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## ARCHAEOLOGY IN NEW ZEALAND



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# SOME BUSINESS TIPS FOR ARCHAEOLOGISTS

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## Introduction

In 1999 I wrote an article entitled ‘Contract archaeology: A guide for students’ (Druskovich 1999). At the time I was reasonably fresh out of university, had my first job as a consultant and had clear ideas on what was required to be useful. I was also being encouraged by Peter Petchey to write down much of what I considered easy for students to do to ‘graduate’ from being students to sub-contractors, or in other words, to get their foot in the door. Since that time various things I wrote are out of date and have changed. This article is the follow up and its writing can again largely be attributed to on-site discussions I have had with Ben Thorne (and a few unnamed others) at the Hamilton Club excavation in Hamilton, and his direct encouragement to update my earlier article rather than just talk about it.

The idea of doing this and expanding it further has also been playing on my mind as I have in the last couple of years encountered colleagues who have been issuing invoices that have not been up to legal standards, and in some instances that had not been picked up by their accountant. In hindsight this maybe because they have been receiving invoices from their accountants, not the other way around!

This paper is therefore written for both students and also to act as a guide for some of my professional colleagues, especially those working part time in the field who have not got on top of all of the business implications of being self-employed.

## What’s changed?

There are a number of inaccuracies on my earlier article due to policy changes at Inland Revenue (IRD) and other organisations as well as advances in technology. The only logical way to go through them is to go through my earlier article and correct and discuss them in order.

In the previous article I mentioned to go to the New Zealand Historic Places Trust for the ‘List of Contract Archaeologists’ as a way of getting work

experience. Although I am sure they can still give it to you, the list is now held and administered by the New Zealand Archaeological Association (NZAA) and can be found on the website, where it is known as the 'Consultant Directory' and is downloadable as a Microsoft Word document. There are also links to many excellent guidelines and the legislation that applies to our industry posted on the NZAA website, listed under 'Resources for Archaeologists'.

As with 13 years ago, the majority of consultants will still not want to have employees. Amongst the reasons why are the many employment law issues and because our work can be sporadic. The whole idea of hiring and firing, redundancies, filling out more tax forms for Pay As You Earn (PAYE) taxes, Kiwi Saver, ACC and health and safety laws are more than most consultants want to contemplate, let alone budget for and address in daily work, when we really only want to deal with the hard issues of our profession, such as getting assessments out, doing excavations and monitoring, completing authority reports and occasionally writing articles for journals or presenting papers at conferences.

Previously I recommended getting an invoice book. While I no longer consider this to be relevant due to technological changes (you can use one if you wish), I would recommend setting yourself up to create invoices with a spreadsheet. Alternatively, there are some accounting packages, should you wish to spend a little more.

One thing I have found is that a number of you, especially those that have recently set up as consultants or working at it part time, have sent me 'illegal' invoices for one reason or another. Inland Revenue set out the minimum legal requirements for what should be on an invoice. These can be found on the Inland Revenue website, as can a link to a PDF giving an illustration of the requirements. The main requirements that I have frequently found absent are the need to have the words 'Tax Invoice' on the invoice (instead of just 'invoice') and that sometimes the supplier's tax number is missing i.e. the IRD number you or your company or partnership have been issued. Another issue I have regularly had is that the invoice does not say whether or not the invoice total includes GST. If you are not registered for GST, you should state as much on the invoice, and if you are it is important to identify either the GST component or state that the total is inclusive of GST. You are not required to have an invoice number (although it can help to track payments), something I do not usually include in my own invoices, but every now and then I have had clients tell me it is, in which case I have pointed them in the direction of the legal requirements as per IRD.

Mileage rates have been changed as the cost of motoring has increased, current rates and methods for accounting for mileage are explained on the

Inland Revenue website. These rates and some of the methods are somewhat different from the old methods (Druskovich 1999: 297-298), and now include three main methods if the vehicle you are using is used for both work and private expenses.

- One method is the use of actual costs – this method is excellent if you are using a vehicle that is expensive to run, such as a V8 Ford as opposed to a small four cylinder Toyota. Actual costs however can be difficult to track or prove unless you know your vehicle intimately.
- The flat rate of 74 c/km for the first 5000 km of business use is the easiest method to use – but only if you are doing less than 5000 km for work. You must record how and why you made those kilometres work-related. Other than the log of work mileage, you do not have to keep any other records in relation to your vehicle usage and do not have to start considering how to split an invoice for petrol between personal and work use. If it is apparent that you will be doing over 5000 km you cannot use this method to claim expenses.
- The other option is to use a log book, recording your percentage of business versus private use. This requires a 90 day record of your vehicle use in a log book and using the percentage as though it is reflective of usage for the whole year. This percentage can then be used against all expenses for that vehicle. A new log book must be completed every three years to reflect possible changes in use. If you use this method you will have to keep and record all receipts for the whole year, including petrol, registration, servicing, WOF, etc.

