

Taxation Module

Topic 5 Tax for non-individual entities

THEME Managing my money

Name:

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Nau mai haere mai!

Welcome to topic Tax for non-individual entities

This topic supports you to consider the different ways that businesses can be set up in Aotearoa New Zealand. We will explore the way these are taxed and look at the rights and responsibilities of the owners.



sole trader?
partnership?
not for profit?
company?

How should
Max4Tax set up his
business entity?

In this topic you will explore:

- **Section One:** Types of business entities
- **Section Two:** Not-for-profit organisations
- **Section Three:** Pay up at tax time

The topic will support you with:



TAX Facts

The key ideas you need to know about the tax system in Aotearoa New Zealand.



TAX Chats

Ideas or questions that you can discuss with other students. These will challenge you to think about different ideas and perspectives about the tax system.



TAX Tasks

Tasks that will help you learn about the tax system and how decisions are made about the spending of taxes.



TAX Checkpoints

Questions to check that you are on track with your learning.



TAX Assessment Task

You will select one task to demonstrate your understanding of the topic.



TAX Smart

An assessment rubric for you to assess your own outcomes.



Introduction

It is good to know about different business entities as part of your financial capability toolkit for the future: you might set up a business yourself one day. This topic supports you to learn about how the type of business entity you select determines how that organisation is administered, legally protected and taxed. We also explore for-profit and not-for-profit organisations.

Learning Outcomes

After completing this topic you will be able to:

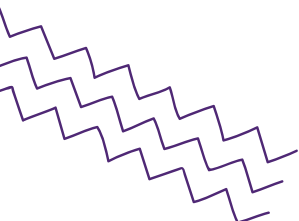
- ✓ Describe a business entity in Aotearoa New Zealand
- ✓ List the three most common types of business entities
- ✓ Explain the difference between for-profit and not for profit business entities in Aotearoa New Zealand
- ✓ List tax-related events that require an IRD number for business entities in Aotearoa New Zealand
- ✓ Describe different types of the characteristics of business entities in Aotearoa New Zealand
- ✓ Explain tax obligations for not-for-profit and for-profit entities
- ✓ Describe tax rates for business entities in Aotearoa New Zealand, for example self-employed, Māori authorities, and etc.

Success criteria

At the end of this topic, you will select a task to complete for your assessment, so it is important to complete all sections. To support your learning it is important to complete the TAX Facts, TAX Chats, TAX Checkpoints and TAX Tasks so that you can demonstrate your understanding of the different ways that a business entity can be structured and explore the Tax requirements.

To be successful you will need to:

- ✓ Describe the three most common ways to set up a business entity in Aotearoa New Zealand
- ✓ Describe that how you set up a business entity is how it will be structured and taxed
- ✓ List reasons why a business entity needs to apply for an IRD number
- ✓ Describe different business entities
- ✓ Compare for-profit and not-for-profit organisations
- ✓ Describe tax rates for different business entities
- ✓ Access the Inland Revenue (IR) website and be familiar with where to access the linked information from.



Section One:

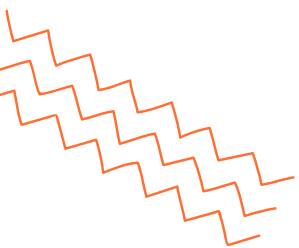
Types of business entities

Learning Outcomes for Section One

- ✓ Describe a business entity in Aotearoa New Zealand
- ✓ List the three most common types of business entities
- ✓ Describe different types of the characteristics of business entities in Aotearoa New Zealand.

Success criteria

- ✓ I can explain the difference between the way two different business entities can set up
- ✓ I can give examples of entities and explain some characteristics.



What makes a business entity in Aotearoa New Zealand?

A business entity is an organisation started by an individual or individuals with the main purpose of being involved in business or trading activities.

There are many types of business entities and each one has advantages and disadvantages that people setting up a business need to consider. The most common types of business entities are sole traders, partnerships and companies.

