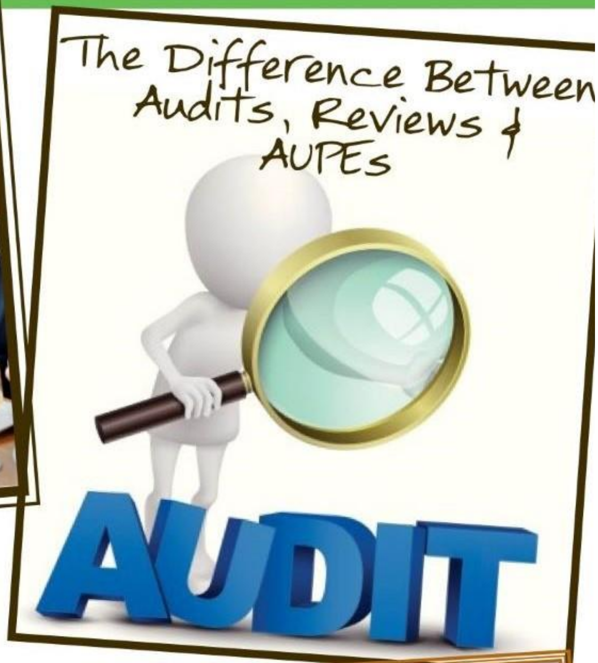
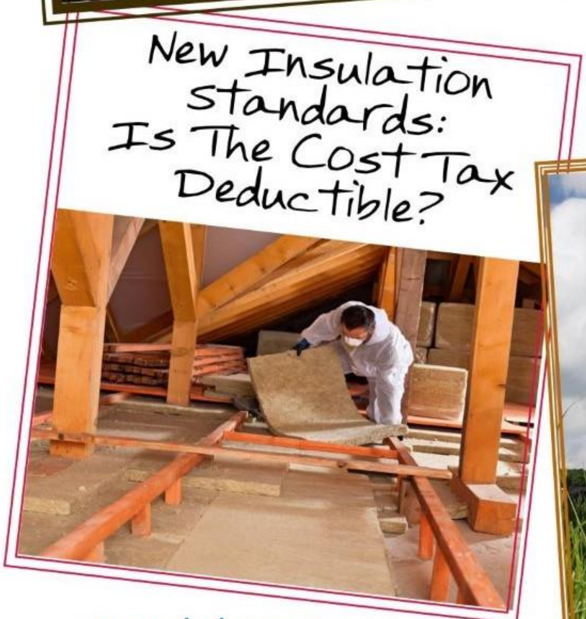
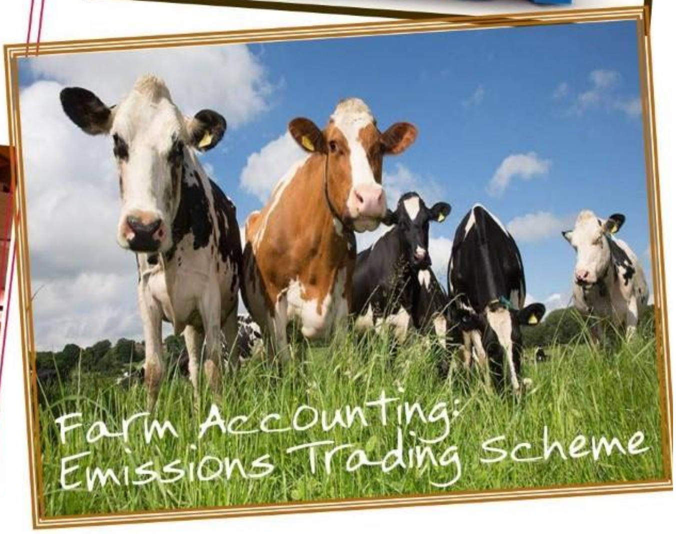
UHY Haines Norton
Chartered Accountants

UHY HAINES NORTON NEWSLETTER

AUGUST 2019







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Contents

This issue contains articles on:

Client Entertainment: What Is Tax Deductible?

It's common for businesses to spend money on entertaining customers as a way of showing appreciation for their custom and encouraging loyalty. However, deciphering whether client entertainment expenses are non-deductible, 50% tax deductible or 100% tax deductible in line with the IRD's rules can be a real challenge.

From the IRD's perspective, the types of expenses classed as "entertainment" include food, drink, social events and generally anything of entertainment, amusement or recreational value. Some client entertainment expenses are 50% deductible while others are 100% deductible depending on the specific circumstances.

