

# Health Adviser

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## Love your bank manager

The credit crunch is beginning to squeeze entrepreneurial businesses. Slowing growth, weakening demand and reduced lending by the banks compound an already difficult situation in which commodity prices are rising rapidly.

The banks will be facing a tough time too. They are more cautious and concerned with bad debt, so will need greater persuasion to lend you more money if you need it. In many areas, new lending will be severely restricted and you may struggle to re-finance existing facilities. The banks will focus increasingly on the quality of their loan book, and their key concern will be loan recoverability.

BNZ Chief Economist, Tony Alexander, agrees that the banks are under increased pressure. Speaking recently at a business breakfast in Wellington, he said: “The risk premium we banks pay for borrowing the one third of money we

**“Take a hard look at your reporting and accounting systems. If these are weak and not quite what the bank would like to see, think seriously about improving them, quickly.”**

Tania Bailey  
Business Advisory Services Partner Wellington

have to get offshore to meet domestic lending requirements has soared.... margins on bank lending have been slashed.”

Now is the time to get closer to your bank and bank manager. Essentially, it comes down to good business practice and communication. Management teams sometimes forget to do the basics when the focus is on growth, but that emphasis will need to change. The coming months should be about instilling the right discipline in the business and communicating openly with your bank.

### What can you do?

Treat your banker as a partner in the business. Keep them fully informed of what is going on and the decisions you are taking, and give them lots of notice if you need help. Banks only make money by lending money – they want you to prosper so they can continue to lend money to you. Proactively manage your relationship with them. The last thing a bank wants is to receive one week’s notice that you need to double your overdraft facility.

If you do need to go back to the bank, discuss this with your advisers. Draw on their knowledge and independence to improve the credibility of your plans. If you are looking to re-finance, also consider alternative sources of finance. An asset-based lender may enable you

to leverage more funds out of existing assets. If you are importing there may be trade finance, or stock finance available.

### What to avoid?

Don’t fall into the trap of thinking that it is up to the bank to guide you through any issues or problems. If you talk to your bank early enough, they may work through the problem with you, but be very clear that the ultimate responsibility for resolving any issues falls squarely on management’s shoulders.

### The last word

According to Tony Alexander, the operating environment facing most businesses is going to be challenging for up to two years. He says: “There is little reason for being despondent about the state of the economy. It pays to remember that a downturn is always followed by an upturn.”

### Contents

- 01 Love your bank manager
- 02 The new taxation bill: “controversial”
- 03 Mind the gap
- 04 Recruitment and retention

# The new taxation bill: “controversial”

In July the Government introduced the Taxation (International Taxation, Life Insurance and Remedial Matters) Bill into Parliament. One of the many changes is to the definition of “associated persons”, which is widely used throughout the Tax Acts. In addition, the term is important for land transactions, as people “associated” with land dealers or developers can be taxed on certain land transactions.

## Associated persons test

New tests will associate a trustee with a beneficiary, a settlor and a beneficiary, but the most important is the new “tripartite” test whereby two persons will be associated with each other if they are each associated with the same third person.

The tests are wide-ranging and likely to capture a number of “associations” not currently caught, particularly when the tripartite test is taken into account. The trustee/beneficiary and settlor/beneficiary tests are excluded from the land provisions.

In respect of the land provisions, the officials have deliberately extended the associated persons tests to reflect the intended policy when the original rules were first introduced in 1973. They have been unwilling to consider whether that policy should be revisited despite changes in society and economic conditions 35 years on.

These changes will only apply to land acquired (or for builders, where improvements are begun) on or after 1 April 2009.

## “Tainted” capital gains

Capital gains can generally be passed to shareholders tax-free when a company is liquidated, unless the capital gain arose from a transaction with a “related person”. The Income Tax Act has a special definition of “related person” that applies only in this context, and taints such gains as taxable on liquidation.

The Bill proposes to replace that special definition with the general “associated persons” definition effective from 1 April 2009. Although some aspects of the new rules will be “looser”, their general scope is significantly widened and will taint as taxable a wider range of company capital gains.

We believe that the thrust of the changes is misguided and the focus should be on non-arm’s length transactions.

## Dividends

Generally, a dividend is a transfer of value from a company to a shareholder, including a person “associated” with a shareholder. The current rules provide certainty about who is included within the scope of that association.

