Mastering Tax Essentials

David Apfel

FRS Outsourcing Limited
Tel: 021 041 0667
Email: dapfel@frsoutsourcing.com

Table Of Contents

1. Income Tax

As a self-employed person or managing a small business, understanding and managing your income tax obligations is crucial. Here are the key aspects:

Income Tax Obligations

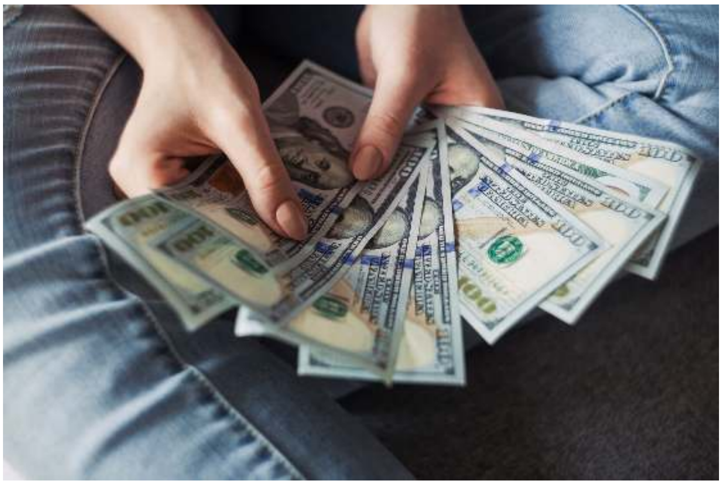
- **Taxable Income:** Your taxable income is the income you earn from your business activities after deducting allowable expenses. This includes all forms of income, such as sales, services provided, and any other business-related income.
- **Filing a Tax Return:** Each year, you're required to file an Individual tax return (IR3), and/or a company tax return (IR4), with the Inland Revenue Department (IRD). This return reports your total income and expenses for the year.
- **Tax Rates:** Income tax rates in New Zealand are progressive. This means the rate increases as your income increases. As a self-employed individual, your tax rate will depend on your total taxable income. For the March 2024 tax year, the rates are as follows:

Taxable Income for the 2023/24 Tax Year	Tax Rate
Individuals	
\$1 - \$14,000	10.5%
\$14,001 - \$48,000	17.5%
\$48,001 - \$70,000	30%
\$70,001 - \$180,000	33%
Over \$180,000	39%
Companies (other than LTC's)	28%

The following link will take you to the IRD's official income tax calculator:
https://www.ird.govt.nz/income-tax/income-tax-for-individuals/how-income-is-taxed/work-out-tax-on-your-yearly-income

For those with employees, the following link will take you to the IRD's official PAYE calculator:
https://www.ird.govt.nz/employing-staff/deductions-from-income/deductions-from-salary-and-wages

This page also has links to downloadable guides for KiwiSaver, PAYE deduction tables and an Employers guide.



Deductions

- **Allowable Expenses:** You can deduct business expenses from your income before you pay tax. These expenses must be directly related to earning your income and can include things like vehicle expenses, home office costs, equipment, and supplies.
- **Record-Keeping**: It's vital to keep accurate records of all your income and expenses. Receipts, invoices, bank statements, and mileage logs are examples of records you should maintain.

Payment of Tax

- **Provisional Tax:** If your tax bill is above a certain threshold, you may need to pay provisional tax for the next tax year. This involves making tax payments in instalments during the year, based on your expected earnings.
- **Payment Due Dates:** The due dates for paying income tax can vary, especially if you're paying provisional tax. It's important to be aware of these dates to avoid penalties and interest.

For more information on Provisional Tax and due dates, see chapter 3.

Tax Credits and Refunds

- **Tax Credits:** You might be eligible for certain tax credits that can reduce your tax bill. These could include credits for families, research and development, or other specific situations.
- **Refunds:** If you’ve overpaid tax during the year, you might be entitled to a refund. This often occurs if you've had deductions or credits that reduce your total taxable income.

