



**Inland Revenue**  
Te Tari Taake

IR 320  
April 2010

# Smart business

A guide for businesses and  
non-profit organisations

# Introduction

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

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

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

This guide has information on:

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

## www.ird.govt.nz

Go to our website for information, services and tools.

- **Secure online services** – login to check your account information, file an employer schedule, confirm personal tax summaries and update your family details and income.
- **Get it done online** – complete and send us forms and returns, make payments, make an appointment to see us and give us feedback.
- **Work it out** – use our calculators, worksheets and tools to help you manage your tax business like checking your tax code, or your filing and payment dates.
- **Forms and guides** – download our guides, and print forms to post to us.

You can also check out our newsletters and bulletins, and have your say on items for public consultation.

## How to get our forms and guides

You can view copies of all our forms and guides mentioned in this guide by going to [www.ird.govt.nz](http://www.ird.govt.nz) and selecting “Forms and guides”. You can also request copies by calling 0800 257 773.

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## Part 1 – General

### Getting started

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

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

#### How do I know if I'm in business?

In general, you're in business when:

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

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

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

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

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

There's more on this in Part 4.

## 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 join together to run a business. Each partner contributes something to the business and, in return, each shares 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://www.companies.govt.nz">www.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>        |
| Non-profit organisations | <p>A non-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 non-profit organisations may be incorporated, ie registered with the Ministry of Economic Development.</p> <p>Non-profit organisations can have profit making activities taxed as business income in the normal way. These organisations must have written rules to get an income tax exemption.</p>                              |

## Getting an IRD number

The table below tells you what form to use 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 don't have a personal IRD number, complete an <i>IRD number application – individual (IR 595)</i> form to apply for one.   |
| Partnership              | Complete an <i>IRD number application – non-individual (IR 596)</i> 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://www.companies.govt.nz">www.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 IR 596 with a copy of the company's certificate of incorporation. |
| Trust                    | Complete an IR 596 with a copy of the trust deed.   |
| Non-profit organisations | Complete an IR 596 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 don't 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 screenshots of IRD number application forms from Inland Revenue (Te Tari Taake).

**Top Screenshot: IR 596 (non-individual)**

- Form title: IRD number application – non-individual
- Section 1: Print the full name of the organisation. *Morsons and Te Anau*
- Section 2: Is this application for a branch? (checkbox)
- Section 3: Tick the organisation type from the list below.
  - Company
  - Close company
  - Widely held company
  - Unit trust
  - Cooperative
  - Public authority
  - Local authority
  - Special company
  - Non-resident contractor
  - Life insurance
  - Agent non-resident insurer
  - Foreign corporate/related trust partnership
- Section 4: Trade name (checkbox) form

**Bottom Screenshot: IR 595 (individual)**

- Form title: IRD number application – individual
- Section 1: Children under 18.
  - 1. If you are applying for a child, print your own IRD number here. (Align number in the correct box)
- Section 2: Name of applicant as shown on identity documents.
  - First name(s): *Wissman*
  - Surname: *Jacotto*
  - Title:  Mr  Mrs  Miss  Ms  Other

### Personal IRD number

To apply for your personal IRD number, fill in an *IRD number application – individual (IR 595)* form.

### 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 don't 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 various tax returns each year, such as income tax and GST returns.
- If you're an employer, you may have to make PAYE, student loan, child support and KiwiSaver deductions and pay these to us. See page 55.
- Businesses and some organisations have to 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 have to pay your student loan repayments directly to us. This is because no repayment deductions are made from income as you earn it. See our booklet *Student loans – making repayments (IR 224)* for more information.

Our tax system relies on people meeting their tax responsibilities voluntarily, and there are penalties if you don't comply. Our booklet *Taxpayer obligations, interest and penalties (IR 240)* 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 to us before 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.

### Making payments

You can do this electronically, by post, in person at any Westpac bank or from overseas. For more information go to [www.ird.govt.nz](http://www.ird.govt.nz) (keywords: making payments).

### 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.

## 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 at a later date.

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

### Better control of your business or organisation

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

### Increase your chances of getting finance or funding

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

### Save time and money

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

### Audits will take less time

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

## What records to keep

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

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

Your records must be in English, unless you get approval from us to use another language. If you're registered for GST your records must be clear enough to work out your GST liability.

For business income records, you must keep:

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

For business expenses, keep records such as:

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

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

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

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

|                            |  |
|----------------------------|--|
| Partnerships               | a partnership agreement (if you have one)      |
| Companies                  | the certificate of incorporation, minute books |
| Trusts                     | the trust deed                                 |
| 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 haven't been keeping full records.

## How long to keep your records

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

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

If you or your accountant send your tax returns to us electronically, you must keep a paper copy of the return and supporting records for seven years.

If you file your *Employer monthly schedule (IR 348)* electronically, you don't have to keep a paper copy, but you'll need to ensure you can reproduce the schedules you've sent us.

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

### Reducing the time records must be kept

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

## Personal records

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

## Part 2 – Source documents

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

### Banking records

#### Starting up a business account

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

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

#### Cheque books

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

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

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

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

|                              |                     |           |                                    |
|------------------------------|---------------------|-----------|------------------------------------|
| <i>12 November 20 08</i>     |                     |           | Date of payment                    |
| <i>To Ross Rumble</i>        |                     |           | Name of payee                      |
| <i>For Plumbing services</i> |                     |           | Type of goods or service purchased |
|                              | \$                  | ¢         |                                    |
| Balance bt.fwd               |                     |           |                                    |
| Deposits                     |                     |           |                                    |
| Subtotal                     |                     |           |                                    |
| This cheque                  | <i>285</i>          | <i>00</i> | Amount of cheque                   |
| Balance c'd fwd              |                     |           |                                    |
| GST                          | <i>GST included</i> |           |                                    |
|                              | <i>290794</i>       |           |                                    |

### Deposit books

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

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

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

Use supplementary deposit books and record details of deposits

**IOU** Banking Corporation

Date 20 August 2008

Amount 2,752.20

\$ 2,752.20

(Proceeds of cheques etc. will not be available until cleared)

Deposited for IOU Banking Corporation

20 August 2007

Teller J. M. J. I N G T O N

Teller [Signature]

The stamped deposit book is your receipt from the bank

**IOU** Banking Corporation **Deposit book**

Branch Wellington Date 20 August 2008

For J. Bloggs Account no. 030584 0048218-00

| For customer's use (receipt no./analysis code) | Particulars of cheques etc, to be completed by depositor |      | Amount |       |    |
|--|--|------|--------|-------|----|
|  |  | Bank | Branch | \$    | ¢  |
| 286121   | 1 F. Ross  | IOU  |        | 1,000 | 00 |
| 529107   | 2 B. Rewiti  | BCA  |        | 752   | 95 |
| 649826   | 3 S. Jones   | BMS  |        | 1,000 | 00 |
|  | 4  |      |        |       |    |
|  | 5  |      |        |       |    |
|  | 6  |      |        |       |    |
|  | 7  |      |        |       |    |
|  | 8  |      |        |       |    |
|  | 9  |      |        |       |    |
|  | 10   |      |        |       |    |
|  | 11   |      |        |       |    |
|  | 12   |      |        |       |    |
|  | 13   |      |        |       |    |
|  | 14   |      |        |       |    |
|  | 15   |      |        |       |    |
| Total cheques                                  |  |      |        |       |    |
| Total cash                                     |  |      |        |       |    |
| Sub total                                      |  |      |        | 2,752 | 95 |
| Less charges                                   |  |      |        | 0     | 75 |
| Total deposit                                  |  |      |        | 2,752 | 20 |

To be used only as

**Important:** A MICR encoded deposit slip showing "Total Deposit" **must** accompany this schedule

Date of deposit

Name of each payer and amount of each deposit

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

If you don't use a supplementary deposit book, make sure you record all details on the back of your deposit slip

## Bank statements

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

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

## Managing your banking

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

## Income records

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

An invoice will generally show:

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

GST invoices must show further details—see pages 46 and 47.

## Eftpos and credit card sales

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

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

## Debit and credit notes

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

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

### Cash register tape

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

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

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

### Expenses records

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

#### Invoices for purchases

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

Make sure you keep your invoices for purchases. Don't 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 haven't paid yet. You can store those that have been paid with any paid monthly statements in cheque number or date paid order. As a reminder, write the date, cheque amount and cheque number on the statement or invoice.

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

#### Credit card purchases

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

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

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

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

#### Note

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

#### Invoices for purchases of \$50 or less

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

#### Note

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

## Part 3 – Bookkeeping

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

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

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

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

## Cashbooks

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

A well-kept cashbook allows you to:

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

New month on new page

Choose revenue items relevant and common to your business

Give yourself space

| June sales and income |                   |                  |                 |                  |               |                           |                   |  |  |                 |
|-----------------------|-------------------|------------------|-----------------|------------------|---------------|---------------------------|-------------------|--|--|-----------------|
| DATE                  | REFERENCE         | BANK             | GST RECEIVED    | SALES            | GRANTS        | FUNDS INTRODUCED (NO GST) | INTEREST (NO GST) |  |  | SUNDRY          |
| 3 June                | Customer Sale     | ✓ 2,000 00       | 222 22          | 1,777 78         |               |                           |                   |  |  |                 |
| 5 June                | Government        | ✓ 450 00         | 50 00           |                  | 400 00        |                           |                   |  |  |                 |
| 7 June                | Sale of computer  | ✓ 1,125 00       | 125 00          |                  |               |                           |                   |  |  | 1,000 00        |
| 14 June               | Joe Bloggs        | ✓ 200 00         |                 |                  |               | 200 00                    |                   |  |  |                 |
| 21 June               | Interest received | ✓ 15 35          |                 |                  |               |                           | 15 35             |  |  |                 |
| 25 June               | Customer Sale     | ✓ 6,750 00       | 750 00          | 6,000 00         |               |                           |                   |  |  |                 |
| 27 June               | Customer Sale     | ✓ 2,250 00       | 250 00          | 2,000 00         |               |                           |                   |  |  |                 |
| 30 June               | Customer Sale     | ✓ 4,500 00       | 500 00          | 4,000 00         |               |                           |                   |  |  |                 |
|                       | <b>TOTALS</b>     | <b>17,290 35</b> | <b>1,897 22</b> | <b>13,777 78</b> | <b>400 00</b> | <b>200 00</b>             | <b>15 35</b>      |  |  | <b>1,000 00</b> |