What is a sole trader?

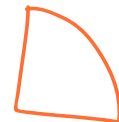
A sole trader is someone who is self-employed. That person has sole responsibility and control over their business. They use their personal IRD number for trading. This type of business entity allows them to have a simpler administration and tax system compared to a company that is set up as a legal business entity.

As a sole trader, you are legally responsible for the business which means if your business goes into debt you are responsible for this debt. You have no legal protection as a sole trader so it pays to seek legal advice when setting up as a sole trader business entity.



[This video explains the basics of becoming a sole trader.](#)



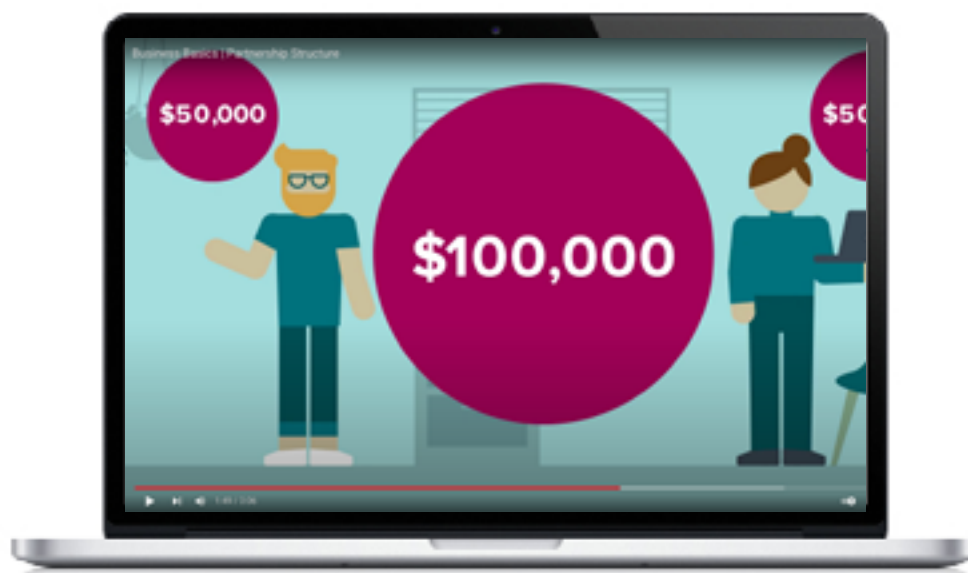


What is a partnership?

A partnership means that you and at least one other person share ownership of a business and share responsibility for the skills and the resources. A partnership is easy to set up, and you declare your part of the income on your personal tax return. The profits and losses are also shared with each partner. If your business goes into debt then you and your partner/partners are responsible for paying that debt. As partners, you will write a partnership agreement prior to starting up. You have no legal protection as a partnership so it would pay to seek legal advice when setting up as a partnership business entity.



This video explains the basics of forming a partnership.



If you want to find out more about forming a partnership check it out on the **Inland Revenue site.**



What is a company?

A company is a type of business entity that is legally separate from the people who own it. A company can either make a profit or loss at the end of each income year.

A company can be owned by one person or many. The owner/s are called shareholders. Shareholders contribute financially to the company and share in its profits. If things don't work out, the structure of a company may mean that you have financial and legal protection. If your company goes into debt then you may not be responsible for the debt but the company is.

Because a company is a legal entity, they need to register with the New Zealand Companies Office to become a legal entity.

There are three different types of business entities and it's important to know which one is best for you.

