348** electronically to offer payroll giving.

For more information see our **Payroll giving - IR617** guide.

Employer's superannuation cash contribution (employer contribution)

An employer contribution is a monetary amount paid to a superannuation fund, by an employer, for their employee's benefit. But if your employees ask you to make deductions from their wages and pay them to a superannuation scheme, these are not employer contributions.

Any employer contribution an employer makes to a superannuation fund, including KiwiSaver schemes and complying funds, for the benefit of an employee, is liable for ESCT (employer superannuation contribution tax), unless the employee and employer have previously agreed to tax the employer contribution as salary or wages under the PAYE rules.

There are two options for calculating tax on employer contributions:

- If the employer and employee agree, the amount of employer contribution can be treated as the employee's salary or wages and PAYE must be deducted.
- In all other cases ESCT is applied. ESCT is calculated at a rate based on the employee's total annual salary or wages, plus gross employer contributions for the previous tax year (1 April to 31 March). If employees have not worked for the employer for the full previous tax year, the rate is based on the employer's estimate of the employee's total salary or wages, plus gross employer contributions they will receive in the current year for which ESCT is being calculated.

Note

Employer contributions to a defined benefit fund can choose to apply ESCT at the flat rate of 39 cents in the dollar.

A "superannuation fund" is a scheme that has been registered under the Superannuation Schemes Act 1989.

ESCT

An employer must make a deduction of ESCT at the time of making any employer contribution. If an employer fails to make this deduction the ESCT is worked out on the "grossed-up" amount of the employer contribution.

Pay any ESCT with your PAYE deductions by the due date.

ESCT rate based on employee salary or wages

The ESCT rate is based on the employee's total annual salary or wages, plus gross employer contributions received in the previous standard tax year (1 April to 31 March).

At the beginning of the standard tax year, the employer determines the rate which the employer superannuation contributions relate to. Where the employee's total annual salary or wages plus gross employer contributions in the previous standard tax year was:

- under \$16,800, their ESCT rate would be 10.5 cents in the dollar
- more than \$16,800 and not more than \$57,600, their ESCT rate would be 17.5 cents in the dollar
- more than \$57,600 and not more than \$84,000, their ESCT rate would be 30 cents in the dollar
- more than \$84,000 and not more than \$216,000, their ESCT rate would be 33 cents in the dollar.
- more than \$216,000, their ESCT rate would be 39 cents in the dollar.

Example

Extreme Dirt Design Ltd employs Max and makes employer contributions on his behalf. Max worked at Extreme Dirt Design Ltd for the full year 1 April 2012 to 31 March 2013. He received a salary plus employer contributions during that year of \$36,400. For the 2014 tax year the company must tax Max's employer contributions using a rate based on his previous year's salary. Because his salary plus employer contributions is within the range of \$16,801 - \$57,600, the ESCT rate is 17.5 cents in the dollar.

Where the employee didn't work for the employer for all of the previous standard tax year (1 April to 31 March), the employer must estimate the amount of salary or wages, plus gross employer contributions, that will be earned by the employee in the year the employer contribution relates to and base the ESCT rate on that estimate.

Example

Extreme Dirt Design Ltd hires Joe on 1 October 2013. Joe's contract says he will receive a salary of \$30,000 and employer contributions of \$900 a year. The company will estimate Joe's ESCT rate based on the amount of salary or wages plus gross employer contributions he will earn in the remainder of this tax year* (1 October 2013 to 31 March 2014).

Salary	\$ 30,000
Employer contributions	\$ 900
Total	\$ 30,900
$\$30,900 \div 12$ months	\$ 2,575
$\$2,575 \times 6$ months	\$ 15,450

Because the estimate is within the range of \$0 - \$16,800, the ESCT rate is 10.5 cents in the dollar.

* There are only six months left in the tax year. If an employee was only to be employed for three months the employer would estimate how much the employee will earn in those three months and base the rate on that estimation.

Note

As the employee started part-way through the current tax year, the employer must make a second estimation of the employee's earnings as the basis for the ESCT rate at the beginning of the following tax year (1 April 2014 to 31 March 2015).

There is no requirement to adjust the rate during an income year if an employee's salary or wages increases or decreases. If they do change during the year, affecting the applicable rate, a new rate will be set the following year based on this change.

Taxing contributions at the employee's personal tax rate

If employers agree, employees can elect to have all or part of the value of the employer contribution included in their gross salary or wages and taxed at their personal tax rates.

The actual employer contribution is paid into the superannuation fund - the employee do not receive the contribution in the hand. The value of the employer contribution will be added to the employee's gross wages for the pay period and taxed at the appropriate rate using the PAYE tables. The rate will depend on the employee's tax code.