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

Choose expense items relevant and common to your business

| June purchases and expenses |                 |          |                  |                 |                  |                 |               |               |                         |                   |                    |               |
|-----------------------------|-----------------|----------|------------------|-----------------|------------------|-----------------|---------------|---------------|-------------------------|-------------------|--------------------|---------------|
| DATE                        | REFERENCE       | CHK      | BANK             | GST PAID        | PURCHASES        | WAGES (NO GST)  | RENT          | MOTOR VEHICLE | LOAN REPAYMENT (NO GST) | DRAWINGS (NO GST) | BANK FEES (NO GST) | SUNDRY        |
| 3 June                      | S. Took Ltd     | ✓ 273100 | 3,500 00         | 388 89          | 3,111 11         |                 |               |               |                         |                   |                    |               |
| 5 June                      | Steve Haira     | ✓ 101    | 650 00           |                 | 650 00           |                 |               |               |                         |                   |                    |               |
| 7 June                      | Landlord (rent) | ✓ 102    | 750 00           | 83 33           |                  |                 | 666 67        |               |                         |                   |                    |               |
| 14 June                     | Petrol Co       | ✓ 103    | 55 00            | 5 56            |                  |                 |               | 44 44         |                         | 5 00              |                    |               |
| 21 June                     | Joe Bloggs      | ✓ 104    | 400 00           |                 |                  |                 |               |               |                         | 400 00            |                    |               |
| 25 June                     | GST paid to IRD | ✓ 105    | 310 98           |                 |                  |                 |               |               |                         |                   |                    | 310 98        |
| 26 June                     | S. Took Ltd     | ✓ 106    | 7,000 00         | 777 78          | 6,222 22         |                 |               |               |                         |                   |                    |               |
| 28 June                     | Petrol Co       | ✓ 107    | 50 00            | 5 56            |                  |                 |               | 44 44         |                         |                   |                    |               |
| 28 June                     | Steve Haira     | ✓ 108    | 650 00           |                 | 650 00           |                 |               |               |                         |                   |                    |               |
| 28 June                     | S. Took Ltd     | ✓ 109    | 1,000 00         | 111 11          | 888 89           |                 |               |               |                         |                   |                    |               |
| 30 June                     | S. Took Ltd     | ✓ 110    | 1,125 00         | 125 00          | 1,000 00         |                 |               |               |                         |                   |                    |               |
| 30 June                     | Petrol Co       | ✓ 111    | 25 00            | 2 78            |                  |                 |               | 22 22         |                         |                   |                    |               |
| 30 June                     | Bank fees       | ✓ DD     | 10 25            |                 |                  |                 |               |               |                         |                   | 10 25              |               |
| 30 June                     | Term loan       | ✓ AP     | 800 00           |                 |                  |                 |               |               | 800 00                  |                   |                    |               |
|                             | <b>TOTALS</b>   |          | <b>16,326 23</b> | <b>1,500 01</b> | <b>11,222 22</b> | <b>1,300 00</b> | <b>666 67</b> | <b>111 10</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, eg cheque number, eftpos, credit card, direct debit. This makes it easy to check your entries against the bank statement.
- Unusual items can be put into a “sundry” column—this is especially useful for one-off payments and receipts. It’s a good idea to give these items a written description in the reference column or near the sundry amount for easier identification.
- If you’re GST-registered, set up separate columns for GST paid on purchases and expenses and GST received from sales and income. Remember, the totals in your expense and income columns will be the amount banked, less the GST portion.
- Remember, if you are GST-registered, add GST to the selling price of your goods and services. To calculate GST, multiply the selling price by 12.5% (0.125). For more information on GST see Part 6.
- To separate the GST portion from your purchases and expenses, and sales and income, divide the amount by nine.
- Some items don’t include GST, such as wages, drawings, bank fees and interest.
- Add up all columns at the end of the month, ensuring all other total columns equal the bank column total.
- Reconcile the cashbook with your business’s bank statement each month.
- Rule off each tax year.

### Reconciling your cashbook with your bank statement

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

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

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

### Eight steps for reconciling your bank statements

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

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

#### January sales and income

| DATE   | REFERENCE         | BANK             | GST RECEIVED    | SALES            | GRANTS        | FUNDS INTRODUCED (NO GST) | INTEREST (NO GST) | SUNDRY          |
|--------|-------------------|------------------|-----------------|------------------|---------------|---------------------------|-------------------|-----------------|
| 3 Jan  | Customer Sale     | ✓ 2,000 00       | 222 22          | 1,777 78         |               |                           |                   |                 |
| 5 Jan  | Government        | ✓ 450 00         | 50 00           |                  | 400 00        |                           |                   |                 |
| 7 Jan  | Sale of computer  | ✓ 1,125 00       | 125 00          |                  |               |                           |                   | 1,000 00        |
| 14 Jan | Joe Bloggs        | ✓ 200 00         |                 |                  |               | 200 00                    |                   |                 |
| 21 Jan | Interest received | ✓ 15 35          |                 |                  |               |                           | 15 35             |                 |
| 25 Jan | Customer Sale     | ✓ 6,750 00       | 750 00          | 6,000 00         |               |                           |                   |                 |
| 27 Jan | Customer Sale     | ✓ 2,250 00       | 250 00          | 2,000 00         |               |                           |                   |                 |
| 30 Jan | Customer Sale     | ✓ 4,500 00       | 500 00          | 4,000 00         |               |                           |                   |                 |
|        | <b>TOTALS</b>     | <b>17,290 35</b> | <b>1,897 22</b> | <b>13,777 78</b> | <b>400 00</b> | <b>200 00</b>             | <b>15 35</b>      | <b>1,000 00</b> |

#### January purchases and expenses


| DATE   | REFERENCE       | CHK      | BANK             | GST PAID        | PURCHASES        | WAGES (NO GST)  | RENT          | MOTOR VEHICLE | LOAN REPAYMENT (NO GST) | DRAWINGS (NO GST) | BANK FEES (NO GST) | SUNDRY        |
|--------|-----------------|----------|------------------|-----------------|------------------|-----------------|---------------|---------------|-------------------------|-------------------|--------------------|---------------|
| 3 Jan  | S. Took Ltd     | ✓ 273/00 | 3,500 00         | 388 89          | 3,111 11         |                 |               |               |                         |                   |                    |               |
| 5 Jan  | Steve Haira     | ✓ 101    | 650 00           |                 |                  | 650 00          |               |               |                         |                   |                    |               |
| 7 Jan  | Landlord (rent) | ✓ 102    | 750 00           | 83 33           |                  |                 | 666 67        |               |                         |                   |                    |               |
| 14 Jan | Petrol Co       | ✓ 103    | 55 00            | 5 56            |                  |                 |               | 44 44         |                         | 5 00              |                    |               |
| 21 Jan | Joe Bloggs      | ✓ 104    | 400 00           |                 |                  |                 |               |               |                         | 400 00            |                    |               |
| 25 Jan | GST paid to IRD | ✓ 105    | 310 98           |                 |                  |                 |               |               |                         |                   |                    | 310 98        |
| 26 Jan | S. Took Ltd     | ✓ 106    | 7,000 00         | 777 78          | 6,222 22         |                 |               |               |                         |                   |                    |               |
| 28 Jan | Petrol Co       | ✓ 107    | 50 00            | 5 56            |                  |                 |               | 44 44         |                         |                   |                    |               |
| 28 Jan | Steve Haira     | ✓ 108    | 650 00           |                 |                  | 650 00          |               |               |                         |                   |                    |               |
| 28 Jan | S. Took Ltd     | ✓ 109    | 1,000 00         | 111 11          | 888 89           |                 |               |               |                         |                   |                    |               |
| 30 Jan | S. Took Ltd     | ✓ 110    | 1,125 00         | 125 00          | 1,000 00         |                 |               |               |                         |                   |                    |               |
| 30 Jan | Petrol Co       | ✓ 111    | 25 00            | 2 78            |                  |                 |               | 22 22         |                         |                   |                    |               |
| 30 Jan | Bank fees       | ✓ DD     | 10 25            |                 |                  |                 |               |               |                         |                   | 10 25              |               |
| 30 Jan | Term loan       | ✓ AP     | 800 00           |                 |                  |                 |               |               | 800 00                  |                   |                    |               |
|        | <b>TOTALS</b>   |          | <b>16,326 23</b> | <b>1,500 07</b> | <b>11,222 22</b> | <b>1,300 00</b> | <b>666 67</b> | <b>111 10</b> | <b>800 00</b>           | <b>405 00</b>     | <b>10 25</b>       | <b>310 98</b> |

#### Step 7

Unpresented cheques

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

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**Date:** 31 January 2008      **Date of last statement:** 29 January 2008

**Opening Balance** \$6,500.21

| Name of other party | Mtn | Particulars | Ref   | Debit    | Credit    |
|---------------------|-----|-------------|-------|----------|-----------|
| 30 Jan              |     |             |       | 6,750.00 | 13,250.21 |
| 30 Jan              |     |             | ✓ 105 | 310.98   | 12,939.21 |
| 30 Jan              |     |             | 106   | 7,000.00 | 5,939.23  |
| 30 Jan              |     |             |       | 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 cashed cheques in your bank statement

**Bank reconciliation**

|  | NOVEMBER |           | DECEMBER |           | JANUARY |           | FEBRUARY |  |
|--|----------|-----------|----------|-----------|---------|-----------|----------|--|
| 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 61  |         | 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  |         | 2,781 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
- keep the cheque account free of lots of small transactions
- avoid paying for smaller items from personal funds
- make purchases that are too small to be paid by cheque.

To start using your petty cash system:

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

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

### 2008 Petty cash book

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

### Claiming petty cash expenses

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

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

### Petty cash alternative

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

## Wagebook

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

Each payday, you have to 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 KiwiSaver deductions
- any 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, such as meal, mileage, tool 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 (IR 330)

### Wagebook

(a) Name

(b) Address

(c) Occupation

(d) Date started

Employee's IRD number

Employee's tax code

Annual holidays Start date

Date applied

Finish date

| Week Ending | Gross pay |           | PAYE calculated |           | Child support deductions |           | Student loans deductions |           | KiwiSaver deductions |           | Total deductions | Net after Tax & Deductions | Non taxable Allowances | Net Pay to worker | KiwiSaver Employer |           |
|-------------|-----------|-----------|-----------------|-----------|--------------------------|-----------|--------------------------|-----------|----------------------|-----------|------------------|----------------------------|------------------------|-------------------|--------------------|-----------|
|             | For Week  | For Month | For Week        | For Month | For Week                 | For Month | For Week                 | For Month | For Week             | For Month |                  |                            |                        |                   | For Week           | For Month |
| 4/04/08     | 349.35    |           | 67.21           |           |                          |           | 3.80                     |           | 13.96                |           | 81.17            | 268.18                     | 3.56                   | 271.74            |                    |           |
| 11/04/08    | 349.35    |           | 67.21           |           |                          |           | 3.80                     |           | 13.96                |           | 81.17            | 268.18                     | 3.56                   | 271.74            | 3.49               |           |
| 18/04/08    | 349.35    |           | 67.21           |           |                          |           | 3.80                     |           | 13.96                |           | 81.17            | 268.18                     | 3.56                   | 271.74            | 3.49               |           |
| 25/04/08    | 349.35    |           | 67.21           |           |                          |           | 3.80                     |           | 13.96                |           | 81.17            | 268.18                     | 3.56                   | 271.74            | 3.49               |           |
| April 08    |           | 1,397.40  |                 | 268.84    |                          |           |                          | 15.20     |                      | 55.84     | 324.68           | 1,072.72                   | 14.24                  | 1,086.96          |                    | 10.47     |
| 2/05/08     | 349.35    |           | 67.21           |           |                          |           | 3.80                     |           | 13.96                |           | 81.17            | 268.18                     | 3.56                   | 271.74            | 3.49               |           |
| 9/05/08     | 349.35    |           | 67.21           |           |                          |           | 3.80                     |           | 13.96                |           | 81.17            | 268.18                     | 3.56                   | 271.74            | 3.49               |           |
| 16/05/08    | 349.35    |           | 67.21           |           |                          |           | 3.80                     |           | 13.96                |           | 81.17            | 268.18                     | 3.56                   | 271.74            | 3.49               |           |
| 23/05/08    | 349.35    |           | 67.21           |           |                          |           | 3.80                     |           | 13.96                |           | 81.17            | 268.18                     | 3.56                   | 271.74            | 3.49               |           |
| 30/05/08    | 349.35    |           | 67.21           |           |                          |           | 3.80                     |           | 13.96                |           | 81.17            | 268.18                     | 3.56                   | 271.74            | 3.49               |           |
| May 08      |           | 1,746.75  |                 | 336.05    |                          |           |                          | 19.00     |                      | 69.80     | 405.85           | 1,340.90                   | 17.80                  | 1,358.70          |                    | 17.45     |