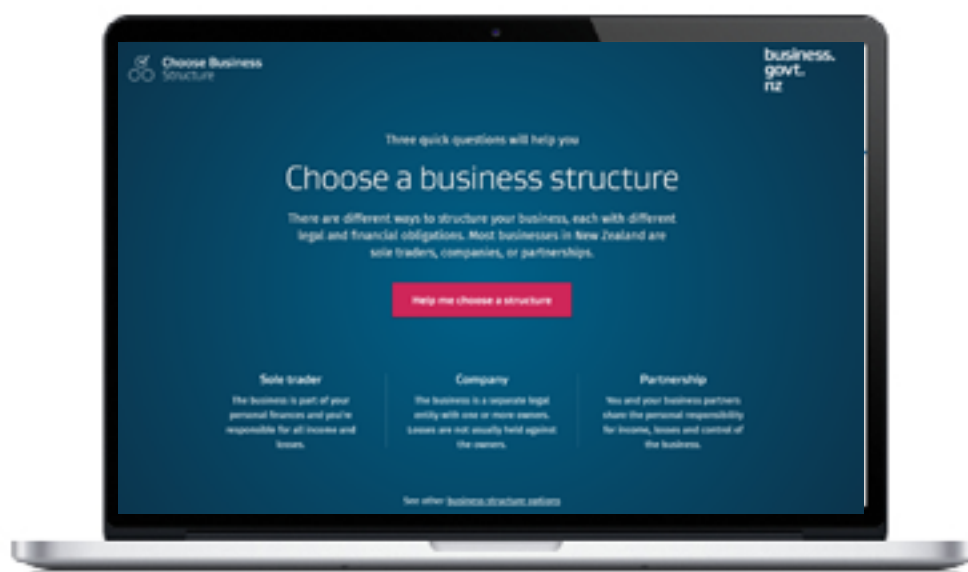
What type of business entity is best for me?

Follow the links below to find out further information.

[Choose a business structure.](#)

[More information on choosing the right business structure for you.](#)

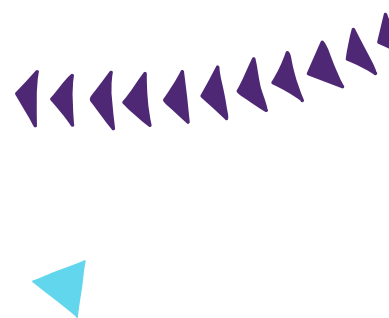
[You can find more information on the Inland Revenue site.](#)



TAX Chats

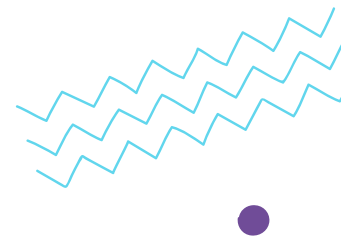
In groups use the information above to discuss the following questions:

1. If you decide to set up a business when you leave school what might it be?
2. What type of business entity do you prefer? Explain why?
3. What is the first step to setting up a partnership?





TAX Checkpoint



Let's see what you have learned so far.

1) Define what a business entity is in Aotearoa New Zealand.

2) List the three most common business entities.

3) Explain the main difference between a company and a sole trader/partnership.

4) What advice would you give to someone who is setting up a company?

Other types of business entities

Limited Liability Company

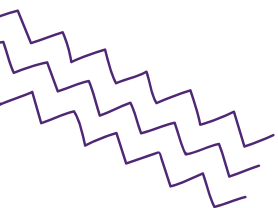
The most common company structure is a Limited Liability Company. They attach “Ltd” to the end of the company name. In a limited liability company, there are directors who are responsible for the running of the company and shareholders who have invested money into the company.

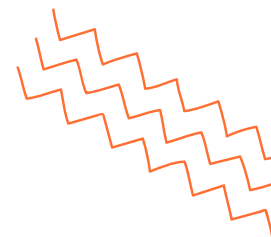
A limited liability company has full responsibility for all of its legal and financial obligations. It's the liability of the shareholders that's limited this means that the personal financial risk to the shareholders is reduced as they are not responsible for company debts.

Shareholders are only liable for:

- Money owing on their shares
- Personal guarantees they have given to banks or suppliers.