It should be noted that the rate of 74 c/km shown on the IRD website is not necessarily up to date, and on the 12 August (as I was writing this) a link on the IRD website to updates will tell you that the current mileage rate is now 77 c/km. Therefore, it is important to check it at least once a year, as the claimable rates only ever seem to go up. If you do not adjust your tax return, IRD will not do it for you!

### **Register for GST or not?**

There are pros and cons to registering for GST, even if you do not fit the criteria for automatic registration. The main reason that people do not register is that it is yet another level of bureaucracy that they do not want to get involved in, and they do not want to spend time filling out the forms. The benefits of being registered for GST are that that you are seen as more professional (and some clients will require you to be GST registered), you will not get in legal difficulties if you unexpectedly pass the registration threshold during the financial

year and there are financial advantages as well. Before I get into the financial advantages I will briefly go over the determining factors for registration.

The rules for registration are (with a few minor exceptions that are unlikely to apply to archaeologists) based on turnover (not profit). It is compulsory to register for GST when turnover:

- was over \$60,000 for the last 12 months, or
- is expected to go over \$60,000 for the next 12 months

\$60,000 a year equates to \$5,000 per month. If your turnover is \$5,000 per month and you expect to maintain that level all year, you will need to register for GST.

The 12 month period IRD are looking at here is unrelated to the tax calendar year. Therefore, the test is spread over any consecutive 12 month period. As with most tax matters there are penalties for non-compliance. When registering you can register for monthly, two monthly or six monthly return periods. If your business has more than a \$24 million annual turnover, monthly returns are compulsory and two monthly returns are required if your turnover is over \$500,000. If your turnover is less than that you can choose which period you wish to register for. For most people I would recommend the six monthly period. If you are one of those people who lets their accounts get out of control or who is not good at budgeting then a two monthly return is less likely to get you in trouble.

So what are the advantages of GST registration? In my opinion one of the greatest advantages of being registered is that the government allows you free use of their money. Assuming that you are making a profit, you will be collecting more GST than what you will be spending. If you are on a six month return, you will typically have March 31 and September 30 period dates. You will be collecting the government's money for each and every month before you have to pay it back to them – usually on the 28 April and 28 October. Therefore any money charged in April and typically paid for by the client in May (assuming payment on the 20th of the month following and on time payment) will not have the GST paid back to the government until October – effectively giving you five months interest free use of the government's money, as well as four months use of the following month, and three for the next, etc., etc. In that time, you can pay off more of your mortgage, invest in the bank and gain interest or find other uses. This requires some discipline to make sure you do not spend it, but if you have that discipline it is rewarding. I can think of no other circumstance where anyone will 'loan' you their money interest-free to allow you to do as you like with it. I am aware that some of my colleagues have volunteered for two monthly terms for various reasons and I have been told of people who did not

specify what period they wished to register for and were put on two monthly returns by Inland Revenue by default. I would recommend to such people that they apply to Inland Revenue to get it changed to six months – you will get greater use of the cash and you will be filling out forms less often, but you will have to be more disciplined in your record keeping and budgeting.

Assuming you are making a profit, the only time you are likely to get a GST refund is when purchasing large assets such as a total station or work vehicle. If it is possible to delay the purchase do it right at the end of your GST period so that you will have to wait the least amount of time for the refund.

Another advantage of GST registration is that it will decrease costs to you of your purchases and decrease your taxable income. Regardless of whether you are GST registered or not your pre-tax income will not be affected by registration.

### *GST examples*

For the purposes of these examples I am going to use some basic figures and the current 15% GST rate. Personal income tax rates vary with income and seem to change almost yearly with each budget announcement, therefore for this example I have used the current top and bottom rates (if your income falls within the brackets between these rates, the results will vary accordingly).

### For a student

In the first example, we will imagine that the person is working part-time in the archaeological industry and does not need to register for GST (they earn \$10,000 from part-time archaeological work) and that their only business expense was the purchase of a hand-held GPS that cost them \$460. This is a scenario that many students getting their first foot in the door will find themselves in. If that person was GST registered we need to work out the refund of GST on the GPS. To do this, multiply \$460 (the price of the GPS) by 3 and then divide by 23 (this is the calculation required to work out the 15% GST when presented with a GST inclusive figure). The result is \$60 returned cash in hand, and the cost of the GPS becomes \$400 for the tax return (Table 1).