The Bill proposes to extend what constitutes a dividend so that one will arise where “the cause of the transfer (of value) is a shareholding in the company, whether or not the (recipient) holds shares in the company...” Grant Thornton is concerned that this is a very wide and subjective test with no defined parameters.

## Other measures

### International tax - first stage of reform

The Government has introduced an “active income exemption” effective from the 2009/10 income year in respect of income from overseas controlled company investments earned by New Zealand companies (note this does not extend to other taxpayers). This will bring New Zealand into line with tax treatments in overseas jurisdictions. The key facts of the proposals are:

- The current comprehensive attribution of income from controlled foreign companies (CFCs) will be replaced by attribution of passive income only. Passive income will continue not to be attributed from Australia (unless Australia in turn invests offshore).
- The existing “grey list” exemption is replaced by the new active income exemption (except for Australian CFCs as noted above). At the same time the current “conduit relief” mechanism will be removed.
- Dividends paid by a foreign company will be exempt from income tax when received by New Zealand companies.

- The potential for double taxation still exists, given no imputation credits will arise to the New Zealand company in respect of that income, which will give rise to an additional tax cost when distributed to shareholders.
- The historic FIF rules (including grey list exemptions) for non portfolio holdings will remain, and be subject to further review in due course.

It is questionable whether the changes reduce compliance costs as intended, given the need for a number of complicated calculations.

### Tax treatment of relocation payments and overtime meal allowances

Proposed changes will exempt from tax certain relocation payments and overtime meal allowances. Submissions made by the public, including Grant Thornton, noted the Inland Revenue only considered two allowances out of a myriad of allowances, so while some uncertainty would be resolved in respect of these particular allowances, it would remain and be exacerbated in respect of those other allowances. We hope that common sense will prevail and a fuller more wide-ranging review of the taxation of allowances will take place.

Whilst providing greater certainty, the proposals are both prescriptive and restrictive and are likely to tax allowances not currently taxed and increase the compliance costs of employers.

### Understanding the changes

These changes directly affect taxpayers involved in land transactions and international equity investments in particular. If you would like to understand any of the above matters in any more detail, we recommend you speak to your Grant Thornton adviser.

Note: new personal tax rates come into force on 1 October 2008. Employers need to ensure that PAYE from all salary and wage payments made on or after 1 October 2008 is deducted at the new rates.

For more information go to:  
[www.grantthornton.co.nz/Services/Tax](http://www.grantthornton.co.nz/Services/Tax)

# Mind the gap - are you protected?

No matter how many people you employ, square metres of space you occupy or items of equipment you operate, if you fully own or have a significant active shareholding in a business, that business is “you”.

You are the life and the soul of the business and this may represent the investment of your life savings, or your aspirations for the family’s present and future financial wellbeing. The equity in your home or other material or financial assets may be serving as guarantees for loans, credit, leases and/ or overdraft facilities.

Naturally, as a responsible operator, you will have insured your building, plant, premises, vehicles, furniture, and fittings against identifiable risk or loss. But have you given any consideration to the most critical element of any business: the owners, key employees and financial commitments?

## Did you know

Some important facts to consider when protecting yourself and your business

- Less than a third of business people in New Zealand believe they would be able to maintain their current lifestyle for more than six months if they suffered serious illness or disablement. (Source: Investment Savings and Insurance Association)
- Currently about 16,000 people develop cancer each year in New Zealand and this is expected to increase to 22,000 per year by the year 2011. (Source: Cancer Society of New Zealand)
- Males have a 2 in 5 chance of suffering a critical illness between the ages of 30 and 64. For females the chance is 1 in 4. (Source: Gen Re Australia 2004)
- Four out of five of business people in New Zealand believe the biggest impact would be on their family if they became sick or disabled and unable to work. (Investment, Savings and Insurance Association)
- For a business partnership with four people with an average age of 35, there is a 1 in 5 chance of at least

one partner becoming disabled for six months or longer before age 65. (Source Davies Financial and Actuarial 2004)

- ACC does not provide cover for injuries in all cases and does not provide cover for sickness or disease at all. Additional costs including loss of productivity and recruiting a replacement person have to be met by the business.
- If you are self-employed and become unable to work due to an accident, your ACC cover\* may be reduced if your business continues to provide income during your time off work.
- In 2004, there were over 10,000 serious work related injuries in New Zealand. Self employed people have a significantly higher rate of work-related injury than employees. (Source Statistics of New Zealand)
- Over a third of business people in New Zealand do not currently have any income protection insurance. (Source Investment Savings and Insurance Association)

\*with standard ACC Cover.

