



# Different business structures

This factsheet tells you about how your business income will be taxed as this will make it easier for you to meet your tax obligations.

## Tax responsibilities for different business structures

Each year your taxable income is worked out by deducting expenses (and any available losses) from your gross income. The result will be a net profit or loss.

There are three common business structures:

- Sole Trader
- Partnership
- Company

### Sole Trader

A sole trader is a person who:

- Goes into business and trades on their own.
- Is personally responsible for all taxes and debts.
- Uses their own RMD number for the business.
- Can trade under a trade name, employ staff and register for VAT. It's important before you register for VAT or as an employer that you seek advice from us, an accountant or a tax advisor about whether or not you need to register. There may be financial implications if you need to de-register at a future date.

If you become a sole trader, you need to let us know so we can update your records.

### Partnerships

A partnership is where two or more people join together to run a business and the following criteria apply:

- Partnerships need to apply for a new partnership RMD number.
- Profits and/or losses are usually shared equally between partners unless a partnership agreement states otherwise.
- Each partner is personally responsible for any partnership debt.
- They can trade under a trade name, employ staff and register for VAT. It's important before a partnership registers for VAT or as an employer that they seek

advice from us, an accountant or a tax advisor about whether or not they need to register. There may be financial implications if they need to de-register at a future date.

### Company

- A company is a legal entity, separate from the shareholders that own the company.
- A company will need to apply for a company name and for its own RMD number.
- The shareholders liability for losses is limited to the amount of their shareholding in the company.
- A company has a greater number of compliance responsibilities than a sole trader or partnership. Companies not only have compliance responsibilities with Revenue Management but also the Ministry of Justice.
- A company can apply for an RMD number, register as an employer and register for VAT after it is incorporated through the Ministry of Justice.

It's important before a company registers for VAT or as an employer that they seek advice from us, an accountant or a tax advisor about whether or not they need to register. There may be financial implications if they need to de-register at a future date.

### Remember these handy tips

It's important for records to be easily readable and organised enough for you or anyone to work through them quickly.

If you store your records on a computer, be sure to keep back-up copies in case your system breaks down. It's a good idea to keep the back-ups off site.



# Starting a business - checklist

Use this checklist to work out what you need to do when you're starting a business

There's lots to consider when starting up a business. The following checklist will be helpful to keep track of what you need to do.

Tick the boxes once you've completed each step (if they apply to you).

## Professional advice

- Talk to an accountant or tax agent.
- Choose your business structure, eg, sole trader, partnership, company.
- Get help to create a marketing plan/business plan.
- Prepare a cashflow projection.
- Set up a business bank account and a separate bank account for tax.

## Revenue Management Division

- Register for a E-Filing secure online services account.
- If you're a sole trader, tell us when you start your business so we can send you the correct information.
- Work out if you need to register for VAT.
- If you are employing staff, register as an employer.
- If you are importing, register with Cook Island Customs or alternatively engage a customs agent.

## Keeping records

- Keep a business diary for appointments and important contact details.
- Set up a record keeping system and keep all business-related invoices and receipts.
- Home office—calculate the area of your home being used for business.
- Start a vehicle logbook.
- Buy or create an invoice book (or tax invoice book if registering for VAT).
- If employing staff, buy or create a wage book.
- Set up an asset register (may also be called a depreciation schedule).
- Using your own assets? Get a written valuation of any private assets being introduced into the business.

## Other agencies

- Cook Islands Superannuation Fund - it is now law if you are employing staff that you must also be register with CISF.
- Ministry of Foreign Affairs and Immigration - if you are employing foreigners, ensure that they have a current work visa.
- Ministry of Internal Affairs - if you are employing staff, familiarise yourself with the Employment Relations Act.