



**Inland Revenue**  
Te Tari Taake

IR320  
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# Smart business

A guide for businesses and  
not-for-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 not-for-profit organisation such as a kohanga reo or sports club. Being in business or running an organisation also carries certain responsibilities.

The rules applying to businesses generally also apply to not-for-profit organisations. The term 'business' in this guide includes not-for-profit organisations as well as businesses.

Certain tax rules only apply to not-for-profit organisations. For more information about running a not-for-profit go to [ird.govt.nz/running-your-nfp](https://ird.govt.nz/running-your-nfp)

This guide has information on:

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

### Important changes

#### 'Tax invoice' requirements replaced by 'taxable supply information'

From 1 April 2023, the requirement to use tax invoices has been replaced by a more general requirement to provide and keep certain records known as taxable supply information.

Taxable supply information refers to a minimum set of information buyers and sellers need to keep as evidence of a transaction. The taxable supply information required depends on the value and the type of supply and no longer needs to be in a single physical document, such as a tax invoice.

Your transaction records, accounting systems and contractual documents may, in combination, contain all the information you need to support the figures in your GST returns.

For more information about taxable supply information go to page 49 of this guide, or [ird.govt.nz/gst](https://ird.govt.nz/gst)

#### 'Debit note' and 'credit note' requirements replaced by 'supply correction information'

From 1 April 2023, debit and credit note requirements to correct previously issued tax invoices, have been replaced with requirements to provide and keep supply correction information.

Supply correction information must be provided when the taxable supply information (for example invoice) included an incorrect amount of GST, or when the seller has included an incorrect amount in their GST return for a taxable supply they have made.

For more information about supply correction information go to page 51 or [ird.govt.nz/gst](https://ird.govt.nz/gst)

#### GST adjustments for business, private or exempt use

From 1 April 2023,

- When you acquire goods or services for \$10,000 or less (excluding GST), you can choose to use the principal purpose method or the apportionment method for claiming GST.
- The number and the value of the adjustment periods have changed. Fewer adjustments are required for land, as well as goods and services \$20,000 or less.
- You can elect to treat goods as non-taxable supplies when their principal purpose is not for use in your taxable activity.



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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?

Generally, 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.

We look at the following 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 are not 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 <a href="http://companies.govt.nz">companies.govt.nz</a></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>
Not-for-profit organisations	<p>A not-for-profit organisation is any society, association or organisation:</p> <ul style="list-style-type: none"> <li>• not carried on for the profit or gain of any member, and</li> <li>• whose rules do not allow money, property, or any other benefits to be distributed to any of its members.</li> </ul>	<p>Some not-for-profit organisations may be incorporated, by being registered with the Ministry of Economic Development.</p> <p>Not-for-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](http://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, apply for an IRD number online or complete an IRD number application - resident individual - IR595 form.
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 <a href="http://companies.govt.nz">companies.govt.nz</a> 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.
Not-for-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 from Inland Revenue (Te Tari Taake). The top form is IR596, 'IRD number application – resident non-individual', dated July 2022. It includes a header with the Inland Revenue logo, DLN, and a barcode area for 'OFFICE USE ONLY'. The main heading is 'IRD number application – resident non-individual'. Below this is a sub-heading: 'Use this form to apply for an IRD number for your organisation if you're a New Zealand resident, or apply online - ird.govt.nz/business-ird-number'. The form contains several sections: 1. Print the full name of the organisation (example: 'Moreana and Jo Moore'). 2. Is this application for a branch? (checkboxes for No/Yes). 3. Tick the organisation type from the list below. The list includes 'Company' (Close, Widely held, Unit trust, Cooperative, Public authority, Local authority, Special company, Life insurance, Agent non-resident insurer, Body corporate), 'Partnership' (Ordinary, Limited), 'Superannuation scheme' (Registered - widely held, Registered - not widely held, Not registered, KiwiSaver, Foreign), and 'Māori authority' (Complete a Māori authority). 4. If the trade name is different from... The bottom form is IR595, 'IRD number application - resident individual', dated May 2022. It also has the Inland Revenue logo and 'OFFICE USE ONLY' section. The main heading is 'IRD number application - resident individual'. It includes instructions: 'Please read the Notes section before you complete this application', 'Please complete this application using capital letters—don't use abbreviations', and 'Please complete application in blue and/or black pen.' The form contains sections: 'Children under 16' (checkbox), '1. If you are applying for a child, print your own IRD number here.' (with a barcode area), 'Applicant information' (checkbox), '2. Name of applicant as shown on identity documents' (First name(s) 'Janet', Surname 'Wiseman'), and 'Title' (radio buttons for Mr, Mrs, Miss, Ms, Other, with 'Miss' checked).

## 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 tax PAYE, student loan, child support and KiwiSaver deductions and pay these to us. See page 55.
- 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](http://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](http://ird.govt.nz/pay) to find out about paying by:

- direct debit
- credit or debit card
- internet banking

## 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

All records must be in English or Māori unless you have written approval from us to use another language.

For tax records kept in Māori numerals must be 1, 2, 3 etc.

## How long to keep your records

Keep all your business records (including those in electronic form) for at least 7 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.

### **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. Not-for-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 will not 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**

You must keep enough records to be able to calculate income, expenses, and tax liabilities and to enable us to confirm your accounts if required.