Source: bus.govt.nz





Co-operative companies

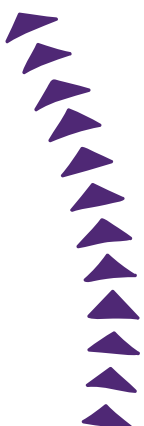
A co-operative company (Co-ops) is a specific type of limited liability company. Its purpose is to serve the common needs of its members (shareholders), by providing them with commercial services. They often have the word 'co-operative' in their company name.

Co-operative companies:

- Must have at least 60 percent of members who are actively trading (buying or selling goods) with the co-op. The structure of co-ops are very broad, their members can be suppliers, customers or employees. These members have voting rights.
- Must have a constitution that includes a description of the co-op's activities – this is filed with IR.
- Typically return a portion of their profits to shareholders as rebates or as shares instead of rebates.
- Operate across a range of sectors including agriculture, horticulture, manufacturing, financial services, utilities, education, health, community services, wholesale and retail.
- Have member representation on the board of directors.
- Must have at least 60 percent of voting rights held by transacting shareholders.

Source: bus.govt.nz

Examples of large co-ops in Aotearoa New Zealand are Fonterra, Foodstuffs, Farmlands and Southern Cross Healthcare.



Unlimited Companies

Unlimited companies are not very common in Aotearoa New Zealand. The shareholders have full responsibility meaning they are liable for the unpaid debts of the unlimited company. Unlimited companies are often set up for legal or offshore reasons and are not a popular type of business structure as the owners are personally responsible for any debt incurred.

Māori Authorities

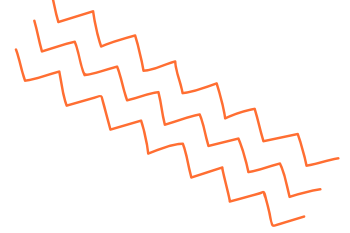
A Māori authority acts as a trustee by administering communally owned Māori property on behalf of individual members.

Māori authorities include **any commercial business that supports the authority's business and social activities** and sustains or builds a Māori authority's asset base. Ownership, control criteria, and investment models appear to be characteristics of Māori authorities.

Source: datainfolplus.stats.govt.nz

Marae will most likely be Māori Authorities but may choose to be taxed under general tax rules. Māori Authorities are set up to protect assets such as land, fisheries, water and forestry and they work to build these assets and improve economic, social, health, technology, employment, opportunities on behalf of their members. A Māori Authority also administers payments from the Crown as well as claims upheld by The Treaty of Waitangi. Māori Authorities are taxed at a lesser rate for income tax (17.5% as opposed to 33% for trusts and 30% for companies) but they can opt to be taxed at the general rate.

Read how Māori Authorities are taxed and find the criteria around becoming a Māori Authority.



National Māori Authorities

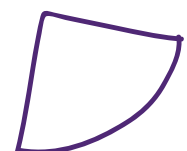
Nga Ngaru is the National Maori Authority established to advocate on behalf of Māori when it comes to economic, social and environmental issues. Nga Ngaru is a member-based organisation comprised of individuals, Iwi and community-based organisations, Maori business and industry, academia and researchers.

Source: Nga Ngaru (maoriauthority.org)

Read more about the role of the National Maori Authority and how they support Māori Authorities at a governance level in health, employment, technology, communications and social development.

HOME | Nga Ngaru

If you require more information on land, see **Māori and Māori Authorities.**





TAX Checkpoint



Let's see what you have learned so far.

1) Define what a business entity is.

2) List the three most common types of business structures in Aotearoa New Zealand.

3) If you are setting up a new business what IRD number do you use?

4) What is the difference between a limited and an unlimited company?

Before moving on to Section Two, check that you understand:

- ☐ Explain the difference between the way two different business entities can set up
- ☐ Give examples of entities and explain some characteristics.

