

Contracting is becoming increasingly popular in New Zealand. There are plenty of professional and financial reasons to contract, but it's not without some additional responsibilities on you!

We have put together this guide so you can gain an understanding of what to expect when contracting in New Zealand. If there is anything you think we have missed, let us know and we can add some more detail for future readers – talk@globalattract.co.nz.

If you are looking for Global Attract's own contracting procedures, then you should download the 'Contracting with Global Attract' document at <http://www.globalattract.co.nz/resource-centre/contractor-resources/>

WHY CONTRACT?

Work to suit your schedule

Contracting can offer you the opportunity to pick and choose when you work. Whether you want the flexibility of working four days a week, or like to escape the NZ winter for the warmth of Europe, contracting can give you that flexibility!

Expose yourself to new skills and industries

Contractors typically change jobs two or three times a year. This provides you the opportunity to deepen and broaden your skill-set, keep fresh and motivated and also widen your professional and personal networks. Contracting can be your perfect foray into new positions, where clients may be willing to take a punt knowing they are not making a permanent commitment.

Try before you buy

Contracting lets you discover whether a job or company is right for you, without making a big commitment. With a variety of jobs to choose from it can be difficult to know what is right for you. Contracting offers the opportunity to 'dip your toes in' to a new industry or company.

"Try before you buy" cuts both ways though, with short notice periods for you and the company. The notice period on most contracts is usually between one day and two weeks for you and the company. It will pay for you to check the specifics of your contract as these tend to vary. While not always the case, you should expect the notice period to be reciprocal on both parties

Apply your specialist skills

Some specialist skills may be more conducive to being spread across a number of clients rather than just to one.

Better pay for giving up some rights

As an independent contractor, you are not afforded some of the rights that employees get. E.g. you do not get Statutory Holiday or Annual Leave entitlements under the Holidays Act. Because of this, it's reasonable to expect that as a contractor you get paid at a premium for giving up these rights.

Some tax benefits

There are some business costs that you can claim against your income. For example if you have a devoted office space, or pay for professional memberships, these can be offset against your income for tax purposes.

WHAT CAN YOU EXPECT AS A CONTRACTOR?

The key difference between being a contractor versus an employee is contractual.

As an employee, you are contracted via an Employment Agreement, and the Employer is typically the same firm that you trundle off to each day. Your employer takes responsibility for the majority of your business requirements and development, and importantly employment legislation affords you employment and leave rights. Your employer also deducts your tax before paying you.

As a contractor, you will typically have an independent contract for services with either a recruitment agency or direct with a 'client'. So, you may have no direct contract with the party you are contracted to. The client has a responsibility to provide a safe environment, but you are not afforded the protection provided by employment and holiday's legislation.

The following table outlines what to expect as a contractor in the workplace.

You generally get:	You probably won't get:	You won't get:
<ul style="list-style-type: none">• Workplace tools etc – PC, Desk• Access to basic stationery• Invited to work functions/drinks• Meals and accommodation while on business for the client	<ul style="list-style-type: none">• Mobile phone• Performance appraisals and mentoring• Bonuses• Training courses• Staff gifts	<ul style="list-style-type: none">• Paid leave for:<ul style="list-style-type: none">○ Holidays○ Sickness or bereavement○ Jury service• Courses• Pensions• Redundancy• Union representation

The later sections of this document outline the steps required and the things you need to manage as a contractor. Don't worry, they are not hard once you know what they are – which is why we are here to help!

HOW DO YOU STRUCTURE YOURSELF AS A CONTRACTOR?

The two main options are to set up a company or to work as a sole trader. At Global there is an equal mix of sole traders and companies contracting through us.

A sole trader is a person who:

- Trades on their own and is entitled to all profits.
- Is personally responsible for all taxes and debts.
- Uses their existing IRD number for their business.

A company:

- Is as formal legal entity in its own right, separate from its owners/shareholders.
- Owns the assets and liabilities it generates.
- Limits the shareholders liability to that of their share of the company.

