

CREATIVE TALK

" If you have 1000 questions around the who, what, where and why of accounting – paye vs sole trader, GST or not to GST, don't fret - we have asked Jo Naish, Chartered Accountant with Northland Business Consulting Limited to clear it up for us. "

As a freelancer, what are my options regarding tax? Can you define sole trader, GST registered, non GST registered?

As a freelancer you can operate as a sole trader, form a company and become a shareholder-employee, operate under a trading trust or you can form a partnership. Under all of these options you will be self employed. The relative merits of each option really depend on your circumstances which is why it pays to talk to a tax professional and get set up properly from the start. Trading as a sole trader can often be the simplest option but the other options should be definitely be considered if you have assets that you want to protect from business risk. I will talk more about GST below but know that you don't have to register for GST if your annual income before expenses is under \$60,000.

What is the difference between an employee and a sole trader?

The IRD have some detailed tests to determine if you are a self employed contractor or an employee. Basically if you have control of the hours you work, provide your own tools of trade and you are responsible for getting the work done then you will be a self employed contractor. If this area is a bit grey for you then have a look at the IRD guidance at here: <http://www.ird.govt.nz/payroll-employers/>

How does being self employed / GST registered work - is there extra cost / paperwork involved?

When you are self employed you need to keep good records of all your income and expenses. You can file your own GST returns to save on accountants' fees. Actually I recommend doing this, if you feel comfortable with it, as it will also give you

a good idea of how your business is doing. The GST guide on the IRD website will give you an idea of what is involved. There are also some great accounting software packages both online and offline that will prepare your GST return for you. We often help people with their GST returns the first few times and then they do their own. We will always check the GST for them at the year end when we prepare their financial statements and Income tax and let them know if they have any GST adjustments to make.

How much do you need to earn to be eligible to be GST registered?

It is compulsory to register for GST if you earn \$60,000 or more (before expenses). Many people chose to register voluntarily before they meet this threshold so that they can claim back the GST on their business expenses.

Can you be GST registered if your freelance work is your secondary income and your main income is PAYE?

Yes you can - the same threshold will apply but you don't include the PAYE income.

- Home office costs are a proportion of your household expenses (rent, mortgage interest, power, insurance, rates, etc) that can be claimed if you operate your business from home. The proportion is usually calculated using a ratio based on the area of you home that is used for office work or storing business assets over the total area of your home. Our clients will often leave it up to us to calculate this for them at the end of the year and then they make an annual GST claim for it.

For more general guidance on claiming business expenses refer to www.ird.govt.nz/business-income-tax/expenses/

What happens if you put GST / IRD on your invoice, but you don't pay the GST to the IRD?

OK so I guess there are two scenarios where this could happen:

- If you are GST registered and you get behind in filing your returns, but you have invoiced and collected GST, the IRD will charge late filing and late payment penalties and then use of money interest on top of that.

- If you have charged GST but are not GST registered- Well there is no way to sugar coat this- it is illegal to charge GST if you are not GST registered. If you have done this by accident you should make a voluntary disclosure to the IRD and request the IRD back date your GST registration so you can return the GST. When you make a voluntary disclosure the IRD tends to be more lenient on you and may choose not to charge the penalties - they will still charge the interest though.

The penalties for deliberately not returning the GST to the IRD are a bit more extreme and can include hefty fines and imprisonment.



When you are GST registered, can you claim back the GST on business expenses such as client coffee meetings, conferences, petrol, phones, home office, and internet? How does this process work?

You can claim the GST content of most business related expenses as long as the money was spent in connection to the creation of income.

There are some exceptions / special rules to keep in mind:

- Entertainment is subject to some detailed rules and is often only 50% deductible (download the entertainment guide on the IRD website: www.ird.govt.nz/forms-guides/).
- Mileage - there are a few different methods of claiming the cost of using your private vehicle for business. They depend on how far you travel and you will need to keep a log of your business trips - have a look at your options here: www.ird.govt.nz/business-

"YOU SHOULD APPROACH YOUR DECISION TO APPOINTING AN ACCOUNTANT IN THE SAME WAY AS YOU WOULD CHOOSE A LAWYER OR A BANK."

As a freelancer, how and when do I pay my income tax each year?

When you are self employed you need to complete a personal tax return at the end of each tax year. If you operate through a company you will need to file two tax returns - one for the company and one for yourself. In some industries there is a requirement that contractors have tax deducted from their payments (in the same way that PAYE is deducted from employee wages). These payments are known as Schedule D payments. It helps if the tax deduction is

clearly shown on your invoices so you may need a bit of help with setting this up. There is a list of the affected industries here: www.ird.govt.nz.

Included in this list are freelance journalism and the screen industry, so you could well be affected by this requirement.

