Tips for Freelance Business

1. Most freelancers are sole traders but you can set yourself up as a company if you want to employ staff or create a brand. To set up a company costs $163.55, go to www.companies.govt.nz.

2. Register for GST if your total sales are more than $60,000 in any 12 month period. Even if your sales are less than $60k you should still register so you can claim GST on expenses unless you only have a few minor expenses and can't be bothered claiming. Use the payments (cash) basis so you only have to pay when you've been paid, and register for the 6 monthly basis if your sales for the year are less than $500k and if you are good with setting aside the GST money. If you are concerned you might spend your GST money, register and pay on the 2 monthly basis.

3. GST is calculated at 15% on top of your normal rate. GST is 3/23 of the total price including GST. So if you haven't registered and you earn more than $60k from your business activities in any 12 month period IRD may charge you for 3/23 of your total sales (even if you haven't on-charged it).

4. The tax year is from 1 April to 31 March.

5. Your annual income tax return is due at IRD by 7 July unless you have organized for an accountant or tax agent to prepare your return in which case you usually have until the following 31 March to file your return.

6. Remember to include your earned income for the year in your income tax return – this includes your March invoices not paid till April as you have earned the income in March.

7. Just to confuse you: if you are registered for GST on a payments basis then that March invoice which isn't paid to you until April will not be included in your GST return to 31 March as you won't have received it by 31 March.

8. Tax rates: up to $14k: 10.5%, from $14k to $48k: 17.5%, from $48,k to $70k: 30% and over $70k =33%. These are marginal rates so even if you earn over $70,000 you will only pay tax at 10.5% on the first $14k, 17.5% on the next $34k to $48k, and 30% on the next $22k, with 33% on any income over 33%. Tax on $70k is $14,020. If you earn more than $70k you should set aside 50 cents in every $1 received to cover GST, ACC, and income tax payments.

9. As a freelancer or sole trader you will probably pay provisional tax or have withholding tax deducted or a combination of the two. If you are not having tax deducted at source ie you are not having PAYE or withholding tax deducted then you will be a provisional tax payer and will be responsible for paying your own

provisional tax. In your first year, if you are likely to earn less than $180k then you don't generally need to pay provisional tax during the year but you can make voluntary payments and there is a wash up at the end of the tax year. You do not need to register as a provisional tax payer – just file an IR3 self-employed tax return at year end. If you are likely to earn more than $180k in the year then you should start paying provisional tax as soon as you start working.

10. There is no such thing as a tax holiday in your first year of business. If it is your first year as a sole trader and your tax is less than $50k for the year (ie income from your sole trader business is less than around $180k) then don't have to pay provisional tax in your first year – but you will have to pay lump sum later. If your tax for the year is likely to be more than $50k or if you operate as a company then you will be charged interest and penalties on any underpayment of your tax at year end. If you are a company though you can allocate all the income after expenses to yourself to reduce these penalties but this does negate some of the benefits of operating as a company.

11. You do not need to register for ACC. The earnings information on your income tax return goes from IRD to ACC and ACC will invoice you after your first year. You can apply for cover plus extra for cover in your first year but this can be expensive.

12. You will need to keep a cashbook to record all your income and expenses. If you have a small number of transactions then a spreadsheet matching your bank statement detail may be sufficient but if you have a larger number of transactions you may prefer to use an online accounting system such as Xero www.xero.com.

13. Being business savvy means cashflow is king! So invoice when sending work, request payment within a certain period, and follow up promptly if unpaid after the due date. Consider implementing a penalty payment clause on your invoices or a prompt payment discount.

14. Have a separate bank account for your business. It may cost $10 per month but ensures you keep track of all your income and expenses.

15. Know the GST due dates and new provisional tax dates as you don't want to pay IRD late payment penalties. The new dates for 2 monthly GST payers are: 28th of the month for GST (28 June, 28 August, 28 October, 15 January, 28 February, 7 May) with provisional tax due with every second GST payment, on 28 August, 15 January and 7 May.

16. For six monthly GST payers then GST for the six months ended 30 September is due on 28 October and on 7 May for the six months ended 31 March. Provisional tax is also due on 28 October and 7 May.

17. For individual taxpayers who are not GST registered, Provisional tax is due on 28 August, 15 January and 7 May.

18. The company tax rate is a flat rate of 28%. However the lower company tax rate is not a compelling reason to change to a company structure as any company surplus still goes to you and you pay tax at your own rate.

19. The ratio method allows you to pay provisional tax based on sales for GST purposes. The calculation is based on the tax you paid last year so you have to have been in business more than a year and have to pay GST two monthly (not six monthly). It is of real benefit for those seasonal workers who only work for part of a year but the paperwork required means that it wouldn't suit those whose income is just lumpy during the year.

20. KiwiSaver: the case for self- employed business owners to join KiwiSaver is not clear cut especially if you could apply the funds to reducing your own mortgage or in building your business (the government contribution is really quite small) but there is no doubt that it is worth signing up for if you are an employee in someone else's business.

21. Have insurance and put your assets in a trust.

22. Claim all costs necessarily incurred in deriving taxable income. This means that if it is a direct cost of earning income it is deductible. This will generally include your mobile phone costs and all stationery and computer related costs, any operating or stock costs, rent etc

23. You can also claim travel and home office costs. If travelling overseas eg for a conference, be very careful about how much is business related and how much is personal – take a reasonable approach.

24. Overseas income – keep advice notes showing the amount of overseas tax deducted as you can usually receive a tax credit for these – otherwise you will pay tax twice, there and then here.

25. Vehicle costs : sole trader – you have to keep log book either for 3 months (this will last for 3 years) or record every journey and claim mileage at 77c per km up to 5,000kms.

26. Vehicle: company – not feasible to claim all costs (unless you have a work van eg trades people) unless you pay FBT. FBT is cost effective for a car costing less than $8-10k and costs around 13%.

27. Home office costs: claim the portion of the house that you use – but this should be below 20%. Even if you don't have a separate office and just use a laptop you can

claim home office costs of around 15% if you truly work mostly from home. This means that you can claim a percentage of the interest cost of your mortgage (but not the principal), rates, insurance, electricity and gas, phone and internet, and general maintenance costs.

28. How to make more money: It's hard to cut costs, and easier to increase income. You need to use leverage. So if you are self-employed: increase your rate, charge for costs, retain the copyright and sell the same story a number of times, write the same story a number of ways eg an article on trusts for a number of magazines or a different angle on a topical story, pay someone eg a student or assistant to do research for you, write a book and sell it many times over. If you can, employ staff and create a business. Sell more product, borrow money to increase your production capacity or invest in technology to save you costs over time.

29. Try lots of different things to increase your income and find out what works well for you.