Some records you must keep are:

- invoices and receipts (taxable supply information if you are GST registered)
- debit and credit notes (supply correction information if you are GST registered)
- bank statements
- wage records for all employees, including employer superannuation contribution tax records (see page 22)
- interest and dividend payment records
- account books, such as your cashbook, journals, and ledgers
- worksheets showing tax return calculations
- your cashbook and petty cash book
- 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)
- legal statements, such as purchase or sale agreements of a business and leases.

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.

### 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.

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 the deposit type, for example credit card or cash.

Use supplementary deposit books and record details of deposits

**IOU Banking Corporation**

Date *20 August 2013*

Amount \$ *2,752.20*

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Total \$ *2,752.20*

(Proceeds of cheques etc. will not be returned unless cleared).

Deposited for Credit of *20 August 2013*

Teller *[Signature]*

The stamped deposit book is your receipt from the bank

**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
<i>286121</i>	<i>1 F. Ross</i>	<i>IOU</i>		<i>1,000</i>	<i>00</i>
<i>529107</i>	<i>2 B. Rewiti</i>	<i>BCA</i>		<i>752</i>	<i>95</i>
<i>649826</i>	<i>3 S. Jones</i>	<i>BMS</i>		<i>1,000</i>	<i>00</i>
	Total cheques				
	Total cash				
	Sub total			<i>2,752</i>	<i>95</i>
	Less charges			<i>0</i>	<i>75</i>
	Total deposit			<i>2,752</i>	<i>20</i>

To be used only as

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

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 will not 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 keep a record of them. The easiest way is to pay for them electronically 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. If you are not GST registered 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.

If you're registered for GST, there are requirements to provide and hold taxable supply information, see pages 49-51.

## 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/supply correction information

You must provide 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

For GST registered businesses, you must provide customers with supply correction information when the taxable supply information included an incorrect amount of GST, or when the seller has included an incorrect amount in their GST return for a taxable supply they have made.

### Cash register tape

Some businesses, such as dairies, have a number of cash sales. These businesses do not have to record the name of each customer in a cashbook or issue invoices 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 date paid or reference number order.

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).



## 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 (for example EFTPOS, credit card 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	✓ 75 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						
	<b>TOTALS</b>		<b>2,227 18</b>	<b>13,478 26</b>	<b>391 30</b>	<b>200 00</b>	<b>15 35</b>			<b>978 26</b>

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	PAYMENT TYPE	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			
	<b>TOTALS</b>		<b>16,326 23</b>	<b>1,761 51</b>	<b>10,978 27</b>	<b>1,300 00</b>	<b>652 17</b>	<b>108 05</b>	<b>800 00</b>	<b>405 00</b>	<b>10 25</b>	<b>310 98</b>

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 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 payments 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 payments on your bank statement with those recorded in your cashbook. Make sure the amounts are the same.
4. If you have made any non-electronic payments (for example cash), 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.

#### 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	✓ 75 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

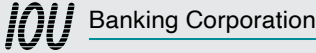
#### November purchases and expenses

DATE	REFERENCE	PAYMENT TYPE	BANK	GST PAID	PURCHASES	WARES (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	973 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 7

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

AC Design Ltd  
123 The High Street  
The Suburb  
The City



**Bank Statement**

Account name: AC Design Ltd  
Page no. 15  
Account no. 00-000-00

**Important:** Please advise any change of address or occupation

**Date:** 30 November 2013      **Date of last statement:** 28 October 2013

Name of other party	Mtn	Particulars	Ref	Debit	Credit		
					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

**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 payments in your bank statement

Bank reconciliation		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		3716 06		7,283 67		8,247 73			
Add unrepresented 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 67		10,828 98			
Unrepresented 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			

**Step 5**  
Note the unrepresented cheques



## 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
- avoid paying for smaller items from personal funds.

To start using your petty cash system:

- 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, withdraw more 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>	100.00	
4/4	<i>Milk</i>	2.60	97.40
8/4	<i>Taxi</i>	22.50	74.90
8/4	<i>Coffee</i>	10.95	63.95
8/4	<i>Tea</i>	3.75	60.20
10/4	<i>Stationery</i>	15.00	45.20
11/4	<i>Milk</i>	2.60	42.60
11/4	<i>Tea</i>	5.35	37.25
15/4	<i>Cash withdrawal from bank account</i>	(62.75)	100.00
15/4	<i>Taxi</i>	22.50	77.50
16/4	<i>Drinks</i>	35.00	42.50
16/4	<i>Afternoon tea</i>	25.00	17.50
17/4	<i>Milk</i>	2.50	15.00
22/4	<i>Cash withdrawal from bank account</i>	(85.00)	100.00

### **Claiming petty cash expenses**

It's important to remember that the first petty cash withdrawal cannot be claimed for income tax and GST - it just opens the petty cash book. You can only claim the second and subsequent withdrawals.

If you're GST registered you need to keep taxable supply information to claim GST on your purchases and expenses relating to your taxable activity.

For supplies costing more than \$200 (including GST) you'll need to keep taxable supply information, such as invoices, receipts, or other documentation for your GST records.

When you buy supplies for \$200 or less, you must keep your own records of the transaction for GST record keeping requirements.

