

Starting a small business - frequently asked questions

People often ring us to ask about how to go about starting a small business. Here are some of the questions that seem to come up most frequently, together with our responses.

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Q: I'm thinking about turning my hobby into a business. Do I have to form a company so I can test out my concept?

A: No, you don't have to form a company to start testing your concept. There are three basic business structures in New Zealand: sole trader, partnership and company. Most businesses start as sole traders, then progress to partnership or company status later.

You can 'test the waters' as a sole trader (the simplest way to start), choosing whatever trading name you like, provided it does not conflict with an existing business name or brand, or is confusingly close to an existing name or brand. For example, you might decide to trade as 'Susan Brown Craft Products'. Provided no one else is using this name, or something very similar, you should be able to order your signage and stationery.

[Find more information on business structures.](#)

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Q: How do I check if someone else is using my preferred trading name?

This is a bit trickier, because there is no central register in New Zealand of 'sole trader' trading names. For companies it's different. You can find out if someone else is already using your proposed company name by visiting the Companies Office website completing a [name search](#).

We suggest you search this site first anyway to see if a company is using your proposed trading name. Then search the [trade marks register](#) to ensure someone doesn't already have rights to the name. This is because trading names can often be trade marks. Search the [Yellow Pages](#) website to make sure there's no similar or identical listing in either the White Pages or the Yellow Pages. Double check by searching at least your local phone book. As a final check, search for similar names through [Google](#) or other local search engines. If all these avenues show no one is using your preferred trading name, you should be in the clear to go ahead. If by some unfortunate chance someone else is using the same name, you can at least show that you've made a serious attempt to find a match.

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Q: Must I register somewhere before I start?

A: If you form a company, then various formal steps are required. But even if you start as a sole trader, you should notify Inland Revenue so that they can record you are self-employed. There are three good reasons for this:

- Firstly, to register for accident cover. Inland Revenue will in turn notify ACC to provide you with the appropriate cover. Otherwise, if you have an accident, you may not have your claim accepted from the date you say you went into business unless the date has been recorded somewhere (with Inland Revenue in this case). This applies both to the start of a full-time enterprise and to the start of a part-time business (such as in the evenings) while you're still employed.
- Secondly, so that Inland Revenue can correctly code the computer to send you the appropriate Business Tax forms at the end of the financial year. These forms will help to remind you of your obligations.
- Thirdly, to help you with your claims for business expenses. The reason for this is that Inland Revenue is unlikely to let you claim for equipment you bought some time ago when you were operating as a hobby. So if you want to claim legitimate business expenses, such as extra equipment you might need to buy, stationery, signage, etc., start keeping proper records immediately and let Inland Revenue know you're 'in business'.

You can then give your records to your bookkeeper or accountant at the end of your first financial year. Note: the most common ending for a financial year is the 31 March. Even if you haven't been trading for a full 12 months before the 31 March, you should still give your records to a bookkeeper or accountant for them to prepare a return for Inland Revenue.

The best way to let Inland Revenue know of your intentions is by phone. But remember that [Inland Revenue phone lines](#) are open until 8 pm each weeknight, and to 1 pm on a Saturday. So ring after normal business hours: it's quicker.

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Q: If I'm starting as a sole trader, should I open a separate bank account?

A: Yes, this will make life much easier for you and for your accountant, because this step allows you to separate clearly your business income and expenses from your private income and expenses. Visit your bank and ask for a separate account. Before the bank can open a separate business bank account they will need a business Inland Revenue number.

As a sole trader your business Inland Revenue number will usually be the same as your existing personal one (but check this out with Inland Revenue beforehand).

This separate business account will typically be named something like 'Susan Brown trading as Susan Brown Craft Products' (or whatever). The bank statements are usually the prime source of information for your accountant or bookkeeper when they come to put together your accounts at the end of your first year's trading.

Make life even easier for yourself by getting a cash card from the bank in your trading name. This way, instead of running a separate petty cash account, you can use the cash card to pay for minor purchases (like stationery) through EFTPOS. All these transactions will be neatly listed on your business bank statements and you can just staple the relevant EFTPOS till receipts and invoices to the bank statement every month. No need to carry cash around or worry about balancing a petty cash account.

