Sole Trader or Limited Liability Company?[1]

First you will need to decide if you want to operate as a sole trader or company.

Sole traders have unlimited liability, meaning the owner is personally liable for all business taxes and debts.

On the plus side, setting up as a sole trader is cheap and easy, all you need is a personal IRD number.

Also, despite what the name suggests, sole traders are allowed to employ many people. Just register as an employer with IRD when the business starts hiring staff.

The Ministry of Business, Innovation and Employment (MBIE) says sole traders starting out should search the Companies Office and the Intellectual Property Office to check if a business name they want to use is already protected or not.

Once a name has been decided on you might want to protect it by applying for a trademark which will cost $150 plus GST.[2] If a name is accepted for registration it is yours for 10 years. At the end of that period the name can be renewed for another 10 years at a cost of $350 plus GST.

MBIE says many New Zealand businesses start as sole traders and then incorporate as a limited liability company as the business grows.

Incorporation costs $160 including GST. There is also a $45 fee including GST for filing the company's financial accounts to the Registrar of Companies each year.

Many business owners form a company from day one to take advantage of the protection it offers against potential losses.

Unlike sole traders, a limited liability company is a formal and legal entity, separate from its shareholders or owners whose liability for losses is limited to their ownership share of the company.

Another key difference between companies and sole traders is that companies pay a flat tax rate of 28 per cent.

Sole traders, however, pay the same tax rates as employees: 10.5 per cent for income up to $14,000; 17.5 per cent for income from $14,001 to $48,000; 30 per cent for income from $48,001 to $70,000; and 33 per cent for income more than $70,001.

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1 Extract from article "Saving money when starting up" by John Anthony, on Stuff.co.nz. Online: (http://www.stuff.co.nz/business/small-business/10135431/Saving-money-when-starting-up). Accessed 10th November 2015.

2 The figures quoted in this article were correct as at 10th November 2015.

Claiming Business Expenses[3]

Self-employed people who use their home for business can claim tax back on part of their rates, insurance, power, telephone and internet and even mortgage interest costs.

If you are self-employed there are various reliefs, allowances and expenses you can claim to reduce your tax bill.

You will be able to claim on expenses such as accountancy, legal and professional fees, advertising, stationery, interest on business loans, credit card charges and the cost of any goods that are purchased to sell or provide a service.

You can also claim depreciation on business-related assets which is then deducted from income.

Disclaimer[4]

This document contains general information. The information is not advice, and should not be treated as such. You must not rely on the information in this document as an alternative to seeking advice from an appropriately qualified professional.

3 Extract from article "Saving money when starting up" by John Anthony, on Stuff.co.nz. Online: (http://www.stuff.co.nz/business/small-business/10135431/Saving-money-when-starting-up). Accessed 10th November 2015.

4 This disclaimer was created using an SEQ Legal template.