

# UHY HAINES NORTON NEWSLETTER

FEBRUARY 2019

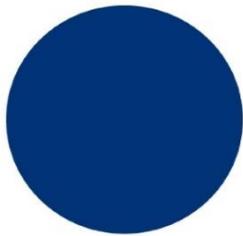


Looking At Buying A Business?  
What To Consider Before Making That Offer

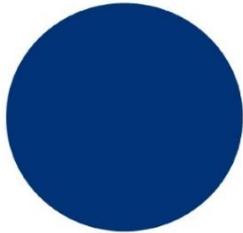


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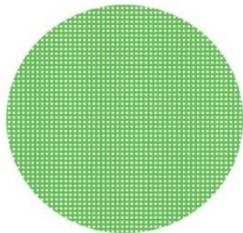
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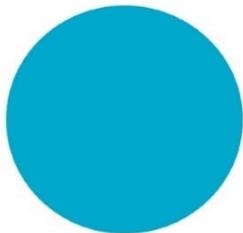
Buying A Business? What To Consider Before Making An Offer



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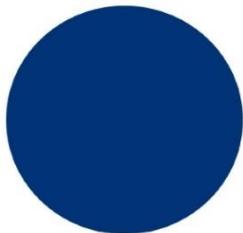


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## Looking At Buying A Business? What To Consider Before Making That Offer

New Zealand is the land of small business owners who have turned the dream of being their own boss into reality. At any given time there are a wide variety of opportunities available for potential purchasers to suit every budget, industry and location. So how do you know if a business for sale is the right one at the right price for you?



Obviously the financial statements are critical to assessing a business, and at least three years of balance sheets and profit and loss statements should be made available to you. But in addition to financial statements, there are many other facets of a business that you should carefully look at and consider to help you reach a decision to make an offer.

### 1. Industry

Research the selling prices of similar businesses in that industry over the past year or two, if these are available. Understand the key revenue drivers for businesses in that industry. For example, if you are looking at purchasing a café does the bulk of its revenue (and therefore potential growth opportunities) come from eating in or take outs, local custom or passing trade, an in-house menu or catering jobs?

### 2. Premises

Look at the condition of the physical premises to consider if any repairs or maintenance are necessary. If there is a lease agreement, what are the terms and are there any implications for the future? Are the premises and equipment compliant with Health and Safety regulations? Are the premises suitable for any plans you may have, such as expansion or diversification?

### 3. Equipment

Assess the condition and age of any equipment, as anything that needs repairing or replacing should be factored into your price offer. It may be worth obtaining an independent valuation of any major machinery, if the vendor has not done this.

### 4. Competition

Do some research into who your competition will be, critically assessing their strengths and identifying where there may be opportunities.

### 5. Contracts

Are there contracts in place with key suppliers and major customers? If so these could make a big difference to the value of the business, so it is worth reviewing what is already in place and their

terms. Customer contracts can provide some security if most of the sales are generated by a small number of customers as assurance they won't withdraw their business.

## 6. Key People

One warning flag is a business which is too dependent on its current owner or a key staff member - known as "[key person reliance](#)". This can significantly reduce its value and ongoing viability. If there are staff members you wish to retain, do you know if they are interested in staying on?

## 7. Suitability Of Your Knowledge

Before getting serious about purchasing, you should assess your own personal skills and experience to determine how suitable they will be for running a particular business. While there will always be a learning curve, you should be confident in your ability to apply your knowledge and experience to add value. And if the business has staff you will also need a certain level of HR knowledge and management skills.

## 8. Transition

Consider what sort of transition phase the business will require, and to what degree the vendor will help with this. A smooth transition is not only desirable for you but also important to the customers and staff members.

## 9. Restraint Of Trade On Vendor

Where possible, find out what the vendor's plans are for after sale. If they are planning to continue operating in the same industry then you may need to consider negotiating a restraint of trade condition in the sales contract.

Every business is so much more than a set of balance sheets and profit and loss statements, and there is no one correct way to assess the value of a business for sale. Taking a critical look at all of the tangible and intangible factors will help to give you a good overview and allow you to make an informed purchase decision.

*UHY Haines Norton Director [Kerry Tizard](#) works with business buyers and sellers across all industries. To find out more about how we can help, please contact Kerry on (09) 839-0300 or email [kerryt@uhyhn.co.nz](mailto:kerryt@uhyhn.co.nz).*



## 5 Benefits An Audit Provides

If your organisation requires an audit due to industry regulations or because potential investors or other stakeholders require one, it needn't be a negative, stressful experience.

