

# health adviser

Grant Thornton 

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## The drivers of success

New Zealand tops the list as the country with the highest proportion of above-average growth companies, according to Grant Thornton's International Business Owners Survey (IBOS) 2004.

In New Zealand, 69% of companies have shown above-average growth in the past year, compared with 58% in countries such as Australia and Ireland, 57% in the UK, and 50% in the United States and France.

The characteristics of a successful growth business boil down to three key issues: its business strategy, its understanding and exploitation of the marketplace and its people.

Obtaining the necessary finance and suitable business infrastructure are also important. What's more, planning for the growth and implementation of that planning, remain important at every stage of development.

The research shows that successful "super-growth" companies distinguish themselves from companies in general in several ways. Firstly, they are more likely to maintain or improve profitability by merger or acquisition. Merger or acquisition is the most logical way for companies to grow quickly. By pursuing such a strategy, companies often display a better understanding of their marketplace and a greater willingness to take risks.

"Super-growth" companies appear to recognise the importance of communicating with the marketplace and are more likely to increase marketing spend. Innovation remains high on their list of priorities with high levels of investment in technology than for companies in general. They are also more likely to have women involved in senior management. Nearly half have two or more women in the senior management team.

New Zealand's position in the above-average growth league is very heartening, but converting more of those businesses into "super growth" companies is the challenge. New Zealand does score well in various areas, such as the proportion of women in senior management and the uptake and use of technology to create growth.

However, businesses considered government regulations and red tape to be their most significant threat overall which could be hindering growth. We believe if these are addressed there could be significant growth gains for New Zealand businesses.

## There's more than meets the eye - reading Inland Revenue's signals

Some of you may be aware of the seemingly innocuous exposure draft titled "Transfer of depreciable property between associated persons" released in October 2004. Of those of you who are aware of the article, probably very few of you read it. I don't blame you-it's probably not the most worrisome issue facing small to medium sized businesses in New Zealand. **But beware!**

Two issues arise which are of importance to all taxpayers.

The first relates to whether depreciation can be claimed at the transfer value, rather than cost, when assets are transferred between associated parties. This situation is very common in the context of group reorganisations, such as selling assets to family trusts for estate planning purposes. Naturally, given the parties are separate legal entities and need to be treated for all other purposes that way, we would expect the 'transfer value' to be the appropriate answer.

The second relates to numerous other situations in tax where 'control' is an issue, and how that control should be tested, given control usually has negative tax connotations.

The problem lies buried on the eighth page, with the phrase there will be "a rebuttable presumption of control or power", noting effective rather than legal control will be the presumption. That is, the Inland Revenue appears to be looking at a substance approach rather than one built on legal form, which is one of the hallmarks of tax law. In essence they are saying that, in absence of the taxpayer showing otherwise, there will be a presumption that control exists in certain circumstances notwithstanding that legal control does not exist. Take for example

the supposed control that a parent has over children (although many a parent would dispute that!).

This approach is a noted departure from taking the current legal control approach. That is, for the purposes of determining ownership, it has been long established that if legal control is established by the taxpayer then Inland Revenue can't look through legal ownership to expose other parties who may be viewed to have in-substance control by other means (irrespective of whether that control is real or not).

This broadening approach has an effect on a number of other sections in tax legislation. The term 'control by any other means whatsoever' features in the definition of "associated persons", which affects transactions dealing with land, interest, shareholder employees and thin capitalisation among others.

Coming back to the purpose of exposure draft ED-0040. Inland Revenue are essentially stating that in situations where they determine effective control to be present (such as in a family trust situation), they are unlikely to allow depreciation to be based on transfer value, limiting it to cost of the 'associate' except in limited situations. The rebuttable presumption of control coming to the fore to the detriment of taxpayers!

This document is only in draft, but it shows Inland Revenue's thinking. We will follow its progress. In the meantime, if you are undertaking transactions with any person or entity that could be construed by Inland Revenue to be an associated party through an in-substance control approach, or you are undertaking reorganisations involving depreciable property we suggest you contact us.

### New Year's planning

Planning significantly increases your chances of success. As 2004 comes to an end, now is a good time to plan and think about the future of your business in 2005. This can be achieved by writing down:

- What you are doing
- Why you are doing it
- How you could do it better.

Put these into two columns, one entitled short term plans (1-6 months) and one longer-terms plans (12-18 months).

Are the elements you have identified achievable in the short/long term period? Yes / No, if no should you consider breaking the task into smaller pieces which are achievable, to ensure the task isn't so daunting that you put it off entirely.

Once you have completed this simple exercise you will be equipped to develop the basis of a business plan for 2005.