Copy monthly totals to the summary

### Monthly summary of wages and tax deductions

| Employees' Name          | Gross pay | PAYE calculated | Child support deductions | Student loans deductions | KiwiSaver deductions | Total deductions | Net after Tax & Deductions | Non taxable Allowances | Net Pay to worker | KiwiSaver Employer |
|--------------------------|-----------|-----------------|--------------------------|--------------------------|----------------------|------------------|----------------------------|------------------------|-------------------|--------------------|
| Rose Davies (12-123-142) | 1,095.00  | 195.99          |                          |                          |                      | 195.99           | 899.01                     | 25.00                  | 924.01            |                    |
| Tim Parane (02-123-456)  | 1,746.75  | 336.05          |                          | 19.00                    | 69.80                | 405.85           | 1,340.90                   | 17.80                  | 1,358.70          | 17.45              |

## 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 (IR 330)*. This will give you their IRD number and tax code.
- Summarise the details for each employee at the end of each PAYE period in your wagebook. This will be either monthly or twice-monthly. The summary should show totals of:
  - gross wages
  - PAYE deductions and schedular payments
  - child support deductions
  - student loan repayment deductions
  - KiwiSaver deductions
  - KiwiSaver employer contributions
  - any tax credits for payroll donations.
- As an employer you'll have to complete an *Employer deductions (IR 345)* payment form. The IR 345 includes your total deductions payable for:
  - PAYE and schedular payments (minus any tax credits for payroll donations)
  - child support
  - student loans
  - KiwiSaver
  - KiwiSaver employer contributions
  - ESCT (employer superannuation contribution tax).

You'll also have to fill in an *Employer monthly schedule (IR 348)*.

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.
- Update your records regularly, after every payday. Don't leave things until the last minute. The longer you put it off, the harder it becomes to put your records in order.
- Before starting, make sure you have all the information and documents you need.
- Avoid interruptions when doing your bookkeeping. You should set aside a time just for bookkeeping.
- Try to complete each bookkeeping task in one sitting. For example, when filling in your PAYE forms, make sure you finish them before doing something else.
- Keep your books in an organised manner. You'll work quicker if you can find the information you need easily.
- Always try to find better ways to keep your books and records.
- If you're a non-profit organisation, once you've set up a good system, write down a clear description of how it works. This will save the next treasurer time and effort trying to work this out.

## Recording methods

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

### The paper-based method

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

There are many different 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 haven't been put away in some order is money wasted. This is because bills aren't paid on time and money coming in may not be accounted for. Your business advisor will spend more time doing basic bookkeeping rather than giving financial advice.

### The computer 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 have to keep cheque butts, invoices, tax invoices (if registered for GST), bank statements and any other documentation to prove your income, purchases and expenses.

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

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

### Conducting business on the internet

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

### More information

For more information on keeping records electronically, you can refer to our standard practice statement *Retention of business records by electronic means*. You'll find this on our website.

## Making your bookkeeping system work for you

### Using your cashbook for budgets and cashflow

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

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

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

A cashflow budget shows:

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

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

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

### Monitoring your cashflow budget

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

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

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

### Forecasting figures

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

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

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

## How to do a cashflow budget

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

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

### Example

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

Highlight items that are over or under forecast

*CASHFLOW BUDGET for Nga Tamariki Mokopuna Early Childcare Unit – Prepared by Janette Wiseman*  
For the period 1 April 2008 – 30 September 2008

| Month<br>Description   | APRIL    |          | MAY      |          | JUNE     |          | JULY     |          | AUGUST   |        |
|------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|--------|
|                        | Forecast | Actual   | Forecast | Actual   | Forecast | Actual   | Forecast | Actual   | Forecast | Actual |
| OPENING BALANCE        | 1,500 00 | 1,500 00 | 287 50   | 690 50   | 514 90   | 511 25   | 124 19   | 1,009 66 | 280 02   |        |
| <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 | 6,192 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   | 310 00   | 280 00   |          | 280 00   |        |
| Phone                  | 80 00    | 75 00    | 80 00    | 75 00    | 80 00    | 75 00    | 80 00    |          | 80 00    |        |
| Wages and PAYE         | 4,500 00 | 3,600 00 | 4,000 00 | 3,200 00 | 4,000 00 | 3,800 00 | 4,000 00 |          | 4,200 00 |        |
| Bank fees              | 15 00    | 12 00    | 15 00    | 10 00    | 15 00    | 10 00    | 15 00    |          | 15 00    |        |
| GST paid to IRD        | 700 00   | 600 00   | 500 00   | 650 00   | 600 00   | 710 00   | 600 00   |          | 550 00   |        |
| Rent                   | 1,150 00 | 1,150 00 | 1,150 00 | 1,150 00 | 1,150 00 | 1,150 00 | 1,150 00 |          | 1,150 00 |        |
| Affiliation fees       |          |          |          |          | 500 00   | 500 00   |          |          |          |        |
| Accounting fees        |          |          |          |          |          |          | 200 00   |          |          |        |
| <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  | 6,192.50  |
|                     | <hr/>     |
|                     | 7,692.50  |
| less total cash out | 7,002.00  |
| Closing balance     | \$ 690.50 |

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

## Part 4 – Income tax

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

### Income

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

### Your first year in business is not tax-free

A common misconception is that the first year in business is tax-free. If you make a profit at the end of your first year in business you will owe tax. 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, by 7 April.

There may be instances where you may be liable for interest although you don't have to make a tax payment. Please refer to our *Provisional Tax Guide (IR 289)* for more details.

If you don't 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. See our booklet *Student loans – making repayments (IR 224)* for more information.

### Early payment discount

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

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

- are either self-employed or a partner in a partnership
- aren't operating as a company or trust
- derive gross income predominantly from a business (not being interest, dividends, royalties, rents or beneficiary income)
- aren't required to pay provisional tax in the income year
- make a voluntary payment of income tax before the end of the income year (eg 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)
- haven't been liable to pay provisional tax in the previous four years, and
- haven't received an early payment discount unless you come within the four-year rule outlined on page 28.

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

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

### Four-year rule

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

### Calculation

The discount is calculated on the lesser of:

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

#### Example

Andrew makes voluntary payments for the year ended 31 March 2010 of \$5,000. His residual income tax for 2010 is \$8,000.

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

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

### Election

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

To claim it, tick the box in your *Individual tax return (IR 3)* after confirming that you meet the criteria in the return guide. If you don't 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 [www.ird.govt.nz](http://www.ird.govt.nz) or by calling us on 0800 377 774.

## Drawings

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

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

## Balance date

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

If you want a balance date other than 31 March, you must apply to us in writing, giving sound business reasons for the change. You can't 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 return 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 IR 3, with a copy of the accounts or an IR 3B, IR 3F, IR 3R or IR 10 |
| Partnership     | An IR 7, with a copy of the accounts or an IR 3B, IR 3F, IR 3R or IR 10 |
| Company         | An IR 4, with a copy of the accounts or an IR 10                        |
| Trust           | An IR 6, with a copy of the accounts or an IR 10                        |
| Non-profit body | An IR 9, with a copy of the accounts or an IR 10                        |

## Attachments

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

IR 10 summarises selected account information from your financial records

IR 3B for sole traders and partnerships to show business income and expenditure

IR 3F is especially for farming income and expenses

IR 3R use this form to show any rental income and expenditure.

Using these forms speeds up the processing of the return but they don't replace the need to prepare a set of financial statements.



Income tax

## Income tax rates

Different tax rates apply to companies and 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 don't 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 2010, 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 \$19,380

Net profit up to and including \$14,000 is taxed at a rate of 12.5% ( $\$14,000 \times 12.5\% = \$1,750$ ).

Net profit from \$14,001 to \$48,000 inclusive is taxed at a rate of 21% ( $\$34,000 \times 21\% = \$7,140$ ).

Net profit from \$48,001 to \$70,000 inclusive is taxed at a rate of 33% ( $\$22,000 \times 33\% = \$7,260$ ).

Net profit above \$70,000 is taxed at a rate of 38% ( $\$8,500 \times 38\% = \$3,230$ ).

Total tax payable on a net profit of \$78,500 is  $\$1,750 + \$7,140 + \$7,260 + \$3,230 = \$19,380$ .

## Partnerships

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

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

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

We can't 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 (IR 335)* for more information. Wages paid to this partner would then be a deductible expense in the partnership's IR 7 return. The partner must include the wages and PAYE in their IR 3 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 32.

## Non-profit organisations

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

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

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

Income tax exemptions are not automatic. You'll need to apply to us in writing, stating the exemption you're applying for, and include:

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

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

If the organisation has profit-making activities, it must pay income tax. You may use an IR 10 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. From 1 July 2008, a charity will have to register with the Charities Commission to receive tax exemptions. For more information go to [www.charities.govt.nz](http://www.charities.govt.nz) Factsheet 18 gives you details about how the Charities Act affects your tax status.

## Research and development (R&D) tax credit

The R&D tax credit is only available for the 2008–09 income year. For more information about eligibility and claiming the credit, go to [www.ird.govt.nz/rd-tax-credit](http://www.ird.govt.nz/rd-tax-credit)

## Tax on interest and dividends

### RWT (resident withholding tax) on interest

If your business has money in an interest-bearing account, the bank or other financial institution will deduct RWT from the interest before it's paid.