## Your business protection checklist...

Review the following checklist to assess whether you are adequately protected.

- I need to learn more about the advantages of having a Business Debt Protection Plan in place. Yes  No
- I would like to learn more about the consequences of the personal guarantees that I have given for the business loans and overdrafts. Yes  No
- I would like to find out more about how a Keyperson Cover Plan could help reduce the financial loss to the business if a key person was suddenly absent from the business. Yes  No
- I have a Shareholders’ Protection Agreement however this has not been reviewed for several years. Yes  No
- I have talked about a Shareholder Agreement but have not got around to completing it. Yes  No
- I need to know how a Shareholders Agreement works. Yes  No
- I would like to know more about Income Protection Insurance and how it can help in the event of sickness or disability. Yes  No
- I would like to be sure that if I became sick or disabled, my business would continue to operate. Yes  No
- I would like to know how, as a business owner, I can get more than the normal 75% income coverage. Yes  No
- I would like to know more about the range of protection products available to protect myself, my business and my family. Yes  No
- I have not recently reviewed my business insurance requirements and would like to do so now. Yes  No

If you have answered yes to any of the above it may be time for a review of your insurances. Contact your Grant Thornton adviser for more information.

# Recruitment and retention

Recruitment is an expensive exercise for all sectors including health. An organisation that continually hires to replace disillusioned or poorly trained staff will expend a considerable amount of time and energy. Focusing on the internal development of employees is important as it develops a sense of goodwill amongst both staff and employers, and patients will ultimately see that in their dealings with your business. These efforts will engender loyalty in the organisation and those employers that look after their staff will reap the benefits.

Businesses must recognise the issues and challenges surrounding retaining good staff. The Grant Thornton International Business Report (IBR) surveyed a total of 7,800 businesses in 34 economies. Recruitment and retention went under the spotlight in an aim to find out what the key employment challenges are for businesses in our target markets. The research revealed that 59% of privately held businesses are more focused than a year ago on recruiting and retaining staff. Businesses identified their key challenges as:

- Skills shortages, which literally create a “war for talent”.
- The need to incorporate recruitment and retention into the business strategy to combat competition.
- Responding to increasingly high expectations that potential and existing employees have of their employers.
- Developing and retaining talent so that it leads to better performance and higher retention rates.

The research shows that privately held businesses in New Zealand identify with these challenges. In particular, the skills shortage is impacting on business expansion. It is probably no wonder that employers in New Zealand are more worried about skills shortages than their counterparts anywhere else in the world, given the huge loss of talent abroad.

The Grant Thornton IBR research shows that businesses are adopting a

variety of measures to combat these employment challenges. The key current practices adopted, in order of popularity, are:

- Making certain all employees understand the organisation’s core values, mission and goals. This goes some way to creating a meaningful context for being at work.
- Training and mentoring top performers for leadership positions.
- Developing competitive reward systems.
- Monitoring and acting on employee perceptions.
- Training and development packages for all employees.
- A flexible attitude to working patterns.

Recruitment and retention is a key issue today and will continue to be a concern for the future. Organisations must ensure they are competitive in the quest for the right talent through three key elements.

First, they must recognise the issues and challenges surrounding talent, both locally and globally. Talent is not restricted by borders. Organisations must identify a sound recruitment and retention strategy.

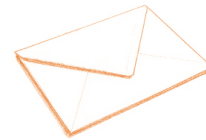
Secondly, they need to create an employment brand that delivers and communicates strong and consistent messages. Values need to be defined and embedded not just in words but in every action of the organisation. Employees expect their values to be mirrored by their organisation and want strong, consistent and authentic leadership.

Focusing on the development of employees internally will foster loyalty that patients will recognise. Organisations need defined competency frameworks so they recruit not just anyone for a role, but the right person. Finally, organisations must take action. Recruitment and retention needs to be considered a key function and not something considered late at night

when you get a spare moment. Human resources is a strategic function which should be represented at the top of every organisation, irrespective of size.

Contact your local Grant Thornton Business Advisory Services team for advice for enhancing employee performance, training support and mentoring.

Source: [www.gti.org](http://www.gti.org) [www.internationalbusinessreport.com](http://www.internationalbusinessreport.com)



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

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