IRD Interaction

- **Working with the IRD:** The IRD provides resources and support for self-employed individuals and small businesses. It's important to keep your contact details and business information up to date with them and to respond promptly to any inquiries or requests for information.
- **Tax Agent:** A tax agent can take away the stress of having to deal directly with the IRD. They are registered with the IRD and need to be suitably qualified to handle clients tax issues. See chapter 9 for more information on tax agents.

Staying Informed

- **Changes in Tax Law:** Tax laws and rates can change. Keeping informed about any updates or changes in the tax system is crucial to remain compliant.

By understanding and managing these aspects of income tax, self-employed individuals and small business owners can ensure they meet their legal obligations and optimise their financial position. Regular engagement with the IRD, meticulous record keeping, and possibly the support of a tax professional is key to handling these responsibilities effectively.

2. Goods and Services Tax (GST)

GST is a tax added to the price of most goods and services, including imports. It is a tax for people who buy and sell goods and services.

Effective GST management is crucial for businesses to ensure legal compliance, accurate financial reporting, and efficient cash flow. It involves correctly handling GST on sales and claiming credits on expenses, essential for strategic pricing, audit preparedness, and maintaining a professional reputation in both local and international markets.

Understanding GST

- **GST Registration:** If your annual turnover (the total income before expenses) is more than $60,000, you must register for GST. However, you can choose to register voluntarily if your turnover is below this threshold.
- **Paying GST:** After calculating your GST return, if you've collected more GST than you've paid, you must pay the difference to the IRD. Conversely, if you've paid more GST than you've collected, you'll receive a refund.

GST Returns

- **Filing GST Returns:** GST returns are typically filed every two months, but you can opt for one-month or six-monthly filing periods depending on your business situation. These returns report the GST you've collected and the GST you've paid on business expenses.

Record Keeping for GST

- **Documentation:** Maintain thorough records of all sales and purchases to accurately calculate and report GST. This includes invoices, receipts, and bank statements.
- **GST invoices:** For sales over a certain amount, you need to provide GST invoices which include specific details like your GST number, the date, a description of the goods or services, and the GST amount.

Accounting for GST

- **Accounting Methods:** There are different methods for accounting for GST – the payments basis, invoice basis, and hybrid basis. Each method has its own rules for when you account for GST on your sales and purchases.
- **Payment Basis:** Common for small businesses, where GST is accounted for when the payment is made or received.
- **Invoice Basis:** Here, GST is accounted for when an invoice is issued or received, regardless of when the payment is made.

GST on Imports and Exports

- **GST Registration:** If your annual turnover (the total income before expenses) is more than $60,000, you must register for GST. However, you can choose to register voluntarily if your turnover is below this threshold.
- **Paying GST:** After calculating your GST return, if you've collected more GST than you've paid, you must pay the difference to the IRD. Conversely, if you've paid more GST than you've collected, you'll receive a refund.

- **Imports**: If you import goods, GST is generally payable at the border, though there are deferral schemes for regular importers.
- **Exports:** Goods and services exported are generally zero-rated for GST, meaning you don't charge GST but can still claim back the GST you've paid on related business expenses.

Understanding and managing GST is a crucial aspect of being self-employed or running a small business. Accurate record-keeping, regular reporting, and compliance with IRD regulations are key to handling GST effectively.

3. Provisional Tax

Understanding provisional Tax

- **What is Provisional Tax**: Provisional tax is a system used in New Zealand for paying your income tax in instalments throughout the year. It's designed to help you manage your tax payments by spreading them over time, rather than paying a lump sum at the end of the tax year.
- **Who pays Provisional Tax?:** You'll become a provisional taxpayer if your tax at the end of the previous year (residual income tax) was more than a certain amount (currently $5,000).

Calculating Provisional Tax

- **Basis of Calculation**: Provisional Tax is calculated based on your residual income tax from the previous year. There are a few different methods to calculate the amount you need to pay.
- **Standard Method**: Based on your previous year's income. If your business is growing, this could result in underpayment, which might lead to interest charges.
- **Estimation Method**: You can estimate your earnings for the current year and pay tax based on this estimate. This method can be useful if your income significantly fluctuates year on year.
- **Ratio Method**: Suitable for businesses with fluctuating or seasonal income. It links your provisional tax payments to your GST returns.