A similar tactic is to use a business credit card. Make sure, though, that you receive and keep proper GST invoices for all your purchases.

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Q: Should I use an accountant or lawyer?

A: You can trade and put in your own tax returns, or you can use a bookkeeper (someone skilled at keeping books who is not a fully qualified chartered accountant). I recommend, though, that you find an accountant. Very few successful small businesses function without one. You're unlikely to be aware of all aspects of the tax system. Ask friends already in business for recommendations, and choose an accountant who works with other small businesses. Your accountant should be able to save you money and stress by advising what you can claim and how, as well as giving you advice on how to set up a basic bookkeeping system.

It's also a very good idea to consult a lawyer about your business intentions. Certainly do so if you intend signing a lease or any legal document. Depending on your business, a lawyer might advise you to take out public liability insurance or other forms of protection.

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Q: Should I approach Inland Revenue?

A: Yes, don't be afraid to contact Inland Revenue. Too many small business people view Inland Revenue as a bogeyman best left as undisturbed as possible. "Send them money regularly and hope they leave me alone!" seems to be a common attitude. In fact part of Inland Revenue's job is to offer help and information, particularly for new businesses. You'll find the [Inland Revenue web site](#) very useful for answering your basic questions about setting up a business and by phoning 0800 377 774 you can also arrange to speak to a Business Tax Information Officer. Their web site lists various helpful publications you can order, pick up from your local Inland Revenue office, or download from the site itself. There's

also a good FAQ (Frequently Asked Questions) section. Your tax dollars fund this service, so why not make full use of it? You can ask for free advice even if you're just thinking about starting a business.

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Q: Can you briefly explain the pros and cons of the different business structures?

A: At the risk of oversimplifying, here's a broad outline of the differences.

- As a sole trader you are the business and the business is you. Most people start this way because it offers low-cost, easy entry, but the disadvantage is that you are totally responsible for the debts and liabilities of your business. You'll be taxed on your income from the business at individual tax rates.
- Partnerships are usually formed when two or more people, perhaps with different or complementary skills and resources, get together to run a business or to share office space and overheads (the partnership structure is popular with accountants and other professionals). As a partner, you are liable both separately and jointly with the other partner(s) for the liabilities of the partnership. You split the profits according to the partnership agreement (for example, two partners agree to split the profit 50%). You are taxed at individual tax rates on your income from the partnership. The disadvantage is your liability not only for your own debts, but also for those partnership debts incurred by your partner(s).
- When you form a company, you create a legal entity quite separate from yourself. The company can continue long after you have departed, because your shareholding in the company can pass to someone else. The 'limited' part of a company's name stands for 'Limited Liability'. This means that as a shareholder in the company you are not personally liable for the company's debts (beyond the paid-up capital) unless it can be shown that you have acted recklessly (for example, continuing to trade when the company is insolvent). You'll be taxed at a different rate from the company.

Companies carry more credibility in the marketplace than sole traders, because taking the trouble to form a company shows that you are thinking about the long-term future of the business. The disadvantages are that a company costs more to run because more compliance paperwork and registration costs are involved. Also, in practice the 'limited liability' advantage is offset by the fact that a bank or other lender will typically require your personal guarantee before advancing finance of any significance.

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Q: How do I register a company and can I do it myself?

A: Your accountant, business adviser or lawyer will be able to set one up for you and advise you on a suitable structure and constitution. There are some wrinkles that you need to be aware of so at least discussing your intention with an accountant or lawyer is a good idea.

If you're a confirmed 'do-it-yourself' type, then visit the [Companies Office website](#) and browse the options.

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Q: Should I write a Business Plan for my business?

A: We certainly recommend you complete a Business Plan. Three good reasons: firstly, the research and thought you'll have to put into writing the business plan will help you to sharpen and/or adjust your ideas.

Secondly, any lending institution that you might approach for funds, such as a bank, will want evidence that you're done your homework and properly thought through your business concept.

Thirdly, the business plan provides a road map for your business. It lays out what you intend doing, how you intend to do it, the resources you need, and your action deadlines for each stage. The business plan forms a 'living document' that you can then revisit at regular intervals and modify according to your progress or changing circumstances.

