

# Let's talk tax

2008 was an interesting year from a tax perspective. We'll take a closer look at some of the changes that will impact small businesses.

## New Provisional Tax Dates

New provisional tax rules to align provisional tax and GST payment dates took effect from 1 April 2008 for standard balance date taxpayers (ie. 31 March).

	2009 Provisional Tax Dates for Standard Balance Date Taxpayers	2009 Provisional Tax Dates for Non-Standard Balance Date Taxpayers
6 monthly GST period	28 October 2008 and 7 May 2009	In accordance with GST payment dates
Monthly and two-monthly GST period	28 August 2008, 15 January 2009 and 7 May 2009	28 <sup>th</sup> day of the fifth, ninth and thirteenth month after balance date

## KiwiSaver

Compulsory employer contributions to KiwiSaver started on 1 April 2008. Employers are required to contribute 1% in the first year for employees who joined KiwiSaver with a Government funded employer tax credit ("ETC") of up to \$20 per week for each employee.

## Tax Cuts

The long awaited tax cuts have arrived! The new 30% corporate tax rate took effect from 1 April 2008 for standard balance date companies.

Cuts to personal income tax rates took effect from 1 October 2008 with resulting changes to PAYE, FBT and provisional tax calculations. The changes to personal income tax rates mean that a composite tax scale applies to personal income for the year ended 31 March 2009 as follows:

Income range	Annual tax rate
Up to \$9,500	13.75%
\$9,501 to \$14,000	16.75%
\$14,001 to \$38,000	21.00%
\$38,001 to \$40,000	27.00%
\$40,001 to \$60,000	33.00%
\$60,001 to \$70,000	36.00%
Above \$70,000	39.00%

With the top marginal tax rate for individuals still 9% higher than the company rate, careful thought needs to be given to structuring shareholder employee remuneration. This is an area of focus by the IRD and recent case law suggests taxpayers may have more flexibility.

## Fair Dividend Rate ("FDR")

The new rules for taxing offshore investments took effect from 1 April 2007 for standard balance date taxpayers. Our experience to date with preparing 2008 income tax returns using the new FDR method is telling us a couple things.

First, the new rules can be very complex to apply and involve more work than under the previous regime. This is especially true when investments include Australian shares that may be exempt from the new regime.

Second, most of the calculations we have seen to date have our individual and trust clients electing not to use the FDR method (ie. where the safety net option is available). This is a result of poor performance of foreign equity currently. When these investments recover, there will be a corresponding increase in net taxable income that needs to be taken into account when making provisional tax payments. The new regime makes no allowance for offsetting prior years' losses. Investors may find themselves paying tax on investments that may only have recovered some of their losses.



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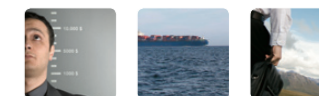
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# Clever Companies

Insights for developing your business

April 2009



## Future proof plans

A recent global PwC survey shows that CEOs from around the world are united by a common challenge – how to build a future proof business plan when the future is uncertain.

Striking the right balance between meeting the increasing demands of short-term survival with planning for the long-term is vital.

In this edition of Insights, we share practical tips to help you through the downturn, including how to exit your business successfully in a fast-changing market; a case study examining the benefits of forward-planning; and we put the spotlight on the 2008 tax changes and how they might affect your business. Finally our team have pulled together steps you can take to help your business weather the economic storm.



**Robbie Gimblett**  
Lead Partner  
Private Client Services

## Seven steps for success

Words of wisdom from our people in Taranaki

If you haven't positioned your business strongly for the tough times ahead, consider the following seven key steps to weathering the storm:

Step	Accountant speak	What it means
1	Develop and maintain a robust financial forecast.	Have a monthly budget of all income and all expenditure.
2	Identify the key forecast risks and develop appropriate responses.	Know the implications if your budget targets are not achieved.
3	Ensure adequate sources of liquidity (funding).	The best time to ask for a loan is when you don't need it. Arrange emergency funding sources now.
4	Drive efficiency in working capital processes (converting raw materials to saleable products and collecting the cash).	Be ruthlessly efficient in making what you make and collecting the money once a sale is closed.
5	Aggressively manage costs.	Cut the waste out now. Cut once and do the job properly.
6	Exercise discipline in capital investments.	Use up all your surplus capacity first.
7	Assess and monitor credit exposures throughout the value chain.	Don't do business with bad payers.

During a downturn clever business owners will brake hard, focus on what you do well and deliver outstanding customer service – you'd be surprised how much space that puts between you and your competitors.



**Grant McQuoid**  
Partner  
Private Client Services

### Hot topics this Issue...

Future proof plans

Seven steps for success

Feel like you've missed the boat?