Payment of Provisional Tax

- **Payment Dates**: Provisional tax payments are usually due three times a year (August 28, January 15, and May 7). However, these dates can vary depending on your balance date and the payment method you choose.
- **Payment Methods**: Payments can be made via internet banking, credit card, or through the IRD's myIR online service.
- **Use of Tax Pooling**: Tax pooling services allow more flexibility around payment dates and can reduce interest costs if you've underpaid your tax.

Interest and Penalties

- **Interest Charges**: If you underpay your provisional tax, you may be charged interest by the IRD. Accurate estimation of your income can help avoid this.
- **Penalties**: Late payments may result in penalties, so it's important to meet the payment deadlines.

Managing Cash Flow

- **Impact on Cash Flow**: Provisional tax payments can have a significant impact on your business's cash flow. Effective financial planning and budgeting are essential to ensure you have funds available when payments are due.
- **Forward Planning**: Good tax planning involves anticipating your taxable income for the year and making adjustments to your provisional tax payments as needed. This can help avoid large tax bills or significant refunds at the end of the tax year.

Understanding and effectively managing provisional tax is crucial for businesses. It requires a good grasp of your business finances, careful planning, and often the assistance of a tax professional to navigate successfully.

4. Business Expenses

Understanding Business Expenses

- **Definition:** Business expenses are costs you incur while running your business. To be deductible, expenses must be directly related to earning your income.
- **Types of Deductible Expenses:** Common examples include vehicle costs, rent for business premises, equipment and supplies, utilities, insurance, and advertising. Salaries and wages paid to employees are also deductible.

Claiming Expenses

- **Full vs Partial Deductions:** Some expenses can be fully deducted in the year they are incurred, while others (like capital expenses) may need to be depreciated over several years.
- **Home Office Expenses:** If you work from home, you can claim a portion of household expenses like electricity, internet, and rent, based on the area of your home used for work.
- **Mixed-Use Expenses:** Expenses that are partly personal and partly business (like a mobile phone or vehicle) can be apportioned. You need to work out the percentage that relates to business use.

Keeping Records

- **Documenting Expenses:** Keep all receipts, invoices, and records for at least seven years. They should clearly show the nature of the expenses and the connection to your business activities.
- **Organised Record Keeping:** Regularly update your financial records. Using accounting software can simplify this process and help you keep track of expenses throughout the year.

Special Considerations

- **Entertainment Expenses**: Costs for entertaining clients are only 50% deductible. It's important to understand the rules around what qualifies as entertainment.
- **Travel Expenses**: When you travel for business, keep detailed records of the expenses, as these are generally fully deductible.
- **Vehicle Expenses**: If you use your vehicle for business, you can claim expenses based on business use. There are two methods: the kilometre rate method and the actual costs method. Keeping accurate records of how you use your vehicle is essential. It is recommended that you use a logbook.

GST on Expenses

- **Claiming GST:** If you're registered for GST, you can claim the GST portion of your business expenses as a credit on your GST return.

Capital Expenses

- **Depreciation**: For larger purchases like equipment or vehicles, you can't deduct the full cost in one year. Instead, you depreciate the item over its useful life, claiming a portion of the cost each year. Up to 16 March 2020, the threshold for capitalising assets and depreciating them was $500. Between 17 March 2020 and 16 March 2021 the threshold temporarily increased to $5,000. From 17 March 2021 this was reset to $1,000.

Avoiding Common Mistakes

- **Personal Expenses**: Be careful no to claim personal expenses as business expenses. This can lead to issues with the IRD.
- **Documentation**: Lack of proper documentation for expenses is a common issue. Ensure all claims are well supported with records.

Understanding and properly managing business expenses is a crucial aspect of financial management. Keeping detailed records, understanding what expenses are allowable, and regularly reviewing your expenses are key practices for effective management and compliance.

