

## **Starting your business:**

Usually a business is started with a great idea, you know what you want to do and you jump in and start doing it. Due to the enthusiasm of the new business owner and excitement of 'doing your own thing' we often fail to consider the full impact of our actions and only as things settle, does the new business owner address the important aspects of structure, record keeping, taxation and other obligations.

Your obligations and commitments can seem daunting when you first start out, but with professional guidance these pitfalls and the troubles they cause can be avoided by awareness and careful planning.

The money you spend obtaining good professional assistance in establishing your business can save you tenfold down the track. We suggest you meet with your advisor before you start the ball rolling so that you can concentrate on what you do best knowing you have your administrative and legal obligations in order.

Give us a call to chat and meet to ensure that your business gets off on the right foot.

What you need to know:

### **1. What Entity?**

There are different modes that you can trade under for your business. They all have different requirements and implications for you. There is no 'silver bullet' in that dependant upon your circumstances one mode may be more suitable for you than another.

You can trade as sole trader/partnership/company/trust

Major Differences:

*Sole trader* – simple to establish, no legal set up, legally liable for all debts, pay tax in your own name

*Partnership* – similar to a sole trader in that normally relatively simple to set up (although can add the complication of partnership agreements), not a legally separate entity from you as an individual, pay tax in your individual name

*Company* – legally a separate legal entity, has legal and administrative establishment and ongoing requirements, can have more complex reporting needs, can pay tax in company name or profits can be distributed to individuals

*Trusts* – separate legal entity, reporting and recording obligations, not often used in normal business operations

The decision about what entity you decide to trade under depends on a variety of facts and it is best to discuss and establish the correct entity from the beginning. Failure to consider the implications of the chosen entity can prove costly and create problems in the future. Speak to your professional advisor before making a start.

### **2. My obligations?**

You will no doubt have obligations to many people as you commence your business, your suppliers, your customers, your funders (bank), employees (if you have any), ACC and the IRD to name but a few.

We do not intend to provide a full obligation list, however wish to raise your awareness of the basic obligations that you could be making when you start out on your own.

Once again, a discussion with your professional advisor to consider your obligations is a wise investment. Your accountant, lawyer and banker can discuss with you the commitments that you may face and provide suitable strategies to deal with these.

For instance, are you aware that your obligations to pay your landlord rent until the end of lease even if you no longer need or want the premises? How long will this be and how much will this cost?

What reporting obligations do you need to meet with your bank as a condition of your borrowing? How will you secure your debt? What could happen if you fail to meet your repayments?

How do you pay tax and when?

IRD:

How you pay tax depends on your structure and is addressed at your meeting with your accountant. How much tax you pay depends on the amount of money you make and when you pay it depends on your commencement date. Many businesses fall foul of the IRD in their second year of operation due to their lack of knowledge of when and how much they have to pay and they do not plan for it.

GST – if your turnover is going to be over \$60,000 you will need to register for GST. It could be that you are entitled to a gst refund in your initial stages as you establish your business and buy or introduce assets into it. How much can you claim and how do you get this back?

What accounting basis should you be on for gst and what frequency would be suit you?

WAGES - You have legal and taxation obligations if you start to employ people – we can assist to ensure that you put in place your employment contracts, deal with paye and kiwisaver obligations and ensure that you maintain your records appropriately so that your people get paid what they are due and can concentrate on making you money.

BANKS – many funders require forecasts and regular reporting to support your borrowing application and maintain the relationship. We can assist you in preparing what they need so that you have the best opportunity to secure the funding that you need to make your dream come true and keep your bankers on your side.

### **3. My records:**

You are legally obliged to maintain records to support your business activities and we can advise on the most appropriate and cost effective method for your business.

We have in-house expertise in Xero, MYOB, and various payroll packages to assist you in establishing and maintaining your records in best manner.

We work alongside you so you have timely and relevant information to run your business as well as meet your reporting and recordkeeping obligations.

Getting it right from the start is so vital and we are happy to take the time to ensure that you are in charge of your business from day one.

#### **4. Funding/Cashflow:**

'Cash is King' – a saying that you really appreciate when working for yourself.

There is a huge difference between 'profit' and 'cash' and when you start out on your own it can prove a new experience in the meaning of the terms. Often business owners ask their advisor "So if I am making all this profit, where is it?"

On establishment, you could well need funds to buy assets, fund stock and meet other outgoings well before you have received \$1 in sales.

How will you fund this? From your savings or borrow it? How long will you need to borrow it for?

If you need to borrow funds from a bank to fund your business there is probably two things that they will require. 1. Proof in the form of forecasts to show that you can repay the debt and 2. Security to ensure that if you cannot repay the debt as it falls due, that you can sell the asset to repay the debt.

Your professional should be well versed in assisting you in preparing budgeted forecasts for profit, cashflow and balance sheets. We often work with our clients in helping them to prepare soundly based projections to ensure that they have carefully considered how their business will go and then monitoring progress towards those goals. This includes forecasting your taxation and gst commitments so that you are in charge all the way.

We take the time to help you understand what impacts your bottom line, how you can achieve your goals and explain "where the profit goes".

Few people understand that you actually need more money as your business grows not less.

A well prepared budget with sound judgements will go a long way to helping you secure the funding that you may be applying for.

#### **5. What can I claim?**

Often people are misled by "urban myths/popular misconceptions" that you can claim numerous expenses as deductible in your business.

The reality is that you can 'claim expenses incurred in deriving taxable income', however there is a distinction between some items of expense by the business being revenue or capital.

We can assist in clarifying the correct treatment of outgoings so that you are treating costs correctly and not running foul of the IRD.

Each business has its own unique costs and a list here of what you can claim would take too long to publish, however costs such as rent, telecommunication costs, advertising, professional services, interest, bank fees, office costs, power/gas, vehicle and travel costs are amongst some of the costs that businesses incur and can claim before arriving at their taxable income.

You may also be able to claim a home-office allowance in some circumstances.  
Talk to your professional advisor so that you are claiming all of the costs that you are legally entitled to and not putting yourself at risk of making incorrect claims and incurring penalties on top of tax with the IRD.

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