

# Business Matters

## Nothing Ventured, Nothing Gained

### Government Moves to Lure Overseas Venture Capital through Tax Incentives

In a bid to draw in more venture capital from overseas, the Government is to legislate to allow US-style limited partnerships. In contrast to what is currently on offer, these provide limited liability for the investor partners, while the tax laws look through the entity and tax the partners at their individual rate, not at the partnership level.

As well as providing these advantages, Commerce Minister Peter Hodgson said limited partnerships were the preferred business structure internationally for investing in venture capital.

Hodgson said a bill to amend New Zealand's partnership law would be introduced next year.

At the same time, Finance Minister Michael Cullen said a discussion document on the necessary tax changes would be introduced this year as part of a move to look at ways to encourage, and cater for, overseas investments.

HWI believe these changes are long overdue as it is important that we recognise Venture Capital in helping to keep the N.Z economy going, should you be seeking venture capital it is worthwhile talking to us first.



Trading Trusts

## Dim View of Trading Trusts



A recent press release from The Revenue has put in perspective their view of the use of trading trusts by professionals.

Their response focuses on Case W33. Here is some background. In W33 the restructuring of the dental practice to a trading trust for asset protection was held to be sound practice and a viable choice the taxpayer had. From a tax perspective a trading trust has no more or no less 'tax avoidance' connotations than a company. However, to escape from the clutches of 'tax avoidance', it was imperative that the dentist be paid a market salary in terms of his employment relationship with the trust. On a finding of fact the salary used of

\$80,000 was not market based and should have been \$120,000. Tax advisers have cited the decision as a victory for the use of trading trusts as a legitimate business structure. As long as a valid process is put in place to determine a "market-based" salary the restructuring is safe from IRD attack.

The IRD media release, dated 4 March 2005, makes it clear that the IRD take a different view. The issue that the IRD have is that, for the most part, professionals derive their income from their personal exertions. The general rule of law is that a taxpayer cannot dispose of income before it is taxed from their personal exertions – see *Hadlee and Sydney Bridge Nominees Ltd v CIR (CA), (1991) 13 NZTC 8,116*.

The problem for the IRD is that a market-based salary for an equivalent employee will not always give the true measure of an adequate reward for the professional's skills and efforts.

The media release indicates the IRD feeling in this matter and as always, the difference between good Tax planning and Tax avoidance is found in the detail.

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# Reality Bites VI

## The On-going Challenges Assaulting Everest Aluminium

Arthur himself was community minded and spent a good deal of his time working with sporting, business development and other groups. He realised, however, that as Everest Aluminium continued to expand, it was important for the company to be seen to be a good, and solid, corporate citizen.

- Sponsoring, or donating, products and services to community activities such as sporting or school events
- Serving on boards and committees, or community organisations
- Offering mentoring to other businesses as well as encouraging students and trainees

After all, he reasoned, this same community provided his employment, customer and supplier base.

Similarly, he acknowledged that his own team would take pride in being part of any number

of initiatives that might operate under the Everest banner.

He thought about ways he might instigate some of these so that his company was viewed as being socially minded and responsible.

### These included:

- Avoiding discrimination
- Recruiting locally, as much as possible
- Dealing openly and honestly with customers and suppliers
- Rewarding staff fairly
- Providing good, and safe, working conditions
- Supporting local traders



As well as these areas, and particularly since his was a manufacturing business, Arthur also believed being environmentally friendly was important.

“I used to think the whole environmental friendliness move was simply a trend but I’m more and more convinced that people see the need to be more caring, and supportive, of the planet. Equally it made financial sense to be more conscious of re-cycling, re-using and preventing waste. When you think about it waste represents something you pay for twice—when it is purchased and when it is taken away.

“As a policy for the company, being environmentally friendly can be as simple as buying recycled and recyclable products, donating surplus furniture and equipment to community groups, using less toxic cleaning materials, using energy-efficient lighting or even installing water-saving fixtures.”

## Are We a Service or a Resource?

An American marketer the other day asked about the services HWI offer clients and other ways that support and help are provided.

On reflection, she challenged that the word service was perhaps not the right description of what was being supplied.

“Do you realise HWI do not actually perform a service for their clients but they are a resource to them.”

Here is what she was alluding to:

- If the client is doing a deal they know they can utilise HWI’s negotiation skills.
- If they need to acquire funds HWI can prepare the correct documentation and provide introductions to fund sources.
- If their accounting staff has failed in their job, HWI step in and take up that role to fix the problems.
- If a client decides to go into property development, HWI can guide them through the process.

“You are a source of support and have the ability to deal resourcefully with unusual problems. This is certainly HWI’s point of difference.”  
Enough said.

Business to Business

# Food For Thought

## The HWI Seminar Series is up and running.

In the last Business Matters, we announced the launch of our Helping With Your Business is Our Business Seminar Series.



If you’re still wavering whether to come, or not, here are some statements from more than satisfied people who came along to listen, learn...and also eat.

“It’s great to see an accounting firm helping their clients work through business topics that are

relevant to business success.”  
*Managing director of a National Industrial business.*

“It was not as I expected, it was informal, we all got to contribute and ask questions throughout the seminar. I left feeling I had learnt something that would immediately contribute to my business.”