5. Record Keeping

Importance of Record Keeping

- **Legal Requirement**: In New Zealand, self-employed individuals and companies are legally required to keep accurate business records. This is crucial for tax purposes and in case of an audit by the Inland Revenue Department (IRD).
- **Business Management**: Good record keeping helps in managing your business effectively, tracking progress, and making informed decisions.

Types of Records to Keep

- **Financial Transactions:** This includes all income and expenses, bank statements, invoices, receipts, cash books, and wage books (if you have employees).

- **Tax Records:** Copies of all filed tax returns, along with calculations and supporting documents.
- **Assets and Liabilities:** Records of business assets (like equipment and vehicles) and liabilities (such as loans or credit).
- **GST Records**: If you're registered for GST, detailed records of all GST-related transactions.
- **Employment Records**: Details of employee payments, tax deductions, KiwiSaver contributions, and leave entitlements.

Record Keeping Methods

- **Manual vs. Electronic:** Records can be kept manually in ledgers or electronically using accounting software. The method chosen should suit the size and nature of your business.
- **Accounting Software:** Using accounting software can simplify the process, ensuring accuracy and ease of access. Many software options can also help with GST filing and other tax obligations.

Duration of Record Keeping

- **Retention Period**: In New Zealand, you're required to keep your business records for at least seven years. Even if your business ceases operation, these records must be retained.

Organising Records

- **Systematic Organisation:** Organise your records in a way that they can be easily retrieved. This includes labelling and filing documents systematically and keeping digital records backed up and secure.
- **Regular Updates:** Update your records regularly. This is especially important for tracking receivables and payables and for maintaining an accurate picture of your business's financial health.

Auditing and Compliance

- **Audit Preparedness:** Good record-keeping ensures you are prepared for any audits by the IRD.
- **Compliance:** Accurate and complete records help in complying with New Zealand's tax laws and regulations.

Review and Reconciliation

- **Regular Review:** Periodically review your records to ensure accuracy and completeness.
- **Bank Reconciliation:** Regularly reconcile your business records with bank statements to ensure all transactions are accounted for.

Tax and Financial Implications

- **Tax Filing:** Accurate records are essential for correct tax filing and can help maximise deductions.
- **Financial Analysis:** Well kept records provide the basis for financial analysis and business planning.

Effective record keeping is a cornerstone of successful business management. It not only ensures compliance with legal requirements but also provides a clear view of the business's financial status, aiding in better decision-making and strategic planning.

6. Accident Compensation Corporation (ACC)

Understanding ACC Levies

- **Purpose of ACC Levies:** In New Zealand, the Accident Compensation Corporation (ACC) provides comprehensive, no-fault personal injury cover for all residents and visitors. ACC levies collected from businesses help fund this system.
- **Coverage:** These levies provide coverage for treatment, rehabilitation, and compensation in the event of an injury, whether it occurs at work or elsewhere.

ACC Levy Types for Self-Employed

- **Work Levy:** This is the main levy that self-employed individuals pay, based on their earnings from self-employment. It covers injuries that happen at work.
- **Earners' Levy:** Included in the income tax you pay, this levy covers injuries that occur during non-work activities.
- **Optional CoverPlus Extra:** Self-employed individuals can opt for CoverPlus Extra, which provides agreed compensation in case of an injury, regardless of actual earnings at the time of the injury.

Calculating ACC Levies

- **Based on Earnings:** ACC levies are calculated based on your taxable income as a self-employed person. The rate depends on your type of work and associated risk.
- **Invoiced by ACC:** After you file your tax return, ACC assesses your levies and sends you an invoice. This usually happens once a year.

Payment of ACC Levies

- **Payment Schedule:** The ACC levy invoice needs to be paid by the due date to avoid penalties. Payment plans are available if you're unable to pay in a lump sum.
- **Adjustments:** If your income changes significantly, you can contact ACC to adjust your levies, especially relevant if you choose CoverPlus Extra.

