



# Smartbusiness

quick reference summary sheet

## Income tax

**Income tax is payable on the net profit from your business, which is all 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).**

### Business in your own name, or in a partnership

If you're in business in your own name, or in a partnership, you'll usually be managing your own business and be responsible for all business income and debts. Usually you won't pay yourself a wage but will take money from the business when you need it—this is 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 are taken into account. In a partnership, the net profit is shared between the partners and included in their personal income tax returns.

### Business as a separate company

If your business is a limited liability company and pays you a salary, you personally are taxed on your salary. The company must pay tax on its profit, which are the gross takings less all the business expenses (including your salary). This is because any profits that are made belong to the company and are taxed at the company tax rate—30 cents in the dollar for tax years 2009 and later. Incorporated societies and some savings vehicles are also taxed at this rate.

### Business expenses

All businesses have expenses in generating taxable income.

- Most expenses that are part of the cost of running your business are tax-deductible. For the 2010 income year and beyond, legal expenses incurred when buying capital assets used to derive taxable income is tax deductible, provided your total legal expenses for an income year are equal to or less than \$10,000.
- You can claim depreciation on the cost of the capital assets, to allow for their decline in value.

Examples of tax-deductible expenses include:

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

### Non-deductible expenses

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 introduce into the business is not taxable income.

Examples of other non-deductible expenses include:

- the cost of plant and machinery
- 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 2010 income year, the cost of buying capital assets for the business
- improvements to equipment apart from repairs and maintenance
- private expenses such as life insurance.

### 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 generally are not. 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 can be written off over a number of years. For more information see our booklet *Depreciation (IR 260)*.

## How much to save for tax

Here's a guide to show how much tax may be payable on your profit for the income year 1 April to 31 March (assuming your only income is from your business and you are self-employed). If you have other income as well, the tax rate on your business income will probably be different.

Monthly Profit (\$)		Effective Tax Rate	How much tax to save for each month (\$)	
0	792	12.50%	0	99
793	1167	12.50%	99	146
1168	2000	16.05%	146	321
2001	2500	17.04%	321	426
2501	3167	17.87%	426	565
3168	3333	17.99%	565	599
3334	4000	18.48%	599	739
4001	5000	20.80%	739	1,140
5001	5833	23.14%	1,140	1,350
5834	6667	25.00%	1,350	1,667

If you still need help to work out the amount of tax to save please phone us on **0800 377 774**.

## Provisional tax

After your first year in business you may be required to pay income tax in three instalments during the year. This is 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. For more information about paying provisional tax, please see our *Provisional tax smart business summary sheet (IR 316)*.

## Do I have to pay tax in my first year of business?

The first year you're in business is not tax-free. In your first year of business you should put money aside for tax. This will ease the cashflow in your second year of business, when you'll need to pay provisional tax instalments for that year, plus pay the tax for your first year of business.

A discount of 6.7% will be credited to individual taxpayers (including partners in a partnership) 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. To qualify, taxpayers will need to meet certain criteria. To find out whether you qualify for the discount, call us on **0800 377 774**.

## When your tax return is due

For most businesses the accounting year ends on 31 March—this is the balance date of your business. To help with your end-of-year tax return you should have your accounts up-to-date so you can work out the profit you've made and the amount of tax you may have to pay.

- If you're filling in your tax return yourself, you must send it to us by 7 July.
- If an accountant or other tax agent completes your return for you, they may be able to file it later.
- If you want a balance date other than 31 March you must apply to us in writing.

## Paying income tax

If you're in business you'll need to fill in a tax return each tax year and send it to us. If you have a March balance date, any tax payable is due in the following year by 7 February or 7 April (if you're a client of an agent and have an extension of time).

## Need to know more?

These booklets have more information:

- *Smart business (IR 320)*
- *Depreciation (IR 260)*
- *Provisional tax (IR 289)*
- *Rental booklet (IR 264)*

You can get these booklets at [www.ird.govt.nz](http://www.ird.govt.nz) or order them by calling INFOexpress on 0800 257 773. Have your IRD number handy.

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

The R&D tax credit is only available for the 2008-09 income year. Go to [www.ird.govt.nz/rd-tax-credit](http://www.ird.govt.nz/rd-tax-credit) for information.

## If you're still having problems, try our advisory service

Inland Revenue offers a free business tax information service which provides support and tax education for new businesses and organisations to help them meet their tax responsibilities. You can arrange to see a business tax information officer or a Māori community officer through [www.ird.govt.nz](http://www.ird.govt.nz) or by calling us on **0800 377 774**.

our advisory service is free