Section Two: Not-for-profits

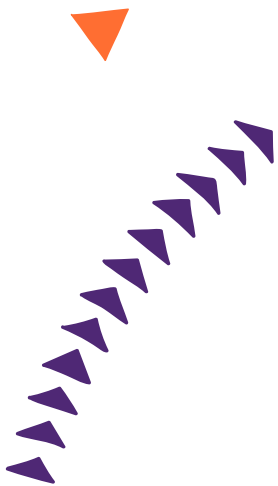
Learning Outcomes for Section Two

- ✓ Explain the difference between for-profit and not for profit business entities in Aotearoa New Zealand.

Success criteria

- ✓ I can explain the difference between for-profit and not for profit business entities in Aotearoa New Zealand.

Not-for-profits are a type of business entity that is often active in the community, and you might be involved with. They include organisations and enterprises such as charities, clubs and societies.





What is a not-for-profit organisation?

The two main attributes that differentiate not-for-profit organisations from other businesses are that they do not carry on activities for the profit or gain of their members and they cannot distribute money or property to their members.

Not-for-profits have a set of rules that must be followed. Any money they make, such as income, grants, donations, bequeaths, raffle tickets, and selling assets, are put back into the running of their organisation.

Not-for-profit organisations may have paid employees whose salaries and wages are considered as part of their operational costs and claimed as expenses. However, many not-for-profit organisations are run by volunteers from the community.

Some examples of not-for-profit organisations include:

- Churches
- Public schools, charities, clinics and hospitals
- Volunteer services organisations
- Clubs and societies.

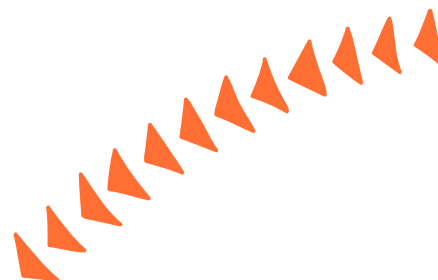
The Inland Revenue site offers more information about not-for-profits [here](#).

What is a for-profit organisation?

A for-profit organisation is a business that has the goal of generating a profit usually by selling goods and/or services to customers. The owners earn an income from this business and may also pay dividends to others who have invested in their company. Some companies are owned by the government.

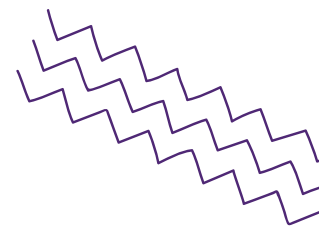
Some examples of the top-performing companies in Aotearoa New Zealand include power companies, national airlines and transport companies, retirement facilities, retail and restaurant brands.

It is interesting to look at [Aotearoa New Zealand's largest companies](#). Do you recognise any of the names?





TAX Task 1



Read this table and then discuss these questions with a peer.

- What are the main differences that you can see?
- Discuss three things that you have learned.

Not-for-profit vs For-profit What are the differences between these organisations?		
	Not-for-Profit	For-profit
Expenditure	Money spent on furthering the organisation's purpose: to improve the environment, health, social connections, social disadvantage, culture, science etc.	Money spent to generate income.
Income	Money is mostly received from people or organisations who want it spent on the organisation's purpose.	Money is received by selling goods or services.
Equity	Money held in reserve to be applied to the organisation's purpose in future.	Money is owned by the business owners (shareholders).
Accountability	Governance body (Board), Donors/funders, members, Charities Register requirements, clients.	Shareholders / business owners.
Accounts	Record what funds were spent on and for what purpose, how they were obtained and what existing funds are earmarked for.	Identify trends in sales and expenditure to maximise financial efficiency and allow analysis of how expenditure has generated sales.
Financial Statements	Show how funds were spent in line with donor/funder requirements, whether income covered expenditure and what reserves and obligations the organisation may have.	Show profit/loss and financial stability. Individual income and expenditure accounts are only relevant as an analytical tool for investors.
Use of financial statements	For decision-making; accountability; and fundraising. Main users are not necessarily proficient in accounting.	By professionals advising business owners/shareholders/potential investors and for tax purposes.

