Profile Painters

Transition Roadmap: Employee → Contractor

Phase 1: Before Leaving Employment

1. Understand the Change

The contractor should understand:

- They will no longer receive annual leave, sick leave, public holiday pay, or KiwiSaver contributions from you.
- They will be responsible for their own taxes and ACC levies.
- They will need to invoice for services.
- Their income may fluctuate and there is less employment protection.

2. Review the Contracting Arrangement

Consider:

- Scope of services.
- Rates and payment terms.
- Notice periods.
- Intellectual property ownership.
- Confidentiality obligations.
- Equipment and software responsibilities.
- Insurance requirements.

3. Assess Contractor Status

Key indicators of a genuine contractor relationship include:

- Ability to work for multiple clients? This is not possible under your contract
- Control over how work is performed? Profile
- Provision of their own equipment? Contractor
- Financial risk and opportunity for profit.
- Ability to subcontract work (if agreed).

Phase 2: Business Setup

4. Choose a Business Structure

Options include:

- Sole trader (most common starting point)
- Partnership
- Limited company

For many individual contractors, starting as a sole trader is simplest.

5. Obtain an NZBN

Apply for a New Zealand Business Number (NZBN).

6. Open a Business Bank Account

Recommended for:

- Separating business and personal finances.
- Simplifying tax compliance.
- Professional invoicing.

7. Set Up Accounting Systems

Examples:

- Xero
- MYOB
- Hnry
- QuickBooks

They should establish:

- Invoicing process.
- Expense tracking.
- Record keeping.
- Tax savings account.

8. Register for GST (If Required)

GST registration is compulsory once turnover exceeds the registration threshold.

Even if below the threshold, voluntary registration may be worth considering depending on circumstances.

The contractor should understand:

- GST filing obligations.
- GST on invoices.
- Record-keeping requirements.

Phase 3: Tax and Compliance

9. Understand Income Tax Obligations

The contractor should:

- Set aside money from each invoice for tax. Remember the first year you will pay nothing. But the second year you will pay double. It is not a year off tax.
- Understand provisional tax requirements.
- Keep records of deductible business expenses.

10. ACC Obligations

ACC will generally assess levies based on self-employed earnings.

They should understand:

- How levies are calculated.
- Optional ACC CoverPlus Extra arrangements.

11. Consider Insurance

Common types:

- Professional indemnity.
- Public liability is under the umbrella of Profile painters
- Income protection.

Phase 4: Operating as a Contractor

12. Create Business Documents

- Invoice template.
- Terms of business.
- Service agreement.
- Privacy policy (if applicable).

13. Manage Cash Flow

Plan for:

- Tax payments.
- GST payments.
- ACC invoices.
- Periods between contracts.

A common practice is to reserve a percentage of each payment for future obligations.

14. Paint Accounts

Set up trading accounts with major paint brands earl as they can take a while to get going. Resene, Dulux, Aalto. When you are buying other products and paying cash or credit card. Say you are trade and you will get better pricing.

Phase 5: Growth (If They Later Employ Staff)

15. Hiring Employees

If the contractor grows and hires staff, they may need to:

- Register as an employer with IRD.
- Operate PAYE.
- Meet employment law requirements.
- Manage holiday pay and leave.
- Set up payroll software.

16. Health & Safety

If they engage employees or subcontractors:

- Understand Health and Safety at Work Act obligations.
- Maintain safe systems of work.
- Document key policies.

Simple One-Page Checklist

Before Transition

☐ Understand differences between employee and contractor status
☐ Review and sign contractor agreement
☐ Confirm contractor status is genuine

Business Setup

☐ Choose business structure
☐ Obtain NZBN
☐ Open business bank account
☐ Set up accounting software
☐ Create invoice template

Tax & Compliance

☐ Register for GST (if required)
☐ Understand income tax obligations
☐ Understand provisional tax
☐ Understand ACC obligations
☐ Set up record keeping

Risk Management

☐ Consider professional indemnity insurance
☐ Consider public liability insurance
☐ Review confidentiality/IP obligations

Growth

☐ Develop additional clients
☐ Understand employer obligations if hiring staff
☐ Establish health & safety processes