STRENGTH IN NUMBERS

UNDERSTANDING TAX FOR MUSIC PROFESSIONALS IN AOTEAROA

BETTER RECORDS

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Kia ora.

This guide is designed for professionals working in the music industry of Aotearoa in a sole-trader or self-employed contractor capacity.

The goal of this guide is to demystify accounting and tax compliance and show that, if broken down into simple steps and rules, you can reduce the anxiety around tax and ensure that you are getting the best financial outcomes.

Better Records are specialist accountants and tax advisors with more than 30 years' experience in the NZ music industry and we offer this as a free resource with absolutely no obligation so that we can help support our music whānau to free up their time for the creativity that we all benefit from.

Please see the links at the end of this guide and if you would like to keep up to date with tax and accounting information specific to you, please sign up for our newsletter.

WHAT IS A SOLE-TRADER?

A sole-trader is a self-employed person who runs their business as an individual, rather than through structures such as a Company, Partnership, or Trust. Sole-Trader is the most common structure for music professionals.

Often a self-employed person will also have income from salary or wages or have tax withheld on their contracting income. Both can result in overpayment of tax, so careful preparation of tax returns is required in order to have this tax refunded.

HOW IS IT DIFFERENT?

Pros

Sole-Trader is less complex and has lower compliance costs than other structures.
Any business loss can offset other income and often results in tax refunds.

Cons

Personal liability.
Unlike limited liability companies, a sole-trader has personal liability for damages and debts, and may need to consider indemnity insurance.

Expert Tip

Always discuss registration as a Company, Trust, or Partnership with a professional before committing to a decision. These structures carry hidden costs and rules.

WHAT ARE MY TAX OBLIGATIONS?

Tax on business income

As a sole-trader you are required to pay tax on your business income. This is calulated as revenue less any deductible business expenses (more on that later).

Record-Keeping

You are required to keep accurate records of your income and expenses, including invoices, receipts, and bank statements.

There is no minimum amount that IRD can request evidence for so we recommend keeping all receipts. Whether you use accounting software, or make an email folder where you store emailed receipts or photos of receipts that you have emailed yourself, technology makes it easy.

ANNUAL TAX RETURNS

Filing Income Tax Returns

Income tax returns sum income from all sources, as well as offset any tax deducted at source or paid in advance.
For most individuals filing is due on 7 July, and will be easier to prepare if you keep a good record of your business accounts.

Withholding Tax

Witholding Tax is deducted from all “schedular income” and while mandatory for most employers of sub-contractors to deduct, not all do this correctly, so attention is required.
It is important that you record the gross income (rather than the amount paid to your bank) in your return.

Provisional Tax

Provisional tax is income tax collected in advance and only applies when your final tax to pay in any one year is over $5,000.
Due to most sole-traders having withholding tax deducted, provisional tax often won’t apply.

OTHER TYPES OF TAX

GST

GST registration is mandatory when revenue exceeds $60,000 in a 12-month period.

You have no obligation to register only because a customer demands a GST invoice.

It is possible (and sometimes advantageous) to voluntarily register, but this is a complex decision with serious ramifications, so we recommend you speak to a professional.

ACC

Unlike salary & wages where ACC levies are deduced from income weekly, levies for sole-traders are calculated annually and based on your total income filed with IRD. It is very important to ensure that IRD have your correct classification to ensure that you are charged levies at the correct rate for your annual invoice.

YOUR BUSINESS ACCOUNTS

Keep it simple

Whether you use accounting software or a spreadsheet, filing you returns will be easier if you prepare a simple profit and loss report.

You can simply download your bank statement data for the year and then sort and summarise in a spreadsheet.

More help is coming

We are currently working on some free resources to help with the preparation of your accounts, so please keep an eye on our socials or subscribe to our newsletters for upcoming tax workbooks and further guidance.

Expert Tip

Keep a separate bank account or suffix that you only use for business purposes.