Client Entertainment Expense	50% Deductible	100% Deductible
Providing drinks for clients on your premises	√	
Buying drinks for clients in a bar	√	
Taking a client out to lunch or dinner	√	
Giving a client a gift of a bottle of wine or other beverage	√	
Giving a client a gift of food, such as chocolates and cake at Christmas	√	
Giving a client a gift hamper of food and beverage items	√	
Giving a client a gift hamper containing food, beverage and non-edible items	In this case, the cost of the food and beverage items are 50% deductible while the non-edible items are 100% deductible. If the cost is not separately identifiable the split costs should be appropriately apportioned.	
Giving a client a gift of a restaurant voucher	√	
Hire of a launch to take clients on a cruise with food and beverages provided	√	
Taking a client out to dinner while you are out of town on business – but still in New Zealand	√	
Holiday accommodation – holiday home, time share apartment or a similar leisure venue unless merely incidental to business activities or employment duties	√	

Giving a client tickets to a sports game, concert, show or other recreational event (excluding corporate box entertaining)		√
Giving a client a gift voucher, for example a Prezzy Card		√
Giving a client a gift which is not related to food or beverages		√
Taking a client out to dinner while you are overseas on business		√
Entertainment which is merely an incidental part of a trade display mainly held to advertise or promote the business		√

For more information on entertainment expenses in general, please see our Business Basics brochure on Entertainment Expenses.

UHY Haines Norton are experts in deciphering and managing entertainment expenses. Please contact us to find out how we can help you.

The Difference Between Audits, Reviews and Agreed-Upon Procedure Engagements

An organisation can be required to undertake either a financial audit, financial review, or agreed-upon procedure engagement (AUPE) for a variety of reasons, including statutory requirements or to meet the stipulations made in trust deeds, constitutions or charters. When given the choice between an audit, review or AUPE, it's important to understand the difference and therefore which is right for your entity.

What Is An Audit?

An audit is an objective, independent examination of the financial statements, records, operations, inventory (and so on) of an organisation. The purpose is to provide assurance that the financial statements are free from error and that the entity conforms to the applicable financial reporting framework. The audit primarily determines whether the financial statements represent a true and fair view, and secondly aims to detect any errors or fraud. An audit provides a reasonable or high level of assurance.

What Is A Review?

A review is an evaluation of an organisation's financial data for the purpose of providing assurance that the financial statements are free from material misstatement. It requires a lower level of examination than an audit and therefore is less detailed, with the auditor not required to have in-depth knowledge of the organisation's internal control systems. Because of these reasons, a review provides limited assurance.

The Differences Between Audits And Reviews

Audit	Review
Provides a reasonable/high level of assurance that financial statements are free from error	Provides a limited level of assurance that financial statements are free from error
In the Auditor's Report, an opinion is expressed in positive form: "the financial statements are free from material misstatement"	In the Review Report, a conclusion is expressed in negative form: "nothing has come to our attention that leads us to believe that the financial statements are not free from error"
Higher level of examination	Lower level of examination
Meet International Standards on Auditing (NZ)	Meet International Standards on Review Engagements (NZ) 2400
Greater level of work is required and therefore the cost tends to be higher	Generally less work is required and therefore costs are lower
Takes more time	Takes less time
Can provide a greater degree of confidence to stakeholders	
Can detect errors/fraud	

Agreed-Upon Procedures Engagement

If your organisation does not require an audit or review but does need a professional, qualified Chartered Accountant to verify factual information then an AUPE may be suitable.

An AUPE is a professional engagement in which a Chartered Accountant agrees with the client to perform specific procedures with respect to information. In such an engagement, the Accountant reports the factual findings resulting from the procedures performed.

The level of assurance given by the Accountant in an AUPE will depend upon the nature of both the specific engagement and the specific procedures requested by the client, and the nature and extent of the verification work performed by the Accountant.

If your organisation has the option of undertaking an audit, review or agreed-upon procedure engagement, the UHY Haines Norton Audit team can work with you to decide which is right for your organisation. We can help you to weigh up the level of assurance your organisation requires, as well as the cost and time factors, to decide which will be the best option.

*Audit Director **Bhavin Sanghavi** and the UHY Haines Norton Audit team provides audits, reviews and agreed-upon procedure engagements 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.*

Are New Insulation Standards Tax Deductible?

On 1st July 2019 the government introduced minimum insulation, heating and ventilation standards under the Residential Tenancies Act 1986. These standards include the requirement that ceiling and underfloor insulation must be installed in rental homes where it is reasonably practicable.