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 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 proof of payment from the bank account 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 (SLDR)		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	For Week
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 57 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 not-for-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 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 are not 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 to keep invoices, taxable supply information (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 not-for-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 not-for-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
<b>OPENING BALANCE</b>	1,500.00	1,500.00	287.50	690.50	514.90	511.25	124.19	1,009.66	280.02	
<b>CASH IN</b>										
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										
<b>TOTAL CASH IN</b>	6,762.50	6,792.50	7,252.40	6,285.75	7,254.29	8,003.41	7,750.83		7,751.87	
<b>CASH OUT</b>										
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	370.00	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	770.00	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			
<b>TOTAL CASH OUT</b>	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
<b>CLOSING BALANCE</b>	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	6,792.50
	<u>7,692.50</u>
less total cash out	7,002.00
Closing balance	<u>\$ 690.50</u>

**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](http://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. For more information, go to

[ird.govt.nz/early-payment-discount](http://ird.govt.nz/early-payment-discount)

**You qualify for the discount if you:**

- are either self-employed or a partner in a partnership or as owner of a look through company
- are not operating as a company or trust
- derive gross income predominantly from a business (not being interest, dividends, royalties, rents or beneficiary income)
- are not required to pay provisional tax in the income year or has not been liable to pay provisional tax in the previous 4 years
- 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 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.

### Discount rate

The early payment discount for the 2023 income year is 4.31%.

#### *Example*

Andrew makes voluntary payments for the year ended 31 March 2023 of \$5,000. His residual income tax for 2023 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 \$215.50 being 4.31% of \$5,000.

Total voluntary payments made from 1 Apr 2022 - 31 Mar 2023:	\$5,000.00
2023 residual income tax:	\$8,000.00
Voluntary payments of \$5,000 x 4.31%:	\$215.50
105% of residual income tax = \$8,400 x 4.31%:	\$362.04

### Election

You can elect to receive the discount before the date your return is due to be filed for your first year in business.

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/early-payment-discount](http://ird.govt.nz/early-payment-discount)

## 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 cannot 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
Not-for-profit organisation	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 overlapping Inland Revenue tax forms:

- IR3R Rental income (March 2023):** Taxpayer: Pat Bain, IRD number: 16423875. Year ended 31 March: 2013.
- IR3F Farming income (April 2021):** Taxpayer: Bernie Savage, IRD number: 12144456. Year ended 31 March: 2013.
- IR3B Schedule of business income (April 2022):** Taxpayer: Walter Wall, IRD number: 16422133. Year ended 31 March: 2013.
- IR10 Financial statements summary (March 2019):** Taxpayer: Joe Bloggs, IRD number: 19128438. Year ended 31 March: 2013.





## 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](http://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 cannot 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.

## Not-for-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 not-for-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 (that is, 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](http://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).

Rates from 1 April 2021:

Rate for deducting RWT	Who should use this rate
10.5%	<ul style="list-style-type: none"> <li>Individuals who have a reasonable expectation of their annual income being \$14,000 or less* if they have provided their IRD number.</li> <li>Testamentary trusts may elect this rate if they provide their IRD number.</li> </ul>
17.5%	<ul style="list-style-type: none"> <li>Individuals whose annual income is from \$14,001 to \$48,000* if they have provided their IRD number.</li> <li>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).</li> <li>Trusts and testamentary trusts may elect this rate if they have provided their IRD number.</li> </ul>
28%	<ul style="list-style-type: none"> <li>Companies may elect this rate if they have provided their IRD number.</li> </ul>
30%	<ul style="list-style-type: none"> <li>Individuals whose annual income is from \$48,001 to \$70,000* if they have provided their IRD number.</li> <li>Trusts and Māori authorities can elect this rate if they have provided their IRD number.</li> </ul>
33%	<ul style="list-style-type: none"> <li>All interest recipients can elect this rate, for example individuals whose annual income is \$70,001 to \$180,000* if they have provided their IRD number.</li> <li>Use this rate for interest recipients who open a new account and do not elect a rate</li> </ul>
39%	<ul style="list-style-type: none"> <li>Individuals whose annual income is \$180,001 or over* if they have provided their IRD number.</li> </ul>
45%	<ul style="list-style-type: none"> <li>Use this rate for all interest recipients who have not provided an IRD number.</li> </ul>

### 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](http://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, you will have to pay provisional tax for the following year.

\* 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). 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 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
<b>Total taxable supplies</b>	<b>\$2,114,723</b>

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](http://ird.govt.nz/pay) to find out about making payments by:

- direct debit
- credit or debit card
- internet banking

### 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 63)
- 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 cannot 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 cannot 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 42.

## 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](http://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 63 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 XYZ	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 42.

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](http://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 cannot 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 fully tax deductible and some may only be 50% deductible.

Some examples of fully deductible entertainment expenses that are completely business related and not liable for FBT include:

- meals an employee buys while travelling on business (unless it is with an existing or potential business contact, or the meal is a celebration, reception or similar event – in these situations it would only be 50% deductible)
- food and drink provided at a conference, education course or similar event that lasts at least 4 hours (unless the conference is mainly for entertainment – in which case it would only be 50% deductible)
- light meals provided in a dining room for senior managers and consumed as part of their duties (such as sandwiches provided during a board meeting)

- entertainment that promotes your business publicly (the public must have the same access to this as your employees, business contacts or people associated with the business – if the public has less access it would only be 50% deductible)
- entertainment that is only a secondary part of either a function that is open to the public, or any trade display (for example serving coffee at your business's trade display)
- freebies promoting your business (such as branded stationery, but excluding any given to employees or people associated with you – these are only 50% deductible)
- entertainment provided to someone who is going to review it for publication (such as giving a free meal to food critics)
- entertainment provided at a discount, if your business regularly provides entertainment at market prices (for example offering half-price meals at your restaurant)
- entertainment enjoyed outside of New Zealand.

