

Notes on how to set up a company

1. Setting up the Company

1.1 Overview

You can set up a company online yourself for a total cost of \$160. This document describes the key steps involved.

It's probably useful to talk to an accountant before you set up a company to ensure it's the best structure for your business activity.

1.2 Preparation

Before you set up a company you need to decide on the following:

- Company name - go to Companies Office website www.companies.govt.nz and do a register search to see if the name you want to use has already been taken.
- Total amount of shareholding – unless you have a particular requirement 100 \$1 shares is reasonable.
- Who the Directors will be – you can have only one director. You'll need each director's full name and IRD number.
- Who the Shareholders will be – you can have one shareholder who can also be the sole director. Make sure you always retain a 1% shareholding this gives you flexibility as a shareholder / employee. You'll need each shareholder's full name and IRD number.
- How the shareholding will be split – if more than one shareholder you can split it as you like, e.g. 50:50 for two shareholders.
- Where the registered office will be – this can be your home address.

You will also need:

- A credit card to make payment.
- Access to a fax machine.

1.3 Register the Company

- Go to www.companies.govt.nz.
- Do this in office hours (between 8.30am and 4.30pm) and if you have any queries or problems you can call the Companies Office helpdesk on 0508COMPANIES.
- Go to name reservation and follow instructions – this will cost \$10.

- When you receive an email back confirming that the name has been reserved for you follow the link in the email to register the company. If you don't have a link go into Register a Company and enter the name reservation number.
- Follow the instructions.
- Don't press the BACK prompt – the system doesn't like it and will lock you out.
- Registering a company will cost \$150 and you pay at the end.
- You can choose to obtain an IRD number during the process – take this opportunity – it's easier than filling out an IRD Application for an IRD number form.
- Shortly after you have pressed the final SUBMIT you will receive an email containing a PDF form of Director Agreements (each director must sign) and Shareholder Agreements (each shareholder must sign).
- Fax these signed documents (one for each director and each shareholder) to the fax number at the top of the form.
- As long as everything has been done correctly you will receive an email back confirming registration of your company.
- The confirmation is only sent in office hours so if you set up your company at nighttime you will get the confirmation the next morning.
- If doing it in office hours your company can be registered within an hour.
- When registered you will receive a PDF Certificate of Registration
- You will also receive a Company Key – this is a number that is an online password and you should keep this number in a safe place.
- The Companies Office will also send you a GST receipt for the name reservation and registration fees.

1.4 Setting up a bank account for the company

You should also set up a bank account in the name of the company and you'll need to show the bank the Certificate of Incorporation to do that.

1.5 Getting an IRD number for the company

If you didn't do it as part of the registration process then you will need to apply for an IRD number – forms available on IRD's website www.ird.govt.nz.

1.6 Registering for GST

If your total sales or total fees for any twelve-month period are going to be more than \$60,000 you will need to register for GST. Again you can do this on IRD's website.

1.7 PAYE Registration

If you are likely to employ staff then you will also need to register as an employer (but you don't need to do this if you or other shareholders are going to earn income from the company).

1.8 Registering a QC and / or LAQC

This is an IRD distinction so first you need to set up a company via the Companies Office website.

When registered as a company you can elect to become a Qualifying Company and/or a Loss Attributing Qualifying Company. If you haven't obtained an IRD number when registering your company online you can elect to become a QC at the same time as you are applying for an IRD number and there is no charge for either service. To elect to become a QC or LAQC you will need to download an IR436 from IRD's website and complete it and send it to IRD. All directors and shareholders will need to sign it and supply their personal IRD numbers.

QCs and LAQCs allow shareholders to take capital profits tax free from the company without winding it up and LAQCs also allow you to offset company losses against other taxable income. LAQCs are particularly useful for businesses making losses in the early years, forestry and property investment. To register as a QC or LAQC you will need 5 or fewer shareholders and a family unit can be considered one shareholder. You also need to agree to be personally liable for any unpaid income taxes of the company. As it is effectively your own company and you will be paying most of the profits to yourself, or if an LAQC, it will be making tax losses so agreeing to pay any such unpaid taxes is usually not onerous.

2. On-going

2.1 Overview

Once you have set up a company there are a few things you need to do each year to keep it going.

You can do all these yourself including the tax returns at no cost except your own time, or you can get an accountant to prepare your returns for you (for a simple company this may cost \$1,000 - \$2,000 per year depending upon the tidiness of your records and complexity of your business).

The tax area can be a quite tricky and it's definitely worth talking to an accountant to make sure you are paying the correct taxes, not too much and not too little (IRD have a fairly harsh penalty regime).

2.2 Annual Returns to Companies Office

Each year you will be required to provide an annual return to the Companies Office to keep the Registrar of Companies up to date with addresses of offices and names and addresses of directors and shareholders. The Companies Office will email you when your annual return is due and you can follow the link from the email. It is free and should only take a few minutes.

You will need to have a meeting of shareholders and directors each year and this information is required for the annual return. This is the AGM.

Two things are required for the annual return:

- Confirmation that an AGM has been held and the date of that meeting and
- Confirmation that a resolution was passed to not appoint an auditor for the ensuing year and the date of that resolution. This will usually be the date of the AGM.

2.3 Company Meetings and Company Minutes

The company will need to have a Minute Book to record the major resolutions or decisions of the company. All directors and major shareholders should sign these.

Meetings of directors and shareholders (including the AGM) may be held by "Minute Book resolution". This means that you don't need to have formal meetings – instead of a meeting you can record your major business decisions as resolutions in the Minute Book and have the directors and shareholders sign them.

If you change the place of your registered office (and this may occur if you move house) then you will need to notify the Companies Office 5 days in advance.

2.4 Accounting

You will need to keep a cashbook showing monies received and spent. This can be done using a simple book or Excel spreadsheet or you could use the online system Xero (www.xero.com) or purchase a small accounting package such as MYOB.

2.5 Paying Tax

The simplest way to run a small company is to have only shareholder employees (so you don't have to worry about PAYE) and complete GST returns 6 monthly on a payments basis if sales are less than \$500,000 in any twelve month period. In this case the company will have to file an IR4 income tax return after 31st March each year and:

- Pay GST on 28 October and 7 May.
- Pay provisional income tax on 28 October and 7 May.
- Pay terminal income tax the following 7th February.
- Pay the ACC levy when invoiced by ACC.
- If your company provides fringe benefits to shareholder/employees (such as a company car) then you will need to file FBT returns either quarterly or annually.

If you need to register for GST on a two-monthly payments basis because your sales are more than \$500,000 in any 12 month period, or if you would prefer to register to assist cashflow, then you will need to:

- Pay GST on 28 June, 28 August, 28 October, 15 January, 28 February and 7 May.
- Pay provisional income tax on 28 August, 15 January, and 7 May.
- Pay Terminal income tax the following 7th February.
- Pay the ACC levy when invoiced by ACC.
- If your company provides fringe benefits to shareholder/employees (such as a company car) then you will need to file FBT returns either quarterly or annually.

Additionally, whether 2 monthly or 6 monthly GST registered or if you are not GST registered, each shareholder employee will need to file an IR3 income tax return and:

- Pay provisional income tax on 28 August, 15 January, and 7 May.
- Pay Terminal income tax the following 7 February.

Note: Depending on income levels you may be able to defer paying your personal tax incurred in your first year as shareholder/employee – you will have to pay it but its just that you get to hang onto it for a bit longer.

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