For more information on taxing employer contributions see our **Employer's guide - IR335**.

FBT (fringe benefit tax)

Most benefits given to employees on top of their salary and wages are fringe benefits (perks) and are liable for FBT. There are four main groups of fringe benefits liable for FBT:

- motor vehicles
- free, subsidised or discounted goods and services
- low-interest loans
- employer contributions to superannuation schemes (excluding KiwiSaver and complying superannuation schemes that have already had ESCT deducted from them) and specified insurance policies.

As an employer, you'll have to pay FBT on any of these benefits given to your employees or shareholder-employees.

Employers have three options to calculate FBT payable on the total value of benefits:

- a flat/single FBT rate of 63.93% on all benefits provided from 1 April 2021
- the alternate calculation process, or
- a short form of the alternate calculation process.

For more information, see our **Fringe benefit tax guide - IR409**.

Filing FBT returns

There are three types of FBT returns:

- **Fringe benefit tax - annual return - IR422.** This return is for employers who have elected to file annual returns for the year to 31 March. It's due on 31 May.
- **Fringe benefit tax - income year return - IR421.** This return is for companies with shareholder-employees. It covers the same period as the company's accounting year. The due date for filing the return is the same as that for paying end-of-year income tax.
- **Fringe benefit tax - quarterly return - IR420.** This return is for employers who must file an FBT return each quarter. The return periods and due dates for returns and payments are shown below.

Period	Due date
1 April to 30 June	20 July
1 July to 30 September	20 October
1 October to 31 December	20 January
1 January to 31 March	31 May

We'll send you an FBT return before the due date for filing and paying.

Electronic filing

We have an electronic filing service at ird.govt.nz where you can file your FBT returns using a secure internet connection instead of filing paper returns.

Online validations will detect any errors in your return and come up with error messages that are easy to understand. You can also use the online edit function to correct any mistakes before sending us your return.

You'll need to print a copy, sign it and keep it for seven years.

FBT and income tax

When you work out your profit for income tax, you can deduct any FBT paid.

Any late payment penalty is not deductible.

FBT and GST

GST adjustments must be made in your FBT return for some fringe benefits. For more information see our **GST guide - IR375** or **Fringe benefit tax guide - IR409**.

FBT and entertainment expenses

Our booklet **Entertainment expenses - IR268** has detailed information about entertainment expenses and FBT.

For more help

Our **Fringe benefit tax guide - IR409** fully explains FBT obligations. You can view or download this at ird.govt.nz/forms-guides

Part 9 – Services you may need

myIR

You can manage your tax and entitlements online with a myIR account.

In myIR you can:

- check if you're due a refund
- keep up-to-date with your student loan
- check and update your Working for Families Tax Credit details
- review your KiwiSaver contributions
- manage your child support payments
- file returns
- update your contact and bank account details.

myIR is available 24 hours a day, seven days a week. Find out more, and register, at ird.govt.nz/myIR

Forgotten your user ID or password?

Request these online from the myIR login screen and we'll send them to the email address we hold for you.

Need to speak with us?

Have your IRD number ready and call us on one of these numbers.

General tax, tax credits and refunds	0800 775 247
Employer enquiries	0800 377 772
General business tax	0800 377 774
Overdue returns and payments	0800 377 771

We're open 8am to 8pm Monday to Friday, and 9am to 1pm Saturday. We record all calls.

Our self-service lines are open 7 days a week - except between 5am and 6am each day. They offer a range of automated options, especially if you're enrolled with voice ID.

Find out more at ird.govt.nz/contact-us

0800 self-service numbers

Our 0800 self-service numbers are open 7 days a week - except between 5am and 6am each day. Make sure you have your IRD number ready when you call.

For access to your account-specific information, you'll need to be enrolled with voice ID or have a PIN.

Order forms, guides and returns	0800 257 773
All other services	0800 257 777

When you call, confirm what you want from the options given. If you need to talk with us, we'll re-direct your call to someone who can help you.

Supporting businesses in our community

Our Community Compliance officers offer free tax education and advice to businesses and small organisations, as well as seminars for personal tax and entitlements.

Our Kaitakawaenga Māori offer a free advisory service to help meet the needs of Māori individuals, organisations and businesses.

Go to a seminar or workshop, or request a visit from us to find out more about:

- records you need to keep
- taxes you need to know about
- using our online services
- completing your tax returns (GST, employer returns)
- filing returns and making payments
- your KiwiSaver obligations.

Go to ird.govt.nz/contact-us and select the **In person** option to find out about requesting a visit.