Here at UHY Haines Norton we see first-hand how an audit is actually beneficial as it presents you with the opportunity to improve your organisation. Here we aim to highlight just a few major benefits that an audit provides.



### 1. Compliance

Obviously this is one of the main reasons to conduct an audit: to meet the statutory requirements and regulations in your industry. An audit provides complete peace of mind for business owners and shareholders that the organisation is 100% compliant with all of its current statutory obligations.

Non-compliance runs the risk of incurring heavy fines, loss of customers and a tarnished reputation – damage that far outweighs the cost and any minimal, temporary inconvenience that may be caused by an audit.

### 2. Business Improvements / System Improvements

A thorough, in-depth audit takes an impartial look at your organisation's internal systems and controls. This means it's an ideal opportunity for the auditing experts to suggest improvements that can make your business more efficient.

Ways to improve internal controls, business systems, accounting practises, efficiencies, governance and culture can all be identified through the audit process.

### 3. Credibility

An audit provides independent verification that the financial statements are a true and fair representation of the entity's current situation. This provides invaluable credibility and confidence to your organisation's customers/clients, stakeholders, investors or lenders and even potential buyers. It is confirmation that financially everything is as it appears to be.

### 4. Detect and Prevent Fraud

It's estimated that up to 30% of New Zealand businesses are subject to fraud, error and corruption. Workplace fraud can occur for years without being detected and can be so substantial that some businesses never recover financially or repair their reputations. An audit can be an effective tool for identifying fraud and opportunities to commit fraud. Experienced auditors are skilled at pinpointing weaknesses in an organisation's systems and controls and suggesting ways to strengthen these to prevent fraud occurring.

## 5. Better Planning and Budgeting

An audit confirms the accuracy of an organisation's financial statements by analysing its financial transactions. It's a detailed process and can result in certain types of income, expenditure, assets and liabilities being scrutinised. This critical examination, coupled with the auditor's financial expertise, can then be used by business owners for better financial planning, budgeting and financial decision-making for the future.

Audit Director **[Bhavin Sanghavi](#)** and the UHY Haines Norton Audit team provides reviews and audits for organisations of all sizes and industries. To find out more about how we can help you, please contact Bhavin on (09) 839-0248 or email [bhavins@uhyhn.co.nz](mailto:bhavins@uhyhn.co.nz).



## Changes to the Employment Relations Act

In December the government passed changes to the Employment Relations Act which are intended to improve fairness and conditions in workplaces. The following changes came into effect on 12<sup>th</sup> December 2018:



- Union representatives can now enter workplaces without asking for permission, provided that the employees are covered under, or bargaining towards, a collective agreement. However, representatives must adhere to site health and safety requirements, conduct their visit within normal operating hours and notify the employers. Representatives are still required to seek consent before entering workplaces where no collective agreement or bargaining exists, and at workplaces which are also residences (e.g. farmhouses).
- Pay deductions can no longer be made for partial strikes, for example wearing t-shirts in place of regular uniforms as a form of low-level industrial action.
- Businesses must now enter into bargaining for multi-employer collective agreements (“MECAs”), if asked to join by a union.
- Employees will have extended protections against discrimination on the basis of their union membership status (such as being, or intending to be, a union member).

Further changes to the Employment Relations Act are coming into effect on 6<sup>th</sup> May this year, including:

- An end to the 90-day trial period for firms with 20 or more employees. These businesses can still use probationary periods in order to assess an employee’s skills against the role’s responsibilities. Businesses with less than 20 employees can continue to use the 90-day trial period.
- Reinstatement of prescribed minimum meal and rest breaks based on the number of hours worked. For example, during an eight-hour work shift the employee is entitled to a minimum of two 10-minute rest breaks and one 30-minute meal break.

For more details on the Employment Relations Amendment Bill 2018 please visit

<https://www.employment.govt.nz/about/employment-law/employment-relations-amendment-bill-2018/>.