If you aren't receiving Schedular payments your tax will be calculated at the end of each tax year. If your tax bill exceeds \$2,500 you will be required to start paying provisional tax. This is based on your previous year's tax bill and is usually paid in three installments over the year.

How about ACC - do I have to pay this?

Yes you do but it won't be due until after your first tax return has been filed. For this reason it often comes as a bit of an unwelcome surprise. The ACC like to help out and will allow you to pay your bill over 10 installments to ease the pain. Here is a link to some information on ACC for the self employed: www.acc.co.nz/for-business/self-employed/index.htm.

ACC also offer an alternative type of cover just for self employed people called CoverPlus Extra which allows you to fix your amount of cover. Check out: www.acc.co.nz/

If you are signed up to Kiwisaver and become a freelancer, who pays the Kiwisaver?

You will need to get in touch with your kiwisaver scheme provider and arrange to make payments directly.

If you have a client who has lagged on payments with an unpaid invoice or two, how long should you wait to take action, and what are your options when you do?

If the client is communicating well and has a good explanation for the late payment you may decide to offer them more time or agree on a payment plan. If they are not communicating and the payment is 90+ days overdue I would recommend choosing one of the following options:

- Option one - If the amount is disputed you can take it to the disputes tribunal (commonly known as the small claims court). Follow this link for more info: www.justice.govt.nz/tribunals/disputes-tribunal

- Option Two - you use a debt Collector. If you Google debt collector you will find lots of them. They will want a commission for their services. Dun and Bradstreet are a reputable one: <http://dnb.co.nz/Debt Collection/>

- Option Three - you can ask your lawyer to start liquidation proceedings if the amount isn't paid.

Option two could possibly work out the cheapest if you take into account the value of your lost time chasing the debt as well as legal fees.

Which bits and pieces of paper are the most important to keep on file and for how long?

During the year, hold on to all of your receipts from purchases, copies of invoices to clients, bank statements, legal contracts, finance arrangements, assets purchases and donation receipts. Your accountant will need all of these to finalise your tax return. If you aren't sure if something should be kept-keep it anyway. Your accountant will be able to sort through it all and tell you what needs to be held on to.

The IRD offers the following advice on keeping records:

www.ird.govt.nz/yoursituation

You are required to hold on to all paper records for 7 years - even if you have an electronic copy.

Which filing systems / programmes / apps would you recommend to help freelancers keep on top of their taxes?

The new range of online products are perfect for freelancers - they allow you to work on your accounts, prepare invoices and GST returns and see how your business is performing at any location where there is an internet connection. These days they also import your bank transactions for you - saving time and making your job a lot easier.

We refer clients to MYOB, Xero and Reckon. Choosing one will depend on the complexity of your business and how much you want to spend. With all of these products you can get a free trial period and once you have made your choice you can invite give your accountant access so that they can help you remotely with any problems you have.

<http://myob.co.nz/business>

www.xero.com/nz/accounting-software/

www.reckon.co.nz/

If you don't have many business transactions you might be able to get away with not investing in accounting software at all. Some of our clients who are proficient in Excel will keep track of their income and expenditure in spreadsheets that they provide us at year end. Others will provide us with bank statements and other business records and we will use that information to prepare their accounts for them.

Should you have an accountant to sign off your yearly books? - Or is this only recommended when earning over a certain \$ amount?

If you have some accounting and tax experience you might want to prepare your own financial statements and file your own

tax returns to save money. However, if you lack experience in this area and plan to work it out as you go along you could end up costing your business more money than you saved in accounting fees. Generally it works out best to let the experienced professional prepare your tax return and turn your focus to what you are best at. You should approach your decision to appointing an accountant in the same way as you would choose a lawyer or a bank. The relationship you have with your professional advisors could be key to the success of your business.

Which websites would you recommend for further information and freelancer tax tips?

I have peppered a few links to the IRD website through my responses and you can also check out:

- www.acc.co.nz - everything you ever wanted to know about ACC and lots more.
- www.sorted.org.nz - offers some practical advice on managing your money, debts & Savings, insurance, kiwisaver etc.
- www.nzica.com/Employ-an-accountant - to find out why you should hire a chartered accountant.

Is there anything else I should be thinking about?

- Banking - even if you are a sole trader you should operate a separate business account for all the business transactions - receipting your payments and paying business expenses.

- Insurance - when you become self employed it is worth talking to an insurance broker about business risk and various types of cover that are available.

If you freelance with The Creative Store, we can do your PAYE, or you can invoice us.

If you need the help of an accountant, have your year end books signed off, or if you would rather someone take care of it for you all year round, you can contact Jo Naish on 09 431 4211 or 021 311 027 or email jnaish@northlandbiz.co.nz