Some entertainment expenses are only 50% deductible if they are not completely business related and not liable for FBT. This includes entertainment that is away from work or out of usual working hours, so that it has a 'significant private element'. The expense will be 50% deductible even if you think the private element was more or less than 50%.

Examples of this include:

- entertainment at sports or cultural events (for example a corporate box)
- business use of a holiday home
- hiring a boat, and providing food and drink to people on it
- food and drink you provide for social events (such as parties) or in an area set aside for senior employees (though there is an exception for 'light meals' consumed as part of the manager's duties, which are 100% deductible)
- gifts of food and drink that benefit your business and are enjoyed privately by the person who receives them (for example if you give a bottle of wine to each customer who buys a car off you)

- 'supporting expenses' for other entertainment that's 50% deductible (such as hire of wine glasses and wait staff for a party).

Other entertainment expenses will be 100% deductible and liable for FBT if they are received by employees because of the work they do. Examples of this include rewards for good performance, such as a restaurant gift voucher or a weekend away.

To support your claims for business entertainment expenses you should keep invoices and receipts. For more help, refer to 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](http://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 cannot 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 taxable supply information. 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.

## 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](http://ird.govt.nz/tools-calculators)

### 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>	

### 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](http://ird.govt.nz/tools-calculators)

## Part 6 – GST (goods and services tax)

GST is a 15% tax on the supply (sale) of most goods and services in New Zealand, most goods imported into New Zealand and some specified imported services.

### GST registration

You must register for GST if your turnover (sales from taxable activities), including certain imported services you receive:

- was over \$60,000 for the last 12 months, or
- is expected to go over \$60,000 for the next 12 months.

A business must have a taxable activity to register for GST. A ‘taxable activity’ is an activity that is carried on continuously or regularly, and involves or is intended to involve the supply of goods or services to another person for consideration. If you have a taxable activity, you can voluntarily register for GST if your turnover is less than \$60,000.

If you have not already registered for GST and need help deciding, use our guided help – **Do I need to register for GST?**

You can register for GST in **myIR**.

The GST registration confirmation we send you includes your:

- GST number (this may be the same as your IRD number)
- registration start date
- accounting basis (the way you claim and pay your GST)
- your taxable period and filing frequency (how often you need to file returns).

If you register voluntarily for GST, and later decide this was a mistake, you can cancel your registration in myIR.

### Using myIR or accounting software to file GST returns

Filing online in myIR or your accounting software makes it easier for you to meet your GST requirements. It’s simple, secure, and immediate.

#### myIR

myIR is available 24 hours a day, 7 days a week and provides instant confirmation you’ve filed and faster processing of your returns:

- **Convenience:** by completing your GST return online, you can avoid postage costs and delays. When combined with electronic banking, the entire online process gives you greater certainty.
- **Confidence:** you’ll get a time stamped receipt confirming your return has been successfully filed for us to process. You can save and/or print the confirmation page for your reference.
- **Fixing mistakes:** if you make a mistake you can easily fix the error in myIR to correct it.
- **Faster refunds:** it’s quicker to file in myIR and there are no post delays associated with paper-based returns.

#### Using accounting software

You can file GST returns using accounting software.

Accounting software benefits include:

- your GST return is pre-populated, so you do not need to copy figures into your myIR or paper return
- instant confirmation your return is filed.

Confirm with your software provider if this filing feature is available as part of their software package.



## Charging and claiming 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.

You can claim back the GST you have been charged on goods and services used in your taxable activity.

- You collect GST through the sale of goods and services.
- You pay GST through purchases and business expenses.

## GST on grants and subsidies

GST is often 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 will usually need to pay the GST to us.

### For more help

Our booklet **Grants and subsidies - IR249** provides more help for not-for-profit organisations in working out their GST.

## What GST is not charged on

Some goods and services do not have GST added to them.

These are:

- sales by an unregistered person
- sales of private property (for example a car or home not used for business)
- exempt supplies.

### Exempt supplies

GST is not charged on exempt supplies, and they're not included in your GST return. These include:

- financial services such as interest payments on loans or bank fees
- donated products and services which are sold by not-for profit organisations
- rent paid on a private home
- penalty interest.

You cannot claim expenses relating to exempt supplies. You do not show income from the exempt supply in your GST return.

### Zero-rated supplies

Some goods and services are not exempt supplies, but GST is charged at 0%. For example:

- exported goods
- sales of going concerns (selling or buying a business that will continue to run as the same type of business)
- sale of land.

If you make zero-rated supplies you can claim GST on your expenses.

For more information on exempt and zero-rated supplies go to [ird.govt.nz/gst/charging-gst](http://ird.govt.nz/gst/charging-gst) or the **GST guide - IR375** and **GST plus guide - IR546**.

## Filing GST returns

If you're GST registered you're required to file regular GST returns.

When you file your GST return, you work out the difference between the amount of GST you've collected and the amount of GST you've paid.