As we explained in our previous article "Rental Properties: Which Expenses Can You Claim?" a number of expenses relating to rental properties are tax deductible, which help to lower your tax bill. Looking specifically at insulation, the cost of insulating rental properties would be a revenue expenditure if it is an **insulation top-up** with no change in character, and it would be a capital expenditure in circumstances where **new insulation** has been installed.

The following are two examples from the IRD's Interpretation Guide IS 12/03 – Deductibility of Repairs and Maintenance Expenditure to help illustrate this.

Example 1: Insulation Top-Up (No Change In Character Or Substantial Replacement Or Renewal)

Peter and Alice own a residential rental property in Wellington which was built 30 years ago. The insulation in the house has deteriorated and is no longer effective. To meet the new insulation standards, Peter and Alice arrange for new insulation to be inserted into the house. The cost of the insulation is revenue in nature on the basis that it is a repair to the property and does not change the character of the asset. Nor does it result in a replacement or renewal of substantially the whole of the house. The work done only restores the property to its former condition and therefore this is revenue expenditure and is tax deductible.

Example 2: New Insulation (Improvement That Changes Character)

Ralph and Bridget own a residential rental property that has never been insulated. To meet the new insulation standards, Ralph and Bridget arrange to have insulation installed. Despite the fact that this is a legislative requirement, the cost of this new insulation is capital expenditure and therefore is not tax deductible. It is not a repair to the rental property. Although required by law, the addition of insulation to the house is deemed to improve the house and change its character.

This information is intended as a general guide. Please contact us to discuss your specific rental property circumstances, or any aspect of property accounting and taxation.

Insurance For Home Businesses

One of our previous articles, "Running A Business From Home", discussed some of the pros and cons to running a home-based business, including the need to review your home insurance policy. If you have a home office or any type of business where you are selling a product or service from home, you need to inform your insurance provider or broker. Home insurance covers properties that are purely residential, so it may not cover your business in the event of a theft, fire, natural disaster or other type of damage occurring.

While some insurance providers will agree to insure a home which is partly used for business purposes, other providers will recommend you considering additional types of insurance such as business assets, business interruption, liability insurance and business vehicle. Your requirements will depend not only on the size of your business but also your degree of risk factors. These may include:

- The nature of your business, for example the impact of theft on home office equipment versus stock you hold in your house or garage.
- If (and how frequently) customers visit your home premises for business.
- Your home security measures and/or fire protection.
- If there are any materials on your premises that could increase your risk, such as flammable materials or highly desired items.
- Signage or advertising which may increase your risk of being targeted by thieves.

Vehicle Insurance

If you use your private vehicle for errands for your home-based business then you are likely to require business vehicle insurance. Otherwise if you use your family car to pick up/deliver goods or visit customers and have an accident you may find your claim is declined.

Natural Disaster Cover

Private home or contents insurance policies which include fire insurance automatically have the government's EQCover for natural disasters. However, home-based businesses may affect EQCover. This depends on the proportion of your home used for running your business, because if this is greater than 50% of the floor area then that commercial component of the building won't be eligible for EQCover. In this instance you would need to discuss your options for natural disaster coverage with your insurance provider. Additionally, if you operate your home business from a standalone building such as a detached garage or shed on your residential property then that will not be eligible for EQCover.

Contents Insurance

Your contents insurance policy may provide some cover for home office equipment such as computer and printer up to a prescribed limit. Some policies may cover contents used for both business and personal purposes, while other policies may exclude any items used for earning income. Once again, you should discuss your needs with your insurance provider to ensure your home business contents are adequately covered and you don’t get any nasty surprises should the unexpected happen.

Liability Insurance

Even if you have a small home-based business, you should still have basic liability insurance to provide protection from expensive lawsuits if you cause harm to a third party or their property. There are several different types of liability insurance depending on the nature of your work. Your insurance provider can make recommendations on the best type of cover to suit your needs.

Farm Accounting: Emissions Trading Scheme

The government recently unveiled a set of proposals for bringing the agriculture industry into the Emissions Trading Scheme (ETS). Heralded by some as a "sweetheart deal", it is proposed to bring the sector into the scheme from 2025 at a 95% discount rate, meaning it will pay 5% of its total emissions cost.

Not surprisingly, the agriculture sector has welcomed the proposals. In my opinion the only way you will get buy-in from the farmers on this issue is by subsiding the cost. But the problem with this approach is that it will do very little to change behaviour as the cost will be minimal. Instead, the poor taxpayer will end up footing the bill. In my mind it's a complete waste of time and money and only seen as a means to placate the Greens Party.

