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health adviser

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We want you...

...to tell us about how the current tax system affects you!

Grant Thornton has been exclusively chosen to be involved in a review of the tax issues concerning small to medium sized enterprises (SMEs).

What we need you to do:
We would like your ideas, concerns, praises or comments on current taxes, compliance and administrative practices. What are those things about our tax system that really bug you?

What will Grant Thornton do?
Together with our expertise, and your feedback we will be the voice of the SME sector. We cannot guarantee outcomes, but this is a one-off opportunity, which cannot be missed!

How do you provide us with feedback?
Email: afisher@gtak.co.nz or phone Angela Fisher on 09 308 2544.

Overcoming the financial impact of illness and injury

When you know the real financial impact of any unexpected event, you'll know how to be ready for it.

Anything that affects your ability to earn will affect your lifestyle. If your income stops, your financial responsibilities continue. On average, New Zealand families have access to enough money to provide only six weeks' worth of income. After that, if they no longer have a source of income, they will have serious financial problems.

Ask yourself - if you were prevented from earning tomorrow, how long would your savings last? How long could you pay your bills, support your family or even meet your ordinary day-to-day expenses?

Using insurance to make sure you can replace your income, just the way you would with your house or car, is one of the most sensible financial steps you can take. But everyone's circumstances are different. So how do you decide what kind of insurance, and what level of protection, is right for you?

First the potential financial impact that may occur must be measured. Then a plan must be formulated to minimise the financial impact on yourself and your family.

Knowing exactly how you could be affected by certain events means you can put the right steps in place to ensure that any impact on your finances is minimal.

It's also a good idea to have access to enough funds to help you meet any large unexpected costs, such as medical bills - and typically you can use insurance to provide this as well.

What kind of events will have a financial impact on your life?

Illness and injury are the most common events that can affect your ability to earn. The table over the page gives you an idea of how common it is for people to be affected by illness or injury at some time in their lives.

Illness and injury can prevent you from earning temporarily or, in more severe cases, permanently. In the worst case, illness and injury can lead to an early death, and then it is those important to you who'll be affected financially. (Continued on page 2)

Relationship Changes

As the legal nature of relationships is changing, so too must the tax legislation to ensure that it moves with the times and accurately reflects what is legally recognised as a "relationship". Legislation has recently been enacted to ensure that the same legal rights and responsibilities are available for all people in relationships, be they through marriage, de facto (whether opposite or same sex) and civil union ceremonies.

The majority of sections in the Income Tax Act 2004 that mentioned a taxpayer's relationship with another person only referred to their "spouse". The historic generic definition of a spouse is: "A marriage partner; a husband or wife". Today, more than ever, there are more relationships that are intended to be included in these tax sections other than those that have only been consummated by marriage.

With the recent passing of the Civil Union Bill, and civil unions being able to be entered into from 26 April 2005, various alterations were necessary to the tax acts to incorporate this change, recognising the legal nature of these relationships.

The most relevant sections in the Income Tax Act 2004 that have been amended to reflect these changes include:

- The test of association for the land taxing provisions now includes civil union partners;
- The definition of "relative" now includes persons that are in a civil union;
- The shareholder "count test" for becoming a qualifying company counts persons in a civil union as only one person for the test;
- Continuity provisions upon the transfer of shares or options pursuant to a relationship agreement will not be impacted between persons who are (or were) in a civil union;
- If you employ your civil union partner in your business you will need written approval from the Inland Revenue Department in order to qualify for a deduction (unless you operate through a company).

Although this change may not affect a large number of people, it is significant in that it paves the way for further changes to the tax legislation. From 1 April 2007, all of the above sections will also include "de-facto" partners, therefore spreading the tax implications wider still.

For example, if a client is considered to be a "property developer", any person that is "associated" with that developer will have their property holdings potentially subject to income tax upon disposal (when an unassociated person would not normally be taxed on any gains derived).

This may mean that a structure that you have in place at the moment may no longer achieve the desired tax benefits that were originally intended, as the relationship may now (or soon) be caught in the "associated persons" definition for taxation purposes.

However, since de-facto partners will not be included in the income tax legislation until 1 April 2007, there is sufficient time for planning and consideration into whether a restructure would be beneficial for you.

Overcoming the financial impact of illness and injury (Continued from page 1)

If you would like more information about protecting your income, please contact your Grant Thornton adviser.

The facts about illness and injury in New Zealand

- 4 out of 10 New Zealanders will suffer a critical illness before the age of 65. At least 3 will recover and live past retirement age.
- Disease and illness cause 40% of disabilities, and accident and injury cause 34%.[1]
- 24% of cancer-related deaths in 1998 occurred in people aged between 45 and 64.[1]
- There is a 37% probability of a female becoming disabled for 6 months or more before age 65.[2]
- There is a 32% probability of a male becoming disabled for 6 months or more before age 65.[2]
- 1 in 6 males over the age of 30 will die before they reach 65.[3]
- 1 in 9 females over the age of 30 will die before they reach 65.[3]

1. NZ Health Information Service (2001), Mortality and demographic data 1998
2. GeneralCologne Life Re Australia (2000), State of play of disability insurance in New Zealand 1995-1999
3. Statistics New Zealand (1998), NZ Life Tables 1995-97

Company removal options

There are various reasons why shareholders may wish to wind up a company, with one of the most common being that the company has fulfilled the purpose for which it was incorporated.

The available methods of wind up carry differing costs and risks. To assist shareholders and directors to decide the most appropriate method, we outline below the following available options.