- If you've paid out more GST than you've collected, you'll receive a GST refund.
- If you've collected more GST than you've paid, you'll need to pay the difference to us by the due date.

You can only charge GST on your sales and income or claim it back on purchases and expenses if you're registered.

### Choosing your filing frequency

You can choose your GST return filing frequency (how often you file) – monthly, 2-monthly or 6-monthly. Your taxable period for 2 or 6 monthly returns must align to your balance date.

If you do not choose a taxable period when you register, we'll put you on the 2-monthly option matching your balance date.

You can apply to change your taxable period if this does not suit. Send a message in myIR telling us which taxable period and filing frequency you prefer. If we approve the change, we'll tell you when to start using your new taxable period - do not change until we confirm this with you.



If you're registering for GST and you're also liable for provisional tax, you'll need to match your GST taxable period with your balance date. For example if you file your GST returns 2-monthly and have a March balance date your taxable periods are April-May, June-July, August-September, October-November, December-January, February-March.

### Monthly

- You must file monthly returns if your sales are over \$24 million in any 12-month period.
- For a GST group the \$24 million applies to the group as a whole.

Anyone can choose to file monthly GST returns. Monthly returns may suit you if you're entitled to frequent GST refunds.

### 2-monthly

- Anyone with sales under \$24 million in any 12-month period.
- For a GST group the \$24 million applies to the group as a whole.

You can choose to file your returns in odd or even months aligned to your balance date. Filing returns every 2 months helps keep you on top of your GST requirements and in touch with your business's progress.

### 6-monthly

- Anyone with sales under \$500,000 in any 12-month period.
- For a GST group the \$500,000 applies to the group as a whole.

You can apply for this option if your business has just a few transactions. You only need to file 2 GST returns a year, but it can be a big job for 6 months' worth of trading in one go.

### When to file your returns

We'll send you a reminder in myIR your GST return is ready for you to file. The reminder includes the due date for filing and making any payment.

The due date is usually the 28th of the month following the end of your taxable period, except for return periods ending:

- 30 November – the due date is 15 January of the following year
- 31 March – the due date is 7 May of the same year.

If the due date for your GST return falls on a weekend or public holiday, it will be due the next working day.

**Remember, file and pay on time to avoid late filing penalties, late payment penalties and interest.**

### Late filing penalty

If you do not file your return by the due date you may have to pay a late filing penalty. These are:

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

**Late payment penalties and interest are charged on late filing penalties not paid by the due date.**

## What are my options for claiming and paying GST?

There are 3 ways of accounting for GST—payments, invoice or hybrid. You should choose the accounting basis that best suits your business.

If you do not choose an accounting basis when you register, we'll put you on the invoice basis.

You can change your accounting basis after you've registered in myIR.

### Payments basis

Under the payments basis you account for GST at the end of the taxable period when you make or receive the payment. This helps you manage your cash flow because you only pay us GST after you've received the payment from your customers, and you only claim GST for the purchases and expenses you've paid for.

### Invoice basis

Using the invoice basis, you account for GST at the end of the taxable period when you provided an invoice to your customers or received an invoice from your supplier.

### Hybrid basis

Under the hybrid basis you account for GST on sales and income using the invoice basis, and account for GST on expenses and purchases when you actually make payment.

#### Note

The hybrid method is not commonly used by small businesses because of negative cashflow consequences. This is because you may return GST on invoiced sales before you have received payment, but you can only claim GST when you have paid for your purchases (not when invoiced).

Accounting basis	Who is eligible	What you need to do
Payments basis	If your total sales are: <ul style="list-style-type: none"> <li>• \$2 million or less in the last 12 months</li> <li>• likely to be \$2 million or less in any 12-month period, beginning on the first day of a month.</li> </ul>	In your GST return for the period include: <ul style="list-style-type: none"> <li>• amounts you've been paid by customers</li> <li>• amounts you've paid to suppliers if you hold taxable supply information.</li> </ul>
Invoice basis	Anyone	In your GST return for the period include: <ul style="list-style-type: none"> <li>• amounts you've notified customers to pay by invoice, even if you have not been paid yet</li> <li>• the full sale price if customers have paid any amount before you've invoiced them</li> <li>• amounts you've been invoiced by suppliers if you hold taxable supply information. Even if you have not paid them yet.</li> </ul>
Hybrid basis	Anyone <b>Note:</b> This method is not commonly used by small businesses because of negative cashflow consequences.	In your GST return: <ul style="list-style-type: none"> <li>• use the invoice basis for your sales</li> <li>• use the payments basis for your expenses.</li> </ul>

## Taxable supply information

The requirement to use tax invoices has been replaced by a more general requirement to provide and keep certain records known as 'taxable supply information'.

Taxable supply information refers to the minimum set of information buyers and sellers need to keep as evidence of a transaction. The taxable supply information required depends on the value and the type of supply.

In the past, you needed to keep tax invoices, credit and debit notes as records of sales or purchases. But now, you can use a combination of several records to support the figures in your GST returns.

Your transaction records, accounting systems and contractual documents may, in combination, contain all the information you need to support the figures in your GST returns.

Taxable supply information includes invoices, but it can also include information held in other forms, such as supplier agreements, contracts, and bank statements.