This whole issue of targeting the New Zealand farming industry in my book is unfair, mainly because we are not the biggest emitters of carbon. Until larger countries such as the UK and US, who practice indoor/non-grass feeding systems, get their acts together we are not going to see a reduction in carbon emissions, no matter how New Zealand reacts.

It seems to be a very illogical and irrational approach to target an industry that is still the biggest earner in our country. Penalising the farming industry, which is our largest GDP contributor and who probably has the smallest carbon footprint of all agricultural nations, doesn't make any sense to me. The downsides far outweigh the upsides.

*UHY Haines Norton Director **Mark Foster** specialises in farm accounting and farm taxation. To find out how Mark can help you, please contact him on (09) 420-7957 or email markf@uhyhn.co.nz.*

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New R&D Tax Incentive

In May the government introduced a new R&D tax incentive to encourage businesses to spend more on research and development. Because it applies to the 2019/2020 tax year, any R&D expenditure incurred from 1st April 2019 could qualify for the tax incentive if it meets the eligibility criteria.

We recommend that businesses document and keep records of all activity related to R&D expenditure incurred from 1st April 2019 so they are ready for filing at the end of this tax year.

The R&D tax incentive includes:

- 15% credit rate
- $120 million cap on eligible R&D expenditure
- $50,000 per year minimum R&D spend threshold (expenditure with an approved research provider is not subject to the minimum spend threshold)
- Expanded definition of “R&D” to ensure the credit can be accessed more easily across all industries

Full details of the eligibility criteria and conditions that need to be met for the R&D tax incentive are specified in the Taxation (Research and Development Tax Credits) Act 2019.

The incentive is just one of the strategies supporting the government’s goal to raise research and development spend in New Zealand to 2% of GDP over 10 years, which also includes the Callaghan Innovation Grants.

If your business is interested in applying for a Callaghan Innovation Grant we can help you with the grant process and maximise its chance of being approved. Please contact Director ***Bhavin Sanghavi*** *to find out more on DDI (09) 839-0248 or email bhavins@uhyhn.co.nz.*

Voluntary IRD Disclosures

If you have noticed an error in your tax returns, for example omitted some income or incorrectly claimed some expenses, you can make a voluntary disclosure to the IRD. Voluntary disclosure is where a tax payer becomes aware of an error in their taxes and tells the IRD before they find out in some other way. The IRD encourages voluntary disclosure and may reward it by reducing their shortfall penalties, which can range from 20% - 150% of the tax shortfall depending on the type of penalty.

Voluntary disclosure can be made in a variety of ways, including via secure email within myIR, by submitting a Voluntary Disclosure form (IR281), emailing, phoning or visiting IRD, or using the “make an amendment” option where available in myIR. As tax agents, we can also make the disclosure on your behalf and help you to manage the penalty and repayment process.

Please contact us if you have questions or concerns about your taxes and voluntary disclosure.

Off Road Fuel Rebates

On 1st July 2019 the government passed the second of three annual increases in fuel tax, resulting in some of the highest petrol prices New Zealand has seen in years.

With no end in sight, it is worth knowing that if you use petrol in off road vehicles or machinery for commercial purposes, you could be eligible for the off road fuel rebate. This is a refund of the excise duty and GST on fuel which meets the eligibility criteria.

The rebate applies to petrol, diesel or biofuel used in off road vehicles such as:

- Farm bikes, three-wheelers and quad bikes
- Side by sides
- Lawn mowers
- Chainsaws
- Petrol-powered pumps
- Fork lifts
- Generators
- Air compressors
- Sawmills
- Any petrol-run machinery or tools
- Unregistered vehicles such as four wheel drives used on the farm (excluding expired or suspended registrations)

Fuel can be claimed upon regardless of whether it was purchased from petrol stations or delivered in containers and drums.

How To Claim The Off Road Fuel Rebate

You must keep all of your petrol receipts, as well as details of the vehicles/machinery and the commercial purposes they are used for. Returns can be prepared and submitted on a quarterly basis using the MR70 form. There are several fuel rebate companies who can analyse your petrol expenses and submit the form on your behalf, usually charging a percentage of the rebate for their services.

Claiming this rebate would offset deductible expenses.

Xero Updates: Fixed Prices In Projects And Mailchimp

Fixed Price Tasks In Projects

Xero has added a useful new task type in Projects. It allows small business users to track variable hours on a task, while still charging it out at a fixed price. This will make invoicing easier for those many service businesses who quote and charge fixed prices for their services. And this feature means they will be able to charge fixed amounts for jobs while continuing to track variable hours - and therefore measure the profitability of each job.

