

Online trading tax implications

When you're selling goods or services over the internet, you have the same tax obligations as any other business. This factsheet explains your obligations for income tax and GST, and what to do if you need to correct your tax returns.

Trading online is the same as doing business from a shop, or from your home. Any income you earn from a business (including online auctions or sales sites such as TradeMe) needs to be included in an income tax return. You work out how much tax you'll need to pay each year in your income tax return.

If you're trading online and answer yes to some or all of the following questions, it's likely you'll need to declare the income you've earned.

- Did you buy goods with the intention of reselling them?
- Did you intend to make a profit from the sale?
- Are you providing services in return for payment? (The payment does not have to be cash.)
- Do you regularly sell goods or services online?
- Do you sell online as part of an already established business?

Note: There is no minimum income level to be in business.

Telling us about your online business

We routinely monitor online transactions. If you've been trading online for some time and think you've overlooked your tax obligations, talk to a tax advisor or contact us.

The easiest way to keep on top of your tax affairs is to tell us when you start trading. This way we can help you register for myIR, and send you the forms and information you'll need at the right time.

Filing an income tax return

Generally a business income year is from 1 April to 31 March. At the end of the year you need to work out your taxable income. You may need a tax advisor or accountant to do this for you.

You also need to decide what business type your online activity will be as this will affect how it's registered for income tax purposes with us. This will also determine how you return your taxable income details to us at the end of a tax year.

The business types and returns:

- Sole trader – you use your own personal IRD number and file an IR3 return
- Partnership or look-through company – needs its own IRD number and files an IR7 return
- Company – needs its own IRD number and files an IR4 return
- Trust or estate – needs its own IRD number and files an IR6 return.

For more about filing returns go to ird.govt.nz/income-tax

Registering for GST

If you're providing goods or services and your turnover is more than \$60,000 in any 12-month period, or is likely to be more than \$60,000 in the next 12 months, you'll need to register for GST. If you need help deciding, use our guided help - **Do I need to register for GST?**

Expenses from internet trading

When you're in business, you can claim certain expenses. These can include stationery and supplies for the business.

Some expenses are specific to trading over the internet. This table is a summary of the different website expenses and the income tax treatment for them.

Cost	Deductible as an expense	Depreciable as a capital expense
Purchase or registration of a domain name	No	No
Annual fee for domain registration	Yes	No
Renting space on an ISP server	Yes	No
Site design costs	No	Yes
Site update costs	Yes	No

Reconstruction, upgrading or functional improvement to website	No	Yes
Cost of a server (computer)	No	Yes

When an expense is **deductible**, the entire expense is included in your income tax return. When an expense is **depreciable**, you can only claim a percentage of the expense each year. Each type of depreciable expense has a different percentage, which you can look up in our Depreciation rate finder at ird.govt.nz/rate-finder

Exports and GST

If you're GST registered and exporting goods or services, these sales are zero-rated, so you charge 0% GST. When you're selling exports over the internet, you need to be able to prove the products are leaving New Zealand, or the service has been provided outside New Zealand. Digital products such as music, software or e-books sold to overseas customers (and downloaded overseas) are considered services, so you need to be able to show the buyer downloaded them overseas.

Secondhand goods and GST

When buying secondhand goods in New Zealand from someone who is not registered for GST, the purchase price is considered GST-inclusive, and you can claim the GST back in your GST return. You still need to keep all the taxable supply information usually provided in an invoice or other documents.

When you buy secondhand goods from an unregistered person, and then sell those goods over the internet, the ordinary rules apply. This means if the goods are sold to:

- a New Zealand customer, the sale includes GST at the normal rate
- an overseas customer, and you ship the goods to them, the sale includes GST at 0% (zero-rated)
- an overseas customer, and the export is handled by a third-party supplier, the sale cannot be zero-rated, and includes GST at the normal rate.

You can find more information about e-commerce and GST on our website at ird.govt.nz/special-supplies or in our guide **GST plus - IR546** for a more detailed explanation of zero-rated and special supplies.

Voluntary disclosures

If you realise you've made a mistake in your return, you can make a voluntary disclosure to tell us what's wrong with your taxes. If you make a voluntary disclosure before you're notified of a tax audit or investigation, we'll reduce the shortfall penalties charged and we will not prosecute you.

Read more about voluntary disclosures in our guide **Putting your tax returns right - IR280**

Tax residency and double tax agreements

When you're a New Zealand tax resident, you need to pay tax in New Zealand on both your New Zealand and overseas income.

You're a New Zealand tax resident if any of the following situations apply:

- You're in New Zealand for more than 183 days in any 12-month period
- You have an enduring relationship with New Zealand
- You're away from New Zealand in the service of the New Zealand Government.

New Zealand has double tax agreements (DTAs) with various countries. These agreements can change the way income is taxed. For a list of the countries we have a DTA with, go to ird.govt.nz/dta

You can find more about your tax obligations on worldwide income at ird.govt.nz/dta-residents



ird.govt.nz

Go to our website for information and to use our services and tools.

- **Log in or register for myIR** - manage your tax and entitlements online.
 - **Calculators and tools** - use our calculators, worksheets and tools, for example, to check your tax code, find filing and payment dates, calculate your student loan repayment.
 - **Forms and guides** - download our forms and guides.
- You can also subscribe to our newsletters at ird.govt.nz/subscribe and follow us on Twitter - @NZInlandRevenue.

FREE ADVISORY SERVICE

Our community compliance officers run free tax seminars and workshops for new businesses and organisations. For more information or to register to attend one of these sessions go to ird.govt.nz/seminars or phone 0800 377 774.



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New Zealand Government