Sellers can provide taxable supply information to a customer using an automated direct exchange between the buyer's and seller's software, for example PEPPOL eInvoicing.

You should provide taxable supply information such as an invoice, receipt or other documentation when you sell goods or services. If the sale is \$200 or less (including GST), you can issue a receipt instead.

You need to keep taxable supply information to claim GST on your purchases and expenses relating to your taxable activity.

### Taxable supply information buyers and sellers must keep

	Taxable supply amounts		
	\$200 or less	More than \$200 and up to \$1,000	More than \$1,000
Seller's details	<ul style="list-style-type: none"> <li>Name or trade name of the seller</li> </ul>	<ul style="list-style-type: none"> <li>Name or trade name of the seller</li> <li>GST number</li> </ul>	<ul style="list-style-type: none"> <li>Name or trade name of the seller</li> <li>GST number</li> </ul>
Buyer's details	<ul style="list-style-type: none"> <li>Not required</li> </ul>	<ul style="list-style-type: none"> <li>Not required</li> </ul>	<ul style="list-style-type: none"> <li>Name, and 1 or more of the following:               <ul style="list-style-type: none"> <li>address (physical or postal)</li> <li>contact phone number</li> <li>email address</li> <li>trading name if different to the buyer's name</li> <li>New Zealand business number or website URL address</li> </ul> </li> </ul>
Date	<ul style="list-style-type: none"> <li>Date of invoice</li> <li>If no invoice provided, the time of supply date</li> </ul>	<ul style="list-style-type: none"> <li>Date of invoice</li> <li>If no invoice provided, the time of supply date</li> </ul>	<ul style="list-style-type: none"> <li>Date of invoice</li> <li>If no invoice provided, the time of supply date</li> </ul>
Information on the goods or services	<ul style="list-style-type: none"> <li>Description of the goods or services</li> </ul>	<ul style="list-style-type: none"> <li>Description of the goods or services</li> </ul>	<ul style="list-style-type: none"> <li>Description of the goods or services</li> </ul>
Payment information	<ul style="list-style-type: none"> <li>The consideration for the supply.</li> </ul> <p>Consideration can be a</p> <ul style="list-style-type: none"> <li>payment</li> <li>act</li> <li>holding back from using a legal right - for example, forgiving debt instead of enforcing payment.</li> </ul> <p>An unconditional gift paid to a not-for-profit organisation is not consideration for a supply.</p>	<p>Either</p> <ul style="list-style-type: none"> <li>GST exclusive amount,</li> <li>GST amount, and</li> <li>GST inclusive amount</li> </ul> <p>Or</p> <ul style="list-style-type: none"> <li>GST inclusive amount and</li> <li>a statement GST is included, charged at the standard rate for all the goods and services listed</li> </ul>	<p>Either</p> <ul style="list-style-type: none"> <li>GST exclusive amount,</li> <li>GST amount, and</li> <li>GST inclusive amount</li> </ul> <p>Or</p> <ul style="list-style-type: none"> <li>GST inclusive amount and</li> <li>a statement GST is included, charged at the standard rate for all the goods and services listed</li> </ul>

Taxable supply information must be provided to GST registered buyers within 28 days of a request (or by an alternative date agreed to by the parties) for supplies more than \$200.

Invoices must be in New Zealand currency.

Taxable supply information should only be provided once. If the buyer loses theirs, you can provide a copy. You do not need to mark it as a copy.

## GST and secondhand goods

If the seller is not registered for GST or the goods are private (exempt), there is no invoice or GST charged. If the purchaser is GST-registered and buying the goods to use in their taxable activity, they can make a secondhand goods GST claim after payment has been made.

To do this the purchaser must record:

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

### Note

Special rules apply if you purchase secondhand goods from an associated person. For more information see our **GST guide - IR375**.

## Supply correction information

Supply correction information (formerly known as debit and credit notes) must be provided when the taxable supply information included an incorrect amount of GST, or when the seller has included an incorrect amount in their GST return for a supply they have made.

It does not matter whether the buyer has already paid for the goods or services.

Examples of when corrections may be required:

- the supply is cancelled
- all or some of the goods are returned to the seller
- some of the goods were not delivered to the buyer
- there is an incorrect description of the goods or services
- incorrect seller information included
- incorrect buyer details included
- the date is incorrect
- GST is calculated at the wrong rate
- an incorrect GST amount is charged.

You can include supply correction information for a previous supply in the same document as taxable supply information, for a new supply.

The seller must include the supply correction information in the GST return for the period it was provided in.

For more information about supply correction information go to [ird.govt.nz/gst](http://ird.govt.nz/gst)

## For more help with GST

Visit our website [ird.govt.nz/gst](http://ird.govt.nz/gst) or read our **GST guide - IR375** for full information on GST obligations and adjustments.

## 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 are not entitled to Working for Families
- you or your partner do not receive any overseas equivalent of Working for Families
- you are not 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 will not 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, for example 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](http://ird.govt.nz/se-repay-student-loan)

## Working for Families

Working for Families (WfF) 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 cannot 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](http://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

You can get this payment for up to three years after a new child arrives.

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.

Go to [ird.govt.nz/working-for-families](http://ird.govt.nz/working-for-families) for the current rate and income adjustment levels.

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 WfF is in your myIR account at [ird.govt.nz](http://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](http://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](http://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 61).
- 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 57 and 58).
- Pay FBT on any fringe benefits (perks) you give to your employees (see page 63).
- 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 cannot 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.