The rates are:

| Rates for deducting RWT | Who should use this rate   |
|-------------------------|--|
| 12.5%                   | <ul style="list-style-type: none"> <li>Individuals who have a reasonable expectation of their annual income being \$14,000 or less</li> <li>Testamentary Trusts may elect to use this rate where there is a reasonable expectation that beneficiaries of the trust will have an annual income of \$14,000 or less from all sources</li> </ul>  |
| 19.5%                   | <ul style="list-style-type: none"> <li>Māori Authorities may deduct RWT at this rate from distributions to their beneficiaries</li> </ul>  |
| 21%                     | <ul style="list-style-type: none"> <li>Individuals whose annual income is from \$14,001 to \$48,000</li> <li>Individuals who have supplied their IRD number but not elected an RWT rate for existing accounts</li> <li>Māori Authorities: this is the default rate at which RWT will be deducted from payments to Māori Authorities</li> <li>Trusts and Testamentary Trusts may elect this rate</li> </ul> |
| 30%                     | <ul style="list-style-type: none"> <li>Companies: this is the lowest rate of RWT if offered by your interest payer. From 1 April 2011 this will be available to all companies</li> <li>Companies: if your interest payer offers a 30% RWT rate, this will also be the default RWT rate</li> </ul>  |
| 33%                     | <ul style="list-style-type: none"> <li>Companies: this rate of RWT is only available until 31 March 2011 when it will be replaced by 30%</li> <li>Companies: if your interest payer doesn't offer 30% this is the default rate of RWT if no election is made</li> <li>Trusts and Testamentary Trusts may elect this rate</li> <li>Individuals whose annual income is from \$48,001 to \$70,000</li> </ul>  |

38%

- Individuals whose annual income is over \$70,000
- Taxpayers (including companies and beneficiaries of Māori Authorities) who don't provide their IRD number (no-notification rate)
- Taxpayers (including companies) may elect to use this rate to avoid a tax bill at the end of the year
- Individuals: this is the default rate for new accounts if an RWT rate is not elected

### Companies

- Companies must notify their interest payer(s) that they are a company.
- A company can't elect the 12.5% or 21% rates.

### Note

Companies that are trustees are not required to notify the interest payer of their company status and may use the 21%, 30%, 33% or 38% rate. If the trust is a Testamentary Trust, it may also elect the 12.5% rate if appropriate. Companies that are Māori Authorities are not required to notify their company status and may choose 21%, 30%, 33%, or 38%. This reflects the obligation on trustees to act according to the tax position of the trust's beneficiaries.

### Individuals and others

Make sure your interest payer has your IRD number.

### Note

If you have a joint account you can only use one IRD number. You'll need to decide on the most appropriate rate, taking each account holder's earnings into consideration.

Under certain circumstances, businesses can apply for a certificate of exemption from RWT. This means the full amount of interest would be paid, with no deductions made. For more information, go to [www.ird.govt.nz](http://www.ird.govt.nz) or call us on 0800 377 774.

### 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 (IR 283)* 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 doesn't have imputation credits attached.

For more information on dividends and imputation, read our booklets *Resident withholding tax on dividends (IR 284)* and *Imputation (IR 274)*.

## Provisional tax

Provisional tax isn't 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. The amount of provisional tax you've paid is deducted from your tax bill at the end of the year. For more information read our booklet *Provisional tax guide (IR 289)*.

### Are you liable for provisional tax?

If your residual income tax is \$2,500 or more, you'll have to pay provisional tax for the following year.

### Residual income tax (RIT)

You'll know what your RIT is from your last tax return. RIT is basically the tax to pay after subtracting any tax credits. It's clearly labelled in the tax calculation in your return.

## Paying provisional tax

There are three options for working out your provisional tax—standard, estimation or ratio.

### Standard option

If you pay your provisional tax by the standard method, the formula to calculate your provisional tax liability has changed for the 2009 and 2010 tax years. For details on provisional tax payments, refer to the *Provisional tax guide (IR 289)*.

#### Note

The research and development (R&D) tax credit is included in your residual income tax. Consider using the estimation option for 2009–10 if:

- you received an R&D tax credit for the 2008–09 income year, and
- your provisional tax is assessed using the standard option.

Otherwise you may be liable for use-of-money interest on any underpayments of provisional tax. Go to [www.ird.govt.nz/provisional-tax/prov-tax-options/](http://www.ird.govt.nz/provisional-tax/prov-tax-options/) for more information.

### 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

Using the estimation option, if the amount you estimate is less than your actual residual income tax for that year, you may be liable for interest on the underpaid amount.

### Ratio option

From the start of your 2008–09 tax year there is a new option for working out your provisional tax—the 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 for the 2010 tax year is:

$$\frac{\text{RIT} - \$730}{\text{total GST taxable supplies}} \times 100 = \begin{matrix} \text{ratio} \\ \text{percentage} \end{matrix}$$

To calculate provisional tax payments you multiply the percentage by your total taxable supplies for the two-month period (monthly payers will add the taxable supplies for two return periods).

#### Example

Regan is registered for GST and files two-monthly, he also pays provisional tax and has elected to use the ratio option. His residual income tax for 2009 was \$5,000 and his total taxable supplies for the same year were \$80,000. Based on these figures, Regan's ratio is 5.34%.

In May 2009, Regan works out his provisional tax by taking the total sales for the two-monthly period to May 2009 of \$15,000 and multiplying it by 5.34%. Using the ratio option Regan will need to pay provisional tax of \$801.00.

To use the ratio option you'll need to:

- elect to use the ratio option before the start of the tax year
- be registered for GST and file your GST returns either monthly or every two months
- be a provisional tax payer and have residual income tax of more than \$2,500, but less than \$150,000
- have been in business and registered for GST for all of the previous tax year
- calculate your ratio percentage at between 0% and 100%.

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

#### When is provisional tax due?

From the 2009 tax year (1 April 2008 to 31 March 2009 if you have a 31 March balance date) 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.

The following table 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 don't pay the full amount.

## Due dates for provisional tax

|  | First instalment | Second instalment | Third instalment | Fourth instalment | Fifth instalment | Sixth instalment |
|--|------------------|-------------------|------------------|-------------------|------------------|------------------|
| Not registered for GST   | 28 August        | 15 January        | 7 May            |                   |                  |                  |
| GST-registered – six-monthly filer of GST returns                      | 28 October       | 7 May             |                  |                   |                  |                  |
| GST-registered – one or two-monthly filer of GST returns               | 28 August        | 15 January        | 7 May            |                   |                  |                  |
| GST-registered and elected to use the ratio option for provisional tax | 28 June          | 28 August         | 28 October       | 15 January        | 28 February      | 7 May            |

### How do I pay provisional tax?

You can pay electronically through your bank, by cheque or at Westpac.

#### Provisional tax only

We'll send you a reminder letter and payment slip before each instalment is due.

#### 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 haven't been budgeting and putting money aside in your first year, you'll have to pay all your tax in one go in February, as well as paying provisional tax instalments for the coming year.

One way you can spread the cost of your first year's tax is to make voluntary payments during your first year. In some situations, small business taxpayers who make voluntary payments towards their end-of-year tax liability may qualify for the "early payment discount" against their end-of-year tax liability (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 residual income tax.

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 can't be claimed as an income tax deduction.

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

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

### Capital expenses

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

## Using your own vehicle in the business

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

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

### Example

Sometimes Ross has to use 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 doesn't 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 don't 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 substantiate the percentage claimed.

Alternatively, you may use Inland Revenue mileage rates to make a claim on your vehicle. You can view these at [www.ird.govt.nz](http://www.ird.govt.nz) 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) 1/1/08 – 31/3/08

| Vehicle logbook (3-month period) 1/1/08 – 31/3/08 |          |         |               |        |           | Meter reading (at start of period)    | 15,165             |
|---|----------|---------|---------------|--------|-----------|---------------------------------------|--------------------|
| Date  | Journey  |         | Meter reading |        |           | Reason for trip                       | Driver's signature |
|   | From     | To      | Start         | Finish | Dist.(km) |                                       |                    |
| 1/1/07  | Workshop | Porirua | 15,165        | 15,210 | 45        | Business - seeing P.U. Ltd            | RR                 |
| 5/1/07  | Workshop | Levin   | 15,718        | 15,918 | 200       | Business - Plumber's Guild conference | RR                 |
| 6/2/07  | Workshop | Petone  | 16,485        | 16,525 | 40        | Business - Supplier XYZ               | RR                 |
| 26/3/07   | 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 set aside in the home for work purposes. If you're doing this, you can make a claim for the area set aside so long as:

- it's used principally for business use (such as an office or storage area), and
- you keep a full record of all expenses you wish to claim.

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, power, 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 set aside 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.

### Example

In a house of 100 square metres Mereana sets aside 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 |
| Divide total costs by nine to get the GST content | \$ 497.78   |
| Total costs (excluding GST)                       | \$ 3,982.22 |

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:  
 $\$3,982.22 \times 10\% = \$398.22$

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.

You may also claim a proportion of the mortgage interest (not principal) paid during the year, and depreciation on the house itself. There is no GST involved in these two items, so it's easier to work them out separately. Use the same method of the business floor area percentage to work out what to claim.

### Example

The business floor area is 10%.

|   |                  |
|---|------------------|
| House cost (not including land)                       | \$ 500,000       |
| Depreciation @ 3%                                     | \$ 15,000        |
| Add mortgage interest paid (not principal repayments) | \$ 25,500        |
|   | <u>\$ 40,500</u> |

The amount to claim is:

$$\$40,500 \times 10\% = \$4,050$$

If you want to claim for your home expenses using a different method from the area percentage, we suggest you talk to your business advisor or call us on 0800 377 774.

### Note

If you claim depreciation on 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. For more information see page 43.

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

### Telephone costs

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

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

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

### Travel expenses

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

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

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

#### Note

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

### Entertainment expenses

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

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

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

Some other entertainment expenses are only 50% deductible.

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

#### For more help

The rules on entertainment expenses are fully explained in our booklet *Entertainment expenses (IR 268)*.

### 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 [www.ird.govt.nz](http://www.ird.govt.nz) (keywords: website expenditure).

## Fixed assets records

An asset is something the business owns.

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

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

You need to prove the purchase and sale of any fixed asset with a tax invoice. If you start using a private asset for business purposes or if you keep business assets for private use after you stop operating, you have to 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.