The basic pros and cons of these entities are detailed below:

Entity	Advantages	Disadvantages
Company	<ul style="list-style-type: none">• Own entity – keep personal and business affairs separate• Can potentially make shareholder salary payments or pay dividends to a trust	<ul style="list-style-type: none">• Additional compliance effort:<ul style="list-style-type: none">○ Annual returns○ Tax returns• Must ensure you are not caught by Attributions Rules
Sole Trader	<ul style="list-style-type: none">• Easy to understand• No new IRD number or bank account number required (though may need to register for GST)	<ul style="list-style-type: none">• Income is taxable in the hands of the trader

ABOUT THE ATTRIBUTION RULES

If you are working through a company you need to be mindful of the 'Attribution Rules'. The Attribution Rules require the income earned through the company to be attributed to the working person if certain criteria are met. The key criteria is that if 80% or more of the income in the year is earned from one party, the income must be attributed. Attributing the income is not the end of the world, but it negates some of the advantages of the company structure. For further information on the attribution rules we recommend you visit www.ird.govt.nz or talk to an accountant.

Our advice is that if in doubt, or if you only expect to be contracting for a short period of time – then it will be easier for you to contract as a sole trader.

HOW TO GET SET UP AS A CONTRACTOR?

If you plan to use an accountant, now's a good time to talk to them. However if you wish to do things yourself, the steps below can guide you through the process of setting yourself up as a company or a sole trader. The boxes at the right denote whether the step should be considered under the company or sole trader option.

1. SET UP A COMPANY

COMPANY YES

SOLE TRADER N/A

There are a few steps involved in setting up a company – you need a name that is unique and you need to appoint directors for a start. <http://www.business.govt.nz/companies/learn-about/starting-a-company> has great step by step instructions on how to set up a company.

Note – every year you will need to file an annual return with the Companies Office. The Companies Office will send you a reminder in advance of the required filing.

2. APPLY FOR AN IRD NUMBER

COMPANY YES

SOLE TRADER NO

You should already have a personal IRD number which is the one you should use as a sole trader.

A company is a separate tax entity, so you will need to get a separate IRD number for it. You can download the IR596 form from the IRD website – www.ird.govt.nz.

You will need to send a copy of your certificate of incorporation along with your completed IR596 to get an IRD number issued.

The IRD also has some good tolls for small business - <http://www.ird.govt.nz/business-income-tax/tax-for-bus/>.

3. REGISTER FOR GST

COMPANY YES

SOLE TRADER YES

If you expect your annual turnover to be more than \$60,000 and that income is from a taxable activity (which is most activity) then you will need to register for GST. If you expect to earn less than \$60,000 it is still worth considering registering as you can claim the GST back on costs you incur in business – E.g. phone bills, that you would otherwise pay GST on and obtain no credit for.

<http://www.ird.govt.nz/gst/gst-registering/> provides information on how to register for GST and your GST obligations.

When you register you have choices regarding:

- The frequency of returns - we recommend every six months. This means you will have less returns to file and can hold onto the cash for a bit longer (just don't go spending it).
- The accountancy basis - whether you pay on an invoice basis (i.e. calculated based on the date of an invoice), cash basis (i.e. calculated based on the day you are paid or pay someone else), or a hybrid. We recommend a cash basis.

For more details on the accountancy basis and frequency of returns refer <http://www.ird.govt.nz/gst/gst-registering/get-ready/>

4. OPEN A BANK ACCOUNT	COMPANY	YES	SOLE TRADER	N/A
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For a company:

- A separate bank account will be required – you should not use your own personal account. To open a company bank account, in addition to the usual documents required for opening a bank account, you will need a copy of your certificate of incorporation.

For a sole trader:

- You may choose to run your sole trader affairs through a separate bank account, but you do not have to. If you choose to use your existing account, do be aware that you are collecting gross receipts and will need to pay away GST and Provisional Tax at a later date. Many sole traders get fooled into thinking they are richer than they are, spending the money they have collected, then finding a large tax bill months later.

Note: Some contractors choose to have two bank accounts for their company. This is so they can ‘ring fence’ their GST collected and any required funds for provisional tax, so that it is not spent by the company or paid out as dividends and wages.

5. DETERMINE HOW YOU WILL MANAGE	COMPANY	YES	SOLE TRADER	YES
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If you are going to use an accountant, they will tell you what they need from you. But, if you plan to manage your accounts yourself, then you will need a way to track all your transactions and issue invoices.

For a company:

- We recommend you purchase some basic accounting software. There are plenty of options available – the most popular being MYOB (www.MYOB.co.nz) and Xero (www.xero.co.nz). Both of these companies offer ‘cloud based’ solutions so you can access your accounts anytime anywhere for a reasonably priced monthly fee.