Mailchimp

Xero is now integrated to Mailchimp. This means you can automatically sync your Xero contacts (both supplier and customer contacts) and preferences to a Mailchimp list for use within the Mailchimp platform. This can save considerable time by eliminating the need to set up email lists separately, and helps to ensure a greater degree of accuracy by using data directly from your Xero records.

The sync connection between Xero and Mailchimp is one-way, therefore if you update any contact information in Mailchimp it will not update Xero.

Please contact us if you have questions regarding using Xero effectively for your business.

Taxing Matters

A summary of the latest tax and business changes, updates and news.

- You will be aware that IRD are now **automatically calculating income tax returns**, and by now most people will have been informed that they have been assessed and either have tax to pay or are due a refund. You may now be wondering why you have a tax bill to pay, or if you are entitled to a bigger refund. Contact us if you are concerned about your assessment - we can review your tax position and ensure that the IRD has got it right.

- **New GST rules** for low-value imported goods are coming into effect. From 1st December 2019, overseas businesses which supply low-value goods to consumers in New Zealand will need to charge GST at the point of sale if they meet the GST registration requirements, including the NZ$60,000 turnover threshold. The groups affected by these changes will be merchants who sell goods directly (either online, by mail order or phone) to New Zealand consumers, online marketplaces that merchants sell their products or services through, and re-deliverers who offer mailbox redelivery and personal shopping services from other countries.

- The **square metre rate** is a useful option for calculating the proportion of a building's expenditure used for business purposes, such as a home office. Rather than calculating how much of each home utility expense should be attributed to the business, the IRD sets an annual rate for the cost of utilities per square metre of housing. For 2019 the square metre rate is $41.70. Note that it does not include mortgage interest, rates or rent so a portion of these should also be claimed based on the floor area designated for business. For more information on using the square metre rate visit the IRD website.

- Much has been publicised recently about employers not complying with the **Holidays Act 2003**. The IRD's advice for employers to help reduce the risk of non-compliance is to ensure employees are fully informed about their entitlements, keep accurate records, make changes to employees' work arrangements promptly, and regularly test your payroll system for compliance with the Act.

- From the beginning of the 2020 school year, the government will fund $150 per student per year as a **school donation**, providing the school does not request donations from parents. This applies to decile one through to decile seven State and State-integrated schools.

- On 29th August 2019 the **Use Of Money Interest (UOMI)** will increase from 8.22% up to 8.35%. From the same date the interest paid by the Commissioner will decrease from 1.02% to 0.81% per annum.

- If you **own multiple properties** and wish to have them in a company ownership structure, it is worth getting expert advice first. If all of the properties are owned by the same company and you wish to sell one it will be difficult to get the money out tax-effectively without liquidating the company or making it a LTC. Setting up each property separately in its own company will solve this, although it will also come with additional administration costs.

Please contact us if you have questions regarding any of these areas.

Client News: Positive Future For Migratory Birds

UHY Haines Norton client **Adrian Riegen** is a West Auckland builder and passionate bird conservationist. A volunteer with the Pukorokoro Miranda Naturalists' Trust and convenor of the New Zealand Wader Study Group, Adrian is actively involved in the tracking and conservation of migratory shorebirds. He has flown to North Korea seven times to observe the migratory godwits' six-week stopover on the mudflats of North Korea's coastline. In 2018 the TVNZ Sunday program joined him to document the work (YouTube: The Secret North Korea Stopover).

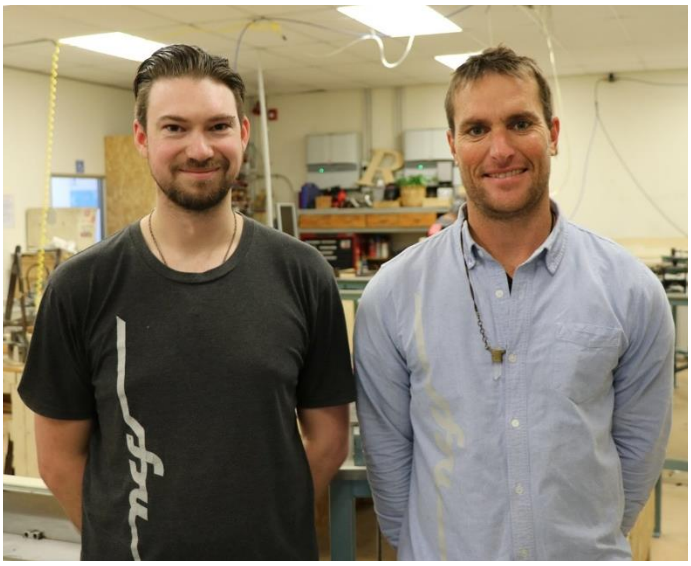
Just recently, Adrian was a member of the team which welcomed Prime Minister Jacinda Ardern and Conservation Minister Eugenie Sage to the Pukorokoro Miranda Shorebird Centre in the Firth of Thames. They were celebrating the announcement by UNESCO's World Heritage Committee that parts of China's Yellow Sea and the sanctuaries it provides for migratory birds will become world heritage sites. This would significantly help New Zealand birds, including godwits and red knots, to make their annual 15,000+ km journey to the Arctic.

