HC PARTNERS LP
Chartered Accountants

Summer 2012/2013

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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

DIRECTORS: Duncan Brand, Craig Copland, John Stark, Paul Wolffenbuttel & Belinda Kelly

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.)

Christmas closing period

Our offices will close from **2pm Friday 21 December 2012**, until **8am Monday 7 January 2013.**

To all of our fabulous clients, business associates and supporters, we wish you a great Christmas and a successful 2013. From the team at **HC PARTNERS LP**

Is your succession plan viable? (cont.)

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.

Timely reminders

- Provisional tax payment due Jan 15 for March, July or November balance dates, or Jan 28 if you have a December balance date
- Terminal tax payment due Jan 15 for Dec balance dates (where filed by us) and for Feb balance dates (not filed by us
- November GST return and payment may also be due Jan 15 and December GST return and payment due Jan 28
- Interim student loan payments due Jan 15
- Quarterly FBT return and payment due Jan 21 (due to 20th falling on a weekend)

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.

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. (cont.)

(cont. from page before) **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.

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.

Changes to student loans and allowances

The following changes will come into effect on **1 January 2013**:

- Student Allowances will no longer be available for postgraduate study commencing from 1 Jan (except for Bachelor degrees with honours)
- All exemptions to the 200-week limit for Student Allowance will be removed from 1 Jan 2013 (except for special circumstances)
- Borrowers making significant under-deductions will be forced to make a compulsory extra student loan deduction - IRD will arrange directly with their employer to recover the outstanding amount
- Those 55 and over will no longer be eligible to borrow living or course-related costs (with exceptions, depending on when you were enrolled)

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.

Corpor8 Rowing Challenge 2012

You will be pleased to hear that the HC Partners Rowing Team had a successful day at the Timaru Rowing Clubs Corpor8 Rowing Challenge this year held on Saturday 24th November 2012 on Lake Hood.

After a very slow start in the first race (courtesy of the half-blind starter failing to recognise Dan Kelly's raised hand indicating we were not ready and were straddled over the bouys) we managed to power through the second race to gain entry to the B final.

In the B final after trailing in 3rd for most of the way we came powering home and were victorious over Sanfords and Timpany Walton by literally a whisker on the line. DB were a wee way back in 4th (I think they had a drinks break on the way).

The A final was taken out by Fulton Hogan for the 2nd year in a row.

It was another great team building event and we look forward to next years.

We will be proudly displaying our silverware in our reception area.

Introducing the starting-out wage

The starting-out wage is the latest government initiative designed to help get more young kiwis into jobs by giving employers incentive to take them on.

The starting-out wage will be simple for employers to implement and should provide more 16- to 19-year-olds with the opportunity to earn money, gain skills and the work experience they need in this tough labour market.

Those who'll qualify for the starting-out wage are:

- 16 and 17-year-olds in their first six months of work with a new employer
- 18 and 19-year-olds entering the workforce after more than six months on a benefit
- 16 to 19-year-old workers in a recognised industry training course involving at least 40 credits a year

Expected to be effective from 1 April 2013, the starting-out wage will ensure 16- to 19-year-olds are paid no less than 80 per cent of the minimum wage for the first 6 months with a new employer. After the first 6 months, they'll be eligible for the minimum wage.

Workers between 16 and 19 years of age who fill training or supervisory roles must at least be paid the minimum wage.

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.

Business New Year resolutions

Generally, we want to indulge less, exercise more and be better people.... However it's time to ponder some specific (and accomplishable) new year's resolutions for your business.

1. **Nurture your most loyal and profitable clients**. Chances are they'll sing your praises and refer more business to you.
2. **Give something back to your community.** Help a cause that matters to you and you'll potentially give your team new purpose whilst boosting your reputation.
3. **Promote your business effectively.** Join a networking or business group and get your business in the public arena. Consider the benefits of social networking and marketing.
4. **Read a business book every month.** Keep up with the changing world, enhance your knowledge and leadership skills.
5. **Get professional education and development.** As a leader you must continue evolving, extend your education to remain engaged and focused on the future of your business.
6. **Learn to listen more.** Be available and engage your team daily to see how they're tracking. You'll diffuse potential problems before they arise and witness valuable raw idea creation.
7. **Empower your team.** Only your team can grow your business - they need to share your vision and have the necessary drive or incentive to achieve the goals that you set.
8. **If it's not working, get rid of it**. Whether it be a product offering, a machine, a supplier or even an employee, don't waste time and energy squeezing a round peg through a square hole. Trim the fat and invest in new muscle.
9. **Prioritise and leverage your time**. Implement efficient systems to allow effective delegation. Employees with greater responsibility often have greater job satisfaction. Work more **on** the future direction of your business rather than **in** the everyday running of your business.
10. **Take time for yourself!** Be a good role model - don't skip lunch or work endless overtime. It could lead to burnout. Enjoy breaks for exercise or a new hobby and achieve a healthy work-life balance.

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Mixed use assets - gearing up for change

With summer set to sizzle no doubt you'll have serviced the motor home and prepped the launch or bach to reap the seasonally high rents.... Let's consider the proposed new rules around mixed-use assets and how they could affect you from 1 April 2013.

As previously signalled:

- You'll be required to apportion deductions based on actual income earned and private use of the asset, instead of based on the availability to produce income
- Expenses relating to the asset (power, rates, insurance), maintenance and interest on debt will also be apportioned to the number of days it was actually rented
- If annual rent received for assets exceeds $60,000 then the owning entity is required to be GST registered - this may affect the tariffs you charge and if you sell the asset you may have to account for GST

It's complicated and we suggest you get into the habit of diarizing the days you (plus family and friends) use assets. If you're concerned, do call us to discuss your situation.

DIRECTOR PROFILE

Craig Copland – B.COM/LLB C.A (PP)
Director of HC Partners LP

Craig has over 15 years of experience in providing specialist tax, accounting and business advisory services. Craig's clients cover a wide spectrum of industries including the agricultural, manufacturing and retail sectors and range in size from owner/operator or family businesses through to larger company or joint venture operations.

In addition to providing accounting and business advisory services, Craig specialises in assisting clients with all tax related matters including structuring of new and existing business operations, managing on-going tax compliance, maximising available deductions and handling Inland Revenue enquires and audits.

Craig's email is as follows: craig@hcpartners.co.nz