

BIZTAX ALERT

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OUR NEWSLETTER FOR GROWING BUSINESSES



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

It takes guts to start a business. But to succeed also takes a strategic mindset.

What does that mean, exactly, and how would you know if you're thinking strategically enough or not? One way is to 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?

On page 2 are excerpts from an interview with Rob Young, whose company Platform 1 works with business owners on ensuring they get the best possible return when selling their business. Rob's insights into how to think strategically may surprise you. His advice is simple, clear and easily within reach of anyone committed to creating a successful business.

For a full transcript, go to :

<http://accelerate.blob.core.windows.net/files/Accelerate%20Feb%202018%20interview%20with%20Rob%20Young.pdf>

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CONTACT OUR TEAM

www.biztax.co.nz

phone: 07 834 0556



SUCCESSION PLANNING FOR SMALL BUSINESSES: AN INTERVIEW WITH PLATFORM 1 PARTNER ROB YOUNG



ROB, WHAT ARE THE BIGGEST MISTAKES PEOPLE MAKE AROUND SUCCESSION PLANNING?

Not starting early enough. Generally, an owner will wake up after New Year's and say "I've had a gutsful, I'm going to sell it," and they will ring a broker on the 3rd of January and expect to have the business sold by the middle of January! It just doesn't happen. Planning needs to start two to four, even five years out.

WHAT ARE THE KEY THINGS THAT PEOPLE NEED TO THINK ABOUT AND WHEN?

What options they've got for disposing of their business. We think there are five different ways to do it.

1. *Close the business down and sell the assets*
2. *Sell to a family member*
3. *Sell to an employee*
4. *Just a straight sale to an outside party*
5. *The Platform 1 model.*

HOW WOULD YOU CHARACTERISE THE PLATFORM 1 MODEL?

Our model is a gradual buy-out and we go and find the Manager. This is over a gradual period, so we will work with an owner and figure out what kind of individual would be right to run the business. We find that individual and develop a plan where they buy in gradually over 3 to 6 years. The objective is to get the owner out of the business physically as quickly as possible by transferring relationships and processes to the incoming person, so the owner becomes more of an investor rather than a manager.

WHAT ARE THE MOST IMPORTANT STEPS TO PREPARE FOR A SALE?

The most important thing to **get your house in order**. Get your systems and processes in place so the business isn't reliant on the owner, making sure that the business can run as a standalone entity. That is the first consideration and you'd want to talk to your trusted advisors who would be able to help you with that – accountant, lawyer, etc.

Also maximise your profit, making sure that you are not taking decisions to minimise your tax liability – because what you're trying to do is create a profitable business.

WHAT IS YOUR SENSE OF HOW WELL SME OWNERS MANAGE SUCCESSION PLANNING RIGHT NOW?

'Not very well' would be the answer. It is something that people think is going to happen in the future so put off.

One of the things people don't think about enough is that 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 it completely, so not selling down 100% of the business is a viable option. You don't necessarily need to sell the whole business.

DO YOU THINK THAT IS ONE OF THE REASONS WHY PEOPLE PUT OFF THINKING ABOUT SELLING THE BUSINESS?

It's 100% the reason and that's why it's a good idea to think about this before you become semi-incapacitated. If you get your business ready for sale when you're fit and active, you will find it's a lot happier to go through with a better outcome – rather than getting to the stage where all you want to do is just get rid of it, you're not maximising the value of your business.

IF YOU DO THAT, WHETHER YOU END UP SELLING IT OR NOT, YOU'VE GOT A BUSINESS THAT IS RUNNING WELL.

Absolutely, and you've got choices. The most important thing when you want to maximise the value of the business is to have choices, and the last thing you want is a lack of choices because you're tired, grumpy, have had enough or just can't physically work in the business.

OF THOSE DIFFERENT OPTIONS FOR SELLING YOUR BUSINESS, HOW WOULD SOMEBODY CHOOSE WHICH IS THE MOST APPROPRIATE OPTION FOR THEM?

Always get advice through your trusted advisor, your accountant, lawyer, etc, an advisory board director, somebody who has a little bit of knowledge with you and your business and talk to them about what you want to do in the future.

The most important thing that I find throughout any transition business is owners not necessarily knowing what they want to do in the future. They think they want to retire but they don't know what they're going to do when they do. Think about what you're going to do in whatever you call "retirement" and make sure it is a viable option for you rather than jumping to some sort of conclusion that you think might be the right option for you, but certainly talking to your advisors is the most important thing to do.

CLEANING OUT THE DIRTY MONEY: NEW LEGISLATION PUTS LAUNDERING IN THE SPOTLIGHT

While New Zealand is hardly the money laundering capital of the world, we still see our share of shady activity. Every year, around \$1.35 billion of fraud- and drug-related money is laundered through legitimate New Zealand businesses.

As you may be aware, the Government has extended the reach of the Anti-Money Laundering and Countering Financing of Terrorism Act.

