



GREENFIRE ACCOUNTING

Wallbank Swart and Team

Spring 2012

Tax & Business Newsletter

Welcome to Team Greenfire!

We are nicely settled into our new premises and looking forward to seeing you all here through the next few months.

Team Greenfire – yes we are accountants and that may be the only way some of you think about us. But - yearend financial statements and tax returns are just a small part of what we can offer you!

The partnerships we have with our clients has allowed us to build a successful business. Our principal focus is to ensure your business achieves the potential it is capable of.

Team Greenfire has the resources to ensure your business is focused and profitable.

We can assist you with flexible strategies designed to address the issues affecting your business.

Our feature article in this newsletter is **Succession Planning**.

We all read the same newspapers and watch the same informative programmes on TV. But what are you doing with that information?



It is never the wrong time to consider succession planning. How fast has this year flown by? How fast will the next 5 go?

Many of you know about the fable of the Ant and the Grasshopper. For those who don't – It concerns a grasshopper that danced the warm months away while the ant was working to store up food for winter. When winter arrives, the grasshopper finds itself dying of hunger and begs the ant for food. The ant tells it to keep dancing.

Do not be the grasshopper.

Succession Planning

Provision for succession planning – Start early

Succession planning is a journey not a destination. Selling your business is not the end point. Developing, improving and grooming your business is the start point.

Every business we serve will need to provide for succession. Team Greenfire is a key part of the succession planning process. The skills we can bring to the due diligence, valuation, business preparation and in fact the entire succession planning process should not be underestimated. Our expert advice and assistance can add significant value to the eventual business realisation.

Whether your business is large or small, succession planning gives you the best chance of being financially independent at your desired retirement age, to carefully pass your clients on to a successor, to prepare for catastrophes and to realise maximum value in all scenarios.

When we develop a succession plan with our clients, it generally consists of two important parts: legal agreements and a business continuity plan.

The business continuity plan should tackle management and ownership plans to ensure your business remains a success and continues to service your clients' needs. **Legal agreements** such as a shareholder agreement and buy and sell agreements manage the business dealings and transition of business interests come succession time.

Insurance can be an important factor. In the event of sudden death or disablement the remaining owners may buy the estate out. Insurance can help fund the purchase upon a forced exit, avoiding the need for the remaining partners to use their own capital. We work closely with your insurance broker, to supply the correct information for them to create the best solution.

Essentially you have four options for succession which we can sit down and discuss at the start.

1. Sale of the business
2. Generational succession - i.e. sell to a family member
3. A management or employee buyout
4. A structured liquidation of the business asset

Two key questions we consider in the early stages of planning are -

1. What needs to be done to prepare the business for succession?
2. What can be done based on the timetable agreed?

It may well be that your succession plan needs to be 'fast tracked' for whatever reason, be it your or one of the partners health, change of circumstances, procrastination or maybe a sudden desire to 'quit' the business, or even an unanticipated approach from a

Given that we don't always have the luxury of the ideal succession time frame on our side, it's useful to establish the 'early yardage' factors that we should prioritize.

Managing succession: Succession is a management issue that should be addressed 5 - 10 years in advance of implementation. We work out a plan for a number of possible scenarios, to enable your departure as owner or partner, whether through forced and unexpected events or by retirement. Succession planning is important at the beginning of a business as life is unpredictable!

Often the emotional aspects form the initial barriers to a succession plan, including personal relationships, family concerns, issues of relinquishing control, and beliefs that the owner will keep working beyond retirement. Succession planning can be seen as a threat to security and status.

It can be difficult for partners to suggest to a colleague that it's time to start thinking about retiring. We have experience in **facilitating** a meeting between the parties, to enable transparent and open discussions. If a plan is established well in advance then emotional issues can be reduced.

Key employees need to understand their position throughout the process, so they're less likely to exit when most needed. We can meet with you and your employees to clarify the process to them and make them work with you on the plan.

Grooming your business is essential in maximising business value and the capital you eventually extract from your business

It's the business you need to sell, not you. The tricks are to sell the future using the past, get a plan and start now!



Greenfire Accounting had the mandatory 3 yearly Institute of Chartered Accountant's Practice (ICANZ) review.

ICANZ thoroughly inspect all aspects of our business, focussing on quality and compliance with Industry standards.

We passed with flying colours! A couple of comments which we are especially proud of and would like to share with you were:

"Unusually for CA Practices, no matters arose to report from the Company Registered office statutory record files we reviewed"

And

"Files are indexed and structured using proper workpapers. The compilation and review programmes are used. These were completed and signed in each file reviewed. Files include documentation of the resolution of queries, and evidence of final review and approval by the engagement partner. No issues could be found to address."

Great to be acknowledged for our quality.

competitor who expresses a keen desire to acquire your business.

Trials without tears

The Department of Labour recently completed research into just how successful trial periods are proving for both employers and employees.

Research established that about 60% of employers had used trial periods and they proved equally popular with SMEs and larger employers.

Of those who hired under a trial period, 40% wouldn't have done so otherwise - and yet 80% of all employers retained employees who were on a trial period.