*Table 1. An example of the financial implications of being GST registered if you earn \$10,000 per year. (Note: The GST registered person would collect \$1500 GST for IRD on their \$10,000 earnings. This is a cashflow effect and has no effect on their taxable income.)*

	<b>not GST registered</b>	<b>GST 15%</b>	<b>GST registered</b>
<i>Income</i>	10,000.00		10,000.00
<i>Expenses</i>	460.00	60.00	400.00
<i>Profit</i>	9,540.00		9,600.00
<i>Tax rate 10.5%</i>	1,001.70		1,008.00
<i>Cash in hand</i>	8,538.30		8,592.00
<i>Difference</i>			<b>\$53.70</b>

In this hypothetical example the GST registered person is \$53.70 better off. In reality, it is unlikely that the expenses will be just \$460. Let's say they were \$2000, as they include home office expenses, purchase of tools and equipment, protective clothing, etc. Table 2 illustrates this example.

*Table 2. A second example of the financial implications of being GST registered if you earn \$10,000 per year.*

	<b>not GST registered</b>	<b>GST 15%</b>	<b>GST registered</b>
<i>Income</i>	10,000.00		10,000.00
<i>Expenses</i>	2,000.00	260.87	1,739.13
<i>Profit</i>	8,000.00		8,260.87
<i>Tax rate 10.5%</i>	840.00		867.39
<i>Cash in hand</i>	7,160.00		7,393.48
<i>Difference</i>			<b>\$233.48</b>

Therefore the GST registered person would be \$233.48 better off.

### GST registration for an employed professional

If, however, the person held down a well paid job and was doing specialist analysis for extra income and the \$10,000 was taxable at the top tax rate of 33% then the same transactions would look like this (Table 3).

Table 3. An example of the financial implications of being GST registered if being taxed at the top tax rate.

	not GST registered	GST 15%	GST registered
<i>Income</i>	10,000.00		10,000.00
<i>Expenses</i>	460.00	60.00	400.00
<i>Profit</i>	9,540.00		9,600.00
<i>Tax rate 33%</i>	3,148.20		3,168.00
<i>Cash in hand</i>	6,391.80		6,432.00
<i>Difference</i>			<b>\$40.20</b>

In this hypothetical example the GST registered person is \$40.20 better off. In reality, it is unlikely that the expenses will be just \$460. Let's say they were \$2000 as they include home office expenses, purchase of tools and equipment, protective clothing, etc. Table 4 illustrates this example.

Table 4. A second example of the financial implications of being GST registered if being taxed at the top tax rate.

	not GST registered	GST 15%	GST registered
<i>Income</i>	10,000.00		10,000.00
<i>Expenses</i>	2,000.00	260.87	1,739.13
<i>Profit</i>	8,000.00		8,260.87
<i>Tax rate 33%</i>	2,640.00		2,726.09
<i>Cash in hand</i>	5,360.00		5,534.78
<i>Difference</i>			<b>\$174.78</b>

This equates to a saving of \$174.78 in the pocket of the GST registered person.

While it is debatable whether these savings are worth the extra effort of having to do periodic GST returns, when combined with the beneficial use of interest free money I would argue that it is. If you are also doing regular GST returns, whether they be six or two monthly, you will also have to keep your accounts in much better order than if you were not, therefore possibly saving



you end of financial year stresses in trying to figure out where everything is and what it was for.

### **Record keeping**

So what records do you need to keep and how should you do it? The simple answer is everything that relates to your business, sales, expenses, asset purchases, expenses for your private vehicle (presuming you have chosen the % of business use method) and the costs of your home (presuming that you have a home office set up and maybe a workshop as well). On top of this, IRD requires you keep those records for seven years, in case they want to audit you. Thus it is important you keep the records and have them organised into GST periods and financial return years. It is generally best to keep them in folders in date order, and you will usually find you are best to keep separate folders for those items you can only claim a percentage of i.e. a folder for your home office and a folder for your private vehicle.

Even if you only distribute your own invoices by email, you should print off hard copies and file them so that they are there if IRD audits you, and you have a hard copy backup should your hard drive ever fail.

What happens if you lose an invoice? All is not lost, especially if it is under \$50, the IRD website states “A tax invoice is not needed for supplies of \$50 or less (including GST). However, it is best practice to keep records for these purchases, such as invoices, vouchers or receipts. At a minimum, record the date, description, cost and supplier of all purchases.” To do this, try and reconstruct the transaction through your bank or credit card statements, add the record to your folders and state that the original was lost. If the invoice was for more than \$50 go back to the original supplier and get a copy invoice. If this cannot be done, try and reconstruct the record as above and if you get audited hope that IRD will accept it.

