

WHAT DO I NEED TO DO WHEN I START IN BUSINESS?

- Get advice from specialists in their fields. The wrong advice from the beginning can end up to be very costly.
- Open a business only bank account – ensure you use this for your business transactions as this makes it easier for your accountant or bookkeeper to track income and expenses, and ensure you claim everything you legally can .
- Register for an NZBN (New Zealand Business Number). Companies are automatically allocated a NZBN from the Companies Office when you register a new company. Sole Traders and Partnerships can apply for one and we recommend you do this.
- Do you need to register for GST? (if your sales/turnover is over or going to be over \$60k per annum, then yes you do).
- Are you going to be employing staff? If yes, then you need to register as an employer with the IRD before paying your new staff, and ensure staff have contracts prior to starting work with you. You are also responsible for ensuring they are paid correctly.
- How are you going to keep track of your financial information? A computerized bookkeeping program, ie Xero, MYOB or some such program, is the best option. By having an electronic cashbook or full accounting program, you can see exactly where you are at any time financially, and can make informed financial decisions based on this information (as long as it is correctly recorded) and you make the year end job of processing your financial data a lot easier for your accountant. At Ontrack we can take care of that for you, or teach and support you to do it yourself.
- Talk to an insurance broker – do you have enough insurance in place? What happens if you injure yourself at work but as a director, you aren't on the payroll? You might not be covered for ACC as you originally thought. An insurance broker can help you ensure you have the right cover in place for your requirements.
- You will be liable for ACC levies annually following your first year in business. If you earn an income as a director or shareholder, you will be charged for ACC levies on this income. If you do not earn an income but you employ staff and run a payroll, you will be charged ACC levies on employees as well.
- Invoice out for your time regularly and follow up on unpaid invoices regularly. Cash flow is one of the most important aspects of success for any business.
- Keep track of who you owe money to, and ensure you pay your accounts on time. This shows good faith to the people you dealing with, and will ensure future business relations continue.
- Keep a list of any purchases paid for in cash to ensure they get picked up in the year end accounts as an expense (paying in cash is not best practice as it is a lot harder to keep track of. You should never pay any person for work done in cash, they must invoice you for their work or be paid via the payroll.)

- Keep track of any cash paid to you for work done and bank it into your bank account.
- Stock – keep a list of any stock, and ensure you do regular stock takes to ensure all stock is getting charged out. Ensure an accurate stock take count is done at the end of the financial year ie 31st March.
- Keep ALL of your receipts and invoices for expenses you are claiming. This is a legal requirement and must be kept for 7 years. Keep in a file for each financial year, either by month, or by A-Z so they are easily accessed.
- Do you use your personal car for business purposes? Then you need to keep a logbook for a three-month period (exactly three months ie 1st of June to 31st August) listing all business-related trips and what they were for ie onsite with clients, banking, etc. This must include a start KM and a finish KM the car has travelled for each trip, regardless if you use the vehicle for personal use in between work trips. From this a mileage rate can be claimed against your income.
- Do you have a business vehicle you also use privately? Again, you must keep a log book and ensure all expenses are accounted for.
- Do you have a business loan? Ensure all statements of account for this loan are kept and available for your accountant for year end.
- Do you use your home for business purposes? If so, then a percentage of your home running costs are able to be claimed. You will need to measure up your office/business area of the property, ie a bedroom might be your office, and the garage might be storing equipment/materials. Also measure up the whole of the house and garage and storage sheds. Both of these calculations are used to make a home office percentage claim at year end.

Ensure you also keep track of the following: Power accounts, phone accounts, rates bills, insurance bills rent paid, home mortgage interest.

- Do you earn interest from the bank? You will receive a resident withholding tax certificate at the end of the financial year. This includes interest earned from investments, such as Kiwi Saver funds. Ensure you keep these to give to your accountant.
- Also provide to your accountant any of the following at year end: NZ Dividends, Taxable Maori authority distributions, NZ Estate or trust income, overseas income, and rent received.

Using your OWN vehicle in your business

If you use your own vehicle in the business, you can claim 100% of the running costs.

If you use your own vehicle for both personal and business use, you'll need to make an **adjustment to claim the business-use portion**.

If you use the vehicle to travel between home and work, or any personal travel, you'll need to separate the running costs of your vehicle between business and private use. There are three options you can use – a vehicle logbook, a set mileage rate or using the actual cost.

When a company owns a car, it claims all the expenses without making a private-use adjustment. The company must pay fringe benefit tax (FBT) if a vehicle is available for private use by employees or shareholder-employees.

a) Kilometre Rates

If you travel 14,000 km or less for business use in a financial year, you can use Inland Revenue's mileage rate of 82 cents a kilometre for your business use claim (2020 rates). Anything over and above this can be claimed at Tier 2 rates. This rate is set by the IRD and can change from year to year.

Vehicle type	Tier One rate	Tier Two rate
Petrol or diesel	82 cents	28 cents
Petrol hybrid	82 cents	17 cents
Electric	82 cents	9 cents

b) Actual Costs

Instead of using the above kilometre rate you can claim actual expenditure. If you do this, you must keep accurate records to work out the share of business use, otherwise business use expenses are limited to 25% of the actual costs. Your records will need to show the reasons for the trip and the distance.

Logbook

You work out the business use of your vehicle by keeping a logbook for at least 90 consecutive days. After 90 days you can work out the percentage of business to private use of your vehicle. The logbook term is up to three years, provided variance of business use is less than 20% of the logbook representation. After three years, you will need to do another one.

The logbook **must** record the:

- Start and end of the 90-day test period
- Vehicle's odometer readings at the start and end of each business journey
- Distance of each business journey
- Date of each business journey
- Reason for each business journey, and
- Any other detail that we may require.

Your Tax Agent can use your logbook to calculate the deduction for the actual costs you incur and the amount of depreciation loss for the business use of your motor vehicle.

The first 14,000 km that the car travels, regardless of personal or business, the claimable rate is 82 cents a kilometre. If the log book or calculation puts the vehicle over 14,000 km, then the claimable rate drops to the Tier 2 rate.

Find out more about kilometre rates for self-employed people and reimbursing employees -

<https://www.ird.govt.nz/income-tax/income-tax-for-businesses-and-organisations/types-of-business-expenses/claiming-vehicle-expenses>

LOG BOOK EXAMPLE

Name _____ Vehicle Rego _____
 Start Date _____ Start Odometer Reading _____
 End Date _____ End Odometer Reading _____

Date	Business Purpose	Start Odometer	End Odometer	Km's	Notes
1/1/14	Sales call to ABC Widgets	1002	1056	54	From Office to ABC Widgets and back. Called on Mike Moss, VP

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