

# Do I Need to Pay Tax on My Side Hustle?

It may have started as a hobby, or a one-off sale of goods, but at some point, you realise that you have a business. If you are making losses, you may be able to deduct the losses from your other taxable income. If you are making profits, you may need to pay tax.



## How Can I Make Money from a Side Hustle?

There are several ways you can supplement your main income by having a side business. Have a look at these suggestions from Shopify<sup>1</sup>.

Do your research before you start. How much time and money will it cost to set up? What skills do you need? What ongoing time and energy will you need? Do you need permission from your employer?

What taxes will you need to pay? The main tax consideration is whether you have a hobby or a business.

## Do I have a Hobby or a Business?

There is a grey area between hobby and business, so it can be hard to tell the difference at times. Here are some indicators that you have a business:

- Intention to make a profit (Income - Expenses = Profit)
- Continuous, regular sales activity

- Time, money and effort
- Keeping records: budgeting, tracking income and expenses
- Earning income from activity
- Running activity like a business in the same industry
- Relying on the activity to cover your living costs.

Making a profit doesn't necessarily mean that you have a business. For instance, you may sell a table that you made at woodwork class and then never sell another table. This is more likely to be a hobby. You can read more about IRD's position regarding hobbies and business on their website<sup>ii</sup>.

There are some specific rules for different types of side hustles:

### Content Creators

If you monetise your content, such as charging subscriptions, earn commissions from paid advertising, earn prize money from e-sports, you're more likely to have a business. If businesses give you gifts for promoting their products or services, then you may need to declare the value of the gifts as income also<sup>iii</sup>.

### Share Traders and Currency Traders

IRD looks at the regularity of your trades and your intention when considering whether you are a share trader or a currency trader.

If you bought shares for the main purpose of selling, then the profit on sale is taxable. If your main purpose of buying shares was long term investment and earning dividends, then profits on sale are generally considered capital in nature and tax-free.

If your foreign share portfolio exceeds NZ\$50,000 cost at any time in the year, even if you're not a share trader, then you also need to consider if there is Foreign Investment Fund (FIF) Income to declare in your tax return.<sup>iv</sup>

If you buy other fiat currencies, like USD or Euro, for the main purpose of selling, you may have to pay tax on your currency gains. The indicators that you are currency trading are: how often you trade, whether you are organised e.g. automated trading platform and what records you keep.

### Crypto Assets and Non-Fungible Tokens

Owing to the complexity of these assets, trading in crypto assets and non-fungible tokens is unlikely to be considered a hobby, even if you only trade rarely. There may be a rare exception for accepting a one-off payment in crypto assets for goods and services in your regular business and then converting a fiat currency like NZD.

Crypto assets are treated like trading stock not currency, so you need to keep records of all purchases, sales and rewards and convert the transactions to NZ dollars. Even transfers between crypto assets or exchanges are considered a taxable trade.<sup>v</sup>

Non-fungible tokens are digital assets and are selectively tradable through their blockchain authentication. You can earn royalties, commissions or sell unique NFTs for profit.<sup>vi</sup>



## If You're a School Student

If you're still at primary or secondary school, then you can earn up to \$2,340 a year from self-employment without paying tax.<sup>vii</sup> Students could earn up to \$45 a week tax-free from baby sitting or mowing lawns, for instance.<sup>viii</sup> In contrast if you're not a school student then only \$200 income is exempt from tax.

## Do I Need to Register My Side Hustle for GST?

If your gross income from your side hustle (before deducting expenses) is more than \$60,000 a year (average \$5,000 a month) then you will need to register for GST. Unless you are involved in an exempt activity such as financial services or residential rental.

It is possible to voluntarily register for GST before you reach the \$60,000 threshold. You might do this if you want to claim back GST on a major asset purchase, or you want to lock in your pricing early. Make sure that you keep good records for GST<sup>ix</sup> and set up accounting systems to help you.

## How Do I Pay Income Tax on My Side Hustle?

If you're contracting your services, you may have withholding tax (WHT) deducted from your contractor income.<sup>x</sup> This means that your hirer is paying income tax on your behalf.

After the end of the tax year, you declare the profit (or loss) in your personal tax return IR3. The income tax is calculated at your marginal tax rate, and any WHT is deducted from the total. If your residual income tax is over \$5,000 then you'll have to pay provisional tax next year.<sup>xi</sup>

Many sole traders assume they can simply 'pay themselves a wage', but in practice it usually involves drawings and setting aside money for tax.<sup>xii</sup>

If you've set up a company for your side hustle, then you can either keep the profits in the company and pay tax at the company tax rate or allocate it to you personally as shareholder salary and pay tax in your personal tax return.<sup>xiii</sup>

A side hustle can be a great way to earn extra income or test a business idea, but once it starts looking like a business, it's important to understand your tax obligations. The key issues are whether you have a hobby or a business, what income needs to be declared, whether GST applies and how to stay on top of your record-keeping and tax payments. Get advice early to avoid surprises and make sure your side hustle starts off on the right foot.

- *Serena Irving*

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An article like this, which is general in nature, is no substitute for specific accounting and tax advice. If you want more information about the issues in this article, please contact your adviser or the author.

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i <https://www.shopify.com/blog/side-hustle>

ii <https://www.ird.govt.nz/income-tax/income-tax-for-individuals/types-of-individual-income/hobbies-and-businesses/is-your-hobby-a-business>

iii <https://www.jdw.co.nz/newsletters/blog/jdw/taxing-content-creation>

iv <https://www.jdw.co.nz/proposed-fif-rule-changes-2025>

v <https://www.jdw.co.nz/do-i-pay-tax-on-cryptocurrency>

vi <https://www.jdw.co.nz/are-non-fungible-tokens-nfts-taxable>

vii <https://www.ird.govt.nz/income-tax/income-tax-for-individuals/how-income-is-taxed/my-income-is-not-taxed-before-i-get-paid>

viii <https://www.taxtechnical.ird.govt.nz/new-legislation/act-articles/taxation-livestock-valuation-assets-expenditure-and-remedial-matters-act-2013/limited-tax-exemption-for-children>

ix <https://www.jdw.co.nz/gst-record-keeping-changes-2023>

x <https://www.jdw.co.nz/newsletters/blog/jdw/im-a-contractor-how-do-i-manage-gst-and-wht>

xi <https://www.jdw.co.nz/what-is-provisional-tax>

xii <https://www.jdw.co.nz/how-do-i-pay-myself-as-a-sole-trader>

xiii <https://www.jdw.co.nz/how-do-company-shareholder-salaries-work>