The benefits of planning are that:

- It keeps everyone working towards common goals, rather than doing their own thing
- You can focus on what is important to the business' success, rather than trying to build a business by reacting to short-term whims or events
- It gives you the opportunity to identify potential problems in advance.

# Why you should invest in your people

Training is expensive and once you train people they leave you for your competition, right?

Wrong!

If you have this attitude then it's costing you more than you think.

Do you want to improve your business and retain your staff? If your answer is yes - then training may be the key. Training can have a positive, measurable impact irrespective of the size of your business or the industry you operate in. Research has shown that staff who receive training are up to 230% more productive than untrained colleagues in the same role.

## Staff retention

It has been documented in a number of examples where the provision of quality training reduces staff turnover. Staff turnover can represent a major expense to your business. The loss of one competent person can cost the equivalent of at least a year's pay and benefits.

Surveys of American employees suggest workers are beginning to demand excellent training and career development as a benefit of employment. We believe these findings are consistent in New Zealand. Employees are citing career development opportunities (or the absence of) as a primary consideration when deciding to choose an employer, stay or leave.

Many New Zealand businesses are increasing the level of training for staff to improve employee and client satisfaction and are finding that staff turnover is decreasing as a result.

## Combine training with overall business strategy

Training must be aligned with corporate objectives to ensure real benefits from expenditure. The ultimate goal for any training programme is to help the organisation and the individual compete more effectively. Aligning training with business strategy allows a business to manage and facilitate the implementation of new technology and work practices.

Training can also provide a benchmark for future recruitment.

## The flow-on effect

The benefits of training can flow to many key areas of a business. Over time, well planned training will boost the bottom line, improve staff retention, staff morale and satisfaction, and improve service to clients.

## Holiday pay

Since the Holidays Act was passed in 2003 and subsequently the Holidays Amendment Act which came into force on 25 October 2004, working out holiday pay has become more complex.

### Working on a Public Holiday

- Every employee who is required to work on a public holiday is entitled to:
  - be paid at least time and a half for the hours worked; and
  - a paid "alternative holiday" (day in lieu) where the public holiday falls on a day that would normally be a working day for that employee.
- This year Christmas Day, Boxing Day, New Years Day and the day after, fall on a weekend, these are "Mondayised" for Monday to Friday workers, making Monday and Tuesday statutory holidays.
- Annual holidays must be paid for at the higher of an employee's average weekly earnings or their ordinary weekly pay, when they go on leave.
- Employers must pay employees before they go on leave unless there is an agreement to pay the employee in the usual pay cycle.

For further information on the Holidays Act, visit: [www.ers.dol.govt.nz](http://www.ers.dol.govt.nz) or telephone the Employment Relations Service at the Department of Labour on 0800 800863.

# International Financial Reporting Standards

In our previous issue we noted New Zealand is poised to adopt international financial reporting standards (IFRS) from 1st January 2007. This assumes that entities are not required to 'early adopt' due to the influence of some offshore subsidiary or parent company. We also discussed the need for comparative financial information to comply with IFRSs.

For an entity with a 31 March balance date this means the entity should, from 1 April 2005, assess the impact and disclosure of the new reporting standards so a comparative 31 March 2006 statement of financial position can be prepared.

Rules have been written to help preparers of financial statements determine how International standards should be applied for the first time they are used. These rules are set out in IFRS 1 published by the International Accounting Standards Board. The New Zealand standard is known as ED NZ IFRS 1. Any changes made to IFRS 1 will likely result in amendments to our ED NZ IFRS 1.

The main emphasis of IFRS 1 is to provide guidance on the changes required to the opening balance sheet that will form the starting point for accounting under international standards.

The focus of IFRS 1 is on 4 main areas. A reporting entity must:

- recognise all assets and liabilities as required by IFRSs
- not recognise items of assets and liabilities if not permitted by IFRSs
- reclassify items that previously complied with GAAP yet are disclosed as a different type (asset, liability or equity) under IFRSs
- apply IFRSs in measuring all recognised assets and liabilities.

As IFRSs are applied retrospectively, an entity is expected to implement the new standards as if they always existed.

## **Proposed Adoption of International Standards on auditing**

The Institute of Chartered Accountants of New Zealand has recently disclosed its intention to adopt Internal Standards on Auditing (ISAs) soon. The United Kingdom, the European Union, Australia and South Africa are among jurisdictions which have announced their intention to adopt ISAs.

Adoption of the standards by New Zealand would ensure this country is aligned with international standards.

While adoption of ISAs does not directly affect reporting entities with respect to financial statement presentation or disclosure, it does impact on the audit and may involve extra procedures.

If you require further information on any of these topics or would like details on any other accounting matters, contact your local Grant Thornton office:

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