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**B**usinesses that develop over time run the risk of not having all the things in place that make for a good business. This is especially so if it's a family business. In the beginning it was you – self employed for the first time. Before you knew it there were others working alongside you. They may have been family members or friends, employees, subcontractors etc.

This does not belittle where you've got to so far. Many businesses fail within the first 3 years of operation so you've done a good job to get to here.

It is easy though, to overlook important steps if you've "grown into" your business over time. You've been busy building your business and working in your business. It's not uncommon that basic business principles are sometimes never addressed.

9 Essentials of a Good Business:

### 1 A Strategic Business Plan

A strong foundation for your business will include a Strategic Business Plan. This delivers the core of everything you need for a sound business strategy. It also provides a sound business model. Without this you are more likely to make tactical decisions. What a good business needs is strategic decisions.

### 2 Leadership

A good business will have a leader. Someone who takes "ownership" of the business as a whole. A leader will "walk the talk", recognise great effort and create a "team" out of a bunch of employees. Make sure your business is not leaderless.

### 3 Goals & Objectives

Establish clear goals and objectives for your business. Make sure your whole team knows about them and can align with them. Your team's buy-in will be crucial if your business is to be successful.

### 4 Systems & Procedures

Develop systems and procedures to both safeguard and improve your business. This will ensure there is a process to follow for everything. Well-documented systems are a valuable asset in any business. They will provide an added bonus when the time comes to sell.

### 5 Cashflow Systems

Create a cashflow system that can forecast weeks in advance. This will go a long way to eliminating any nasty surprises.

### 6 Up-to-date Debtors

Make sure your customers pay on time or bear the consequences. It can be easy to let emotions come into play when someone gives you their sad story. It's important you have a clear policy or procedure to follow. Being a business owner sometimes means making hard decisions.

### 7... And Creditors

Pay your own bills on time. It's hard to get tough with your debtors if you're slack in this department as well.

### 8 Proactive Professional Advisors

Get advisors around you that add to what your business is up to. They need to appreciate you and your business. They also need to communicate in language that you understand.

### 9 Drive & Ambition

A successful business will seek to be top of its game. It will always look for the edge, always look for new ways to improve what it does. Act with the utmost concentration, on purpose and not by happenstance.

A sound business will provide you with the lifestyle needs you want. It will also provide you with an asset that you can one day on-sell. In this way you'll reap the ultimate reward for all your hard work.

There are only two good reasons to be in business – FUN and MONEY – and if there's no money there's no fun. A successful business has both.

Source: Full focus

## THE NINE ESSENTIALS OF A GOOD BUSINESS





## Domestic violence leave is additional to other leave

**U**nder the new law, an employee who's been subjected to domestic violence can request paid leave from their employer — up to 10 days per year. This leave is separate from annual, sick, and bereavement leave.

The new law also allows employees to request short-term flexible working arrangements as they recover from domestic violence. This applies even if the domestic violence occurred before a person became an employee, as the effects of violence can be long lasting.

### The Act helps victims stay in paid employment

The new Act aims to support victims of domestic violence to stay in paid employment, which is seen as a critical step to limiting the effects of this violence.

The Act also aims to improve legal protection in the workplace for people who have been subjected to domestic violence. This extra protection ensures victims aren't disadvantaged because of what's happened to them.

Having safe and supported employees is good for business. Creating a supportive work environment can help improve productivity and employee morale.

### What is domestic violence and who does it affect?

Domestic violence includes physical, sexual and psychological abuse (such as intimidation, harassment, damage to property, threats of abuse, and financial or economic abuse). It

includes abuse by a partner, another family member, or an ex. It can affect people of any gender, age, ethnicity or sexual orientation.

A person affected by domestic violence is one or both of the following:

Someone who is or has been the victim of domestic violence.

Someone who lives with a child who is or has been the victim of domestic violence.

Domestic violence is a human rights issue.

Discrimination against employees or job applicants who are survivors of domestic violence is also considered a human rights issue.

### Key facts for employers

When the Domestic Violence — Victims' Protection Act 2018 comes into effect, it will be unlawful for employers to discriminate against employees or job applicants because they are victims or survivors of domestic violence. Employees can go to the [Human Rights Commission](#) or [Employment NZ website](#) if they feel an employer has discriminated against them.

People affected by domestic violence, who have worked in their job for six months, can claim up to 10 days of paid leave per year. They can also request flexible working arrangements. Employers need to consider these applications for leave or flexible work.

Employers have a responsibility under the Health and Safety at Work Act 2015 to provide a safe workplace. This includes protection for people affected by domestic violence.

