



Hamish Edwards

## Tax pitfalls can trip the unwary

**B**OB had a dream start to his business. He was excellent at his job and wanted to reap the benefits. He incorporated a company online, began trading and his business grew quickly.

He was paying staff wages but was not deducting any student loan repayments or calculating the PAYE correctly. He was unaware of what gst basis he was on and was filing on a cash basis rather than an invoice basis. He was also deducting his drawings as gst expenses. This resulted in tax penalties and interest. Bob's rapid growth resulted in cashflow problems and he was not able to pay the PAYE, so he stopped filing returns.

Finally, after his first year of trading, Bob filed his income tax return and found that he had a huge tax bill made up of terminal tax and provisional tax. He could not understand why he had so much tax to pay when he had no cash to show for it. Bob's dream had turned into a nightmare.

Where did he go wrong? Bob did not understand his tax requirements, he did not seek advice or do any homework before he started, and he did not understand financial information or cashflow.

Here are the taxes you need to know about when you start a business:

■ **Income tax:** A business must file an annual income tax return before July 7 each year. A normal tax year is April 1 to March 31 and the tax to pay, known as terminal tax, is due on February 7. If the tax was greater than \$2500, provisional tax would be payable, in advance, at a rate of 105 per cent of the previous year's tax. Provisional tax is spread over three instalments, normally July 7, November 7 and March 7. Though you might not pay any tax in your first calendar tax year, you will pay double in the second year.

■ **Goods and services tax:** Businesses are required to be gst-registered when turnover exceeds \$40,000 a year. Gst returns can be filed on a monthly, two-monthly, or six-monthly basis dependent on income levels. Gst is calculated on either an invoice or a cash basis. The invoice basis accounts for the date "invoiced" for all sales and expenses; the cash basis is calculated on the date the cash was received or spent over the gst period. The cash basis is available to businesses with a turnover less than \$1.3 million. Gst is due and payable on the last working day in the month after the gst period.

■ **PAYE:** The pay as you earn system requires employers to make tax deductions from employees' wages. Returns are filed monthly and are payable by the 20th of the following month. This system incorporates the payment of student loan and employee ACC premiums.

■ **FBT:** The fringe benefit tax regime taxes benefits that are not subject to withholding tax, such as the provision of a company vehicle to an employee. Returns can be filed annually and are due on May 31. If PAYE deductions were greater than \$100,000 in the previous year of trading, returns must be filed quarterly. Quarterly returns are due and payable on the 20th of the month following each quarter ending June, September and December. The March quarter return is due on May 31.

Don't get caught out. Know how to manage your tax requirements and your business dreams will become a reality.

■ *Hamish Edwards is a chartered accountant and managing director of Edwards Accounting Limited. Edwards Accounting works with a range of clients to grow their business and improve their tax positions. For more information see [www.thebizcentre.co.nz](http://www.thebizcentre.co.nz).*