That migratory flyway is the longest for any birds, extending from Awarua Bay near Invercargill to the North Slope in Alaska via the Yellow Sea in China, a distance of 17,000km. The birds journey from Miranda to their Arctic breeding grounds every year with only one stop en route in China's Yellow Sea to feed. Industrialisation of the Chinese and South Korean coasts has resulted in two-thirds of Yellow Sea mudflats disappearing over the last 50 years. Making these stopping points heritage sites means that they will hopefully provide much-needed protection and recognition for the birds.

Pathways To The Future Trust: Recipient Story

*At the end of last year our Audit Director **Bhavin Sanghavi** was elected as the new Chairman of [Pathways to the Future Trust](), which recognises and rewards young employees who contribute to the success of a business. Bhavin is really enjoying his new role as Chairman, which includes learning about the Pathways to the Future Trust Award recipients and the businesses they work for. Here he shares with us one of the stories about a recent recipient.*

William McCartney of Newton Cutting Formes Services was recognised by Nick Scholtens, the business' Operations Manager, as being hard working, dedicated and showing initiative when he was nominated for a Pathways Trustee Award back in May 2018.



He was awarded a *Supervision, Managing Staff* course which he says 'has given him more confidence in his role and a better sense of purpose within the company, enabling him to better adapt for different situations day to day'.

Prior to the course William was very much hands on. Since attending the course he has trained and supervised a new staff member to use laser, plotter and CAD programmes. He has also taken on more tasks with staff when Nick has been away.

Nick has seen William become more productive in his role and step up in his dealings with staff members. Nick says, "William is a true asset to NCFS. From doing the course he has improved his work and his speed of creating tasks. He has also become much more confident in dealing with staff and clients. We have found that William is so efficient in running the Laser Auto CAD and sampling on the plotter that we do not need another staff member. We have also invested in more machinery which is keeping the need for additional staff down."

To learn more about the Pathways to the Future Trust please visit their website.

The West Worx: Supporting Employment And Enterprise In West Auckland

While a number of areas of Auckland have experienced economic growth, parts of West Auckland haven't shared in this prosperity. People in these areas have been left behind by successive economic and social reforms, automation of work, globalisation and other impacts on the labour market.

Over the past three years The Southern Initiative (TSI) has been championing, stimulating and enabling community and social innovation to create and realise opportunities for people in South Auckland. Its success in this field has prompted Auckland Council to support a similar programme in West Auckland: The West Worx. Its focus is on employment, entrepreneurship and education/skills.

While a number of organisations in West Auckland are already carrying out effective initiatives in this area, the role of The West Worx team is to support this work. The team says they are not bringing a 'cut and paste' approach from work TSI does in South Auckland, but are working to strengthen existing connections and make new ones. The aim is to facilitate better social and economic outcomes for West Aucklanders with a focus on Māori and Pasifika peoples.

The West Worx says there are some learnings from the work in South Auckland with TSI that could potentially be adapted for West Auckland.

"Our priority is to demonstrate economic development that is just, circular and regenerative where West Aucklanders hold leadership roles throughout the economy and prosperity is more equitably shared. Our goal is to help get more West Aucklanders engaged with quality employment and enterprise opportunities. This can lead to increased income and prosperity for population groups disadvantaged in the labour market and who currently have little access to capital and intergenerational wealth."

A key role for The West Worx team is utilising their experience and networks, working particularly with Māori and Pacific communities to assist employers and businesses in the West to connect with prospective employees. This involves supporting employers to create the right working conditions for Māori and Pacific people to thrive, and connecting both employers and employees to providers for skills training and pastoral support. Ensuring the right services and support are in place ensures better outcomes for businesses and the community. The team also works with He Wake Eke Noa, a Māori and Pacific supplier network, which has businesses providing a range of services for the West.