Find a seminar or workshop near you at ird.govt.nz/contact-us/seminars

Tax Information Bulletin (TIB)

The TIB is our monthly publication containing detailed technical information about all tax changes. Subscribe at taxtechnical.ird.govt.nz/subscribe/tib and we'll send you an email when we publish each issue.

Business Tax Update

Our **Business Tax Update** newsletter gives you updates on PAYE, GST, FBT and other relevant tax issues. Subscribe at ird.govt.nz/subscribe/btu and we'll send you an email when we publish each issue.

Audits

An audit is a check of the tax and business records of businesses to make sure your returns have been filled in correctly and you've paid the correct amount of tax. The audit can cover income tax, GST and employer returns. After an audit you may be entitled to a refund or you may have to pay more tax.

For more information on audits, see our booklet **Inland Revenue audits - IR297**.

Late payment

If you do not pay a bill on time, you may have to pay penalties and interest.

Contact us if you are not able to pay on time. We'll look at your payment options, which may include an instalment arrangement.

Find out more at ird.govt.nz/penalties

Late filing

We may charge you a late filing penalty of \$250 if you do not file Employment Information by the due date.

For more information go to ird.govt.nz/penalties

Putting your tax returns right

If you find you've made a mistake on a tax return you've sent in, please contact us as soon as possible. Telling us what's wrong with your tax affairs before we find out is called voluntary disclosure. The advantages of doing this are:

- you won't be prosecuted
- there's a reduction of up to 100% in the amount of shortfall penalty payable
- your name and offence won't be published.

You can make a voluntary disclosure any time before being told that you'll be audited or investigated. A lesser reduction in shortfall penalties will be given if you make a voluntary disclosure after you have been notified of an investigation but before it begins.

For more information, see our booklet **Putting your tax returns right - IR280**.

Non-payment of employer deductions

If you file employment information but do not pay the correct amount, you may have to pay:

- late payment penalties and interest
- non-payment penalties.

A 10% non-payment penalty will be added each month if the debt is not paid in full, or an instalment arrangement agreed to. When you pay the debt in full or enter into an instalment arrangement, the last 10% penalty charged will reduce to 5%.

Find out more at ird.govt.nz/penalties

Voice ID

Voice ID identifies you through your unique voiceprint. Voice ID makes your calls to us faster and simpler, and your account more secure.

You can access our self-service options, for example, resetting your myIR password, 24 hours a day, 7 days a week.

We'll ask you to enrol for voice ID when you call.

If you have a complaint about our service

We're committed to providing you with a quality service. If there's a problem, we'd like to know about it and have the chance to fix it.

If you disagree with how we've assessed your tax, you may need to follow a formal disputes process.

Find out more about making a complaint, and the disputes process, at ird.govt.nz/disputes

Privacy

Meeting your tax obligations means giving us accurate information so we can assess your tax and entitlements under the Acts we administer. We may charge penalties if you do not.

We may also exchange information about you with:

- some government agencies
- another country, if we have an information supply agreement with them, and
- Statistics New Zealand (for statistical purposes only).

You can ask for the personal information we hold about you. We'll give the information to you and correct any errors, unless we have a lawful reason not to. Find our full privacy policy at ird.govt.nz/privacy

Where to go for more help

These people and organisations will give you expert advice on different aspects of running a business. Family and friends who are in business can also be helpful.

Advisors	Can help and advise on	Do they charge?
Accountant or tax agent	<ul style="list-style-type: none"> - the legal requirements for business accounts and tax - setting up a record keeping system - changes in the business environment affecting the organisation or business - loan applications 	yes
Bank managers	<ul style="list-style-type: none"> - arranging your finances - assessing project risks - planning and financing development of businesses and organisations 	contact your bank
Business.govt.nz	<ul style="list-style-type: none"> - access to management upskilling and capability building in business planning, compliance, marketing, finance, e-commerce, business systems, managing resources, and business and operational excellence - information - useful referrals - funding - publications 	no
Business advisors and consultants	<ul style="list-style-type: none"> - specific areas in the business causing problems, such as marketing, exporting, finance or office automation 	yes
Economic regional agencies (local councils)	<ul style="list-style-type: none"> - applications for government grants - achieving success, growth and development 	contact your local agency
Lawyers	<ul style="list-style-type: none"> - the best structure for the business or organisation - relevant legislation - preparing and negotiating contracts you make, such as leases 	yes
Small business enterprise centres	<ul style="list-style-type: none"> - practical and relevant business advice on tax, marketing, tourism, planning and market research - business training courses and seminars 	contact your local centre