



## Set-up need to know

There are several different structures commonly used in setting up a new business in Aotearoa New Zealand

### SOLE TRADER

Great option if you are starting out/testing a side-hustle or small business!

Self-employed people carry out business activity on their own. Self-employment includes contracting, working as a sole trader, and small business ownership (which can include employing others). Usually, a self-employed person can start in business without following any formal or legal set up tasks.

If you're self-employed, you use your individual IRD number to pay tax. You pay tax on net profit by filing an individual income return. You can claim back expenses for business activity that you carry out, however it can cost you more than other structures might. Seek advice and review your status regularly.

You need to register for GST if you earn over \$60,000 per year.

### LIMITED COMPANY

A popular structure for start-ups creating separation between business and personal liability

A limited company is a type of business structure that is separate from the people who own it. It can be set up with one or many shareholders, who can be individuals, trusts or other limited companies

Companies can either make a profit or loss at the end of each income year and use losses to reduce income tax in the following years.

To form a company, you will need to register it by contacting the Companies Office and paying for a legal registration process. It's also important to have a valid and correct company constitution, and a valid and beneficial shareholder's agreement.

Companies need to send tax returns to IRD and annual returns to the Companies Office and are governed by the Companies Act.

### PARTNERSHIP

A helpful structure when you are going into business with someone else

Partnerships are two or more people who join to run a business. Each partner contributes something to the business and shares the profits and losses.

Partnerships hold an IRD number for the entity itself, but the partnership does not pay income tax. They need to complete a Partnership income tax return (IR7) to allocate the profits or loss to its partners.

Partners also declare the profits or loss they have received through the partnership in their personal income return using their own IRD numbers.

Partnerships need to register and pay GST if their turnover is more than \$60,000 per year.

Partnerships are governed by the Partnerships Act. There is also a Limited Partnership structure governed by the Limited Partnerships Act 2008. This is relatively new to Aotearoa New Zealand.

NB: A Joint Venture can be made up of two or more parties and is very similar to a Partnership. The parties are usually already established business entities pooling resources to carry out a separate business venture.

### SOCIAL ENTERPRISE

There is no formal social enterprise status in Aotearoa New Zealand. Businesses wanting to operate as a social enterprise can do so, but they are still liable to pay tax on any profit the business makes (whatever the chosen structure).

Alternative structures could include creation of a Charitable Trust or establishment of an Incorporated Society.