## GST Applies To All Activities

In our previous article "[GST Registration: Understanding The Basics](#)", we explained that if you are in business you may voluntarily register for GST, or if you meet certain criteria such as a minimum turnover threshold it becomes compulsory to register. If you have registered for GST then it is important to note that all of your taxable activities must be taken into account, regardless of how minor they are. A taxable activity is defined as an activity which is carried out continuously or regularly by a business, trade, manufacturer, professional, association or club. Taxation activities don't include working for salary/wages, hobbies or private recreational pursuits, occasionally selling a private item or making GST-exempt supplies.



However, it is possible to separate out your taxable activities, for example by operating one activity under an individual's personal name and operating another activity as a company. In this way the GST registration threshold would apply to each entity separately, and not to their combined turnover. For example, a couple may run an AirBnB together as a partnership while one of them also owns a courier business in just their own name. In this instance either or both of the activities may be able to operate without GST if they are individually both under the turnover threshold.

Please [contact us](#) for more information on GST registration and structuring advice.

## Specified Livestock Determination 2019

Inland Revenue has released "[The National Standard Costs for Specified Livestock Determination 2019](#)". It applies to any specified livestock on hand at the end of the 2018/19 financial year where the national cost scheme has been elected as the livestock valuation method.



For more information and advice regarding farm accounting please contact our [Farm Accounting](#) expert **Mark Foster** on (09) 420-7957 or email [markf@uhyhn.co.nz](mailto:markf@uhyhn.co.nz).

## Learning From Complaints

A customer who complains... your worst nightmare? Wrong! While a one star negative online review, heated phone conversation or in-store rant is something no business relishes, your customer is actually doing you a favour. Rather than voting with their feet and silently taking their business elsewhere, they are actually giving you a gift. Within reason, customers who complain are doing you a favour by telling you exactly what their issue is. This gives you the opportunity to correct it. And while you may not always win that particular customer's business back, the silver lining is that you have addressed the issue for the rest of your customers.



### Online Reviews

Online reviews are the most visible form of customer feedback we have today. In most industries these reviews are highly valued by prospective customers researching products or services before committing to purchasing. Their influence and impact is felt far and wide compared to more traditional methods of complaints such as phone calls, emails or instore visits. While positive online reviews are no less than marketing gold to a business, negative reviews can have major implications. From my observations there are ways you can deal constructively with a poor online review, such as:

- Don't ignore it. It won't go away and your silence can be interpreted badly by prospective customers.
- Always thank the complainant for their review.
- Where appropriate, apologise that your product or service did not meet their expectations.
- Address the issue highlighted and again, if appropriate, provide a reason and explain the actions you are taking to address the issue.
- Always stay polite and friendly – there is a chance you could keep their custom if they respect your response. If their tone and grammar is irate and rude, they will look much worse than your business will!
- Be sincere in your response and put yourself in your customer's shoes. This will help to show other readers that you take complaints seriously and are doing your best to improve your product or service.

Depending on the nature of your business and your industry, it may not be appropriate to respond to negative reviews and complaints publicly. For example, in the professional services industries of accounting, law and financial advice, the customer's privacy and maintaining confidentiality is paramount. Any complaints should be addressed directly and confidentially with the complainant and not in the public arena.

## **The Silver Lining**

It's important to investigate all complaints for opportunities to make changes to your business. A complaint can be the instigator for any number of actions, including sourcing different or better quality products, reducing delivery times, conducting more staff training, improving customer communications or changing processes to be more customer-focused. Complaints are constructive to your business. And yes there will always be some customers with unreasonable demands who you may never please, but there will also be some valuable insights from your customers' perspective.

If customers take the time to complain – thank them, and mean it!

***Debbie Robson** is Marketing Coordinator at UHY Haines Norton.*

## Taxing Matters

*A summary of the latest tax changes and news relating to individuals and businesses.*

