Wallace Diack
Chartered Accountants Limited

Cornerstone Sponsor
MARLBOROUGH CHAMBER OF COMMERCE
Business Vitality

BUSINESS UPDATE

Spring 2012

Risk and Reward

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.

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. (cont.)

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...

- [ ] **Have there been any changes in shareholdings?**
- [ ] **Have you worked overseas in the last financial year?**
- [ ] **Have you been affected by the Christchurch earthquake?**
- [ ] **Have you sold or replaced any assets/investments?**
- [ ] **Have you acquired any assets/investments?**

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:

1. **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.
2. **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.

3. **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.
4. **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.

"Helping you master the business of business"

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