Russell Turner
Chartered Accountants

ON *balance*

April 2018

INTERNAL PROMOTION: DAVID HARRIS

This edition of On Balance features an article about exit strategies. One of our partners, Nigel Brereton, has been looking at his own long-term succession planning.

David Harris, who has been a manager in Gavin Buckingham and Eddie Roberts' team for the past 12 years, will be transitioning to Nigel's team from April 1.

David (pictured above right with Nigel) has enjoyed the opportunities and learnings so far, and is looking forward to the challenges and scope for growth that come with a new batch of Russell Turner clients.

David will still be available to assist Eddie and Gavin's clients in the meantime, and we look forward to introducing David's replacement in the next issue of On Balance.

MINIMUM WAGE INCREASE

The minimum wage increases on 1 April 2018.

The new rates are:

- Adult — $16.50 an hour (up from $15.75)
- Starting-out — $13.20 an hour (up from $12.60)
- Training — $13.20 an hour (up from $12.60)

Starting-out and training minimum wages are 80% of the adult minimum wage.

Government must by law review minimum wage rates every year.

You and your staff can agree to any wage above the minimum rate.

If your employment agreements are a few years old, you can use this as a chance to update them using the Employment Agreement Builder.

It is a legal requirement to have a written employment agreement with all your staff.

You can use this calculator to estimate costs of hiring a new employee, and how much the increase will cost your business.

SUCCESSION PLANNING FOR SMALL BUSINESSES

STARTING A BUSINESS IS THE EASY PART. NOW LET'S TALK ABOUT YOUR EXIT STRATEGY.

It takes guts to start a business, and energy to make it succeed. Sometimes that momentum fizzles out when it comes to planning how to move away from being a business owner.

Here are some tips to make sure you get the best possible return when the time comes to sell your business and retire.

START SOONER RATHER THAN LATER

You can't wake up on New Year's Day and say "I've had a gutsful, I'm going to sell," ring a broker on the 3rd of January and expect to have the business sold by the middle of January. Planning needs to start two to four, even five years out.

Imagine you're about to put your business on the market. What would a potential buyer hope to see in your business? What would you add or take away to make it more attractive?

CONSIDER YOUR OPTIONS

These may include:

1. *Close the business down and sell the assets*
2. *Sell to a family member*
3. *Sell to an employee*
4. *A straight sale to an outside party*
5. *Gradual buy-out*

GET YOUR HOUSE IN ORDER

Put systems and processes in place so the business isn't reliant on you; make sure it can run as a standalone entity. Talk to us about strategies to achieve this.

Maximise your profit, rather than making decisions to minimise your tax liability.

YOU DON'T NEED TO SELL THE WHOLE BUSINESS

Retirement doesn't need to be doing nothing. If your business can run as an asset without your involvement, you don't have to sell 100% of it.

DO IT WHILE YOU STILL CAN

If you get your business ready for sale when you're fit and active, you will find it's a smoother process with more choices and a better outcome – rather than getting to the stage where all you want to do is just get rid of it, without maximising the value of your business.

It's important to have choices, and you don't want to limit your options because you're tired, grumpy, have had enough or just can't physically work in the business.

WHICH IS THE BEST OPTION?

Ask us for advice on your business – and think about what retirement looks like for you.

NEW LAW WILL MAKE DIRTY MONEY EASIER TO SPOT

Money laundering is big business in New Zealand. Every year $1.35 billion of fraud- and drug-related money is laundered through seemingly legitimate businesses. In response, the Government introduced specific Anti-Money Laundering and Countering Financing of Terrorism legislation to address this risk.

Previously, only a few types of organisation had to comply with the legislation. Following amendments to this legislation passed last year, it is now confirmed that this legislation extends to these groups taking effect from these dates (or earlier if the Government legislates by an Order in Council):

1 July 2018: lawyers, conveyancers and businesses that provide trust and company services
1 October 2018: accountants who provide particular kinds of business services
1 January 2019: real estate agents
1 August 2019: businesses trading in high-value goods, sports and racing betting.

If you are in any of these categories, of course you must make sure that your business complies. We can point you in the right direction. But please also note that as your accountant we are in one of the categories that must comply with the changes. And to do this, be aware that we will sometimes need to ask you for more information than we have in the past. This is because we need to be able to document that we have verified your ID and both you and your business entities are all above board.

IRD'S NEW SYSTEMS + AIM EXPLAINED

IRD's new tax system is kicking in, giving you new ways to manage your GST obligations through mylR.