Source: [Community Capacity Accounting](#)

Let's look at some not-for-profit organisations

What is a charity?

A charity is a general term for an organisation that has charitable purposes.

A charity is a type of not-for-profit organisation whose sole purpose must be exclusively for the benefit of the public through one (or more) of the following:

- education
- religion
- the relief of poverty
- activities for the benefit of the community.

Charities can be set up in different ways, including as a company, a charitable trust, or an unincorporated or incorporated society.

Charities receive more tax advantages than most other not-for-profit organisations because they must be exclusively for public benefit (rather than the benefit of their own members). Some charities are exempt from paying income tax. To get the exemption, they must apply to Charities Services to become a registered charity.

Some examples of charities that you might recognise in your communities include The Salvation Army, The City Mission, KidsCan, Canteen and Citizens Advice Bureau.





TAX Task 2: Charity showcases

Investigate different charities initiatives in Aotearoa New Zealand.

In a groups of four:

- Select a different story, download and read

Conservation Volunteers NZ

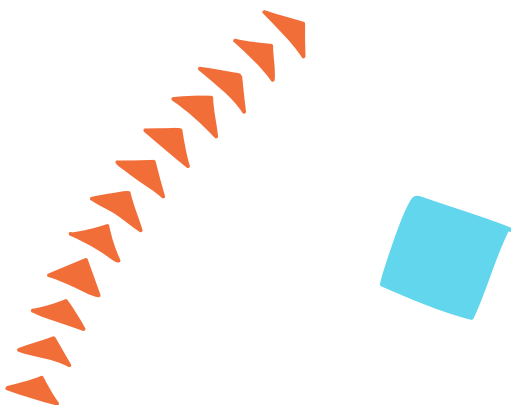
Give a kid a blanket

Manukorihi Pa Reserve Trust

Kaute Pasifik

- Record key ideas of your selected charity
- Summarise the charity's story and share back with your group.

Be prepared to respond to any questions your group members might ask from your summary. Read more about how the process of tax for charities [here](#).



What is an incorporated society?

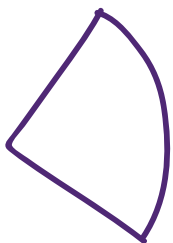
An incorporated society must follow the guidelines of a charity by providing a benefit and improvement to the public. There must be a minimum of fifteen members and they must register to become incorporated. Examples of these are sports clubs, social clubs, music and cultural groups, special interest and purpose organisations.

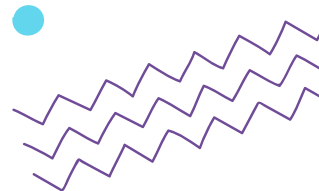
An incorporated society **can lease, rent, buy and sell property, borrow money and sign contracts in its name.**

The society's property (premises, money, trophies etc) is held by the society rather than by its members. No individual member can have a personal interest in any of the society's assets.

Source: NZ Companies Office

The SPCA (Royal New Zealand's Society for the prevention of cruelty to animals) is one of New Zealand's oldest societies. **[Read about the history of the SPCA.](#)**





TAX Checkpoint

Let's see what you have learned so far.

1) Describe a not-for-profit organisation and state some of its characteristics.

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2) Describe a for-profit organisation and state some of its characteristics.

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3) Give examples of for-profit and not-for-profit organisations in your community.

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4) Give examples of different entities that may be eligible to become a Māori Authority.

.....

.....

.....

Before moving on to Section Three, check that you understand:

- ☐ Explain the difference between for-profit and not-for-profit entities.

Section Three:

Pay up at tax time

Learning Outcomes for Section Three

- ✓ Explain tax obligations for not-for-profit and for-profit entities
- ✓ Describe tax rates for business entities in Aotearoa New Zealand, for example self-employed, Māori authorities, and etc.
- ✓ List tax-related events that require an IRD number for business entities in Aotearoa New Zealand.

