

# Setting up a Business in New Zealand



## Preliminary

New Zealand has a population of around 4.7 million people.

Auckland (situated in the North Island) has a population of around 1.6 million people and is growing at the rate of around 40,000 people per annum.

At the time of putting together this paper, the New Zealand Dollar buys around US\$0.72 or US\$1.00 buys around NZ\$1.39.

New Zealand is ranked as one of the easiest countries in the OECD in which to establish a business from off-shore.

## Key Points

Essentially, an off-shore entity needs to incorporate a New Zealand company, register the company for tax with the IRD (Inland Revenue Department) and register the company for GST (Goods and Services Tax), all of which can be done online but, ideally, should be organised through a New Zealand accountant. It is a requirement of New Zealand law that one director of the company has a New Zealand address for residence purposes.

Once the company is registered in New Zealand, it is free to trade but the usual requirements apply to the company, including the filing of an annual company return, filing annual tax returns and filing GST and PAYE returns on a regular basis, all of which can be done online.

Some points to note:

(a) New Zealand has a per capita income of around NZ\$53,000, which is lower than the US equivalent.

(b) Personal taxes are higher than countries such as the USA but, on average, compare well with other countries in the OECD.

(c) ACC or Accident Compensation Commission contributions are compulsory for all businesses and these contributions are used to fund a national, no-fault, accident compensation scheme. Essentially, if there is an injury sustained at work or at home, then ACC (as it is commonly known) applies, in most cases, to cover basic medical and rehabilitation costs.

(d) New Zealand has a comprehensive public health system, which provides basic, free, medical procedures, such as treatment for strokes, heart attacks, etc. The health system is well organised and well regarded on an international scale. Health insurance is advisable for New Zealand residents and ensures access to medical practitioners chosen by the participant. The costs of health insurance in New Zealand are somewhat cheaper than a number of countries, such as the USA. Typically, people insure for specialist treatment and surgical procedures in private hospitals.

(e) Food costs in New Zealand are higher than in the USA and Australia, partly because basic wages are higher than the USA but also because a small population means economies of scale are less achievable. Seasonal factors also impact on availability of fruit and vegetables. Chicken and red meat are readily available, although again the cost is higher than some other countries in the OECD. There is a wide range of food products available in New Zealand.

(f) The minimum wage here is now around \$15 per hour. Most people work a 40 hour week but part-time and casual labour is common in the retail food industry. Employment law is comprehensive and employment agreements are compulsory. Strict rules apply to dealing with staff disciplinary or redundancy procedures and specialist advice is recommended for

hiring and dealing with staff. Three month probation periods apply to many newly engaged staff.

(g) Wages are usually paid by direct payment into bank accounts on a weekly basis and PAYE (pay as you earn tax) is deducted from such payments by the employer and each month a PAYE return is filed online by the employer for all employed staff. That return calculates the appropriate PAYE, which is payable on the filing of the return. Employers can request that student loan deductions or Kiwisaver deductions be deducted from weekly payments. A good accounting software package is recommended to take care of the payment of wages and PAYE.

(h) The registration of trademarks is recommended and is a fairly easily carried out procedure, which can be done online but specialist advice is recommended. Domain names should also be registered online. Websites are common for all types of businesses in New Zealand.

(i) Registration of food premises is compulsory and employers should undertake basic hygiene training courses. Municipal Councils supervise the standard of food premises and inspections are not infrequent.

(j) Business insurance is strongly recommended to include public liability insurance. Insurance premiums are competitive and using a good broker is recommended. Note that all commercial buildings in New Zealand must have a warrant of fitness and earthquake ratings on buildings should be taken into account when selecting business premises for leasing purposes.

(k) Building leases are typically for 6 years with rights of renewal. Most leases require all outgoings (including basic building maintenance) to be paid by the tenant. Leases typically have rent increases geared to CPI or rent valuations. The use of leasing experts can be helpful in securing good premises. Personal guarantees are common in leases but are increasingly being replaced by bank guarantees, equivalent to two or three months' rent.

(l) Apart from income tax and Council rates, the other factor to take into account is GST itself. This applies to all goods and services purchased in New Zealand, other than financial services and domestic rent. GST applies at the rate of 15% across the board and is usually paid on a 2 monthly cycle to the IRD. It is important to note that all retail prices must be expressed to include GST in the retail price.

However, all businesses are entitled to off-set against GST returns a deduction of GST at the same rate for goods and services purchased during a relevant period. If, for example, GST is payable on a turnover of \$100,000 in two months then, if operating costs are \$50,000, GST on this amount is off-set, leaving GST payable on the net \$50,000.

(m) New Zealand businesses are governed by the Fair Trading Act, the Consumer Guarantees Act and by the Health and Safety at Work Act. Familiarity with this law is essential and good information can be found on websites.

(n) The country is regarded as virtually corruption free and good relationships are commonly formed with retailers and suppliers. There is an Act called the Personal Property and Security Act, which allows suppliers to register financing statements over companies to cover credit for goods and services supplied.

(o) There are 4 major trading banks in New Zealand (all Australian owned) and it is best to shop around and see what sort of rates and deals they offer, before making a decision. There is a certain amount of competition between the banks, although service levels are not always the best. Kiwibank and TSB are smaller, locally owned, banks.

(p) Establishing a relationship with a commercially orientated lawyer, a good accountant and a good insurance broker can assist in setting a business off to a good start. Consider joining a business association that focuses on the area of intended business operation.

**We can help!**



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**Important:** This information is provided as a guide only and is not intended to be legal advice. You are strongly recommended to consult the services of an experienced franchise lawyer if you are considering purchasing a franchise.

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