**Tax code declaration**

IR330  
July 2022

Use this form if you're receiving salary or wages as an employee.  
If you're a contractor or use a WT tax code, you'll need to use the *Tax rate notification for contractors - IR330C* form.

**Once completed:**  
**Employee:** Give this form to your employer. If you receive a payment such as a benefit or superannuation, return this form to Work and Income.  
**Employer:** Do not send this form to Inland Revenue. You must keep this completed IR330 with your business records for seven years following the last wage payment you make to the employee.  
 When an employee gives you this form you must change their tax code, even if you have received different advice in the past.

**1 Your details**

First name/s (in full)  Family name

IRD number  (8 digit numbers start in the second box. 1 2 3 4 5 6 7 8)

**2 Your tax code**

You must complete a separate *Tax Code declaration - IR330* for each source of income. Choose only ONE tax code here.

Refer to the flowchart on pages 2 and 3 and then enter a tax code here.

If you're a casual agricultural worker, shearer, shearing shed-hand, recognised seasonal worker, election day worker or have a tailored tax code refer to "Other tax code options" at the bottom of page 3, choose your tax code and enter it in the tax code circle.

MSL

**3 Declaration**

Signature

Earnings		Codes																
		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
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
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
782.00	128.87	118.87	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
783.00	129.06	119.06	47.16	23.49	31.32	46.98	62.64	78.3	21.08	2.41	19.47	4.02	16.59	6.9	15.9	7.59	14.52	8.97
784.00	129.25	119.25	47.28	23.52	31.36	47.04	62.72	78.4	21.11	2.41	19.5	4.02	16.62	6.9	15.93	7.59	14.55	8.97
785.00	129.44	119.44	47.4	23.55	31.4	47.1	62.8	78.5	21.14	2.41	19.53	4.02	16.65	6.9	15.96	7.59	14.58	8.97
786.00	129.62	119.62	47.52	23.58	31.44	47.16	62.88	78.6	21.17	2.41	19.56	4.02	16.68	6.9	15.99	7.59	14.61	8.97
787.00	129.81	119.81	47.64	23.61	31.48	47.22	62.96	78.7	21.2	2.41	19.59	4.02	16.71	6.9	16.02	7.59	14.64	8.97
788.00	130	120	47.76	23.64	31.52	47.28	63.04	78.8	21.23	2.41	19.62	4.02	16.74	6.9	16.05	7.59	14.67	8.97
789.00	130.19	120.19	47.88	23.67	31.56	47.34	63.12	78.9	21.26	2.41	19.65	4.02	16.77	6.9	16.08	7.59	14.7	8.97
790.00	130.38	120.38	48	23.7	31.6	47.4	63.2	79	21.29	2.41	19.68	4.02	16.8	6.9	16.11	7.59	14.73	8.97
791.00	130.57	120.57	48.12	23.73	31.64	47.46	63.28	79.1	21.32	2.41	19.71	4.02	16.83	6.9	16.14	7.59	14.76	8.97
792.00	130.76	120.76	48.24	23.76	31.68	47.52	63.36	79.2	21.35	2.41	19.74	4.02	16.86	6.9	16.17	7.59	14.79	8.97
793.00	130.95	120.95	48.36	23.79	31.72	47.58	63.44	79.3	21.38	2.41	19.77	4.02	16.89	6.9	16.2	7.59	14.82	8.97
794.00	131.14	121.14	48.48	23.82	31.76	47.64	63.52	79.4	21.41	2.41	19.8	4.02	16.92	6.9	16.23	7.59	14.85	8.97
795.00	131.32	121.32	48.6	23.85	31.8	47.7	63.6	79.5	21.44	2.41	19.83	4.02	16.95	6.9	16.26	7.59	14.88	8.97
796.00	131.51	121.51	48.72	23.88	31.84	47.76	63.68	79.6	21.47	2.41	19.86	4.02	16.98	6.9	16.29	7.59	14.91	8.97
797.00	131.7	121.7	48.84	23.91	31.88	47.82	63.76	79.7	21.5	2.41	19.89	4.02	17.01	6.9	16.32	7.59	14.94	8.97
798.00	131.89	121.89	48.96	23.94	31.92	47.88	63.84	79.8	21.53	2.41	19.92	4.02	17.04	6.9	16.35	7.59	14.97	8.97
799.00	132.08	122.08	49.08	23.97	31.96	47.94	63.92	79.9	21.56	2.41	19.95	4.02	17.07	6.9	16.38	7.59	15	8.97
800.00	132.27	122.27	49.2	24	32	48	64	80	21.58	2.41	19.98	4.02	17.1	6.9	16.41	7.59	15.03	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.