Success criteria

- ✓ I can explain the tax obligations of a for-profit organisation and for a not-for-profit organisation
- ✓ I can explain the tax-related events for different businesses.



IRD numbers for business entities

Your IRD number is a number that is unique to you. It is used to identify you and is a bit like a fingerprint. Your IRD number keeps track of the tax you pay and helps to ensure you pay the right amount and get the right entitlements.

Each one of these three business structures requires an IRD number:

- A self-employed person uses their personal IRD number for their business
- A partnership operates under its own IRD number
- A company has its own IRD number and must be registered at the Companies Office.

You also need an IRD number if you are:

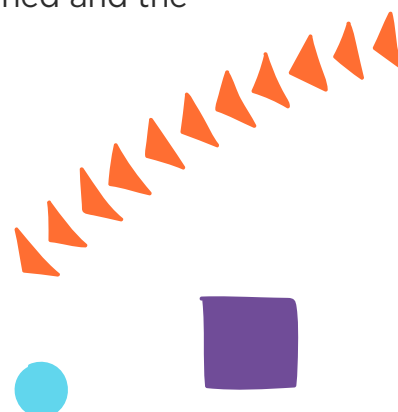
- Setting up a charity, a trust, a club, a society, an estate or a superannuation scheme or a Māori authority
- Setting up any of the above as an offshore company or as a non-resident company
- An employer
- Selling goods and services - see Topic 4
- Buying, selling or transferring property in Aotearoa New Zealand
- In the property rental business.

You can find out more about IRD numbers for businesses on the [Inland Revenue site](#).

Different business entities have different rules and tax rates, and several factors influence how much of their income is taxed. It is different for every entity depending on whether it is a for-profit or a not-for-profit organisation. The amount of tax you pay differs for individuals and businesses. The amount of tax that needs to be paid may change from year to year depending on income earned and the expenses incurred throughout the year.

Tax rates for business

Income tax for businesses and organisations





TAX Task 3: Check the tax

Investigate the way different business entities are taxed. Follow the links and make a summary of the tax requirements. One has been completed as an example. Discuss with your teacher if this is to be an individual or group activity.

You can find additional information here. [Tax Obligations and exemption](#)

Type	Link	Summary of tax requirements
Charity	<u>Roles of Charities</u> <u>Tax exemptions for charities</u>	<p>Charities need an IRD number and may need to register for GST and PAYE.</p> <p>Charities are required to self-assess their tax-exempt status each year. If the charity is fully exempt, they do not need to file an income tax return until asked.</p> <p>They can receive tax exemptions if they register with Charities Services. Most charities are exempt from paying tax. Charities must pay income tax if they:</p> <ul style="list-style-type: none">• Operate without written rules, a constitution or trust deed• Operate under a set of rules, a constitution or trust deed that does not meet the requirement for an income tax exemption• Use business income for charitable purposes outside New Zealand• Are not registered by Charities Services.
Companies	<u>Income Tax for companies</u>	
Not-for-profits	<u>Not-for-profits: How do they pay tax?</u> <u>Not-for-profits Tax.</u>	
Partnerships	<u>Partnership tax</u>	
Societies	<u>Societies tax</u>	
Self Employed	<u>Individual</u>	
Māori Authorities	<u>Income tax for Māori Authorities</u> <u>Tax Credits for Māori Authorities</u>	

You can find additional information here. [Tax Obligations and exemption](#)





TAX Checkpoint

Let's see what you have learned so far.

1) How is a partnership taxed?

2) How is a charity taxed?

3) How is a not-for-profit organisation taxed?

4) How is a Māori authority taxed?

Before moving on to your assessment, check that you understand:

- ☐ Explain the tax obligations of a for-profit organisation and for a not-for-profit organisation
- ☐ Explain the tax-related events for different businesses.