Clever Company case study

Let's talk tax

# Feel like you've missed the boat?

## Planning an exit in a fast-changing market

Some of our clients are telling us that they feel like they've missed the boat on succession planning. Certainly, private equity is not what it was, an IPO is hardly appealing and other potential purchasers can't get the funding they previously could.

But the basic drivers for succession planning for many business owners haven't changed.

The market is moving quickly and circumstances continue to change. No-one can predict the best way for you to exit your business. Even in uncertain times there are some constants you should focus on. If you invest the time to plan succession now you'll be best placed for a successful exit in the future.

### Focus on building business value – for someone else!

Adopting the mindset of "what will make the business more valuable to someone else?" is key to success in preparing your business for a sale.

This can be a challenging paradigm shift – try to keep an open mind. The end goal is providing you with the best outcome.

When you are considering exiting your business, you need to deliberately make the mental switch from being good at owning, or running, the business to ensuring someone else can be successful in that role. Often this is about communicating and documenting things you take for granted but that others – management, employees, and potential purchasers – don't always understand and/or perceive as risks. So do take the time to document your vision for the business and formalise business plans and budgets, formalise relationships etc – your business will be better for it regardless.

### Park your ego at the door!

Be prepared for senior management to want to do things in their own way! Flexibility over long-held beliefs and practices is more important than ever – management may not do things in the way you've always done it.

### Be flexible with structuring.

We all know that even the best laid plans can change – it's important to have flexibility in how you structure your plans so there is an exit path that won't destroy business value if things don't work out. In doing so you may not get the sale the first time, but if you structure the transactions appropriately, you can continue to add value to your business until the right deal comes along.

One of our clients spent 10 years preparing to exit their business. When their first attempt involving a family member fell through, they tried a partial sale to another company. Eventually, they succeeded in selling the entire business to a third party. We worked with them to structure the transactions so they could continue to increase the value of their business through each scenario and remain flexible when conditions changed. Importantly, little damage was done when the first two options failed and ultimately the final sale was the best outcome for our client.

### Reward Management for achieving your goals.

Ensure that management are focusing on increasing the value of your business, by linking their remuneration directly to it. Well structured employee equity participation can be a highly effective attraction, retention and incentive tool in your business. We can work with you to help you understand your options and determine the structure that will add the most value to your business.

Even in this fast-changing market there are opportunities for you exit your business successfully if you're willing to be flexible, focus on adding value to your business and align the interests of your management team with the right incentives.

Tim Herbert  
Director  
Private Client Services



# Clever Company case study:

## Proper planning results in peak performance

In New Zealand, we're now feeling the impact of the economic downturn across most sectors. The media is reporting more lay-offs across manufacturing, finance, services, ICT, travel & tourism and primary sectors. As we progress through 2009 New Zealand business owners are likely to be presented with ongoing challenges.

Robust business planning will be key to surviving and prospering through these difficult times.

The 2008 PricewaterhouseCoopers Clever Companies Insight found that companies that plan formally, and plan for the long term, and regularly assess performance against plan had higher expectations of their companies' performance than those who didn't.

### Consider what has changed.

ITL Technologies Limited is now reaping the benefits of undertaking a rigorous business planning process.

One of Auckland's leading IT companies providing design, implementation and management of total communications solutions, the business has seen a marked difference in performance as a result of proper planning and implementation.

According to Managing Director Paul Cheetham "We have always planned, but didn't apply the requisite rigour to execution – essentially failing to capitalise on the plans we created".

This is not uncommon, and now more than ever you need to revisit your plans to ensure the assumptions behind them are still valid. Factors you may have taken for granted in the past such as customer purchasing behaviour and what this means for the business' critical success factors may have changed. In some sectors there is already evidence that new business models may be required to weather the downturn and emerge successfully.

Paul recognised the need to improve ITL's planning process and execution and engaged PwC to assist in the process.

### Focus on value.

"PwC assisted us to put together a plan with a real focus on execution and on those things that add real value for our customers. This has been a real catalyst to our improved productivity which has flowed through to significant profitability gains in the business". ITL's marked improvement in performance is testament to a great team – according to Paul, "the company now has a great team feel about it" – but more than that it has been about the planning process we used with a clear focus on individual accountabilities to ensure opportunities aren't missed.

### Positive results in challenging times.

Despite the economic downturn, ITL is having one of their strongest years ever – particularly in terms of profitability. A significant improvement in performance in an already competitive market is challenging even during the good times, "but to achieve this in a depressed market is tremendous" and will provide the company with a sound base from which to weather the downturn.

### Keep your business agile.

The company is not resting on its laurels. Plans are constantly reviewed based on changing market conditions. Individual accountabilities continue to be refined, and staff and management entered 2009 positively with a real clarity of purpose despite the market's obvious challenges.

Tim White  
Director  
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