## Depreciation

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

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

### Depreciation rates

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

### Fixed assets register

| Description              | Serial number | Cost or value      | Date purchased  | Remarks |
|--------------------------|---------------|--------------------|-----------------|---------|
| <i>Laser printer</i>     | <i>721</i>    | <i>\$890.00</i>    | <i>1/10/02</i>  |         |
| <i>Personal computer</i> | <i>722</i>    | <i>\$2,500.00</i>  | <i>1/10/02</i>  |         |
| <i>Software</i>          | <i>723</i>    | <i>\$1,000.00</i>  | <i>1/10/02</i>  |         |
| <i>Desk</i>              | <i>724</i>    | <i>\$500.00</i>    | <i>1/10/02</i>  |         |
| <i>Chair</i>             | <i>725</i>    | <i>\$250.00</i>    | <i>1/10/02</i>  |         |
| <i>Car</i>               | <i>726</i>    | <i>\$30,000.00</i> | <i>1/06/03</i>  |         |
| <i>Modem</i>             | <i>727</i>    | <i>\$395.00</i>    | <i>3/07/04</i>  |         |
| <i>Reception desk</i>    | <i>728</i>    | <i>\$1,000.00</i>  | <i>28/08/04</i> |         |
| <i>Telephone system</i>  | <i>729</i>    | <i>\$490.00</i>    | <i>28/08/04</i> |         |
| <i>Fax machine</i>       | <i>730</i>    | <i>\$450.00</i>    | <i>16/10/04</i> |         |
| <i>Pictures</i>          | <i>731</i>    | <i>\$500.00</i>    | <i>11/04/05</i> |         |
| <i>Cafeteria table</i>   | <i>732</i>    | <i>\$700.00</i>    | <i>14/05/05</i> |         |
| <i>Refrigerator</i>      | <i>733</i>    | <i>\$900.00</i>    | <i>10/08/05</i> |         |
|                          |               |                    |                 |         |
|                          |               |                    |                 |         |

### Note

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

## Depreciation methods

In most circumstances you can choose between the diminishing value and straight line methods of calculating depreciation. You don't 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.

To use our depreciation calculator go to [www.ird.govt.nz](http://www.ird.govt.nz) "Work it out".

### 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 shouldn't include GST you've already claimed in your GST return.

#### Example

A New Zealand new car purchased on 1 April 2007 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

If the car in the example above 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 don't 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 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.

| Example   |           |
|---|-----------|
| 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 (IR 260)* and *General depreciation rates (IR 265)*.

We also have an interactive depreciation rate finder and calculator available at [www.ird.govt.nz](http://www.ird.govt.nz)



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

GST is a tax on most goods and services in New Zealand. It also applies to imported goods and certain imported services. It's charged and accounted for at a rate of 12.5% on the selling price or market value of goods and services.

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

### Registering for GST

You **must register** for GST if your business turnover (sales and income, including certain imported services you receive):

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

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

You can register by completing the online GST registration at [www.ird.govt.nz](http://www.ird.govt.nz) or complete a *GST registration (IR 360)* form. An application form is at the back of our booklet, *GST – do you need to register? (IR 365)*. This booklet tells you more about who must register for GST.

Once you have registered for GST you will be sent a letter confirming your return periods.

### Charging GST

When you're registered for GST, you account for GST on everything you sell at a rate of 12.5%. This also applies to business assets you sell.

### Claiming back GST

When you're registered for GST you may claim back GST paid on some purchases provided you hold a tax invoice—see page 46.

### GST on grants and subsidies

GST is also included in grants and wage subsidies from the government and public authorities. If you're registered for GST and you receive a grant or subsidy, you need to pay the GST (one-ninth of amount received) to us.

#### For more help

Our booklet *Grants and subsidies (IR 249)* provides more help for non-profit organisations in working out their GST.

## GST and secondhand goods

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

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

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

### Note

Special rules apply if you purchase secondhand goods from an associated person. For more information see our *GST guide* (IR 375).

## Exempt and zero-rated goods and services

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

Two main examples of zero-rated supplies are:

- the sale of a going concern (provided the seller and the buyer are GST-registered and it's agreed in writing)
- exported goods.

Some examples of exempt supplies are:

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

## Tax invoices

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

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

You should obtain a tax invoice from your suppliers for all purchases and expenses over \$50. If you haven't received a tax invoice you can ask the supplier to send you one. Keep all your tax invoices so you can claim the expenses in your income tax and GST returns.

### Supplies of \$50 or less

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

### Supplies between \$50 and \$1,000

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

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

### Supplies of more than \$1,000

If the supply is more than \$1,000 (including GST), the tax invoice must clearly show:


- the words “tax invoice” in a prominent place
- the name (or trade name) and GST number of the supplier
- the name and address of the recipient
- the date the invoice was issued
- a description of the goods and/or services supplied
- the quantity or volume of the goods and/or services supplied, for example, hours of labour or bags of concrete.

It must also show either:

- the amount, excluding GST, charged for the supply, the GST content, and the total amount payable, or
- a statement that GST is included in the final price.

### Example

Tax invoice for supply of more than \$1,000

| <b>Swinton Appliances Ltd</b>                |                                   |  |                    |
|--|-----------------------------------|--|--------------------|
| Jackson Street<br>PETONE                     | PO Box 99 999<br>PETONE           | Phone: (04) 999 9999<br>Fax: (04) 988 8889   | <b>Tax Invoice</b> |
| To: Mereana's Place<br>Main Street<br>PETONE | GST number 108-765-432            | Date: 08 March 2007  |                    |
| Quantity                                     | Description of goods and services | Unit price   | Total              |
| 1  | Gas Oven                          | \$1,400.00   | \$1,400.00         |
| Plus goods and services tax                  |                                   |  | \$175.00           |
| <b>Total amount due</b>                      |                                   |  | <b>\$1,575.00</b>  |



### Multiple supplies

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

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

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

### Organising your tax invoices

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

|   |   |
|---|---|
| <b>Foreshore<br/>Properties<br/>Limited</b>   | <b>TAX INVOICE</b><br><br>Private Bag<br>PETONE |
| GST No. 102-345-678   |   |
| Date:   | 13 SEPTEMBER 2006                               |
| To:   | MEREANA'S PLACE<br>MAIN ROAD<br>PETONE          |
| <p>Rent on the premises at Main Road, Petone for the month ending 31 October 2006, and for each successive month up to and including 31 December 2007.</p> <p>Payment due on the twentieth (20th) day of each month commencing 20 October 2006.</p> |   |
| <p><b>\$1,200 per month including goods and services tax.</b><br/> <b>Total for 15 months: \$18,000 including GST.</b></p>  |   |

## GST returns

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

### How often you have to file GST returns

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

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

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

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

### Due dates

We'll send you a GST return well before the due date for each taxable period. The due date for the return and any payment will be printed on your return.

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

The due date for GST returns and payments is the 28th of the month following your return period except for the periods ending:

- 30 November – due date 15 January
- 31 March – due date 7 May.

## Late filing penalty

By law you must file your GST returns on time. From 1 April 2008, if you don't file your GST return (GST 101 or GST 103) by the due date, you may have to pay a late filing penalty.

The late filing penalty is:

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

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

## Electronic filing

We have an electronic filing service at [www.ird.govt.nz](http://www.ird.govt.nz) where you can file your GST 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 of the return, sign it and keep it for seven years.

## Accounting for GST

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

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

- payments basis
- invoice basis
- hybrid basis.

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

## Using your cashbook to do your GST return

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

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

Using the GST 101 example on page 51, transfer GST on sales to Box 8. Multiply the figure in Box 8 by nine. This will give you the total sales amount to put into Box 7.

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

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

### For more help

Our *GST guide (IR 375)* has full details on GST obligations and adjustments.

### May sales and income

| DATE   | REFERENCE         |   | BANK      | GST RECEIVED | SALES     | GRANTS | FUNDS INTRODUCED (NO GST) | INTEREST (NO GST) |  |  |  | SUNDRY   |
|--------|-------------------|---|-----------|--------------|-----------|--------|---------------------------|-------------------|--|--|--|----------|
| 3 May  | Customer Sale     | ✓ | 2,000 00  | 222 22       | 1,777 78  |        |                           |                   |  |  |  |          |
| 5 May  | Government        | ✓ | 450 00    | 50 00        |           | 400 00 |                           |                   |  |  |  |          |
| 7 May  | Sale of computer  | ✓ | 1,125 00  | 125 00       |           |        |                           |                   |  |  |  | 1,000 00 |
| 14 May | Joe Bloggs        | ✓ | 200 00    |              |           |        | 200 00                    |                   |  |  |  |          |
| 21 May | Interest received | ✓ | 15 35     |              |           |        |                           | 15 35             |  |  |  |          |
| 25 May | Customer Sale     | ✓ | 6,750 00  | 750 00       | 6,000 00  |        |                           |                   |  |  |  |          |
| 27 May | Customer Sale     | ✓ | 2,250 00  | 250 00       | 2,000 00  |        |                           |                   |  |  |  |          |
| 30 May | Customer Sale     | ✓ | 4,500 00  | 500 00       | 4,000 00  |        |                           |                   |  |  |  |          |
|        | TOTALS            |   | 17,290 35 | 1,897 22     | 13,777 78 | 400 00 | 200 00                    | 15 35             |  |  |  | 1,000 00 |

### May purchases and expenses

| DATE   | REFERENCE       | CHK | BANK      | GST PAID | PURCHASES | WAGES (NO GST) | RENT   | MOTOR VEHICLE | LOAN REPAYMENT (NO GST) | DRAWINGS (NO GST) | BANK FEES (NO GST) | SUNDRY |
|--------|-----------------|-----|-----------|----------|-----------|----------------|--------|---------------|-------------------------|-------------------|--------------------|--------|
| 3 May  | S. Toak Ltd     | ✓   | 273100    | 3,500 00 | 388 89    | 3,111 11       |        |               |                         |                   |                    |        |
| 5 May  | Steve Haira     | ✓   | 101       | 650 00   |           | 650 00         |        |               |                         |                   |                    |        |
| 7 May  | Landlord (rent) | ✓   | 102       | 750 00   | 83 33     |                | 666 67 |               |                         |                   |                    |        |
| 14 May | Petrol Co       | ✓   | 103       | 55 00    | 5 56      |                |        | 44 44         |                         | 5 00              |                    |        |
| 21 May | Joe Bloggs      | ✓   | 104       | 400 00   |           |                |        |               |                         | 400 00            |                    |        |
| 25 May | GST paid to IRD | ✓   | 105       | 310 98   |           |                |        |               |                         |                   |                    | 310 98 |
| 26 May | S. Toak Ltd     | ✓   | 106       | 7,000 00 | 777 78    | 6,222 22       |        |               |                         |                   |                    |        |
| 28 May | Petrol Co       | ✓   | 107       | 50 00    | 5 56      |                |        | 44 44         |                         |                   |                    |        |
| 28 May | Steve Haira     | ✓   | 108       | 650 00   |           | 650 00         |        |               |                         |                   |                    |        |
| 28 May | S. Toak Ltd     | ✓   | 109       | 1,000 00 | 111 11    | 888 89         |        |               |                         |                   |                    |        |
| 30 May | S. Toak Ltd     | ✓   | 110       | 1,125 00 | 125 00    | 1,000 00       |        |               |                         |                   |                    |        |
| 30 May | Petrol Co       | ✓   | 111       | 25 00    | 2 78      |                |        | 22 22         |                         |                   |                    |        |
| 30 May | Bank fees       | ✓   | DD        | 10 25    |           |                |        |               |                         |                   | 10 25              |        |
| 30 May | Term loan       | ✓   | AP        | 800 00   |           |                |        |               | 800 00                  |                   |                    |        |
|        | TOTALS          |     | 76,326 23 | 1,500 01 | 11,222 22 | 1,300 00       | 666 67 | 111 10        | 800 00                  | 405 00            | 10 25              | 310 98 |



Goods and Services Tax Act 1985

# Goods and services tax return

You can use the **GST guide (IR 375)** to help you complete this return or call us on 0800 377 776.