### Minimum wage rises

**When:** 1 April 2019

**What:** The new minimum wage rates, before tax, are:

Adult — \$17.70 an hour

Starting-out — \$14.16 an hour (up from \$13.20)

Training — \$14.16 an hour (up from \$13.20)

**Why:** Government must by law review the minimum wage rates every year.

**What you'll need to do:** You and your staff can agree to any wage above the minimum rates.

Note that it is a legal requirement to have a written employment agreement with all your staff.

Source: *Business.govt.nz*

### Check on ACC

Always check ACC invoices. Sometimes they record your occupation incorrectly.

If you have a PAYE salary and also a provisional tax salary from your company, you could find your total income is greater than the maximum threshold for paying ACC, and be overcharged. ACC charges on the basis of information it gets from Inland Revenue. It then makes a provisional charge for the following year. If you are winding up your business, you may care to ask ACC to lower its provisional charge.

### Don't make customers hit the red button

Chris said he was pleased with the attention at his doctors' surgery. Soon after he was asked to complete a survey, which was to take only 10 or 15 minutes.

"I felt I owed it to my carers to respond and started answering questions. They wanted my age, my ethnicity and a string of other barely relevant details before getting down to the meat of the issue. After 10 of these questions, I gave up."

If you're going to do a survey and really want to know what people think, keep it brief. There are far too many surveys competing for your time.





## Get it right and **save money** when winding up

If you are winding up your business and you're on a payments basis, save GST by paying as many bills as possible before you deregister.

If you are an ordinary company and incur expenses in the year after giving up business, you're not going to be able to claim them because there will be no income. You will have an unusable loss.

Have as few bills as possible in the year after ceasing business.

ACC and accounting costs come to mind. You might be able to adjust your provisional payment to ACC for the following year. To be a valid income tax claim, it would have to have been invoiced and be payable before balance date.

For accounting costs, get your financial

statements completed, invoiced and paid before balance date. A signed agreement (before balance date) agreeing the amount of the accounting costs would also work if the accounts are completed after balance date.

If you're winding up about the time of balance date, you could save accounting fees by not continuing in business beyond the end of the financial year.

On the other hand, if your income has been taxed at the top rate and your future income is going to be attracting a lower rate of tax, you could be better to sell (or cease business) part way through a year.

The income for the part year could be taxed at a much lower rate than would have been the case if it'd been part of a full year's income.

## Put transactions through **ONE** business account

To minimise the risk of error, put all your business transactions, which should include expenses paid out of your own pocket, through one business bank account.

In this way, you will avoid confusion over whether GST has been claimed, and minimise the risk of errors arising from misunderstandings.

How to do this?

If you have accidentally used your personal account, make a payment from your business account to reimburse.

If you are short of money in your business account, transfer an amount from your personal account by way of a loan to the business. Make sure your accountant knows the deposit is your own money. Try and ensure it is a rounded amount to avoid confusion with sales.



If you are paying your credit card account, pay the personal portion out of your personal bank account and the business portion out of your business bank account.

For small items of expenditure, collect them up in a notebook and when you get to about \$100, make a payment from your business to yourself as a reimbursement.

### **Donations rebates**

You can now send in your donations receipts to Inland Revenue as you get them, as long as you submit them electronically. Or, you can continue as usual and save them up for the end of the year and attach them to the IR526 form.

### **65+ KiwiSaver**

The requirement to pay the employer's contribution of 3 percent for KiwiSaver ceases when the employee reaches 65 years of age. If you are over 65, you are going to be allowed to have a KiwiSaver scheme, but you won't qualify for the government subsidy of \$521 a year.

### **Hire for attitude**

Attitude counts more than aptitude. Hire somebody with a great attitude over someone who is only offering greater technical skill. You can teach skill.

### **Don't become a dependent business**

A dependent business is one which relies on one or a few other businesses to remain viable. Trade cycles are such that buoyant times are followed by high unemployment, business failure and a reduction in demand for goods and services. It is at these times dependent businesses can go to the wall. As a rough guide, make sure no more than 20% of your income is dependent on one source.

### **GST - be careful with your timing**

The Yellow Family Trust bought a property which it settled on 28 April 2017 as an unregistered person. In December it registered for GST commencing from 1 April 2017. This meant it was actually registered for GST at the time of settlement and therefore the original transaction should have been zero rated. Inland Revenue refused to pay the refund and it was left to the taxpayer to recover the money from the vendor. Watch the commencement date when registered for GST. Could Yellow Family trust have claimed GST if they had registered with the commencement date, for example. Of 1 August 2017? Yes, because the transaction would not now be subject to CZR there will be a GST content. This GST content can be claimed under the adjustment rules at the following two balance dates. If the balance date is March then at 31 March 2018 the property has been owned for 11 months and the trust has been registered for 8 months so 8/11 can be claimed then and the balance at 31 March 2019 or on disposal whichever comes first.