Trials have been particularly beneficial for younger, inexperienced workers and those unemployed for some time.

70% of employers plan to use trial periods going forward to minimise risk:

- To be sure of the employee's skills before commitment
- To be sure the employee also fits the workplace culture
- To avoid incurring costs if staff are in fact unsuitable for the job

It's clear trial periods are providing a win-win solution for employers and employees, while helping create thousands of jobs.



'You can't have your cake and eat it too.' - Old proverb.



Employment agreements are a must

A recent ERA ruling further proves how vital employment agreements are. An employee was awarded \$3,000 after the ERA ruled that she had been unjustifiably disadvantaged through lack of an employment agreement.

Order of events: In 2008, the employee accepted an advertised role offering 25 hours per week with flexibility and potential for 40 hours during peak times. A year later, the employee requested more hours and the role expanded. After 6 months, the extra work was reduced along with the employee's hours.

The employee claimed that she then verbally applied for, and accepted, a vacant full-time position at the company. One of the employer's three directors later stated there was no offer of a full-time role, no documentation confirming the alleged appointment and no staff announcement. In addition, he said that he lacked the authority to make such an appointment and was only able to adjust hours.

Down the track the amount of work declined and the employer reduced the employee's hours. She resigned and raised a personal grievance.

The verdict: It was decided that the employer acted without good faith by not providing an employment agreement. Had it done so, confusion surrounding the employee's hours could have been avoided. This in turn might have prevented a further finding to the employer's disadvantage relating to reduction in the employee's working hours (for which compensation of another \$7,000 was awarded).

Team Greenfire can provide an employment kit for a small fee. It is an extensive 74 page guide that covers all aspects of employment.

Tax Talk

Standard mileage rate increases

The IRD standard mileage rate for motor vehicles is now 77 cents per km. This rate applies to the 2012 income year.

The standard mileage rate may not be acceptable where an employee's business travel exceeds 5,000km.

The reimbursement should be based on actual expenditure or a reasonable estimate of the expenditure likely to be incurred by the employee.



Timely reminders (due 30 September)

- If you want to elect into the LTC regime you have until 30 September
- Student loan borrowers living overseas, bi-annual payment due

International investment tax changes

If you have offshore investments (these may include a pension, insurance policy, or shares) you may be subject to the international tax rules. A number of complex changes have been introduced. Briefly these changes:

Allow the controlled foreign company (CFC) rules (active income exemption) and the portfolio foreign investment fund (FIF) methods (fair dividend rate and cost methods) to be used by investors with interests of 10% or more in foreign companies that are not CFCs

Introduce a zero rate of approved issuer levy for interest paid to non-residents in respect of retail bonds

Introduce an alternative thin capitalisation method for firms with high-value intangible assets

The new rules apply to income years beginning on or after 1 July 2011. The changes are complex and we recommend you contact us to discuss how this may affect you.



Don't forget to send us your financial info

If you're yet to bring in your annual records then take a moment to compile the information and send it in. Check to see whether any of the following apply to you...

☐ Have you compiled the necessary documents for us?

☐ Do you have any overseas holdings/investments?

For example an overseas mortgage, pension, insurance policy, rental property, shares, bank accounts...

☐

Business Perspective

IRD Compliance Focus 2012/2013

The IRD just released their annual Compliance Focus document for 2012-2013 to 'help you get it right'. It outlines how Inland Revenue will focus its energies to net the correct amount of tax.

This year their focus is on:

- **Receiving the right information at the right time.** If your circumstances change remember to let us (and the other necessary government agencies) know. Also make sure you have the right amount of tax deducted at source and if you're an employer that you're deducting the right amount of tax from payments you are making.
- **Filing and paying on time.** If you think you'll be unable to meet your tax obligations let us know as soon as possible so we can work with the IRD to manage your situation.



- **Paying and receiving the right amount.** IRD are focusing on individuals who try to reduce their tax liabilities or increase their entitlements to tax credits.
- **Providing confidence and certainty.** The IRD are trying to clarify what they expect from taxpayers and provide more information - so keep an eye out.

The IRD has implemented several campaigns to educate the community and minimise accidental tax avoidance. They're also forging better relationships with external agencies, strengthening reporting systems and encouraging open communication to proactively influence voluntary compliance.

Taxes fund over 80% of government programmes and services, including education, healthcare and policing so it's in everyone's best interests to get it right.

The IRD state that taxpayers 'can have greater confidence that they are paying the right amount of tax when the advice and support their tax agent provides is based on complete information.... Recent research shows a clear correlation between the use of tax agents and increased voluntary compliance, particularly when the tax agent belongs to a professional organisation.' So if you think this may affect you, give us a call.

Disclaimer:

This publication has been carefully prepared, but it has been written in general terms only. The publication should not be relied upon to provide specific information without also obtaining appropriate professional advice after detailed examination of your particular situation.

<input type="checkbox"/>	Have you worked overseas in the last financial year?
<input type="checkbox"/>	Have you been affected by the Christchurch earthquake?
<input type="checkbox"/>	Have you sold or replaced any assets/investments?
<input type="checkbox"/>	Have you acquired any assets/investments?

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