**GST 101**  
April 2007

AC Design Ltd  
123 The High Street  
The Suburb  
The City

Registration number **1** ▶ 12-345-678

Period covered by the return 1 MONTH

from 01 MAY 2008 **2** ▶ to 31 MAY 2008

This return and any payment are due 28 JUNE 2008

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

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

Area code Phone number

### Goods and services tax on your sales and income

**Total sales and income** for the period (including GST and any zero-rated supplies) **5** ▶ \$ 17 074 98

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

Subtract Box 6 from Box 5 and enter the difference here **7** ▶ \$ 17 074 98

**Divide the amount in Box 7 by nine (9)** **8** ▶ \$ 1 897 22

*multiply by nine*

**OFFICE USE ONLY**

Operator code  Corresp. indicator

Payment attached  Return cat.

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

Add Box 8 and Box 9. This is your **total GST collected** on sales and income **10** ▶ \$ 1 897 22

### Goods and services tax on your purchases and expenses

**Total purchases and expenses** (including GST) for which tax invoicing requirements have been met—excluding any imported goods **11** ▶ \$ 13 500 09

**Divide the amount in Box 11 by nine (9)** **12** ▶ \$ 1 500 01

*multiply by nine*

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

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

Add Box 12 and Box 13. This is your **total GST credit** for purchases and expenses **14** ▶ \$ 1 500 01

**Print the difference between Box 10 and Box 14 here** **15** ▶ \$ 397 21

Signature *J Bloggs* 27/6/08  
Date

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

(Tick one)  
Refund   
GST to pay

Has payment been made electronically? Yes  No



### Payment slip

GST 700

AC Design Ltd

Registration number 12-345-678

Return for the period ending 31 MAY 2008

This return and any payment are due 28 JUNE 2008

**Amount of payment** \$ 397.21

Use the envelope provided to post your return, payment slip and any cheque payment.

Copy your total from Box 15 and enter it here. Include any late payment penalties for this period only.



## Part 7 – More information

### Accident compensation

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

#### Income tax, GST and ACC levies

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

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

### Independent earner tax credit (IETC)

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

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

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

From 1 April 2009 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 (IR 330)* and passing it to your employer. You can only choose a new tax code

\* 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 don't have any allowable expenses, eg, income protection insurance) your net income will be your annual salary or wages before tax.

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, and request an end-of-year square-up from Inland Revenue.

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 (IR 3)* at the end of the year.

### Student loan repayments

Self-employed people will have to repay their student loans by making payments throughout the year. If you filed a tax return in the previous year and ended up with a student loan bill of more than \$1,000, you must make interim repayments in the current year.

You pay in three instalments. The instalment due dates are:

- 28 August
- 15 January
- 07 May.

You pay 10 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 IR 3 tax return, and we'll send you an end-of-year repayment calculation once we process your return.

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

#### Budgeting for student loan repayments

When you're self-employed it's important to budget for your student loan repayments. If you don't 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 repayments for the coming year.

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)
- voluntary repayments. By making voluntary repayments, you'll pay your loan off faster. You're also less likely to have to pay a lump sum at the end of the year.

### For more help

If you'd like more information, read our booklets *How to get a student loan and how to pay one back (SL 5)* or *Student loans – making repayments (IR 224)*.

## Working for Families Tax Credits

Working for Families Tax Credits (WfFTC) is an entitlement for families with dependent children 18 years or under. There are four 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 four 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, their ages and any shared care arrangements.

You can use our [Working for families calculator](#) to get an estimate of what your entitlement will be.

### In-work tax credit

This is a payment for families who normally work a minimum number of hours each week, either:

- a two-parent family where one or both parents between them normally work 30 hours a week, or
- a single parent family normally working 20 hours or more a week.

In-work tax credit is available if you or your spouse or partner would normally work the required hours, but are receiving accident compensation for an injury that happened after 31 December 2005.

### 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 minimum income of \$400 a week after tax. If their annual family income is \$20,800 or less after tax, they may be able to get minimum family tax credit. A single parent must be working at least 20 hours a week, and in a two-parent family one or both parents must be working at least 30 hours a week between them.

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.

### Parental tax credit

This payment is for the first 56 days after your baby is born and you can receive up to \$1,200, depending on your family income.

### How to register

You will need to fill in an FS 1 registration form. You can get one from [www.ird.govt.nz](http://www.ird.govt.nz) or order a copy by calling our 0800 self-service numbers (see page 65).

If you have business income you'll need to include details, eg a set of accounts to support your estimate, with the registration form.

When we receive your registration form, 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 certificate 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 IR 3 to allow us to calculate your entitlement based on your income.

## Part 8 – Employer responsibilities

If you decide to employ staff, you have to register as an employer. You can get a *First-time employer's guide (IR 333)*, from our website.

You can also register by completing the online employer registration at [www.ird.govt.nz](http://www.ird.govt.nz)

Once you've registered we'll send you all the information you require. You can view or download the *Employers guide (IR 335)* and *KiwiSaver employer guide (KS 4)*, explaining all your responsibilities as an employer at [www.ird.govt.nz/forms and guides](http://www.ird.govt.nz/forms-and-guides)

Your main responsibilities are:

- 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.
- You must complete an IR345 and make your payment by the due date either electronically through your bank, by cheque or at branches of Westpac.
- Get new employees to fill in a *Tax code declaration (IR 330)*. This tells you the tax code to use. If any employees don't give you a completed IR 330, you must deduct tax from their wages at a higher rate (the no-notification rate).
- Provide new employees with a *KiwiSaver information pack (KS 3)*.
- Deduct KiwiSaver from employees' wages, if required.
- Make KiwiSaver compulsory employer contributions, if required.
- Deduct child support from employees' wages, if required.
- Deduct loan repayments from any student loan borrowers who work for you, if required.
- Complete an *Employer monthly schedule (IR 348)* with the details of each employee's deductions (see pages 57 and 59).
- Pay FBT on any fringe benefits (perks) you give to your employees (see page 63).
- Deduct employee donations for payroll giving, if required.

### 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 IR 330, you must deduct tax at the flat rate shown and pay this to us. The contractor must fill in an IR 330 form.

If the contractor shows you a current *Certificate of exemption (IR 331)* 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 don't have to deduct tax. Similarly, if the type of work done is not listed in the PAYE deduction tables, you don't need to deduct tax. In these cases, the contractor is responsible for paying their own tax.

### For more help

Our pamphlet *Self-employed or an employee? (IR 336)* can help you work out whether your worker is an employee.

## Making PAYE deductions

New employees must fill in a *Tax code declaration* (IR 330). This involves filling in their personal details and choosing a tax code. Employees need to fill in a new IR 330 if they want to change their tax code. You must keep all IR 330s 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, ME or ML) because they have one regular job. If an employee is already using the primary code for another job, they have to use a secondary code (SB, S, SH or ST) or a special tax code for their job with you. If they have a student loan to repay, they will need to use M SL, ME SL, S SL, SH SL or ST SL.

### Note

There is no SB SL tax code, as employees who use the SB tax code shouldn't earn over the student loan repayment threshold.

### Working out the PAYE

Your employee gives you an IR 330 with their personal details and a tax code. The employee will need to read the notes on the IR 330 to work out the correct tax code.

From 1 April 2010 if any of your employees qualify for the new secondary bottom tax rate they will be able to choose the new tax code SB. In order to be eligible to use this new code an employee must have a reasonable expectation of earning an annual income (from all sources) of \$14,000 or less. Any new or existing employees who want to use this tax code will have to fill in a new *Tax code declaration* (IR 330) and give it to you. The new code will apply from the date you receive it, but can't be used before 1 April 2010. The tax rate that applies to this tax code has been included in the PAYE deduction tables (IR 340 and IR 341) for the 2010–11 tax year. Transfer your employee's personal details to your wage book and calculate the gross pay.

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

| Earnings | Codes |       |       |       |          |       |           |       |       |      |
|----------|-------|-------|-------|-------|----------|-------|-----------|-------|-------|------|
|          | M     | ME    | ML    | M SL  |          | ME SL | KiwiSaver |       |       | CEC  |
| \$       | \$    | \$    | \$    | \$    | Loan dtd | \$    | 2%        | 4%    | 8%    | \$   |
| 401.00   | 68.14 | 68.14 | 68.14 | 68.14 | 3.40     | 71.54 | 8.02      | 16.04 | 32.08 | 8.02 |
| 402.00   | 68.96 | 68.96 | 68.96 | 68.96 | 3.50     | 71.86 | 8.04      | 16.08 | 32.16 | 8.04 |
| 403.00   | 68.59 | 68.59 | 68.59 | 68.59 | 3.60     | 72.19 | 8.06      | 16.12 | 32.24 | 8.06 |
| 404.00   | 68.82 | 68.82 | 68.82 | 68.82 | 3.70     | 72.52 | 8.08      | 16.16 | 32.32 | 8.08 |
| 405.00   | 69.05 | 69.05 | 69.05 | 69.05 | 3.80     | 72.85 | 8.10      | 16.20 | 32.40 | 8.10 |
| 406.00   | 69.27 | 69.27 | 69.27 | 69.27 | 3.90     | 73.17 | 8.12      | 16.24 | 32.48 | 8.12 |
| 407.00   | 69.50 | 69.50 | 69.50 | 69.50 | 4.00     | 73.50 | 8.14      | 16.28 | 32.56 | 8.14 |
| 408.00   | 69.73 | 69.73 | 69.73 | 69.73 | 4.10     | 73.83 | 8.16      | 16.32 | 32.64 | 8.16 |
| 409.00   | 69.95 | 69.95 | 69.95 | 69.95 | 4.20     | 74.15 | 8.18      | 16.36 | 32.72 | 8.18 |
| 410.00   | 70.18 | 70.18 | 70.18 | 70.18 | 4.30     | 74.48 | 8.20      | 16.40 | 32.80 | 8.20 |
| 411.00   | 70.41 | 70.41 | 70.41 | 70.41 | 4.40     | 74.81 | 8.22      | 16.44 | 32.88 | 8.22 |
| 412.00   | 70.63 | 70.63 | 70.63 | 70.63 | 4.50     | 75.13 | 8.24      | 16.48 | 32.96 | 8.24 |
| 413.00   | 70.86 | 70.86 | 70.86 | 70.86 | 4.60     | 75.46 | 8.26      | 16.52 | 33.04 | 8.26 |
| 414.00   | 71.09 | 71.09 | 71.09 | 71.09 | 4.70     | 75.79 | 8.28      | 16.56 | 33.12 | 8.28 |
| 415.00   | 71.32 | 71.32 | 71.32 | 71.32 | 4.80     | 76.12 | 8.30      | 16.60 | 33.20 | 8.30 |

## Using your wagebook to fill in your employer monthly schedule

Transfer all the deductions from the PAYE deduction tables, plus any child support, to the wagebook.