Enhancements include the traceability of GST transfers, and Notifications and Alerts sent when there is something for you to do in your mylR account.

From April, IRD will address more areas, including:

- Withholding Tax
- Gaming Machine Duty
- Fringe Benefits Tax
- Payroll subsidy
- Employment information (PAYE) collected in START.

But the biggest change will be to tax law.

AIM (Accounting Income Method), a new option for calculating provisional tax, is intended to allow payments to be based on your actual profit in that period – so if you don't make a profit in that period, you won't, in theory, pay provisional tax. Trustees and beneficiaries of a trust, as well as partnerships, are excluded from using the AIM method.

In practice, tax adjustments are required every period, which makes AIM unsuitable for those who don't want to have monthly financial statements prepared by their accountant.

With ratio and estimation options – along with the favourable change in provisional tax use-of-money rules – the trade-off for supplying IRD with extra information is not likely to be worth it. Contact us if you have any questions about AIM.

PAYDAY PAYE FILING

In April, IRD will also introduce payday reporting of PAYE information – that is, employers will be able to report employee payments to Inland Revenue every pay run. To give you time to put systems in place, this won't be a legal requirement until April 2019.

Hand in hand with that, IRD will begin collecting PAYE info for the 2018/19 year for pre-population of income tax returns.

Also, the release of Working for Families is being brought forward to 2019, to coincide with tax returns being done under the new system.

Check out this link for more information.

CHANGES TO CLAIMING GST ON FARM EXPENSES

Dairy farmers have specific obligations and responsibilities around GST and PAYE.

Where possible, a farmer should split expenses into claimable (business) and non-claimable (private) expenses. However, some may relate to both.

From the 2018 income year onward, the amount of GST that can be claimed will depend on whether your farm is:

- a Type 1 farm - a farming business where the value of the farmhouse is 20% or less of the total value of the farm;
- a Type 2 farm - a farming business where the value of the farmhouse is more than 20% of the total value of the farm.

The value of the farmhouse includes the house itself, any improvements made to it, and the area immediately surrounding the farmhouse (known as curtilage). A formal valuation or a reasonable estimate of the values of the farmhouse and whole farm are acceptable.

For Type 1 farms, 20% of all farmhouse expenses can be claimed as business expenses. Alternatively, GST can be claimed through an actual-use calculation if the business use of the farmhouse is greater than 20%.

Type 1 farmers may also claim 100% of the interest costs relating to the farmhouse and 100% of rates costs.

For Type 2 farms, farmers who live in the farmhouse can claim expenses on a fair and reasonable basis so that only actual business use of the farmhouse is claimed.

For details, as well as information on claiming GST on farm expenses like dogs, livestock, electricity, homekill etc, check out this guide, and talk to us if you would like to know more.

PARENTAL LEAVE IMPACTS EMPLOYERS

Prime Minister Jacinda Ardern probably won't take 18 weeks' paid parental leave when she has her baby this year, but New Zealand law says she's entitled to it.

Staff who've worked for you or any other employer for an average of at least 10 hours a week for any 26 weeks of the year preceding the birth or assumption of care of a child can take paid parental leave so long as they are the primary carer of the child and take leave to care for the child.

Whether that staff member can take extended leave without pay will depend on whether they have been employed with you for an average of 10 hours a week for the previous six months. If so, they can take six months' leave (in total, i.e. including primary carer leave). If they've met these criteria for a full year, their total leave is one year.

If employees give the right notice for the right parental-leave reason, you have to keep their jobs open until they return to work. If they're taking more than four weeks' parental leave, you have to keep their jobs open, unless those jobs are defined as key positions or there's redundancy.

If any of those jobs are key positions, or there's redundancy, affected staff go into a 26 week "period of preference" at the end of parental leave. That means that if any time during those 26 weeks you have a job that's similar to what they were doing, you have to offer it to them first.

A job may be a key position because it needs special skills and there aren't enough people with those skills. Or it would take too long to train or find a temp to do the job. ***Affected staff can disagree that their jobs are key positions.***

There are rules around communication regarding employee applications for parental leave and employer responses, and whether or not the employee is going to return to work. We can help you avoid stepping on any landmines here.

KEY TAX DATES APRIL / MAY / JUNE 2018

DATE	CATEGORY	DESCRIPTION
20 April / 20 May / 20 June	PAYE	Small employers' returns and payment
7 May / 28 May / 28 June	GST	GST return and payment due for returns ending March / April / May
7 May / 28 June	Provisional tax	Payment due for certain balance dates (you should receive notification if this applies to you)
31 May	FBT	Quarterly payment and return

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