footprint

an occasional newsletter

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Succession Planning

Is your succession plan viable?

Succession will affect every business at some point. It is completely inevitable, and yet so many businesses don't have adequate plans in place. As our baby boomers reach retirement age and the mass exodus of skilled young workers continues, succession will remain an important issue.

Whether you're planning an exit or not, 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. If managed properly this is your opportunity to create wealth in your business.

The benefits of succession planning:

▪ **Choose when you wish to retire**	▪ **Minimise disruption for your clients**
▪ **Maintain continuity of employment for staff**	▪ **Maintain suppliers' credit terms**
▪ **Retain the confidence of banks and financiers**	▪ **Manage lease and loan liabilities properly**
▪ **Reduce the pain of a forced retirement**	▪ **Avoid conflict with your partners**
▪ **Maximise the value of your business**	▪ **Ensure adequate funds for yourself and your family**
▪ **Increase the number and quality of potential successors**	

***A succession plan 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.
You need to consider the type of insurance and level of cover you require, also who holds the responsibility for paying the premiums, how to deal with shortfalls and surpluses, policy ownership issues and how you'll treat the termination of the policy.

Managing succession: Succession is a management issue that should be addressed 5 - 10 years in advance of implementation. Plan for a number of possible scenarios, to enable the departure of an 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.

Succession Planning contd......

It can be difficult for partners to suggest to a colleague that it's time to start thinking about retiring, but transparent and open discussions always result in fairer solutions. 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.

Succession planning: factors to consider

▪ **What, when and how is the plan going to be implemented?**	▪ **What is the selection process for finding a successor?**
▪ **What development training does the successor require?**	▪ **Who will mentor and coach the successor going forward?**

The process for succession planning needs to manage both the emotional issues and technical issues to ensure the happiness of all involved and the enduring success of the business.

Succession in family businesses: Did you know that only 30% of family businesses survive the transition to the second generation? And only 12% survive transition to the third?

It seems failure to recruit and develop the right successors is a big challenge. Other contentious issues and common mistakes are: technical mistakes, planning in a vacuum, leaving the business to the surviving spouse and the challenge of treating children equally.

Business owners need to be critical but constructive: would the chosen successor be a contender if they weren't a family member?

Whether you're running a family business or not, now is the time to act. Be proactive, not reactive. Succession planning is a management necessity and vital to minimise risk management issues. It's something that everyone should plan for and that every team member should be aware of.

We're happy to discuss your succession plan with you, and if necessary we can point you in the direction of a succession specialist.

GST RETURN E-FILING

You may have noticed the improved online filing service for GST returns. The IRD now has a secured online facility through *myIR* from September 2012.

The improvements include:

- built-in checks such as automatically calculating GST thereby reducing errors;
- doing away with the document lodgement number (DLN) to file the return as required before;
- tracking the status of the GST returns - whether ready to be filed, saved as a draft, being processed or completed;
- being able to save a copy of the return for your records; and
- receiving immediate confirmation that the return has been filed and received.

The non-personalised online GST form is and will still be available at www.ird.govt.nz but this link will be retained only for the agents by the end of 2013.

KiwiSaver matures

On July 1 KiwiSaver turned 5 years old.

Our national KiwiSaver initiative has been a great success, with nearly 2 million New Zealanders enrolled. Some might say KiwiSaver has contributed to better saving habits for all New Zealanders in a crucial time of fiscal restraint.

The 5 year milestone will be eagerly awaited by baby boomers - many of whom are now eligible to withdraw from their golden nest egg.

Are you eligible to withdraw your funds? You must fit two criteria:

1. You must be at least 65 years old, i.e. qualify for NZ Superannuation.
2. You must have been enrolled in KiwiSaver for 5 years.

If you joined KiwiSaver when you were 63, then you won't be eligible to access your funds until 5 years after, when you'll be 68.

How to withdraw your savings: First, contact your scheme provider to confirm you're eligible. If you're unsure who this is, contact IRD (have your IRD number ready).

Your provider will explain the withdrawal process and timeframes involved. This will vary, depending on your provider and the funds/assets portfolios your money is invested in. They can also tell you what your savings are worth.

Note: You can contact your scheme provider to discuss the withdrawal application process and relevant timeframes ahead of meeting both criteria. It might be a good idea to ensure you have the required paperwork ready.

Upon becoming eligible you may wish to leave your account open and continue contributing to it.

Are you an employer with an eligible employee? Provided you're not required to under an employment agreement, you're no longer liable to pay compulsory employer contributions for employees eligible to withdraw from their KiwiSaver funds.

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).

Where an employee is not covered by a collective agreement, the law requires an individual employment agreement to be in writing. This promotes greater certainty and trust - which can only be a good thing.

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 5,000 km. The reimbursement should be based on actual expenditure or a reasonable estimate of the expenditure likely to be incurred by the employee.

Fuel Rebates

WHAT IS IT?

An excise duty tax applies to all petrol sold in New Zealand Diesel does not attract an excise duty tax. Instead, the owners of diesel operated vehicles pay what is known as a road user charge (RUC). Both the taxes imposed are for the building and maintenance of the country's roading infrastructure. If vehicles using petrol or diesel are used off road then the excise duty and RUC respectively can be refunded.

This is beneficial for rural businesses using off road vehicles in their operations that consume a lot of fuel, such as tractors, quad bikes, chainsaws and generators. For example, a farmer using 2,000 litres of petrol per annum may claim well over a $1,000 rebate for the year.

REFUND PROCESS

Rebates have to be claimed quarterly by filing the claim form (MR70), available from the New Zealand Transport Authority website www.nzta.govt.nz, which also provides a fact sheet of the refund process. Information required for completing the form will consist of details such as fuel usage, proof of purchase, opening and closing stock.

If you miss the quarterly claim, the rebate can still be claimed (up to two years) but you will lose 10 per cent of the refund.

TAXABILITY

If you have been claiming the petrol as an expense then the refund is also taxable. It is also subject to GST output tax.

The team at Footes would like to wish all their clients a safe and happy Christmas break and look forward to seeing you in the new year.

We will be closed for the Christmas break from 12 noon on Friday 21st December 2012 and re-opening at 8.30 am on Monday 14th January 2013

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.

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