**Wagebook**

(a) Name Joe Bloggs Employee's IRD number 122-222-222

(b) Address 10 KiwiSaver Way, Wellington Employee's tax code MSL Date applied 01/04/2021

(c) Occupation Designer KiwiSaver member Yes  No  Finish date

(d) Date started 1 November 2011 KiwiSaver deduction rate 3.00% ESCT rate 17.50%

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		19.80		
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		19.80		
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		19.80		
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		19.80		
April 2019	3,200.00		532.10				201.60		100.00			96.00		926.68	2,273.32	20.00	2,293.32	96.00		16.80		79.20		



## Employment Information

For help, refer to IR337 Completing Employment Information forms

Employer IRD number **12** 98765432

Month ending **2** 30042021

Pay date **2A** 28042021  
Day Month Year

Employer name A&B Limited

Employee name and IRD number

Surname Bloggs First name(s) Joe IRD number 12222222 Tax code MSL

Employment date start Day Month Year Employment date finish Day Month Year

Child support code Child support frequency WK Pay Period date start Day Month Year Pay Period date finish Day Month Year

Gross earnings and/or schedular payments \$ 800.00 Employee share scheme income \$ Earnings and/or schedular payments not liable for ACC earners' levy \$ 00 Lump sum payment made and taxed at lowest rate

PAYE and/or schedular tax deductions \$ 132.27 Child support deductions \$ Student loan deductions \$ 49.80 KiwiSaver deductions \$ 24.00 Net KiwiSaver employer contributions \$ 19.80 ESCT deductions \$ 4.20

SLCIR \$ SLBOR \$ Prior period gross adjustments \$ Prior period PAYE adjustment \$ Net income \$

Employee name and IRD number

Surname First name(s) IRD number Tax code Employment date start Day Month Year Employment date finish Day Month Year

Child support code Child support frequency Pay Period date start Day Month Year Pay Period date finish Day Month Year

Gross earnings and/or schedular payments \$ 00 Employee share scheme income \$ Earnings and/or schedular payments not liable for ACC earners' levy \$ 00 Lump sum payment made and taxed at lowest rate

PAYE and/or schedular tax deductions \$ Child support deductions \$ Student loan deductions \$ KiwiSaver deductions \$ Net KiwiSaver employer contributions \$ ESCT deductions \$

SLCIR \$ SLBOR \$ Prior period gross adjustments \$ Prior period PAYE adjustment \$ Net income \$

IR349 April 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.

**Declaration**

I declare that the information given in this return is true and correct.

Signature K. Munro Date 29/04/2019

OFFICE USE ONLY  
Corresp. indicator

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 cannot 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.

## Deducting employees' arrears

Sometimes, we're unsuccessful in our attempts to obtain payment from your employee(s) and may need your assistance. We may send you a notice requiring you to deduct tax or student loan arrears from an employee's wages. You must deduct any child support payments before tax or student loan arrears. Pay the arrears to us by the end of each calendar month, separately from PAYE. Instructions on how to pay these deductions will be included in the deduction notice. You do not need to show these deductions in your IR348.

## 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 employer 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](http://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 will not 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 did not 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](http://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](http://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 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, 7 days a week. Find out more, and register, at [ird.govt.nz/myir](http://ird.govt.nz/myir)

#### Forgotten your user ID or password

Request these 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 227 771

We're open 8am to 6pm Monday to Friday.  
We record all calls.

Our self-service lines are open 7 days a week. They offer a range of automated options, especially if you're enrolled with voice ID.

Find out more at [ird.govt.nz/contact-us](http://ird.govt.nz/contact-us)

### How to get our forms and guides

You can get copies of our forms and guides at [ird.govt.nz/forms-guides](http://ird.govt.nz/forms-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.

### 0800 self-service number

Our 0800 self-service number, 0800 257 777, is open 7 days a week. 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.

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 (for example GST, employer returns)
- filing returns and making payments
- your KiwiSaver obligations.

Go to [ird.govt.nz/contact-us](http://ird.govt.nz/contact-us) and select **Request a business advisory visit** to find out about requesting a visit.

Find a seminar or workshop near you at [ird.govt.nz/seminars](http://ird.govt.nz/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](https://taxtechnical.ird.govt.nz/subscribe) 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](https://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](https://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 will not be prosecuted
- there's a reduction of up to 100% in the amount of shortfall penalty payable
- your name and offence will not 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](https://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, such as 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](https://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](https://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"> <li>- the legal requirements for business accounts and tax</li> <li>- setting up a record keeping system</li> <li>- changes in the business environment affecting the organisation or business</li> <li>- loan applications</li> </ul>	yes
Bank managers	<ul style="list-style-type: none"> <li>- arranging your finances</li> <li>- assessing project risks</li> <li>- planning and financing development of businesses and organisations</li> </ul>	contact your bank
Business.govt.nz	<ul style="list-style-type: none"> <li>- access to management upskilling and capability building in business planning, compliance, marketing, finance, e-commerce, business systems, managing resources, and business and operational excellence</li> <li>- information</li> <li>- useful referrals</li> <li>- funding</li> <li>- publications</li> </ul>	no
Business advisors and consultants	<ul style="list-style-type: none"> <li>- specific areas in the business causing problems, such as marketing, exporting, finance or office automation</li> </ul>	yes
Economic regional agencies (local councils)	<ul style="list-style-type: none"> <li>- applications for government grants</li> <li>- achieving success, growth and development</li> </ul>	contact your local agency
Lawyers	<ul style="list-style-type: none"> <li>- the best structure for the business or organisation</li> <li>- relevant legislation</li> <li>- preparing and negotiating contracts you make, such as leases</li> </ul>	yes
Small business enterprise centres	<ul style="list-style-type: none"> <li>- practical and relevant business advice on tax, marketing, tourism, planning and market research</li> <li>- business training courses and seminars</li> </ul>	contact your local centre







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