- On 1<sup>st</sup> February 2019 the IRD introduced two changes to encourage tax payers to make their tax payments digitally. Firstly, the IRD is no longer accepting post-dated cheques - these will be presented to the bank for payment at the time they are received. Secondly, the Inland Revenue dropboxes used to physically deliver tax payments are only available in their in-house office receptions (and therefore access is limited to office hours).
- The ir-File service in myIR will be discontinued on 11<sup>th</sup> March 2019. From 28<sup>th</sup> February 2019 the 'payroll returns' account will automatically show in your myIR account, and if you are still filing monthly schedules you must use this to file your EMS and employer deductions.
- Inland Revenue has clarified the treatment of state-integrated school donations for tax purposes. The important issue is that a student cannot be banned from the school if the parents do not pay the donations. Therefore the donations are voluntary even though there is an expectation for all parents to pay them. It is common for schools to set up special funds, such as "building donation". These donations can be claimed for the purposes of a tax rebate if you:
  - made a donation of \$5 or more and the payment is voluntary and there is no identifiable direct benefit to you or your family in return for making the payment; *and*
  - earned taxable income (such as salary or wages, benefit, NZ Super, self-employed income, interest and dividends) during the year you're claiming for; *and*
  - were resident in New Zealand at any time during that tax year; *and*
  - are an individual (not a company, trust or partnership).
- There are some circumstances in which the income from a foreign trust is taxable. If you are a beneficiary of a deceased estate where the assets are sold and the resulting cash is distributed in the normal way, the cash you receive will not be taxable. However, if the executor(s) invest the spare cash to earn interest while the other assets are being sold then the interest earned on the investment will be taxable. Receipts in the nature of income from foreign trusts are taxable, whilst the original principal capital is not.
- Be aware that not all portfolio investment entity (PIE) investments at the bank are investments with the bank. Some banks put their customers' PIE investments through a subsidiary company and warn their customers that the bank is not responsible for repayment. In the event of a financial disaster, the subsidiary company could be wound up, leaving the bank intact.
- A business is permitted to provide miscellaneous non-cash benefits of no more than \$300 in value per employee per quarter or \$1,200 per employee per year, subject to a total limit of \$22,500 per year for all employees. If either of the thresholds are exceeded then [fringe benefit tax](#) applies. As soon as the value of the benefits goes over \$300 per quarter or \$1,200 a year, the full value of the benefit is subject to FBT. The \$300 or \$1,200 exemption isn't deducted first. Some businesses give their employees vouchers such as fuel or supermarket vouchers, and these comply with the FBT rules provided they cannot be exchanged for cash.
- The Energy Efficiency and Conservation Authority (EECA) promotes energy conservation, efficiency and utilising energy from renewable sources for both personal and business use. They have launched a new online [Rightware tool](#) to help individuals and businesses choose the most energy efficient products for their needs, including washing machines, computer monitors, TVs and fridges. It allows

you to compare the product details, efficiency ratings and estimated annual running costs of different models. Go to <https://www.eecabusiness.govt.nz/tools/rightware/#/>.

Please [contact us](#) if you have questions regarding any of these areas.

## UHY International Study: Blockchain Patents

*Chinese companies filed 32% of all global blockchain patents in 2017 as investment in technology grows.*

32% of all global patents for blockchain technology were filed by Chinese businesses in 2017, with 99 patents from a total of 314 filed with the [World Intellectual Property Organisation \(WIPO\)](#), shows a new study by UHY, the international accounting and consultancy network.

The study shows that US businesses are close behind with 92 global patents (29%), followed by Australian businesses with 40 patents (13%). UK businesses filed 34 patents related to blockchain (11%) with WIPO in 2017 (see table below).

UHY says that Chinese businesses have invested heavily in blockchain technology in recent years, with the Chinese central bank supporting the development of a blockchain-based trade finance platform to help SMEs access finance. Bank of China also announced in August 2018 that investment in technology, including blockchain, would be 1% of the bank's annual operating income.

UHY adds that the biggest filer of global blockchain patents was nChain, a blockchain-focused research firm based in London and Vancouver, which filed 48 patents for blockchain technology at WIPO in 2017.

In the United States, the largest filer of global blockchain patents was credit card provider Mastercard, which filed patents for developments including a system for offline blockchain exchanges.

UHY explains that while European businesses have only filed a limited number of patents at the global level through WIPO, many have been more active at a local level. For example, while German businesses have filed no patents for blockchain technologies with WIPO in 2017, there have been six filed with the DPMA, the German Patent and Trademark Office.

	Country	Number of patents
	<b>Combined G7</b>	<b>162</b>
	<b>Combined BRICS</b>	<b>102</b>
1	China	99
2	United States	92
3	Australia	40
4	United Kingdom	34
5	Canada	27
6	Republic of Korea	6
7	Singapore	4
8	India	3
	<b>Total</b>	<b>314</b>

### Chinese Businesses Also Lead The World In Developing Artificial Intelligence Technology

The study also shows that Chinese businesses lead the way in the development of Artificial Intelligence (AI) technology, filing 473 from a total of 649 AI patents (31%) with WIPO in 2017. China is ahead of its global competitors by some distance in the race to build portfolios of intellectual property in AI. Its closest competitor is the United States, which filed 65 AI patents with WIPO in 2017 (10% of the total). Only two global patents for AI technology were filed in the UK in 2017 (see table below).