Each month, copy the totals for each employee to the monthly summary.

**My Wagebook**

(a) Name: *Joe Blappe* Employee's IRD no: *22-222-222*

(b) Address: *10 KiriSaver Way, Wellington* Employee's tax code: *M SL* Date applied:

(c) Occupation: *Designer* Annual holidays Start date: Finish date:

(d) Date started: *7/5/2009*

| Week ending          | Gross pay     |           | PAYE calculated |           | Child support deductions |           | Student loan deductions |           | KiwiSaver deductions |           | Total deductions | Net after tax and deductions | Non-taxable allowances | Net pay to worker | KiwiSaver employer contributions |
|----------------------|---------------|-----------|-----------------|-----------|--------------------------|-----------|-------------------------|-----------|----------------------|-----------|------------------|------------------------------|------------------------|-------------------|----------------------------------|
|                      | For week      | For month | For week        | For month | For week                 | For month | For week                | For month | For week             | For month |                  |                              |                        |                   |                                  |
| 14/5/2009            | 408.00        |           | 69.68           |           |                          |           | 2.80                    |           | 16.20                |           | 88.68            | 315.92                       |                        |                   | 8.70                             |
| 21/5/2009            | 408.00        |           | 69.68           |           |                          |           | 2.80                    |           | 16.20                |           | 88.68            | 315.92                       |                        |                   | 8.70                             |
| <b>Monthly total</b> | <b>816.00</b> |           | <b>139.36</b>   |           |                          |           | <b>5.60</b>             |           | <b>32.40</b>         |           | <b>177.36</b>    | <b>631.94</b>                |                        |                   | <b>17.40</b>                     |

Copy monthly totals to the summary

**My Wagebook - Monthly summary of wages and tax deductions** For month ending *31 May 2009*

| Employee's name        | Gross pay       | PAYE calculated | Child support deductions | Student loan deductions | KiwiSaver deductions | Total deductions | Net after tax and deductions | Non-taxable allowances | Net pay to employee | KiwiSaver employer contributions |
|------------------------|-----------------|-----------------|--------------------------|-------------------------|----------------------|------------------|------------------------------|------------------------|---------------------|----------------------------------|
| <i>Dodge Ridge</i>     | <i>2,400.00</i> | <i>431.64</i>   |                          |                         | <i>33.48</i>         | <i>465.12</i>    | <i>1,778.28</i>              |                        | <i>1,778.28</i>     | <i>48.00</i>                     |
| <i>Earlton Stacey</i>  | <i>192.00</i>   | <i>28.84</i>    |                          |                         |                      | <i>28.84</i>     | <i>163.16</i>                |                        | <i>163.16</i>       |                                  |
| <i>Blappe Joe</i>      | <i>816.00</i>   | <i>139.36</i>   |                          | <i>5.60</i>             | <i>32.40</i>         | <i>177.36</i>    | <i>631.94</i>                |                        | <i>631.94</i>       | <i>17.40</i>                     |
| <i>Moore Katherine</i> | <i>1,707.00</i> | <i>172.88</i>   |                          |                         |                      | <i>172.88</i>    | <i>534.12</i>                |                        | <i>534.12</i>       |                                  |
| <b>Total</b>           | <b>4,915.00</b> | <b>792.68</b>   |                          | <b>5.60</b>             | <b>120.88</b>        | <b>1,606.94</b>  | <b>3,458.76</b>              |                        | <b>3,458.76</b>     | <b>65.40</b>                     |

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.

Transfer each employee's monthly total from the monthly summary in your wagebook to the schedule.

**Inland Revenue Te Tari Taake** **Employer monthly schedule**

For help, refer to notes on employer deductibles form.

A/C Design Limited This schedule is due 30 June 2009

Employer's IRD number: **10-045-618** Period ended: **31 05 2009**

| Employee name and IRD number  | Total gross earnings and creditable payments | Total earnings and withholding payments net of ACC earners' levy | Total PAYE and withholding deductions | Total child support | Total student loan | Total KiwiSaver deductions | Total KiwiSaver employer contributions |
|---|--|--|---------------------------------------|---------------------|--------------------|----------------------------|--|
| <i>Blappe, Joe</i> IRD: <i>22222222</i> Tax code: <i>M SL</i> Employment start and finish date: <i>07 05 09</i>   | \$ 816.00                                    | \$ 816.00  | \$ 139.36                             | \$ 5.60             | \$ 32.40           | \$ 177.36                  | \$ 17.40                               |
| <i>Rawles, Stacey</i> IRD: <i>12111222</i> Tax code: <i>WT</i> Employment start and finish date:                  | \$ 192.00                                    | \$ 192.00  | \$ 28.84                              | \$ 0.00             | \$ 0.00            | \$ 28.84                   | \$ 0.00                                |
| <i>Dodge, Ridge</i> IRD: <i>12221221</i> Tax code: <i>M SL</i> Employment start and finish date:                  | \$ 2,400.00                                  | \$ 2,400.00  | \$ 431.64                             | \$ 0.00             | \$ 33.48           | \$ 465.12                  | \$ 48.00                               |
| <i>Moore, Katherine</i> IRD: <i>12222345</i> Tax code: <i>M</i> Employment start and finish date: <i>10 09 07</i> | \$ 1,707.00                                  | \$ 1,707.00  | \$ 172.88                             | \$ 0.00             | \$ 0.00            | \$ 172.88                  | \$ 0.00                                |
| <b>Totals</b>   | \$ 4,915.00                                  | \$ 4,915.00  | \$ 792.68                             | \$ 5.60             | \$ 120.88          | \$ 1,606.94                | \$ 65.40                               |

**Declaration:** I declare that the information given in this return is true and correct. Signature: *K Moore* Date: *17 07 09*

There are two ways you can use these total boxes. You can either show the total of each page here or simply show one total for the whole schedule. You will then need to transfer the PAYE/withholding tax, child support, student loan and KiwiSaver deductions totals on to the Employer deductions (IR 345) form.



## Employer deductions form

Inland Revenue  
Te Tari Taake

\*IR345

## Employer deductions

IR 345  
April 2009Please see notes on the back  
to help you complete this  
form and the EMS schedule.For more information:  
website: www.ird.govt.nz  
telephone: 0800 377 772  
INFOexpress: 0800 257 775AC Design Limited  
123 The High Street,  
The Suburb,  
The CityIRD number **1** 12 345 678  
Period ended **2** 30/08/09If your postal address is different from that printed  
above, please enter your new address below.

Street or PO Box

Suburb

Town or city

## OFFICE USE ONLY

Operator  
role

Corresp.  
institute

Primary  
employer

Return  
no.

Declaration I declare that the information given in  
this return is true and correct.Signature  
*Joe Bloggs* 17/07/09  
DatePAYE (incl tax on  
schedular payments) **3** \$ 7 9 2 4 6Child support deductions **4** \$Student loan deductions **5** \$ 8 9 2 0KiwiSaver deductions **6** \$ 1 2 0 8 8KiwiSaver employer  
contributions **7** \$ 6 4 2 0ESCT deductions **8** \$Add Boxes 3, 4, 5, 6, 7 and 8.  
This is the amount you  
need to pay **9** \$ 1 0 6 6 7 4Inland Revenue copy  
Please make a copy for your own records.Has payment been made electronically? (Tick one)  Yes  NoInland Revenue  
Te Tari Taake

## Payment slip

DED

Joe Bloggs

IRD number 123 456 789

Period ended 30/08/09

Amount of  
payment **10** \$ 1 0 6 6 7 4This return and any payment are due  
18/4/09Copy your total from Box 9 and include any late payment  
penalties and interest, for this period only.

05412487 11147222/ 001258669/66666 3654789998

The PAYE deductions and withholding tax figures shown in Box 3, student loan deductions shown in Box 5, KiwiSaver deductions shown in Box 6 and the KiwiSaver employer contributions shown in Box 7 have been transferred from Boxes 3, 5, 6 and 7 of the *Employer monthly schedule (IR 348)* on page 57 and then totalled in Box 9 to show the amount payable.

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

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

## Filing your employer monthly schedule

Once a month you must complete an *Employer monthly schedule (IR 348)*, which has details of your employees' gross wages and deductions.

If your gross annual PAYE and ESCT (employer superannuation contribution tax) is less than \$500,000 in the previous year ended 31 March you will file your IR 348 at the same time as your *Employer deductions (IR 345)* form. This 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 will file your IR 348 once a month on the 5th of the following month, which is at the same time as the payment for the period from the 16th to the end of the month. The IR 348 will include details of wages paid and deductions made for the whole month.

If your gross annual PAYE and ESCT is \$100,000 or more you must file your IR 348 and IR 345 electronically unless you have an exemption approved by us.

### Electronic filing

All employers can file their IR 345 and IR 348 forms using ir-File, a service that enables employers to send their monthly payroll details to us over a secure internet connection. This is a fast and efficient way of sending your forms to us.

### Paper return filing

Each month, we'll send the schedule to all employers who file manually or have an exemption from electronic filing. On your first schedule you'll need to enter each employee's name, IRD number and tax code. After that, we'll preprint this information on the schedules and you'll only need to enter details of any new employees.

If any of the preprinted information is incorrect note the correct details on the form.

## 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 don't deduct or account for PAYE properly.

### Employer deductions forms

We'll send you an IR 345 before you have to make each payment. This is for you to record the deduction details then send it with your payment. IR 345 forms can be filed electronically by all employers using ir-File.

If you don't receive an IR 345 in time, you must still make your payment. Send a note with your payment that shows the details as well as your name and IRD number.

Penalties and interest are charged for any late payments.

For more information see our *Employer's guide (IR 335)*.

## 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 don't have to 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 (IR 335)*.

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

### Other ACC levies

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

### Income tax, GST and ACC levies

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

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

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

## Student loan deductions

People with student loans must start to pay their loan back when they begin earning over a certain amount (the repayment threshold).

It's up to your employees to let you know they have a student loan. When an employee with a student loan expects to earn over the threshold they should use the M SL, ME SL, S SL, SH SL or ST SL tax code on their IR 330. You then have to start deducting loan repayments. The amount to be deducted is included in the PAYE deduction tables.

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 don't 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 is allowed to 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 shouldn't be disclosed to anyone except Child Support staff and the employee.

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

## KiwiSaver

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

As an employer you're required to:

- check whether new employees are eligible to join KiwiSaver
- check whether new employees should be automatically enrolled
- give the *KiwiSaver employee information pack (KS 3)* 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 deductions

If your employees are enrolled in KiwiSaver you will need to:

- deduct KiwiSaver from your employee's gross pay at the rate they have specified (either 2%, 4% or 8%) or at the default rate of 2% if they don't choose a rate
- forward the deductions to us by the due date along with your PAYE payments
- action opt-out and contributions holiday requests
- stop or start deductions when we advise you to
- make compulsory employer contributions.

