

Online trading tax implications

When you're selling goods or services over the internet, you have the same tax obligations as any other business. This factsheet explains your obligations for income tax and GST, and what to do if you need to correct your tax returns.

Trading online is no different from doing business from a shop, or from your home. Any income you earn from a business (including online auction or sales sites such as TradeMe) needs to be included in an income tax return, which works out how much tax you'll need to pay each year.

If you are trading online and answer "yes" to some or all of the following questions, it's likely you'll need to declare income earned.

- Did you buy goods with the intention of reselling them?
- Did you intend to make a profit from the sale?
- Are you providing services in return for payment? (The payment doesn't have to be cash.)
- Do you regularly sell goods or services online?
- Do you sell online as part of an already established business?

Note: There is no minimum income level to be in business.

Telling us about your online business

We routinely monitor online transactions. If you've been trading online for some time and think you've overlooked your tax obligations, talk to a tax advisor or contact us.

The easiest way to keep on top of your tax affairs is to tell us when you start trading. This way we can help by sending you the forms and information you'll need at the right time.

If you realise your taxes are incorrect, you can make a voluntary disclosure. This means that you tell us what's wrong with your taxes. If you make a voluntary disclosure before you're notified of a tax audit or investigation, we'll reduce the shortfall penalties charged and we won't prosecute you.

Read more about voluntary disclosures in our guide *Putting your tax returns right (IR 280)* at www.ird.govt.nz (keyword: IR280).

Filing an income tax return

Generally a business income year is from 1 April to 31 March. At the end of a financial year you need to work out what your taxable profit is. You may need a tax advisor or accountant to do this for you.

You also need to decide what business type your online activity will be as this will affect how it's registered for income tax purposes with us. This will also determine how you return your taxable income details to us at the end of a tax year.

The business types and returns you file are:

- Sole trader – you use your own personal IRD number and file an IR 3 return
- Partnership or look-through company – needs its own IRD number and files an IR 7 return
- Company – needs its own IRD number and files an IR 4 return
- Trust or estate – needs its own IRD number and files an IR 6 return.

For more about filing returns go to www.ird.govt.nz (keywords: filing returns)

Registering for GST

If you're providing goods or services and your turnover is more than \$60,000 in any 12-month period, or is likely to be more than \$60,000 in the next 12 months, you'll need to register for GST. To find out what you need to do, go to www.ird.govt.nz (keywords: register GST).

Expenses from internet trading

When you're in business, you can claim certain expenses related to earning your business income. These can include:

- stationery and supplies for the business
- raw materials or trading stock
- electricity and phone costs
- gross wages paid to employees
- ACC levies.

You can find out more about running a business and about the expenses you can claim in our *Smart business (IR 320)* guide at www.ird.govt.nz (keyword: IR320).

Some expenses are specific to trading over the internet. This table is a summary of the different website expenses and the tax treatment for them.

Cost	Deductible as an expense	Depreciable as a capital expense
Purchase or registration of a domain name	No	No
Annual fee for domain registration	Yes	No
Renting space on an ISP server	Yes	No
Site design costs	No	Yes
Site update costs	Yes	No
Reconstruction, upgrading or functional improvement to website	No	Yes
Cost of a server (computer)	No	Yes

When an expense is **deductible**, the entire expense is included in your income tax return. When an expense is **depreciable**, you can only claim a percentage of the expense each year. Each type of depreciable expense has a different percentage, which you can look up in our *Depreciation rate finder* at www.ird.govt.nz (keywords: rate finder).

You can find more information about website expenditure at www.ird.govt.nz (keywords: trading electronically).

Exports and GST

If you're GST registered and exporting goods or services, these sales are zero-rated, so you charge 0% GST. When you're selling exports over the internet, you need to be able to prove that the products are leaving New Zealand, or that the service has been provided outside New Zealand. Digital products such as music, software or e-books sold to overseas customers (and downloaded overseas) are considered services, so you need to be able to show that the buyer downloaded them overseas.

Secondhand goods and GST

When buying secondhand goods from someone who isn't registered for GST, the purchase price is considered GST-inclusive, and you can claim the GST back in your GST return. You still need to have a copy of all the information that would usually be provided on a tax invoice.

When you buy secondhand goods from an unregistered person, and then sell those goods over the internet, the ordinary rules apply. This means that if the goods are sold to:

- a New Zealand customer, the sale includes GST at the normal rate
- an overseas customer, and you ship the goods to them, the sale includes GST at 0% (zero-rated)
- an overseas customer, and the export is handled by a third-party supplier, the sale can't be zero-rated, and includes GST at the normal rate.

You can read more about e-commerce and GST on our website at www.ird.govt.nz (keyword: e-commerce) or our guide *GST plus (IR 546)* (keyword: IR546) for a more detailed explanation of zero-rated and special supplies.

Tax residency and double tax agreements

When you're a New Zealand tax resident, you need to pay tax in New Zealand on both your New Zealand and overseas income.

A person is a New Zealand tax resident in any of the following situations:

- they're in New Zealand for more than 183 days in any 12-month period
- they have an enduring relationship with New Zealand
- they're away from New Zealand in the service of the New Zealand Government.

New Zealand has double tax agreements (DTAs) with various countries. These agreements can change the way income is taxed. For a list of the countries we have a DTA with, go to www.ird.govt.nz (keyword: DTA).

You can find more about your tax obligations on worldwide income at www.ird.govt.nz (keywords: tax residency).



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- **myIR secure online services** – log in to check and update your account information, file your EMS, IR 3 or GST return, request or confirm your PTS and send us secure mail.
- **Get it done online** – complete and send us forms and returns, make payments, make an appointment to see us and give us feedback.
- **Work it out** – use our calculators, worksheets and tools to help you manage your tax business, like checking your tax code, or your filing and payment dates.
- **Forms and guides** – download our guides and print forms to post to us.
- **Contact us** – for phone numbers, addresses and contact options.

You can also subscribe to our newsletters at www.ird.govt.nz/subscribe and follow us on Twitter @NZInlandRevenue.

FREE ADVISORY SERVICE

We provide free business tax advice for new businesses and organisations.

For more information on this service go to www.ird.govt.nz (keywords: workshop).

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