UHY says that Chinese businesses like Baidu – often described as the 'Google of China' – and technology and social media conglomerate Tencent are among the world's leading developers of AI technology. Baidu filed the most AI patents at WIPO in 2017, with 183.

In October 2018, Baidu launched an AI-powered translation tool which can translate spoken English into Chinese or German almost instantly. It also recently launched an AI-themed park in Beijing, which features self-driving buses and ‘smart walkways’ which track users’ exercise performance through facial recognition.

The United States’ largest filer of AI patents with WIPO in 2017 was Berkeley-based start-up Bonsai AI with seven. Microsoft announced its acquisition of the business in June 2018.

Global competition over AI technology has heated up in recent years, with many national governments putting in place programmes to support businesses and universities in developing AI clusters and bringing technology to market.

For example, Canada has introduced the CAD125 million Pan-Canadian Artificial Intelligence Strategy, which aims to increase the number of AI researchers in Canada, and develop AI clusters in Toronto, Montreal and Edmonton. In the US, the Trump administration announced in its 2019 Budget Request that artificial intelligence and autonomous and unmanned systems were Administration R&D priorities.

	Country	Number of patents
1	China	473
2	United States	65
3	South Korea	41
4	Australia	14
5	India	6
6	Canada	5
7	United Kingdom	2
8	Germany	2
	<b>Total</b>	<b>649</b>

Rick David, Chairman of UHY, comments: “Blockchain and Artificial Intelligence could unlock significant economic growth over the coming decades, and businesses across the world are investing in making sure they benefit from that. Where countries are lagging behind in areas such as these, governments should consider tax incentives to encourage increased research and development.”

“Developing Artificial Intelligence technology is also going to be critical in determining which businesses will emerge as leaders from the next industrial revolution. The businesses that are positioned best in the long term are those that benefit from private enterprise and government both investing to bring Artificial Intelligence technology to mass markets.”

Kurt Lee, partner at UHY member firm [ZhongHua Certified Public Accountants LLP](#) in Shanghai, China says: “Development of blockchain and AI technologies are an important part of the China’s economic plans for the next two decades, as they could significantly enhance productivity. Both businesses and the government have made substantial investments in laying the groundwork for blockchain to play a central role in financial services in China.”

Koko Yamamoto, Partner at UHY member firm [UHY McGovern Hurley LLP](#) in Toronto, Canada says: “Canada now has one of the highest concentrations of AI researchers anywhere, and Canadian universities like Toronto, Waterloo and Alberta have some of the world’s most advanced AI programmes. That rich environment has also translated into major investments in Canadian AI development by businesses including General Motors and Thomson Reuters.”

## Staff News

One of our wonderful clients has given our Administrator **Lesley Coleman** the most thoughtful gift. The client came across this brass ornamental set of two coal miners for sale, and immediately thought it would be a perfect thank you gift for Lesley for all of her hard work (coal men... Coleman)! We absolutely love how unique this is 😊



Congratulations to **Natasha Fernandes** in our Henderson office who passed her final Chartered Accountant exam in December to become a fully qualified CA!



Our busy Audit department just keeps growing! This month we have welcomed on board two new Audit staff members.

**Abhi Saluja** has joined us as a Graduate Auditor. With a graduate diploma in Applied Management majoring in Finance, Abhi is very tech-savvy and loves new IT systems and developments. He is also a huge soccer fan and enjoys both playing and refereeing soccer games.



**Jyoti Kumra** has also joined our Audit team. With a Bachelors degree and Chartered Accountancy membership from India, Jyoti is currently a provisional member of Chartered Accountants Australia and New Zealand. She has “Big 4” Chartered Accountants firm experience and has worked for a wide variety of clients across a diverse range of industries including manufacturing and services. In her spare time Jyoti loves cooking and playing badminton.

We are also happy to welcome back **Helen Sircombe**, who has re-joined our Helensville team on a part-time basis.



And speaking of arrivals, Henderson Administrator **Carley Bosman** welcomed her gorgeous baby boy into the world on Christmas Eve. He is named Jai Ruffles, and we're all looking forward to more visits!