

# Business Basics

## BEING A CONTRACTOR

Being a self-employed contractor presents its own unique benefits and challenges. You can elect to work under your own name as a sole trader, or set yourself up as a company.

### Benefits of Being a Contractor

- As a contractor you are essentially your own boss, and have control over how, when (and sometimes where) to do your work.
- You set your own pay rate. Some contractors find they can earn more than they could in a salaried job. Your hourly rate should be realistic while covering all of your expenses.
- Contractors can enjoy the freedom they have to make their own decisions about how to run their business, such as management and investment decisions. You can hire other people to work with or for you without needing agreement from anyone else.
- You choose the standard or quality of work you perform.
- You are free to choose when, and for how long, to take holidays.

### Challenges of Being a Contractor

- Your income can be irregular as you may not be able to control gaps between contracts. Managing cash flow and budgeting is an essential skill that contractors should master. You may need to regularly look for new work well before your current contract has been completed to minimise the gaps between contracts.
- As a contractor, you are responsible for providing all of the equipment or assets you need to carry out your job, which can require capital investment either from your own private funds or securing finance. You are also responsible for any training you undertake and any licensing requirements.
- With the freedom to make your own decisions also comes the responsibility for losses the business incurs or poor management.
- Contractors do not get paid sick leave. A certain number of unpaid sick days (e.g. 5) should be incorporated in your annual budget. Likewise, contractors are not paid for public holidays not worked. New Zealand has 10 national public holidays, plus one anniversary day per province every year, which should also be incorporated in your annual budget if you are unable to work those days.

### Your Obligations as a Contractor

As a self-employed contractor you do not have to pay PAYE tax on your income because you are not an employee. Some earnings may be subject to tax on schedular payments. You are responsible for meeting your own tax obligations, including filing IR3 income tax returns, declaring all income (including cash jobs) and registering and accounting for GST if your income exceeds \$60,000 per year. As your accountant we can help you to navigate your GST, income tax and provisional tax obligations, as well as setting budgets and cash flow forecasting to ensure your business stays on track.

Contractors are not automatically enrolled in a KiwiSaver retirement savings scheme, so you will need to set that up (or an alternative retirement scheme) yourself.