



Income tax in your first year of business

This factsheet explains your income tax obligations in your first year of business. Find out here about filing your income tax returns and what expenses you can claim. We'll also explain when and how you can pay your income tax.

Income tax is payable on your net profits from your business. This is all the income that comes into your business, less allowable business expenses. Business income is income earned from the goods and services you sell (including invoices you've issued but haven't received payment for).

What income is taxable?

The way your business is managed will determine how you manage your cash flow and pay your income tax.

If you're a sole trader or partnership

If you're in business in your own name, or in a partnership, you'll usually be managing it and be responsible for all its income and debts. Usually you won't get a wage but will take money from the business when you need it—called "drawings".

You pay income tax on your net profits. The taxable income is the net profit the business makes after deducting all allowable expenses and before any drawings.

In a partnership, the net profit is shared between the partners and included in their personal income tax returns.

If you're a company

If your business is a limited liability company and pays you a salary, you'll be taxed on your salary individually.

The company must pay tax on its profits, which are the gross takings less all the business expenses (including your salary). Any profits belong to the company and are taxed at the company rate. Incorporated societies and some savings vehicles are also taxed at this rate.

Completing your tax return

You (or your tax agent) will need to complete a tax return each year for the business. You can complete it online at www.ird.govt.nz "Get it done online" or post it to us.

When are tax returns due?

If you're filing your tax return yourself you must send it to us by 7 July. If an accountant or other tax agent completes it for you, they may be able to file it later.

To help with your end-of-year tax return keep your accounts up to date so you can work out the profit and the amount of tax you may have to pay.

What expenses can be claimed?

All businesses have expenses and most expenses that are part of the cost of running your business are tax-deductible.

These are some examples of tax-deductible expenses:

- accident compensation levies
- salary and wages
- rent and rates
- stationery and supplies
- accountants' fees
- purchase of trading stock
- repairs and maintenance on business items
- power and phone costs
- interest on money borrowed for the business
- insurance of business assets or premises
- business vehicle and transport costs.

For the 2010 income year and beyond, legal expenses incurred when buying capital assets used to derive income are tax deductible, provided your total legal expenses for an income year are equal to or less than \$10,000.

Some business expenses paid out of business income can't be claimed as an income tax deduction:

- If your business borrows money, the capital part of the loan repayments is not a deductible expense (but the interest probably will be). Likewise, the loan is not taxable income.
- Income tax that the business pays is not a deductible expense, and tax refunds are not taxable income.
- Drawings are not a deductible expense, and money you bring into the business is not taxable income.

Examples of other non-deductible expenses include:

- the cost of plant and machinery
- legal fees for capital assets used to derive income when your total expenses exceed \$10,000 for the 2010 income year and beyond
- any legal fees associated with the cost of buying capital assets prior to the 2010 income year
- improvements to equipment apart from repairs and maintenance
- private expenses such as life insurance.

Capital expenses and depreciation

It's important to be able to tell the difference between capital and revenue expenses because revenue expenses are deductible while capital expenses generally aren't.

Capital expenses are usually one-off payments to buy assets that will be used in the business. You can't claim the full cost of capital items in the year they were bought. Instead, their cost may be written off over a number of years.

You can claim depreciation on the cost of capital assets to allow for their decline in value. However, depreciation can't be claimed on buildings with an estimated useful life of 50 years or more for the 2011–12 and future income years

For more information on depreciation go to www.ird.govt.nz (search keyword: depreciation).

Planning for and paying income tax

It's a good idea in your first year of business to put money aside for tax. This will ease the cash flow in your second year of business.

The table below shows how much tax may be payable on your profit for the income years from 1 April 2011 (assuming your only income is from your business and you're self employed) and the amount you should save to cover it. If you have other income as well, the tax rate on your business income will probably be different.

Monthly profit	Effective tax rate (%)	Amount to save each month for tax (\$)
0	0	0
up to \$ 500	10.5	52
up to \$1,000	10.5	105
up to \$1,500	12.05	180
up to \$2,000	13.41	268
up to \$2,500	14.23	355
up to \$3,000	14.77	443
up to \$3,500	15.16	530
up to \$4,000	15.45	618
up to \$4,500	17.07	768
up to \$5,000	18.36	918
up to \$5,500	19.42	1,068
up to \$6,000	20.38	1,222

If you still need help working out the amount to save call us on 0800 377 774.

Provisional tax

After your first year in business you may be required to pay income tax in instalments during the year—called provisional tax. Provisional tax is not a separate tax but a way of paying your income tax as the income is received through the year.

There's a 6.7% discount if you receive self-employed or partnership income and make voluntary payments of income tax either in your first year of business or the year before you start paying provisional tax. You must meet certain criteria to qualify. To find out whether you qualify for the discount, call us on 0800 377 774.

For more information about provisional tax go to www.ird.govt.nz (search keyword: provisional).

Paying your income tax

If you have a March balance date any tax you have to pay is due the following year by 7 February, or 7 April if you have a tax agent or accountant who has an extension of time.

You can make payments:

- electronically
- by credit or debit card
- by posting a cheque.

Electronic payments are made through your bank by:

- online banking
- automatic payment
- direct credit.

When making electronic payments, include:

- your IRD number
- a tax type code
- the period the payment relates to.

For full details of our payment options, go to www.ird.govt.nz/pay or read our factsheet *Making payments (IR 584)*.

Paying online by credit or debit card

You can also make all your online payments by credit or debit card. Westpac New Zealand charges a 1.42% convenience fee for each transaction. You won't have to pay this fee if you're making payments from overseas for a student loan or non-custodial child support.



www.ird.govt.nz

Go to our website for information and to use our services and tools.

- **Log in or register for a myIR secure online services account** to use a range of secure services.
- **Demonstrations** – learn about our services by watching short videos.
- **Get it done online** – complete forms and returns, make payments, make an appointment to see us, give us feedback.
- **Work it out** – use our calculators, worksheets and tools, for example, check your tax code, find filing and payment dates, calculate your student loan repayment.
- **Forms and guides** – download our guides and forms or fill in forms online.

Forgotten your myIR user ID or password?

Request a reminder of your user ID or reset your password online. You'll need to know your IRD number and have access to the email address we hold for you.

FREE ADVISORY SERVICE

Our community compliance officers and community relationship advisors run free tax seminars and workshops for new businesses and organisations. For more information or to register to attend one of these sessions go to www.ird.govt.nz (search keyword: seminar) or phone 0800 377 774.

www.ird.govt.nz New Zealand Government