TAX assessment Task

This assessment provides an opportunity for you to demonstrate your understanding of how businesses can be set up and how tax is paid. Before you start, read the tax Smart rubric to see how you will be assessed.

Select a task that best shows that you are able to:

- Describe a business entity in Aotearoa New Zealand
- Explain the difference between profit and not-for-profit entities in Aotearoa New Zealand
- List tax-related events that require an IRD number for businesses in Aotearoa New Zealand
- Describe different types of the characteristics of business entities in Aotearoa New Zealand
- Explain tax obligations of a for-profit and a not-for-profit organisation or entity
- Describe tax rates for business entities in Aotearoa New Zealand, for example self-employed, Māori authorities, and etc.

To show your understanding about tax for business entities select one of the following tasks :

	An oral presentation format of your choice that can be used as a resource on this topic e.g. podcast, Ed Talk, speech, video interview.
	Your choice of presentation
	A digital visual resource that can be shared in your school and with your family members, whānau, aiga, or kāinga e.g. presentation, documentary, video.
	A written/visual guide on this topic in another language for people who speak English as a second language.





TAX Smart: Assessment for learning

This self-assessment provides an opportunity for you to demonstrate your understanding of different income sources for individuals and businesses.

This rubric is for you to identify where you are, what you are doing, and your next steps. You can opt to attach evidence to your outcomes.

Complete this rubric by highlighting the outcomes you have achieved and either attaching it to your task electronically or downloading a copy. This evidence might come from some learning during the topic or a link to part of your assessment task. Hyperlink to specific outcomes in the assessment task.

Examples of evidence:



TAX Chats - Written outcomes based on the conversation starters and questions around not-for-profit and profit organisations.



TAX Tasks - Screenshot/photograph your outcomes/hyperlink. Examples might include photos of your outcomes for the tasks 'Showcase Charities' and 'Check the tax.'

Capability – Manage Money and Income

Outcome	Learning to be TAX Smart	TAX Smart Ready	TAX Smart Proficient	TAX Smart Expert
Describe a business entity in Aotearoa New Zealand	I can state what an entity is.	I can describe several ways a business entity can be set up.	I am TAX Smart Ready + I can explain the difference between the way two different business entities can set up.	I am a TAX Smart Proficient + I can justify why a local business entity has selected the structure they have to run their business.
Describe tax-related events that require an IRD number for business entities in Aotearoa New Zealand	I can state what a tax-related event is.	I can describe several tax-related events.	I am TAX Smart Ready + I can explain the tax-related events for different business entities.	I am a TAX Smart Proficient + I can generalise why different business entities have different tax rates.
Explain the difference between profit and not for profit entities in Aotearoa New Zealand	I can state what a for-profit entity is. I can state what a not-for-profit entity is.	I can describe several for-profit entities in Aotearoa New Zealand and list examples. I can describe several not-for-profit business entities in Aotearoa New Zealand and list examples. I can describe several tax obligations of a for-profit entity. I can describe several tax obligations of a not-for-profit entity.	I am TAX Smart Ready + I can explain the difference between for-profit and not-for-profit entities. I can give examples of both and explain the differences. I can explain the tax obligations of a for-profit organisation and for a not-for-profit organisation.	I am a TAX Smart Proficient + I can evaluate why not-for-profit organisations should not have to pay tax and can give actual examples using not-for-profit organisations in my community.
Describe different types of the characteristics of business entities in Aotearoa New Zealand	I can state what a tax requirement is for a business entity in Aotearoa New Zealand.	I can describe several tax characteristics of business entities in Aotearoa New Zealand.	I am TAX Smart Ready + I can give examples of entities and explain some characteristics.	I am a TAX Smart Proficient + I can justify why some entities are structured for-profit and not-for-profit.

Te whai hua - kia ora!



Notes:

For more information, please visit sortedinschools.org.nz