### **The quick snail mail**

A telco customer was overcharged. Fearing a long wait on the telephone for a company with a poor reputation for customer service, he sent them a letter because he couldn't find their email address! Some time later he received a call to resolve the problem. It all ended happily ever after and the total investment in time was only a few minutes. Snail mail could be a quick option when dealing with large organisations who don't care about how much time you have to wait on line for them and won't give you an email address.

# Protecting & future proofing YOUR BUSINESS AND YOUR RETIREMENT

## When & how to start succession planning

Retirement has become a grey issue (excuse the pun) for business owners. No longer a straight line or finish line in the sand.

**A** growing proportion of the New Zealand population are living and working longer than ever before. Statistics New Zealand numbers suggest that over a quarter of New Zealand business owners are over 55, defying previous generations by illustrating a longer ability and willingness to stay in business.

### What does this mean for business owners?

It's pretty certain that most will be looking for an exit strategy over the next 10 to 15 years resulting in a scary amount of businesses changing ownership in some shape or form.

The problem with this is that many organisations and their owners aren't properly planning for this critically important transition. Worse still; many have not even started the conversation on the topic..

It is estimated that the vast majority of New Zealand family owned businesses do not have a formal succession plan in place, documented, and being acted upon. This lack of planning can be putting their retirement, family wealth, business and team in jeopardy for when that time comes.

Sadly we have seen far too many business owners scramble to transition their business in a hurry due to some unexpected event like a serious cancer diagnosis of an owner. While we have assisted many, the value extracted could often have been much greater if they had started succession planning and acting on their plan earlier.

Not sure when and how to start?

### Earlier the better...

The best time to start succession planning is at the very beginning when setting up the business. However this seldom happens as most startups take a short to medium goal and strategy approach. While in many respects this is understandable and completely normal, they may also be missing out on some significant value creation by not planning early.

If you haven't yet done so, we urge you to start. Invest by seeking advice from your advisors and starting conversations with your key personnel involved in the business. Starting these conversations at least 5-10 years ahead of planned retirement point should be a minimum if you don't want to risk not having a buyer and/or devaluing the price. We have all heard of businesses where the owner has left and handed the control over to a family member or internal manager only for it to collapse shortly after leaving immense problems. Not good.

**Quick tip:** Succession planning has many layers so give it the time it requires to be implemented suitably.

### Some quick questions to help start conversations and discussions around forming an Exit Strategy:

- How much do you need for your retirement?
- What is the current business worth and what does it need to be worth to

achieve my retirement goals?

- Whom is likely to buy or take over the business? A family member? An employee? A third party?
- How will the change of ownership occur? – a single transaction or process over time?
- Who knows the secrets of the business?
- How would key relationships within and external to the business react to a change in ownership and structure?

Remember that the definition of a true business is something that should be able to run by itself without the owner. Many "businesses" are more akin to a job as they cannot run independent of the owner.

**Quick tip:** Once a succession plan is agreed upon, documented and set in place it should not be filed, nor set in stone! It should be revisited each and every year. It needs to be agile enough to stay relevant to an organisation's aspirations and operating environment with appropriate strategies.

### Start letting go gradually, to create opportunities to grow your senior leaders

Holding all the most important cards as part of your portfolio as business owner makes you extremely difficult to replace. It also represents a significant business risk if key knowledge is held by the owner and they suddenly can't be there. This makes your business difficult to transfer/sell and leave as you are the business! This is not what you want.

Begin to let go of key tasks, relationships & delegate decision making to your senior leaders. This will take them out of your shadow and give them the opportunity to grow under your guidance and mentoring. At the same time investing in their learning and development will also provide them with the confidence to take over if and when a leader retires.

**Quick tip:** Being able to identify, develop and retain key talent to succeed you is particularly important for the ongoing success of any business.

### If family is involved and taking the reins, be extra diligent

If children are going to buy the business, they need to be ready. Having honest conversations and fair and objective processes in place to ascertain their ambitions and business aptitude are essential. Other factors such as blended families with children from prior relationships can create additional challenges, as can fairness between children.

**Quick tip:** Implementing training in some key areas such as management, business operations, leadership and corporate governance is highly recommended especially if the organisation is large.

### Seeking and surrounding yourself with professional business advisors

It is important to ensure all options are considered and a plan is worked through correctly. To make sure you haven't missed anything, sit down with your trusted business advisor so they can help you objectively identify and work through the issues. With independent professional advice you can help ensure that when the time comes for selling your business you are getting maximum value and a smooth transition.

**Quick tip:** Transitioning owners out of a business involves various expertise. Accounting, valuation, systems and processes, negotiation and contract law are key areas which require specialists to be part of and relied upon.

Source: RSMNZ



### DIY'ers risk losing out on tax credits

Do-it-yourselfers need to be very careful when it comes to tax.

It's particularly dangerous to change the shareholding of a company. You could lose the tax (imputation) credits the company has built up for distributing with company dividends unless you know how to do the job correctly.