Allowing the Company to be Struck Off the Register

The Companies Act 1993 (the Act) requires that the board of a company deliver to the Registrar of Companies (the Registrar) an annual return by a prescribed date. Failure to provide such returns will result in the company's registration lapsing and the Registrar undertaking a process of formal notifications followed by the company being struck off the Register.

As this is the most passive option for ending the registration of a company, there are limited costs associated with this option, as all notification processes are undertaken by the Registrar, however this option bears the most risk.

Firstly the directors can be prosecuted for not filing the annual return, secondly any capital gains in the company will probably not be able to be distributed tax free. Thirdly the company can be easily and relatively promptly restored following an application by a creditor, shareholder, director, liquidator or receiver of the company.

The ability for the company to be easily restored can have significant consequences, as the company is restored on the date of removal; thus in essence the company was always in existence.

All directors' duties and company liabilities are also reinstated, including for the period where the company was struck off, along with the requirement to file annual returns for the periods missed. Therefore any overdrawn current accounts will remain payable, and as the Inland Revenue Department is currently emphasing as it reinstates various struck off companies, any taxation liabilities, plus all penalties, are still payable.

The Act also states that any assets remaining in the company at the time of strike off vest in the Crown. Therefore the directors will have had no authority to deal with these assets, and it is technically necessary for anyone who was entitled to such property to apply to the Secretary of the Treasury to receive that property or payment for it, should the asset have been realised.

Undertaking a Voluntary Removal

In terms of the Act, the Registrar can remove a company from the Register if satisfied that:

- The company has ceased to carry on business; and
- There is no reason for the company to continue in existence.

Under this scenario, the shareholders must resolve to apply for removal of the company, formally inform all parties who have a registered financing statement over the company and undertake a formal application process to the Registrar. Written consent for the removal must also be obtained from the Inland Revenue Department confirming that the company does not have any outstanding tax obligations.

On receipt of the application, the Registrar will then make a public notification in a local newspaper and the New Zealand Gazette of the application to remove the company.

Whilst this option is considered to have less risk given the formal process and required notifications, the company can still be restored relatively easily as set out above and there still remains uncertainty as to whether capital gains can be distributed tax free.

From a cost perspective this option is more expensive than the strike off process but will incur less costs than a liquidation, particularly given that the Registrar bears all advertising costs.

Liquidate the Company

The liquidation of a company by its shareholders is a relatively straight forward process achieved through the passing of a special resolution (generally requiring a 75% majority). Whilst often viewed as a negative process, liquidations can assist to minimise potential liabilities, address shareholder disputes and to enable capital profits to be distributed tax free.

This process can also provide timely access to any applicable assets via an interim distribution of cash, or if allowed by the constitution or applicable resolutions, the assets in specie (as is).

A liquidation process has the significant advantage that once properly completed it will ensure that a company cannot easily be restored. This advantage arises as the liquidation process requires two instances of public notification in both the New Zealand Gazette and a significant local paper, the preparation of formal liquidators reports and the completion of a statutory process.

To summarise then, to get rid of a company without possible future problems, we recommend that companies are liquidated when they are no longer required. While this option carries a higher cost, we consider that the reduced risk would outweigh this cost.

Successful strategy implementation

How often have you thought - I really have some great ideas for this business - if I could just find the time to make them happen?

This is a common problem for owners of growing businesses. You know the importance of good planning, but finding the time to step away from the business can be difficult. Then the war stories flood back of the plans you made that never amounted to anything. The phone rings - it's a customer who needs something done now, you quickly forget about the future and return to the here and now.

So how do you get a hold of a streamlined process that gets everyone's good ideas out in the open and starts to make them part of the 'day to day' going forward?

Strategy development - the basics - There are four basic steps in a good strategy development process :

1. Develop a plan and set of strategies for the business that define where you want to take the business in the future.
2. Convert this plan into actions and targets that represent the first steps towards your end destination.
3. Align organisational systems and processes to support and drive execution.
4. Execute the plan by tracking the action plans and targets and modifying the plan as circumstances change.

Strategy development - not so basics - If implementing strategy was easy, everyone would be doing it and doing it well. Unfortunately it's not; research shows that only 10% of formulated strategies actually get implemented. So why do so many organisations fail? From our experience, it comes down to a lack of three factors.

1. Commitment - strategy needs to be developed using a process that builds organisational commitment to the direction being pursued. This means people within the organisation need to have input into the development of the plan so that resistance is reduced and a sense of ownership of the plan develops.

2. Communication - for strategy to actually be implemented, people need to understand what the strategy is about and what their part is in implementing it.

3. Culture and systems - organisations have many (official and unofficial) systems, processes and ways of doing things that collectively make up the organisation's culture. Many strategic changes will require changes in culture to be successful.

Numbers are not enough to drive execution - When it comes to executing strategy, most organisations simply convert the desired outcomes of the plan into a financial budget and then use the normal monthly reporting cycle to monitor whether the plan is actually happening. We would argue that this is only part of the answer.

Two things are needed (in equal amounts) to ensure your plans gain traction and start becoming reality:

1. A clear action plan - with responsibilities, milestones and deadlines that are followed up on a regular basis.
2. Key Performance Indicators (KPIs) - that focus management action and discussion on a small number of critical measures.

Much of this sounds like common sense but it is amazing how many management reporting processes do not include them. Eliminating less important things from your reporting process will increase your focus on implementing strategies.

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

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