From October, your friendly accountant will be required to comply with this revised Act. So you might notice us asking for information about your business that we didn't used to – especially if it involves large cash transactions, or multiple companies or trusts.

One reason for the change is that criminals target high value dealers to launder money. If you've seen the Netflix series Ozark, you'll know how it works. A common ploy is to buy expensive things with cash, then sell them and get 'clean' money back.

If you deal in high value goods, you will need to consider these new rules as cash payments of \$15,000 or more in one transaction or which add up to \$15,000 or more in a series of cash payments will be caught by the Act from 1 August 2019. The Department of Internal Affairs has also set up a team to help businesses comply. Go to justice.govt.nz and search for AML/CFT supervision and support for businesses.

PRICE HIKE HACKS: HOW TO MANAGE AN INCREASE WITHOUT LOSING CUSTOMERS

The decision to raise your rates is a tricky one. But in the end it's not the hike itself that's important, it's how you implement it.

Netflix, for example, put its prices up recently. And while their customers didn't like it, after a few rumblings, the majority stayed on. So what did this entertainment giant do to make the pill easier to swallow?

They timed it.

They were about to release the new season of hit series House of Cards, Stranger Things, and The Crown, so were able to say to their customers 'for the extra money, you'll get brand new episodes of your favourite shows'. It was a smart move - adding value to offset the shock.

There are other ways you can introduce pricing changes, in a way that softens the blow for your customers. Two strategies include:

EXPLAIN WHY THE PRICE HAS RISEN.

You'll find that customers will be more understanding if you take the time, upfront, to tell them why you're introducing the change.

Perhaps there's been a rise in the cost of manufacturing or delivery. Or maybe it's been a long time since the last adjustment. Communicating these points clearly – and in advance - means your customers will have time to prepare, and will feel valued and respected. There may even be a rush on sales, as they'll want to get in before the new pricing takes hold!

Whatever you do, don't apologise for the increase. Instead, be confident and show the customer why it's fair and reasonable.

OFFER A BONUS TO OFFSET THE PRICE RISE.

People honestly won't mind paying more as long as they feel they're getting value for money. Which is why it's a great idea to announce a price hike, then at the same time let your customers know that they will be getting more than they did before.

Enhancing the quality of the materials you use, offering new options within your range, providing education, or even introducing new packaging for your product can help sweeten the deal and justify your move.

In the end, raising your prices doesn't have to go hand in hand with losing customers. Often it can even lead to a better quality of customer – one who has a firmer grip on the value you provide.



MINIMUM WAGE INCREASE: 1 APRIL 2018

By the time you read this, the minimum wage in New Zealand will have increased from \$15.75 to \$16.50 per hour.

Minister for Workplace Relations and Safety, Iain Lees-Galloway, says the \$0.75 rise will benefit around 164,000 workers and their families, and will increase total wages by \$129 million per year.

"Raising the minimum wage was one of the Government's top priorities for the first 100 days," he says, "and we are committed to increasing the minimum wage to \$20 by 2021."

The Minister also advised that within the first 12 months of the Government's term it will abolish starting-out rates and consider changes to the training wage. In the meantime, those rates will continue to be 80% of the minimum wage, increasing to \$13.20 per hour from 1 April 2018.

More at www.beehive.govt.nz/release/minimum-wage-increase-1650-hour. And call us if you need advice on implementing the rise for your staff.

SAFE AS HOUSES: STOP PRESS!



BUSINESS HEALTH CHECK

- Now that 31 March has come and gone (whew!) it's time to focus on other things. So why not update content on your website? The more fresh information, articles, downloads or new pages you add, the more frequently the search engines will visit your site. That means more chance at higher rankings – and reaching the customers that matter most.
- Have you got your electronic back up system sorted? It's easy to let things slide ("It's OK, I'll do it tomorrow") – but rest assured, systems can and do fail, so **don't leave it until it's too late**. Options for back up include using an external hard drive, flash drive or cloud storage. Get someone on your team to take charge today.

Revenue Minister Stuart Nash has confirmed the bright-line test on residential property sales will be extended from two years to five years. At present, income tax must be paid on any gains from residential property sold within two years of acquisition, with some exceptions (such as the family home). The extension means that profits from residential investment properties bought and sold within five years will generally be taxable.

To make this happen, changes to law are currently making their way through Parliament. It is expected these will receive Royal Assent in March. And it is expected that this will affect properties acquired on or after the date of Royal Assent.

We will have more for you on this when the legislation passes. Meanwhile, if you are in the process of entering into sale and purchase agreements to acquire property, please give priority to discussing the tax implications with us.



KEY TAX DATES MAY & JUNE 2018

DATE	CATEGORY	DESCRIPTION
7 May	GST	Period ended 31 March
7 May	Prov Tax	Final 2018 Instalment March balance date
20 May	PAYE	Period ending 30 April
20 June	PAYE	Period ending 31 May
28 June	Prov Tax	Final 2018 instalment May balance date
28 June	GST	Period ending 31 May

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