If you have any vacancies or if you would like to learn more about He Wake Eke Noa or The West Worx please contact **Jewelz Petley**, Employment Broker/Coach on jewelz.petley@aucklandcouncil.govt.nz or 021 587 428.

Success And Succession Planning

Family-owned businesses play a fundamental role in the global economy – but there are challenges to ensuring that their success continues from generation to generation.

The list of the top 750 family businesses globally released by family capital in 2019 has many familiar names with a long history of family ownership: US company Walmart, founded in 1945, ranks number one, with brands including Volkswagen (est. 1938), the Ford Motor Company (est. 1903), BMW (est. 1916) and Tata Sons Ltd (est. 1868) all ranking among the top ten.

According to family enterprise and wealth expert John Davis of MIT Sloan School of Management, many of the largest companies in any economy are family-owned. Not only that, but family companies tend to perform better and survive longer than those that are not family-owned. Whether large or small, they are 'an ecosystem that underpins the economy,' he says – one that is 'set to grow even more important and influential in the years ahead'.

Around the world, family-owned businesses are not just important but fundamental economically. They make up over 85% of all companies in Spain, and 90% in Germany, driving both GDP and job growth. They generate over half of GDP in the UK, and in the United States they employ 60% of the nation's workforce and create 78% of all new jobs. In Japan, family-owned small and medium-sized enterprises (SMEs) account for up to 99% of all companies and employ up to 70% of the workforce.

But neither continued family ownership (or majority ownership) nor long-term survival is guaranteed. Among the many issues faced by family-owned businesses, succession planning is one of the most challenging. The economic impact of family-owned business is significant in terms of both their success and failure. But it seems that succession planning – perhaps key to long-term success – is not always high on the agenda.

"A decrease in the population overall and an increase in people living to older ages, means we are seeing a growing number of SME owners who are 70 years or older," says Morito Saito, director and COO at UHY Fas, Tokyo, Japan. Business succession has been identified as an urgent issue in Japan, so much so that in 2017 the government's agency for SMEs announced a five-year plan to help tackle issues around business succession.

Morito continues: "Approximately one third of all Japanese companies do not have a succession plan in place, and many companies go out of business because they cannot find suitable successors. Despite being home to some of the oldest family-owned businesses in the world, around 6.5 million jobs and JPY 22 trillion (over USD 198 billion) in GDP could be lost by 2025 if this trend continues."

But the challenge is multifaceted, and family dynamics also come into play: "Each family member needs to understand that they have a different role in the business – this may be in the management of the business, or they may remain involved as a silent partner," says Morito.

The story is similar elsewhere. The Institute of Family Business in Spain recently described family businesses as 'the backbone of the Spanish economy', but reported that around 68% did not have a formal succession plan. Similarly, despite contributing over 60% of GDP, a recent survey of family businesses in the US reported that only 23% had a 'robust, documented business succession plan'.

Marilyn Pendergast, partner at US member firm UHY LLP in Albany, New York, counts a family business owned and managed by the fourth generation among her clients. She sees succession planning as critical for any business venture – but crucial for the survival of family businesses. "It is a daunting challenge with many elements involved, and each business and each family will have different solutions," says Marilyn.

Sometimes there is a clear candidate for taking over the management of the business; other times there may be multiple family members who believe they should inherit the business but do not necessarily have the skillsets or the work ethic to continue it successfully. Each business and each family will have different solutions.

At UHY LLP, Marilyn and her colleagues have taken a unique approach to the succession question: "One of the things we have done for family businesses is to run a succession planning workshop for all family members – those currently involved in the business, those who are not, and their spouses and partners – to provide a clear picture of what the alternatives may be, and to ensure that there are no unrealistic expectations."

History And Legacy

In Poland, Adam Trawinski, head of the tax and legal department at UHY ECA Group in Warsaw, has a similar experience of the issues around succession: "Succession planning always requires a tailored approach, but it is difficult to lead a family through succession if a succession plan has not been implemented in advance – and, unfortunately, some businesses do not survive."

However, Poland's case with regard to family businesses also raises a rather different set of challenges. "Poland has always been an enterprising nation, but the opportunity to run even a small business during the communist era was limited," says Adam. "Privately-owned businesses only started coming back into the country following the change of political system in the late 1980s."

The number of family-owned businesses grew significantly from the early 1990s onwards, and as their founders reach retirement age they are now facing the issue of succession for the first time. But this is not the only challenge. "Many of the businesses that were established at this time were small shops and workshops. Over time, and with the opportunities offered by Poland's accession to the European Union, many of these have become larger entities that are now able to compete effectively in local and international markets. But while the owners focused on developing and growing their businesses, they did not always focus on ensuring that the formal side of things – the business structure – changed with it. We are finding now that we often need to combine succession planning with restructuring the business."

