

# Tax Made Simple for the Busy Business Owner

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# Understanding the Basics of New Zealand Taxation

## Introduction to New Zealand Tax System

### Types of Taxes for SMEs

In New Zealand, small and medium sized businesses are primarily subject to **three** types of taxes: Income Tax, Goods and Services Tax (GST), and Fringe Benefit Tax (FBT).

#### Income Tax

Levied on the net profit of a business. The current corporate tax rate is 28%.



Provisional tax payments are due on the 28th of August, 15th of January, and 7th of May. While Terminal tax is due on the 7th of April of the following year.

#### Goods and Services Tax (GST)

A 15% tax on most goods and services. Businesses must register for GST if their turnover exceeds \$60,000 annually.



Filing and payment are due on the 28th of the month following the end of your taxable period (monthly, bi-monthly, or six-monthly).

#### Fringe Benefit Tax (FBT)

Applies to benefits provided to employees, such as company cars or subsidized loans.



Quarterly payments are due on the 20th of January, April, July, and October.

## Registration and Record Keeping

### IRD Number:

Ensure your business is registered with the Inland Revenue Department (IRD) and has an IRD number.

### Record Keeping:

Maintain accurate records for at least seven years. This includes invoices, receipts, bank statements, and

# Common Tax Challenges for Small and Medium Business Owners

## Cash Flow Management

### Provisional Tax

Managing provisional tax can be challenging. Consider using the Accounting Income Method (AIM) or tax pooling for more accurate tax payments aligned with your cash flow.

### GST Payments

Ensure you have sufficient funds to meet GST obligations. Consider setting aside GST collected in a separate account.

## Understanding Tax Deductions

### Business Expenses

Only expenses incurred in earning assessable income are deductible. Keep detailed records to substantiate claims.

### Home Office Expenses

If working from home, claim a portion of household expenses, such as power and internet, based on the area used for business.

## Dealing with Tax Audits

### Compliance


Ensure compliance with all tax obligations to avoid audits. Regularly review your financial statements and tax returns.

### Professional Advice

Engage a tax professional to review your records and provide guidance if you receive an audit notice.

### Accountancy Insurance

With IRD audits becoming more frequent it may be worthwhile looking into accountancy insurance. Talk to your accountant about this.



# Common Pitfalls and How to Avoid Them

## Avoiding Common Mistakes

### Late Filing and Payments

Late filing or payment of taxes can result in penalties and interest. Set reminders for all tax deadlines.

### Incorrect GST Claims

Avoid claiming GST on non-deductible expenses. Double-check your GST returns for accuracy.

## Tax Planning Strategies

### Income Splitting

Only expenses incurred in earning assessable income are deductible. Keep detailed records to substantiate claims.

### Depreciation

Properly depreciate business assets to optimise tax deductions. Use the correct depreciation rates as per IRD guidelines.

## Leveraging Technology

### Accounting Software

Use reliable accounting software to automate record-keeping and tax calculations. This reduces errors and saves time.

### Online Services

Utilize IRD's online services for filing returns and making payments to streamline tax compliance.

## Final Thoughts

### Stay Informed

Tax laws change frequently. Stay updated on new regulations and consult with a tax professional to ensure compliance.

### Seek Professional Help

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# Get Ready for End of Financial Year Checklist

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|--------------------------|-----------------------|---|
| <input type="checkbox"/> | Bank Statements       | Collect all bank statements for the end of the financial year to ensure your accounting software has the right balance. |
| <input type="checkbox"/> | Invoices and Receipts | Gather all sales invoices and receipts for expenses. Ensure they are filed systematically.                              |
| <input type="checkbox"/> | Accounts Receivable   | Review outstanding invoices and assess provisions for doubtful debts.   |
| <input type="checkbox"/> | Accounts Payable      | Compile a list of all outstanding supplier invoices and ensure they are recorded.                                       |
| <input type="checkbox"/> | Inventory Records     | Conduct a physical stocktake and reconcile it with your inventory records.  |
| <input type="checkbox"/> | Fixed Asset Register  | Update your fixed asset register with any acquisitions or disposals. Check depreciation schedules.                      |
| <input type="checkbox"/> | Loan Statements       | Obtain statements for any business loans, including interest paid during the year.                                      |
| <input type="checkbox"/> | Payroll Records       | Ensure all payroll records are complete, including PAYE, KiwiSaver contributions, and any other deductions.             |
| <input type="checkbox"/> | FBT Records           | Compile all records related to fringe benefits provided to employees.   |
| <input type="checkbox"/> | Home Office Expenses  | Calculate and document any home office expenses if applicable.  |
| <input type="checkbox"/> | Tax Payments          | Ensure all provisional and terminal tax payments are documented and reconciled.   |
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