This will mean you will pay more tax than you would otherwise have paid. If there are losses, you could lose the right to use them.

If you're declaring dividends, you must follow the process correctly, both from a tax and a company law perspective. It's not just a case of making a payment from your company and calling it a dividend.

Some people believe they can not only form their own companies, but also make them into "loss" companies (LTCs). They often get this wrong, to their later cost.



### Facebook can kill your job

Facebook is a marvellous way to let off steam to your friends and tell them what you really think.

Employee Bert ran into trouble at work and his wife thought he had been shabbily treated. She sounded off on Facebook.

This led to Bert being dismissed immediately.

Sure, he could have taken an action against his employer for wrongful dismissal, but where would that get him when he next applied for a job? Does anyone want to employ a person who looks as though he/she might stir up trouble in their firm?

Mrs Bert's intemperance led to friction between her and her husband, and ultimately the end of the 30-year marriage.

Anything you put on Facebook is likely to be there forever. Just be careful what you write on social media.

# Take care with tax when winding up your business

If you're considering selling your business and you run it through a company, you could have a tax problem.

You may not take out, straight away, large amounts of your capital gain on sale of the business. If you do, you might find you get an unwanted tax bill.

Generally, when a company makes a capital profit, the shareholders may only distribute this money to themselves if it is in the process of winding up the company. If they pay out before the company is officially in liquidation, they have to pay tax on the capital gain.



If there's no evidence to the contrary, the money taken out could be interpreted as a loan from the company to the shareholders, in which case Fringe Benefit Tax would apply, or you would have to pay interest to the company on the amount of its loan to you.

From your point of view, the interest is not tax deductible and it is subject to tax in the company – a waste of money. Your solution is to wind the company up promptly. You should consult us to make sure this is done properly and enable us to check for tax pitfalls.

## Tax calendar

**May 28**  
1st Instalment of 2020 Provisional Tax (December balance date)

**May 31**  
Last day to put in final FBT return for 2019

**June 28**  
Last day to apply for annual FBT returns for those who qualify

**July 29**  
3rd instalment 2019 Provisional Tax (June

balance date)

**August 28**  
1st instalment 2020 Provisional Tax (March balance date)

# Losses from rental properties

The following is the proposed tax law, which has yet to be enacted. Some of it could be changed.

As you will know, losses on residential rental properties may no longer be claimed as a deduction in your annual tax return.

They will have to be carried forward to the next year and set off against any rental profits in that year. Any surplus losses get carried forward again.

What happens when you sell your property? The losses can still not be claimed. Your only solution would be to buy another rental property. You would then be entitled to

use those past losses as a deduction against profits on the new rental property.

If you own several properties, you can treat each separately, if you wish. If you do nothing they will be treated as a "portfolio" and you will be entitled to set off profits and losses on each of them against the others. Any surplus losses then get carried forward.

There are occasional situations where your rental losses can be set off against the profit on the sale of the property (e.g. Brightline profits). This is only allowed if that profit on sale is taxable, i.e. not a tax-free capital gain.



# R&D tax incentive passes third reading

The Taxation (Research and Development Tax Credits) Bill passed its third reading meaning that up to ten times as many business will receive support to perform research and development work, says Research Minister Megan Woods.

After extensive consultation with business leaders the key features of the incentive were announced. These included a 15 per cent credit rate, a \$120 million cap on eligible expenditure, and a minimum expenditure threshold of \$50,000 per year.

“The incentive will support businesses of all sizes to undertake R&D. This will help New Zealand to move towards having a more sustainable, productive and inclusive economy.

“Officials estimate that 2,000 to 3,000 businesses will be able to benefit from the new R&D tax incentive, compared to the current 300 businesses receiving Growth Grants.

“The R&D Tax Incentive is one part of a wider package of government support for New Zealand’s innovation system and this new legislation represents a big step towards the Government’s goal of raising New Zealand’s total R&D spending to of 2%

of GDP by 2027.

Revenue Minister Stuart Nash says the changes provide the kind of support that business has been asking for.

“We want businesses to feel supported when they are ready to take risks with research and development.

“Supporting companies with R&D means we are supporting progressive thinking and helping to build a dynamic and innovative economy.

“At the same time, we have built in safeguards that mean companies have to meet transparent criteria to be eligible for the R&D credits.

Further work is already underway to support all stages of business, including start-ups, to ensure they can access the R&D Tax Incentive going forward. For example, for year one of the incentive, there is limited refundability available for smaller businesses with a tax loss. The Government has committed to having a decision in place for year two of the scheme.

Minister Woods encourages businesses that are doing R&D to find out whether they are eligible, and ensure they are recording expenditure and ready to file at the end of the tax year.

Source IRD

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Please remember to let us know of any changes in:

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