[Check out our information on business planning.](#)

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Q: Must I register for GST?

A: Not unless your business turnover is likely to exceed \$60,000 in the next 12 month period. But our advice is yes, go ahead and register. There are very few small businesses that would benefit from not registering (if necessary phone Inland Revenue on 0800 377 774 and arrange to speak to a Business Tax Information Officer about the pros and cons).

Why do we say register? Four reasons. Firstly, let's get real! You do want to turn over more than \$60,000 a year, don't you? If not this year, then soon! Start with the right, positive attitude and take your business seriously.

Secondly, you'll be able to claim back the GST back on all your business expenses that have a GST component, such as equipment, supplies, etc. So that computer that is priced at \$3,000 including GST in fact costs you only \$2,550 (\$3,000 less the GST of 15%). Of course, you have to add GST to all your invoices and pay this to Inland Revenue (less the GST you're claiming back on expenses), but this shouldn't be a problem as long as you have enough self-discipline to remember that this GST component belongs to the government and is not your money.

To make life easier, it's a good idea to start a separate bank account (still under your trading name) and channel sufficient funds into the account to meet your various tax obligations. Your accountant will give you advice on how much you should tuck away each month to meet your obligations. This way you'll sleep much better at nights.

Thirdly, the discipline of doing a GST return every two months (you can choose a six-monthly return if your turnover is low, but we recommend you choose the two-month option for the discipline reason) will let you know how your business is doing. It's like generating a quick Profit and Loss report every two months.

If you're not paying any GST to Inland Revenue at the end of every two months, then you've probably made a loss (unless perhaps there was a large equipment purchase or some other one-off factor during this particular two-month period).

This is because you pay Inland Revenue the difference between the GST you're claiming back (supplies and expenses, like that computer purchase) and GST you've collected on your invoices or cash sales. Obviously to stay in business you hope to sell more than the cost of your expenses, so every two months you'll be hoping to send a fat GST cheque off to Inland Revenue. The bigger the cheque, the more money you've made. If those cheques aren't being sent on a regular basis, there will be a problem that needs correction. So the two-monthly return also offers you a quick check on the health of your business and a regular chance to correct things before a minor problem becomes a major problem.

The fourth reason for becoming GST registered is that larger businesses will take you more seriously. If you're not registered, the signal is that you're possibly too small.

[Find out more about GST.](#)

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Q: What help and/or funding is available for small businesses

A: There is not much I am afraid. New Zealand Trade and Enterprise have some funding but it is usually tagged for existing businesses, and NZTE usually know who they want to work with. You could contact your local [Economic Development Agency](#) but we suggest you operate on the premise that there are no major grants for most start-up businesses in NZ.

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Q: Do I need business skills or experience to start a small business?

A: The failure rate of small business start-ups is high. One major reason is lack of business skills. Therefore yes, you should systematically set about improving your business skills.

Perhaps the most important ingredient you need to succeed is enthusiasm and drive, backed by persistence and a determination to achieve your goals no matter how much hard work is involved.

But you'll greatly improve your chances of success if you have good business skills. These include the skills to market your business in a creative and sustained way and the skills to build and manage efficient business systems that enable the business to operate smoothly.

Many people start small businesses because they're very good at something, like making things, or being an electrician, or offering specialist knowledge, like computer installations, or public relations work. They often fail because their other business skills are poor, or they couldn't be bothered with them. It seems more fun to do what you enjoy doing than to keep the book work up to date, chase debtors, invoice promptly, do a cash flow forecast or manage tax liabilities, so these tasks are neglected, and the business suffers.

Another major reason for failure is lack of experience in the chosen industry. The solution is to work in the industry before you start or buy that business - even if you have to work for low wages or just for the work experience. The idea of running a Bed & Breakfast might sound dandy, until you've actually tried it and learned about some of the difficulties. Buying a hot bread shop with all those fresh pastries on display might seem great until you realise that bakers often have to get up around 3 am to start the baking process for the day. My advice is to learn about the advantages and the disadvantages of the industry you're interested in before you take the plunge.

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- This information is provided by The Small Business Company:

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experts in small business

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