### KiwiSaver employer contributions

The compulsory employer contributions you make to your employee's KiwiSaver scheme are exempt from ESCT (employer superannuation contribution tax), as are any compulsory employer contributions you make to other complying superannuation funds that have lock-in rules similar to KiwiSaver.

From 1 April 2009 you must make compulsory employer contributions to all employees enrolled in KiwiSaver (or any other complying superannuation scheme) at the rate of 2%.

#### Example

Flowers and Shrubs Ltd had decided to make contributions of 5% to their employees' KiwiSaver schemes.

Flowers and Shrubs Ltd must pay ESCT on 3% of the contributions they've made to their employees KiwiSaver scheme because the 5% contribution is more than the 2% compulsory contribution that's exempt from ESCT.

#### Note

You can find more information about KiwiSaver at [www.kiwisaver.govt.nz](http://www.kiwisaver.govt.nz) or in the *KiwiSaver employer guide (KS 4)*.

## 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 *Employer monthly schedule (IR 348)* and *Employer deductions (IR 345)* form electronically to offer payroll giving.

For more information see our *Payroll giving (IR 617)* guide.

## Superannuation fund contributions

An employer superannuation contribution is any contribution to a superannuation fund that an employer makes for the employee's benefit. If your employees ask you to make deductions from their wages and pay them to a superannuation scheme, these are not employer superannuation contributions.

Any contribution an employer makes to a superannuation fund for the benefit of an employee is liable for tax.

The contribution is either:

- taxed at the rate of 33 cents in the dollar, or
- taxed at a rate based on the annual salary or wages paid to the employee in the previous standard tax year (1 April to 31 March). When employees haven't worked for all of the previous tax year, an annualised estimate based on the salary or wages they will receive in the current tax year is used. This option is voluntary and at the employer's discretion
- treated as salary or wages of the employee and taxed at the employee's personal tax rate (if the employer and the employee agree).

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

### ESCT (Employer superannuation contribution tax)

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

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

### ESCT rate based on employee salary or wages

Employers can offer their employees an ESCT rate based on the employee's salary or wages received in the previous standard tax year (1 April to 31 March). This option is beneficial to employees who earn less than \$48,000.

The employer would determine the rate at the beginning of the standard tax year which the employer superannuation contributions relate to. Where the employee's salary or wages in the previous standard tax year was:

- under \$16,800, their ESCT rate would be 12.5 cents in the dollar
- more than \$16,800 and not more than \$57,600, their ESCT rate would be 21 cents in the dollar
- more than \$57,600, their ESCT rate would be 33 cents in the dollar.

#### Example

Extreme Dirt Design Ltd employs Max and makes employer superannuation contributions on his behalf. Max worked at Extreme Dirt Design Ltd for the full year 1 April 2009 to 31 March 2010. He received a salary during that year of \$36,400. For the 2011 tax year Extreme Dirt Design Ltd have elected to tax Max's employer superannuation contributions using a rate based on his previous year's salary. As his salary was less than \$57,600, the ESCT rate is 21 cents in the dollar. The ESCT to be deducted from each contribution made during the 2011 tax year is 21 cents in the dollar.

Where the employee didn't work for the employer for all of the previous standard tax year, the employer can estimate the amount of salary or wages that will be earned by the employee in the year the employer superannuation contribution relates to and base the ESCT rate on the estimate.

## 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 superannuation contribution included in their gross salary or wages and taxed at their personal tax rates. This will benefit employees whose effective marginal tax rate is less than 33%.

The actual employer contribution is paid into the superannuation fund—the employee doesn't 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 superannuation fund contributions and ESCT see our *Employer's guide (IR 335)*.

## 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 FBT rate of 64% on all benefits provided for the year ending 31 March 2009. From 1 April 2009 this changes from 64% to 61%, or
- the alternate calculation process, or
- a short form of the alternate calculation process.

For more information, see our *Fringe benefit tax guide (IR 409)*.

## Filing FBT returns

There are three types of FBT returns:

- *Fringe benefit tax – annual return (IR 422)*. 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 (IR 421)*. 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 (IR 420)*. 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 [www.ird.govt.nz](http://www.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 (IR 375)* or *Fringe benefit tax guide (IR 409)*.

### FBT and entertainment expenses

Our booklet *Entertainment expenses (IR 268)* 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 [www.ird.govt.nz/forms and guides](http://www.ird.govt.nz/forms-and-guides)

## Part 9 – Services you may need

### Registering for online services

To register or view a demonstration, go to [www.ird.govt.nz](http://www.ird.govt.nz) “secure online services”. You will need your organisation’s IRD number with you. After completing a few questions and phoning us to verify your identity, your organisation can be up and running.

### Tool for business

The online Tool for business helps you understand business tax, quickly and simply. It’s free, interactive and easy to use. You’ll find it at [www.ird.govt.nz](http://www.ird.govt.nz) (keyword:tfb).

### Need to talk to us?

#### Personal tax enquiries

|   |              |
|---|--------------|
| General tax, tax credits and refunds          | 0800 227 774 |
| Working for Families Tax Credits and payments | 0800 227 773 |
| Payment options                               | 0800 227 771 |
| Paid parental leave                           | 0800 377 777 |
| Child support                                 | 0800 221 221 |
| Student loan                                  | 0800 377 778 |

#### Business tax enquiries

|                                      |              |
|--------------------------------------|--------------|
| General tax, tax credits and refunds | 0800 337 774 |
| Employers                            | 0800 377 772 |
| GST                                  | 0800 377 776 |
| Large enterprises                    | 0800 443 773 |

#### Mobile or international callers

Free calling doesn’t apply to mobile phones or international calls for other tax enquiries.

For direct dial numbers go to [www.ird.govt.nz](http://www.ird.govt.nz)

#### Passwords – individuals only

Want a password on your account to save you time when calling?

|                        |              |
|------------------------|--------------|
| Personal tax customers | 0800 227 774 |
| Business tax customers | 0800 377 778 |

### Complaints Management Service

(8 am to 5 pm Monday to Friday) 0800 274 138

We’re here to take your call between 8 am and 8 pm Monday to Friday and Saturday between 9 am and 1 pm. Remember to have your IRD number with you when you call.

### Customer service quality monitoring

As part of our commitment to providing you with a quality service, we record all phone calls to and from our contact centres. Find out more about this policy or how to access your recorded information at [www.ird.govt.nz](http://www.ird.govt.nz)

### 0800 self-service numbers

This service is available seven days a week (anytime, except between 5 am and 6 am) for a range of self-service options. Remember to have your IRD number with you when you call.

For personal information, such as account balances, you’ll also need a personal identification number (PIN). You can get a PIN by calling 0800 257 777 and following the step-by-step instructions.

- Order publications and taxpacks 0800 257 773
- Request a summary of earnings 0800 257 778
- Request a personal tax summary 0800 257 444
- Confirm a personal tax summary 0800 257 771
- All other services 0800 257 777



## Business tax information officers and kaitakawaenga Māori

Business tax information officers (BTIOs) offer a free business tax information service to new businesses and organisations to help them meet their tax responsibilities. This service is available to individuals and groups.

Most of our offices also have a kaitakawaenga Māori who can advise Māori organisations and individuals on their tax responsibilities. Our BTIOs and kaitakawaenga Māori will tell you:

- which taxes you need to know about
- what records you need to keep
- how to complete your tax returns (eg, GST and employer returns)
- when to file returns and make payments.

Find out more about these services and our free seminars at [www.ird.govt.nz](http://www.ird.govt.nz) or by calling us on 0800 377 774.

### *Tax Information Bulletin (TIB)*

The TIB is our monthly publication containing detailed technical information about all tax changes. You can find it on [www.ird.govt.nz](http://www.ird.govt.nz) under “Newsletters and bulletins” and subscribe to receive an email when each issue is published on our website.

### *Business Tax Update*

Get all your business tax news in one newsletter. Our Business Tax Update, available online only, gives you tax updates on payroll, GST, FBT and other relevant tax issues. Subscribe through the newsletter page at [www.ird.govt.nz/subscribe](http://www.ird.govt.nz/subscribe) and we'll send you an email when each issue is published.

## 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 (IR 297)*.

## Late payment

We may charge you interest if you don't make your tax payment by the due date. We'll also charge you a late payment penalty if you miss a payment, but if you have a good payment history and you contact us early, we may be able to arrange an extension of time to pay.

If your tax remains unpaid we'll charge an initial 1% late payment penalty on the day after the due date. We'll charge a further 4% penalty if there is still an amount of unpaid tax (including penalties) seven days after the due date.

We'll further 1% incremental penalty will be charged in every month the amount owing remains unpaid after the due date, unless you enter into an arrangement (see below).

Interest and late payment penalties are not charged on outstanding amounts of \$100 or less.

### Arrangements

If you're unable to pay your tax by the due date, please call us. We'll look at your payment options, which may include an instalment arrangement depending on your circumstances. Arrangements can be agreed on before or after the due date for payment. There are greater reductions in the penalties charged if the arrangement is made before the due date.

### For more help

See our booklet *Taxpayer obligations, interest and penalties (IR 240)*.

## Non-payment of employer monthly schedule penalty (EMS)

If the amount owing from an *Employer monthly schedule (IR 348)* isn't paid by the due date we'll send you a reminder letter. If the overdue amount isn't paid or an instalment arrangement entered into, we'll charge you a non-payment penalty (NPP).

Every month an amount remains outstanding we'll charge you a further NPP. If, within a month of the penalty date you don't pay in full or enter into an instalment arrangement, the non-payment penalty will be 10% of the amount unpaid on the day before the due date. If you do pay in full or enter into an instalment arrangement within that month, the non-payment penalty will at a reduced rate of 5% of the unpaid tax.

For more information about penalties and interest please see our guide *Taxpayer obligations, interest and penalties (IR 240)*. You can get this from [www.ird.govt.nz](http://www.ird.govt.nz)

## Putting your tax returns right

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

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

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

For more information, see our booklet *Putting your tax returns right (IR 280)*.

## Privacy

Meeting your tax obligations involves giving us accurate information so we can assess your liabilities or your entitlements under the Acts we administer. You must, by law, give us this information. Penalties may apply if you don't.

We may also exchange information about you with:

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

If you ask to see the personal information we hold about you, we'll show you and correct any errors, unless we have a lawful reason not to. Call us on 0800 377 774 for more information. For full details of our privacy policy go to [www.ird.govt.nz](http://www.ird.govt.nz) (keyword: privacy).

## 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. You can call the staff member you've been dealing with or, if you're not satisfied, ask to speak with their team leader/manager. If your complaint is still unresolved you can contact our Complaints Management Service. For more information go to [www.ird.govt.nz](http://www.ird.govt.nz) or call us on 0800 274 138 between 8 am and 5 pm weekdays.

If you disagree with how we've assessed your tax, you may need to follow a formal disputes process. For more information, read our factsheet, *If you disagree with an assessment (IR 778)*.

## 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>  | see your bank   |
| BIZ info                                    | <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>   | see them        |
| 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>   | see them        |

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