Family Dynamics

Bernard Fay has first-hand experience of working successfully alongside his brother Joseph as co-managing partners and co-chairs of UHY Fay and Co, Spain, for over 35 years. He also sees succession planning as fundamental to the success of a family business, but recognises the challenges of transition from generation to generation.

"The transition from first to second generation requires generosity and understanding on both sides," says Bernard. "The founder must be prepared to cede power and accept that their successor will want to lead the business their own way; while the second generation must understand that the founder still has an important advisory role to play and ensure that they provide them with the economic security that allows them to step back."

Bernard believes that the most risky transition occurs when family businesses are passed on from the second to the third generation – or the ‘generation of cousins’. “Around 80% of family-owned companies disappear at this stage, either through sale, merger or simply failure,” he says, the reason being that, at this stage, there is a risk of too many people becoming involved.

“The third generation usually needs to implement a policy of dividends,” says Bernard. “It is not possible for all family members to earn a living from the business, but as shareholders they need to receive a return. Looking after the wider family is important to avoid conflict.”

Andrew Timms, partner at UK member firm UHY Hacker Young in Nottingham, agrees. “One of the big issues to consider is that family businesses do not necessarily need to involve all the family. At some point, each family needs to go its own way and be financially in control of their own destiny. In the best scenarios, once the initial business is created and successful, wealth is also created outside of the businesses through other investments – at that point, it is more likely that, from generation to generation, wealth can be retained across the family. There is a different dynamic between creating the wealth and keeping the wealth.”

The Experience Of Youth

Of course, the notion of being in control of your own destiny has another impact on success and succession, as Johannes Bitzer, managing partner at Dr. Langenmayr und Partner mbB Wirtschaftsprüfer Rechtsanwälte Steuerberater in Munich, Germany, explains: “Succession planning is often hampered by the fact that it is now much less common for children to follow in their parents’ footsteps – they want to follow their own interests and go into other occupations.”

This is also seen elsewhere. “Even if they are running well, many family-owned companies in Japan go out of business because there is not a suitable successor,” says Morito Saito. “The next generation does not always share the vision and interests of their forebears, despite a strong tradition of respect for elders and their values.”

But generational differences and the experience of life and work outside of the family business can also bring benefits. “Differences between generations in business have always been there – but what is new today is that, in general, the younger generations are much savvier about technological innovations,” says Johannes. “For businesses, this is noticeable not only in IT and communications technology, but also in marketing and sales – the innovative use of new sales channels and marketing strategies is almost always initiated by the younger generation.”

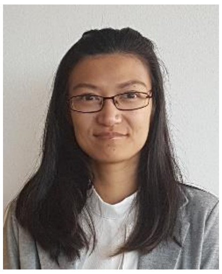
“It is an incredibly good thing for the next generation to have worked for someone else, experienced a different environment, got some professional training and come into contact with a variety of external influence before coming into the family business,” says Andrew Timms.

Marilyn Pendergast agrees: “I see differences between older and younger generations as a positive factor for family-owned businesses – the important thing is that they are committed to the success of the business and are able to communicate openly and positively. Businesses need to constantly adapt and grow in order to survive,” she adds. “New ideas are the spark which can keep the business relevant – and old dogs can be taught new tricks.”

That a family-owned business will remain under family control from generation to generation is far from a given. The issues around succession are complex and careful planning is essential.

UHY member firms have a wealth of experience of working with family-owned businesses, often through successive generations, and understand the issues that can arise with areas such as succession planning.

Staff News



We are excited to welcome **Katherine Kwok** as an Intermediate Accountant in our Kumeu office. Katherine moved to New Zealand six years ago and has gained invaluable accounting experience within accounting practices and in commercial environments. Outside of work she enjoys hiking, travelling and spending time with friends. She is also a foodie, and loves anything chocolate!

And a very warm welcome to **Satish Kathiriya**, who has joined our Henderson office as an Intermediate Accountant. Satish has experience in both accounting and sales, and is passionate about helping clients to take their businesses to new heights. In his spare time Satish loves to spend time with this wife and young son, as well as travelling and playing football.

Congratulations to **Natasha Fernandes**, who has been promoted to Senior Accountant in our Henderson office.

Congratulations to Accountant **Veanthie Pollayah**, also in our Henderson office, who has passed her Management Accounting & Applied Finance exam.

We have said goodbye to **Dana Franklin** in our Helensville office, and wish her the very best for the future.