WHAT INCOME TO INCLUDE?

Business income

Include all income that is derived from the provision of goods or services. You can gather this from your invoices, or your bank statements.

For income tax* you will need to include income that has been invoiced, even if payment has not yet been received.

*(*unlike GST which can be returned on either cash-basis or invoice-basis)*

Other income

Grants and Funding are always assessable income but have some unique recognition rules that if understood can save you tax and help your cashflow.

Overseas income is taxed in NZ for all NZ tax residents, however any tax paid overseas (may) be able to be include to offset tax.

Royalties should be included in business income.

BUSINESS EXPENSES

Nexus with Income

The fundamental factor in determining the deductibility of business expenses is the “nexus” with income. This looks at whether the expense has been incurred in the provision of goods or services. If not, the expense may need to be shared or excluded (private expenses).

Business or Hobby?

Sometimes, when a taxpayer's expenses regularly exceed their income, IRD will reject tax refunds on the basis that they consider they are not in business and the expenses are personal.

The fundamental definition to being in business is the “intention to make a profit”, so it’s important that you can show this intention.

Social media posts and advertising are most often the best evidence of intention.

WHAT EXPENSES CAN I CLAIM?

Shared Expenses

In many cases the nexus with income is not as simple as business or personal. Here are some examples of expenses that may need to be shared, or apportioned, based on business use.

Motor Vehicle expenses
Home office expenses
Entertainment
Clothing and Grooming

*For more details refer to the **deductions checklist** at the end of this guide.*

Expert Tip

Remember that IRD can see your public media, so make sure expenses match your actions. Don't claim that holiday as a tour if your posts tell a different story.

A RECAP -THE STEPS

Be ready

Keep Receipts
Keep a separate bank account or suffix

Preparing your return

Download your bank statements
Import into a spreadsheet
Columns for separate income and expenses
Exclude any strictly personal expenses
Exclude any assets over $1000 cost
Sum each column
Apportion the total of any shared expenses
Add depreciation*
Take net business income to your IR3
(but don't double count any Schedular)
Ensure your ACC details are up-to-date
Sign-up to our newsletter for regular updates

Notes

* Calculation of depreciation on assets over $1,000 can be tricky and we recommend seeking professional advice.

RESOURCES & SUPPORT

The music community of Aotearoa has a fantastic network of support agencies and organisations, many will be able to support you directly or provide advice. There are also many online calculators and tools available to help you to plan and operate as a sole-trader.

Subscribe to our newsletter via instagram to receive regular updates and free tools
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DEDUCTIONS CHECKLIST

Usually Claimable

- Mobile phone (100%)
- Repairs & maintenance
- Printing and stationary
- Touring/Travel expenses
- Storage/Rehearsal space
- Bank charges
- Legal fees (to $10,000)
- Subscriptions
- Registrations
- Memberships
- Advertising
- Computer costs
- Consulting/accounting
- Freight, courier, post
- Interest on loans
- Office expenses
- Protective clothing
- Equipment rental/lease
- Subcontractor expenses
- Training/courses (with exceptions)
- Assets under $1000

Apportioned

- Motor vehicle expenses
  - Petrol, insurance, WOF, registration, repairs.
  - Up to 25% business use without logbook, otherwise based on actual business use.
- Entertainment
  - 50% deductible.
- Home office
  - Power, rent or mortgage interest (not principal), rates, water, insurance.
  - Apportion by the percentage of the space,
  - Internet can be 50%

Never claimable

- **Drawings**
- **Medical, physio, massage**
- **Fines (Police, IRD, Parking)**
- **Gym Fees, School Fees, childcare costs.**

Remember - Nexus with income

Disclaimer: The information contained in this guide is not intended as a replacement for guidance provided by an accounting professional or by IRD. It is intended as a broad guide and does not account for the specific factors required to make decisions or specific recommendations.

For more information see the IRD guide on Business expenses, here

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