Managing ACC Levies

- **Reviewing Levy Rates:** It's important to regularly review your levy rates and earnings to ensure you're paying the correct amount. Overpaying or underpaying can have financial implications.
- **Consulting with ACC:** If you have questions or need to adjust your cover, it's advisable to directly consult with ACC. They can provide specific guidance based on your situation.

Importance for Self-Employed

- **Financial Protection:** Paying ACC levies provides financial protection in case of injury, ensuring you have support for recovery and loss of earnings.
- **Legal Obligation:** Paying ACC levies is a legal requirement for all businesses in New Zealand. Non-compliance can lead to penalties and loss of injury cover.

ACC levies play a critical role in providing injury protection for self-employed individuals in New Zealand. Understanding how these levies are calculated, ensuring accurate payment, and choosing the right coverage option are key aspects of managing your obligations under the ACC scheme. Regular consultation with ACC and possibly a financial advisor can help in effectively navigating this aspect of self-employment.

7. Pay as You Earn (PAYE)

Understanding PAYE

- **Definition:** PAYE is a system used by employers in New Zealand to deduct income tax and other items directly from employee wages or salaries.
- **Applicability:** If you're a small business and hire employees, you're responsible for administering PAYE on their behalf.

Deductions under PAYE

- **Income Tax:** The primary component of PAYE is the deduction of income tax from employee earnings based on their tax code.
- **ACC Earner's Levy:** This is also deducted as part of PAYE and contributes to the ACC's accident insurance cover.
- **KiwiSaver Contributions:** If your employees are enrolled in KiwiSaver, you must deduct their contributions from their salary or wages and pay them to the IRD. Additionally, you may need to make employer contributions to their KiwiSaver accounts.
- **Student Loan Repayments:** If an employee has a student loan, you may need to make student loan deductions.

Registering as an Employer

- **IRD Registration:** You must register with the IRD as an employer. This involves obtaining an IRD number for your business if you don't already have one.

Filing PAYE Returns

- **Regular Filing:** You must file an employment information form every time you pay your employees. This is based on the date you pay employees (pay day) and may be weekly, fortnightly, monthly or more often if you have multiple paydays. These returns report the deductions made from employees' pay and any employer contributions, like KiwiSaver.
- **Electronic Filing:** It's mandatory to file these returns electronically if your annual PAYE and ESCT (Employer Superannuation Contribution Tax) are $50,000 or more.

Making PAYE Payments

- **Payment Schedule:** PAYE payments must be made to the IRD regularly, typically on the 20th of the month following the one in which the deductions were made.
- **Payment Methods:** Payments can be made online, via bank transfer, or using other methods provided by the IRD.

Employer Obligations

- **Legal Compliance:** Complying with PAYE regulations is a legal requirement. Failure to do so can result in penalties.
- **Employee Information:** Ensure that you have accurate information from employees, including their tax code and KiwiSaver status.
- **Staying Informed:** Tax laws and rates can change, so it's important to stay updated on any changes that might affect your PAYE obligations.

Managing PAYE is a significant responsibility for businesses who employ others. It requires an understanding of tax and employment laws, meticulous record keeping, and timely filing and payment of taxes and contributions. Utilising professional services or payroll software can greatly assist in ensuring compliance and accurate administration of these obligations.

8. KiwiSaver

Understanding KiwiSaver

- **KiwiSaver Basics:** KiwiSaver is a voluntary, work-based savings initiative in New Zealand designed to help with long-term saving for retirement. It's primarily for employees, but self-employed individuals can also participate.
- **Contributions:** As a self-employed person, you won't receive employer contributions, but you can make personal contributions to your KiwiSaver account.

Joining KiwiSaver

- **Enrolment:** You can join KiwiSaver by selecting a KiwiSaver provider and enrolling directly with them.
- **Choosing a Fund:** KiwiSaver offers different types of funds (e.g., conservative, balanced, growth) based on your risk tolerance and investment goals.

Making Contributions

- **Contribution Levels:** Unlike employees, who typically contribute a set percentage of their salary, self-employed individuals can decide how much and how often to contribute.
- **Flexibility:** You can choose to make regular contributions or lump sum payments, depending on your financial situation.

