Footprint

Footes Limited Chartered Accountants, 30 Church Street, Timaru, New Zealand Winter 2016

Succession Planning

It should be no surprise that the "baby boomer" bubble that exists in the wider community is also evident in the SME community (small to medium enterprises). A consequence is that we will see a significant number of business owners looking to exit their business during the next decade in preparation for retirement – bringing the business succession issue into greater focus.

New Zealand is a country of small businesses. There are more than 460,000 SMEs which make up 97% of all NZ businesses. They employ 600,000 people, representing 30% of the workforce, and create almost 30% of NZ's GDP.

The "generational crisis"

Over the next 10 years, this community will face two separate but merging trends:

1. The SME demographic bubble; and
2. Market convergence.

Combined, these trends will create a "generational crisis". The impact is likely to be far reaching with many business owners unable to realise the value of their business or seeing a reduction in the value of their assets. The result is that many will not achieve their retirement expectations.

Many owners see their business as a significant contributor towards their retirement capital. Some have managed to build retirement savings outside of their business, however may have only limited retirement savings. Without realising the assumed capital of their business they will be forced to:

- Stay within the business for a much longer period than planned;
- Accept a significant reduction in their standard of living; or
- Seek to position themselves in a way that maximises their welfare entitlement.

As a result, the focus of the sale of businesses will be either price or value. However, many small business operators are not in a position, nor have the skill-set, to maximise the value of their assets. This will leave many to negotiate on price alone. The likelihood is that most will be forced to achieve a sale through discounting.

Shifting from "reactive" to "proactive"

The emerging trends clearly identify that succession is an issue that needs to be planned and given a reasonable level of forward consideration to maximise the results. Timeframes of 1 to 3 years are not unreasonable.

If you are considering selling your business in the coming years, you must shift your focus from being reactive to being proactive through succession planning, especially if you are to protect your business's value and wealth.

Primarily, succession planning is relevant to three different groups:

1 SMEs approaching retirement;
2 Individuals who tend to buy a business, build it over a period of time, sell it, and move on to their next business venture; and
3 Owners who have a strong strategic focus who plan and grow their businesses from the beginning with an ultimate sale in mind – preparing the business for sale.

Where to start

The first step is to undertake a business diagnostic. This has two primary objectives:
To identify any issues or obstacles that may impede

1 the succession process; and
2 To identify areas where improvement will likely cause a superior succession outcome.

The following steps are then recommended:

1 Valuation – this step can be skipped where price expectation is supported by some form of external market data. Where there is no ready market by which to compare and assess the business, a valuation should always be undertaken.
2 Succession plan – this step should always be completed. It is important to document the expectations, steps to be completed, and who is responsible for the various steps.
3 Business improvement programme – this is the area that requires the most significant time to complete.
4 Balance sheet review and tax structuring.
5 Financial reporting structure – implement a system that provides a clear history of the business trends, sources of income, and key expense areas. This step will assist in explaining the business to a potential buyer and support their understanding of key business trends.
6 Preparation of information memorandum – this step is highly recommended. In almost all cases it will assist the process of a sale, unless the potential buyer knows the business well.

You may think the phrase "succession planning" only refers to planning for the transfer of ownership of a business in readiness for retirement. In reality, succession planning should also take into account the planned transfer of the ownership and management of a business under a wide range of circumstances, including a general business sale, generational succession, management/employee buy-out, realisation (liquidation) of assets, or even a public listing.

Also, it's not unusual for an unplanned event to occur that requires the transfer of the ownership of a business at a less desirable time or under less than ideal circumstances. It's at these times that a good succession plan will be particularly useful. For example, what happens if a business owner suddenly suffers a debilitating illness, or a change in family/personal circumstances requires them to exit the business? Situations like this are more common than many people realise. Some business owners are forced to sell their business in a rush, with little opportunity to maximise their return on sale.

Few owners realise that as much, if not more, effort is required to get out of a business than is required to get into it in the first place.

It's never too early to start considering your options. Please contact us to discuss your particular circumstances and available options.

Important: This is not advice. Clients should not act solely on the basis of the material contained in this newsletter. Items herein are general comments only and do not constitute or convey advice per se. Changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas.

Private use of motor vehicles and fringe benefit tax

If you make a vehicle available to an employee, their associated persons, or shareholder-employees for private use, you'll need to pay fringe benefit tax (FBT) whether the vehicle is used or not.

Travel between work and home is generally classified as private use. The Inland Revenue Department's Interpretation Statement contains guidelines for determining whether travel between home and work is deductible, and when travel between home and work will be treated as work-related use (rather than private use or enjoyment) for FBT purposes. You're required to keep records for any motor vehicle made available for private use. If a private use restriction is in place, you must keep a record of quarterly checks to make sure the vehicle isn't used for unauthorised private use.