Another accepted business practice is having an entertainment expense. It is perfectly acceptable to meet up with your friends and colleagues over a meal, coffee or a drink and chat about and conduct business. It has been long accepted that a lot of business happens this way in New Zealand; it is equally accepted that some of this is also for personal satisfaction purposes. As such, these meetings are only 50% tax deductible (unless you happen to be staying away from home overnight in which case they are 100%) and you can claim back 50% of the GST and 50% of the expense. You should also record who you were meeting with. Note that they do not have to be from the same industry – I have an architect friend who I meet up with about once a year and we discuss how our industries are going, software, ways we might save money, as well as discuss things more to do with our social lives, hence the 50% deduction. If,

however, you are out of town at our annual conference, having a coffee and a cake with one of your colleagues, dinner out, etc, then all of your costs are 100% tax deductible.

### **Home office**

An important part of your work, especially if you are based from home is claiming correctly for the costs that are attributable to setting up of a home office, and possibly a workshop or other work space as well. In general, all costs relating to the home office are deductible; most are based purely on the percentage of floor space you use. In my case I have an office that is 4.15% of the house floor space and a separate workshop that has a floor area of 17.53%. Therefore I can claim back 21.68% of my rates, electricity, water, house maintenance, mortgage, etc, as well as get a refund of the % of the GST charged. The only notable exception to the rule is the telephone, where the rule is 50% of the cost of the connection, plus the cost of any toll calls made that relate to the running of my business.

### **Fixed assets**

Fixed assets are assets or items which have a usable life for your business that is longer than 12 months, such as a computer, printer, total station, work vehicle, etc. These must be recorded and kept in an asset register and depreciation taken off them each year. If you later sell them, you must record as profit or loss any difference between their book value (cost price minus accumulated depreciation) and include them in your accounts. Depreciation can be calculated using more than one method and different classes of asset have different depreciation values, based on the estimated useful life of the asset. For example, an office desk may be expected to last longer than a laptop computer. This is too large a subject to go into any depth here, but it is important you know about it. As with most things discussed here, if you search the Inland Revenue website good guides are downloadable.

I would recommend using the diminishing value method when calculating the depreciation on an asset. This is not as simple as the straight line method, but it reaps the financial benefits more quickly (long term, all the methods are equal). It is also important to know that you can expense any purchase less than \$500 immediately (again this is a figure that Inland Revenue reviews from time to time, so check every time you purchase an asset worth more than \$500 in case it has gone up).

Again, if you are a part timer there are some benefits in being GST registered when it comes to fixed assets. For one thing, you can claim back the GST component of an asset. To put this in to a working example, if I were to purchase a \$2000 laptop as a GST registered person I would immediately claim

back \$260.87 back with my GST return (\$2000 times 3 divided by 23 = \$260.87) and have an asset of \$1739.13. If I was not GST registered, I would not get any immediate return and I would have to depreciate an asset of \$2000.

Another benefit of GST registration for fixed assets is when those assets cost just above \$500, such as if the GPS used in the earlier example cost \$520, not \$460. A non-GST registered person would have an asset of \$520 to depreciate for many years. A GST registered person, however, would receive back \$67.83 immediately (the GST on the GPS) and the cost of the GPS would now be  $\$520 - 67.83 = \$452.17$ . The GST registered person then no longer has an asset worth over \$500 and can expense it immediately and deduct it from that year's income.

## Conclusion

I have pointed out a few tips to maximise your profits and business sense. Not all will be suitable for every individual and legislation and policies will change. As such, I must put in the disclaimer that they are correct at the time of writing and largely based upon my own interpretations of the Inland Revenue website. My article also does not go into the all important subject of how to prepare your end of year accounts for a tax return, as I think this could be an article or maybe a lesson in accounting in itself. If you wish to do this I think there are three logical ways of learning how to do it.

- Pay for an accountant to do your accounts for a couple of years, learn and see what they do, then take back the job for yourself.
- Purchase accounting software that will produce accounts for you.
- IRD provides free advice to those wishing to set themselves up in business. Details on what advice can be offered and how to make appointments can be found on their website. It is also worthwhile downloading the IR320 publication off the IRD website. This publication covers basic business requirements and tax obligations, and goes into more depth on many of the issues I have raised in this article.

There are other things that can help as well including understanding of health and safety legislation and legal requirements and insurance to name a few. However, I have limited insights into these matters and will encourage you to do your own research, or alternatively perhaps another reader of Archaeology in New Zealand could provide that advice should they feel they have the knowledge. You may also wish to consider enrolling in a business mentoring programme – I know of one archaeologist who enrolled in one and found it helpful.

## Acknowledgements

As well as those mentioned at the start who gave me the desire to write

this article I would like also to thank two others. This article originally ended at the GST examples (plus a shorter conclusion) and although she may not like to named as it is her editorial job, I would also like to thank Katharine Watson for encouraging me to write more and for also making some helpful suggestions and edits on how to improve the first draft so that the non-accountants amongst us might find it easier to follow. I also am grateful to my wife, the lovely Mandy, for proofing and commenting on much of this article as I went.

### **Bibliography**

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