Government Contributions

- **Member Tax Credit:** Even as a self-employed individual, you can qualify for the annual government contribution (member tax credit) if you are aged 18 to 65 and contribute a minimum amount each year.
- **Maximising the Benefit:** To get the maximum member tax credit, you need to contribute a certain amount each year (currently $1,042.86). The government will then match 50 cents for every dollar of your contribution, up to a maximum of $521.43 per year.

Accessing Funds

- **Retirement Age:** Generally, you can access your KiwiSaver funds when you reach the age of eligibility for NZ Superannuation (currently 65).
- **Early Withdrawal:** Under certain circumstances, such as significant financial hardship, serious illness, or buying your first home, you may be able to withdraw funds earlier.

KiwiSaver and Taxes

- **Tax on Earnings:** Earnings in your KiwiSaver account are subject to tax, and the rate depends on your prescribed investor rate (PIR).

Benefits for Self-Employed

- **Retirement Savings:** KiwiSaver provides a structured way to save for retirement, which is particularly important for self-employed individuals who don't have employer contributions.
- **Investment Options:** The scheme offers various investment options, allowing you to choose based on your retirement goals and risk appetite.
- **Review Contributions:** Regularly review your contribution levels and KiwiSaver performance to ensure they align with your long-term retirement goals.

KiwiSaver offers a valuable opportunity for both employed and self-employed individuals to save for retirement and benefit from government contributions. Understanding how to make the most of KiwiSaver can significantly impact long-term financial planning and retirement readiness.

9. Tax Agents

Given the complexities of tax law in New Zealand, many self-employed individuals benefit from the services of a professional accountant or tax agent. These professionals can help with filing returns, claiming deductions, and planning to minimise tax liabilities.

Registering with a tax agent in New Zealand offers several benefits, particularly for individuals and businesses managing complex tax affairs:

- **Extended Deadlines for Filing Returns**: Tax agents are typically granted extended deadlines for filing income tax returns. This means you can have more time to prepare and file your returns, reducing the pressure and rush associated with standard deadlines.
- **Expertise and Advice**: Tax agents possess specialised knowledge of New Zealand's tax laws and can provide expert advice tailored to your specific financial situation. This expertise is invaluable in ensuring compliance and optimising your tax position.
- **Error Reduction**: Tax agents can help reduce the likelihood of errors in your tax filings. Mistakes can be costly and can lead to audits, penalties, or additional tax liabilities. Professional handling minimises these risks.
- **Time Saving**: Managing taxes can be time consuming, especially for those not well versed in tax matters. A tax agent can save you significant time by handling the preparation and filing of returns, allowing you to focus on other aspects of your life or business.
- **Audit Assistance**: In the event of an audit by the Inland Revenue Department (IRD), having a tax agent can be extremely beneficial. They can provide guidance and support throughout the audit process, helping to address any concerns raised by the IRD.
- **Staying Informed of Changes**: Tax laws and regulations can change frequently. Tax agents stay up to date with these changes and can advise you accordingly, ensuring that your tax affairs are always in line with the latest rules.
- **Tax Planning and Strategy**: Beyond just compliance, tax agents can assist with proactive tax planning and strategy to minimise liabilities and maximise potential benefits, including identifying eligible deductions and credits.
- **Dealing with Complex Situations**: For those with complex tax situations, such as business owners, investors, or individuals with international tax obligations, a tax agent's expertise is particularly valuable.
- **Representation with the IRD**: Tax agents can act as intermediaries between you and the IRD, handling communications and negotiations, which can be especially useful in resolving disputes or complex issues.
- **Peace of Mind**: Knowing that a professional is managing your taxes can provide significant peace of mind, ensuring that your tax obligations are handled accurately and efficiently.

Overall, registering with a tax agent in New Zealand can provide significant advantages in terms of compliance, expertise, time saving, and strategic tax planning.

For more information and to schedule a no obligation meeting at no cost to you, please contact the author on 021 041 0667 or at dapfel@frsoutsourcing.com