There are exemptions for FBT if the vehicle is a work-related vehicle. Adequate records must be kept to support the days claimed as FBT exempt under the work-related vehicle exclusion.

Sole Traders and partners of Partnerships must keep a log book of the vehicles use if they wish to claim more than 25% of its running costs.

If you have any questions about FBT on motor vehicles, please contact our office.

Reading ACC levy invoices is about to get easier

From 1 July, businesses will start to receive their recently redesigned ACC invoice.
ACC worked with customers and ACC staff who deal with business customers every day, to include their feedback when redesigning their levy invoices. The result is an invoice that is clearer and easier to read, while keeping all the information businesses need.

• an improved layout	• simplified design
• fewer pages	• the removal of unnecessary colours.

More information about the invoices, including examples, will be available after 1 July on the ACC website.

Phishing scams

Phishing scams are attempts by scammers to trick you into giving out personal information such as your bank account numbers, passwords and credit card numbers.

A scammer contacts you pretending to be from a legitimate business such as a Government Department, bank, telephone or internet service provider. You may be contacted by email, social media, phone call, or text message.

Inland Revenue
Te Tari Taake

A recent phishing scam has seen individuals and firms being contacted by individuals implying they are talking with a representative from Inland Revenue. The scammer asks for their IRD number or to confirm personal or bank details often under the pretext that a tax refund is due from Inland Revenue, that Inland Revenue need to verify your bank details or that due to a technical error your bank details have been wiped from Inland Revenue records.

Alternatively, the scammer may alert you to "unauthorised or suspicious activity on your account". You might be told that a large purchase has been made in a foreign country and asked if you authorised the payment. If you reply that you didn't, the scammer will ask you to confirm your credit card or bank details so the "bank" can investigate. In some cases the scammer may already have your credit card number and ask you to confirm your identity by quoting the 3 or 4 digit security code printed on the card.

If you provide the scammer with your details online or over the phone, they will use them to carry out fraudulent activities, such as identity theft or to access your bank accounts.

Protect yourself and never provide your personal, credit card or online account details. Make an independent check with the organisation they are calling from using their main website or phone their head office to confirm the caller is genuine before calling them back. If you receive a call from someone claiming to be from Inland Revenue and you are concerned about any aspects of the conversation, ask for their name and contact number and contact us.

Underpaid income tax?

Underpaid provisional tax can cause a few headaches. An option we have discussed before is tax pooling. It is a service designed to reduce interest costs and provide payment options for provisional taxpayers.

How does it work?

For underpaid income tax, you can settle what you owe the IRD by paying through a tax pooling intermediary such as Tax Management NZ (TMNZ) at an interest cost lower than the interest IRD charges on underpaid tax.
The payment you make is essentially a purchase of tax that TMNZ paid to IRD on the original date the provisional tax was due.

As this payment is date-stamped, IRD treats the tax as paid on time once it has processed the transfer from the tax pool to your IRD account. Any late payment penalties and interest showing on your account will be reversed once this happens.

When might this be useful?

Tax pooling can be used if you have underpaid income tax for the current tax year (2016).

Is tax pooling secure?

Tax pooling intermediaries are registered with IRD and operate under legislation set out in Income Tax Act 2007 and Tax Administration Act 1994.

The system was proposed by IRD so private markets could provide ways for provisional taxpayers to manage their income tax obligations and reduce their compliance costs.
The tax pool accounts operated by tax pooling intermediaries are held at IRD and managed by an independent trustee. The independent trustee also oversees the bank accounts in which your payments are made.

Timeframes for using tax pooling

Tax pooling gives you an extra 75 days past your terminal tax date to pay what you owe IRD. So, if you have a 7 April terminal tax date, for underpaid income tax relating to the 2016 tax year, you have until mid-June 2017.

What to do next

Contact us if you would like to discuss tax pooling as an option to clear up your underpaid provisional tax debt.

Staff Profile

Diane Lyne celebrates 30 years of service with Footes Ltd!

What an excellent achievement! - There aren't many people who have worked at the same workplace for 30 years!

Diane started with Footes in 1986 as the "innocent" junior so we've been told.... and has seen many staff changes over the years in her journey up the ladder to Senior Client Manager. There have been a lot of fun times and memories made over this time and Diane has always been a bright and bubbly member of our team (she is also known as "The Rock").

Diane is a valued member of the Footes team and things would not be the same without her - bring on the next 30!

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