For a sole trader:

- You may only be worrying about an invoice every month then managing your GST and provisional tax obligations. As such you may find it just as easy to manage your business affairs with a couple of simple spreadsheets.
- Alternatively the accounting packages listed above will be very useful.

If you are purchasing an accounting package, it pays to choose a solution that caters to the NZ market. Both the above are good as they can provide direct bank feeds from your bank account and are tailored to the NZ market.

6. SORT THE CONTRACT

COMPANY

YES

SOLE TRADER

YES

Once you have decided how you are going to contract, you will need to sign a contract for each contracting engagement.

- If you are contracting through a recruitment agency like Global – the agency will provide you with a copy of the contract which you and the agency will sign.
- If you are contracting directly with a client – the client will provide a copy of the contract and you and the client will sign.

The only difference in the contracts with a company versus a sole trader is the name in which you are signing the agreement.

7. CONSIDER INSURANCE

COMPANY

YES

SOLE TRADER

YES

As an independent contractor you are not afforded the protection from public or professional liability that employees typically have. You are trading as a business and you have a duty of care to your clients and the public. Many recruitment agencies and clients require their contractors to have the following insurance cover:

- Professional Indemnity Insurance. Provides essential financial protection for professionals for claims made against them in carrying out their professional services.
- Public Liability Insurance. Covers your legal liability for property damage and anyone in, or near, your business who suffers injury or death.
- Statutory Liability Insurance. Provides protection to entities for any defence or representation costs, awarded fines or monetary penalties associated with alleged breaches of most New Zealand statutes affecting commercial activities

We recommend contractors obtain the above insurance cover. We require it of our own contractors.

TIMESHEETS, INVOICING AND PAYMENT

In order to get paid, you need to do the following:

1. Do the work and record your time – this will typically be in hours or days
2. Get your timesheet approved by your line manager
3. Submit your approved timesheets
4. Submit your invoice

If you are working through a recruitment agency like Global, you submit the timesheets and invoices to the agency. Your agency will provide you with details of their timesheets and invoicing procedures, how these should be submitted and when you will get paid.

If you are working with the client directly, you will submit your timesheet and invoice to them. Your hiring manager will provide you with the details.

Your recruitment agency or client will advise you when to expect payment. When you do get paid, remember that some of that money is to pay future GST and provisional tax.

ONGOING MANAGEMENT

Once you are set-up, you need to continue to stay on top of your affairs. It's a good idea to set aside a few hours each month to do your invoicing, update your records etc, and check whether there are any payments or returns falling due in the upcoming month that you will need to sort. Outlined below are the major items you need to keep track of.

GST

You will need to file GST returns according to the frequency you selected when you registered. This will probably be every six months. We recommend registering to do this online through IRFile – it will make life a lot easier for you!

Your GST Return will comprise:

- The income you have billed (invoice basis) or received (cash basis) for the period.
- Items that you may claim GST deductions for such as:
 - Office supplies and stationery
 - Motor vehicle expenses (only those related to business use)
 - 50% of entertainment costs
 - Professional memberships
 - Computer consumables
 - Insurance and ACC
 - Phone costs

Your GST return form will state the due date, which is typically within 28 days of the end of the GST period.

The IRD site has a lot of detail around the ins and outs of GST, including a comprehensive GST Guide - <http://www.ird.govt.nz/gst/>.

PROVISIONAL TAX

While employees have PAYE deducted every time they are paid, as a contractor you are paid with no tax deducted. The IRD does not like you holding on to all this cash until the end of the year, so you are required to pay provisional tax at stages throughout the year. The dates are linked to your GST returns.

The IRD site contains detailed information on provisional tax <http://www.ird.govt.nz/provisional-tax/>

ANNUAL TAX RETURNS

We recommend that you engage an accountant for your annual tax return. This can be a good backstop in case you have inadvertently got something wrong during the year. Your tax advisor will advise what they require from you.

ACC

When you are an employee, ACC is collected via an employer levy (paid directly by the employer) and an employee levy (which is deducted with your PAYE up to an annual maximum of around \$2k).

As a contractor you will be responsible for your ACC payments:

- As a sole trader, ACC will levy you directly for ACC. You will get an invoice once a year.
- As a company you will pay ACC as all other employers do - through a combination of the employer levy and deductions on any employee salaries paid.

FINALLY

If you have any questions, drop us an email. We are here to make contracting as easy and as painless as possible. You can contact us on:

talk@globalattract.co.nz

Happy contract hunting!