*A client who owns a retail chain.*  
“If the breakfast doesn’t impress you than the quality of the content and speakers will.”

*A client with a great appetite.*  
If you’re hungry for information that will help you and your staff Build Better Businesses we invite you to go online to [www.hwi.co.nz](http://www.hwi.co.nz) SEMINARS to book or to see what is on offer.

# Bull & Bear OR Bricks & Mortar

## The age old debate about Shares vs Property

There are those enamored solely with property whereas others swear shares are the only investment to consider. Diversification and a balanced portfolio is usually what works best but here are some perspectives to help you determine the flavour of options available that may suit your taste

## The Demographic Dilemma

Over the years, New Zealand's external migration balance has fluctuated significantly largely due to changes in government policy and economic conditions.

However, in contrast to Australia where population growth is slowing, perhaps the biggest influence on house price inflation has been the recent increase in New Zealand's population. As a result, the significant increase in the adult population of this country has had an immediate effect on demand for owner-occupied and rental accommodation, especially in areas such as Auckland where many immigrant families initially decide to live.

Despite perceptions to the contrary, it's not just new immigrant families who are behind the building boom – many ex-pat Kiwis are deciding to return home and locals are moving to metropolitan areas from elsewhere in New Zealand.

In addition, as in the United States, the number of people per household is also decreasing.

Statistics New Zealand suggest that the percentage of one-person households will almost double between 1996 and 2051, placing further strain on future housing supply. The effect of an ageing population on future housing demand could also be dramatic. Up to 9% of the 65-plus population may be living in retirement homes, or perhaps deciding to move away from the metropolitan areas.

Coinciding with this, a large number of 'baby boomers' selling their properties could create a glut of houses on the market, in turn causing prices to sink.

While none of these are certainties, the implications of population changes have always been a key driver of house prices and therefore, should be considered when investing in housing for the long-term.

## Diversification Is the Name of the Game

Most people's largest investment is their home. Therefore most people who buy a residential investment property (in addition to their existing home) will find themselves heavily biased towards the residential property asset class.

Furthermore, if they own a rental property in the same area in which they live they may find themselves exposed to both national and regional downturns. A key constraint with the residential asset class lies in the inability to part-sell a house to meet liquidity requirements.

It may be hard to admit, but two of the strongest emotions—greed and fear—are most likely to affect a person's long-term financial plan. There will be times when an investor will wish to only invest in shares, property, or fixed interest, because that investment is doing particularly well at that time. As tempting as it may be to chase returns, investors should still be taking a balanced investment approach. As investors found with technology shares, over-exposure to any asset class leaves them vulnerable to significant volatility within that class. It seems that

investors in many countries, where the housing market is booming and returns from international share markets are poor, may now be putting too much faith in forever-rising, double-digit house prices.

The hard truth for investors is that in an era of low nominal economic growth, they cannot realistically expect double-digit real returns from shares, houses or anything else over the long-term. Rather than basing long-term investment decisions on the latest 'hot asset', the key to achieving financial objectives lies in carefully constructing a diversified investment strategy—particularly one which is aligned to their needs.

## As Safe As What?

With the value of mutual funds shrinking, and future pensions looking less secure, many people now see their homes as part of their future pension.

However, there is a risk that investors, burnt by the share market, are now over-investing in housing. The market for housing is almost as prone to irrational exuberance as the share market. House prices are as cyclical as shares or bonds; all being vulnerable to changes in economics, demographics and investor emotions.

The cyclical nature of house prices can be demonstrated by simply looking at the past. While house prices in the UK, the US and Australia have been increasing, at the other end of the spectrum, Ireland, Sweden and the Netherlands house prices have slowed sharply. It is interesting to note that these countries had among the fastest price increases in real terms (after deducting inflation) over the five years up to mid-2001. Similarly, Japan during the late 1980's and Germany in the early 1990's experienced housing booms. Since those periods, Japanese house prices are now in their 11<sup>th</sup> year of decline and German prices have been more or less flat since 1992.

## People News



### We Must Go Down to the Sea Again

To some it might look like nothing more than a laid-back getaway at the seashore, but the recent HWI Effective Team Building event at Matarangi provided some great moments of motivation and merriment.

### HWI Matarangi Weekend

Whatever some may say, a few beach houses, some fishing gear, a great B.B.Q, wine & beer are a simple, but successful formula, for getting people to work as one. Internally the benefits are being 'lived and breathed' each day—for clients our hope is that our level of service and commitment continues to meet expectations....hopefully exceed them.

# PARK IT!

## Tax bill to smooth fringe benefit, foreign investment snags

By Brian Fallow N.Z Herald (reprinted with permission)

The Government has dropped controversial plans to bring employer-provided carparks into the fringe benefits tax net.

Finance Minister Michael Cullen also announced moves yesterday to remove problems for people with savings in foreign superannuation schemes, including Australia's compulsory workplace savings schemes, arising from New Zealand's foreign investment fund (FIF) rules.

In a speech to the annual International Fiscal Association conference in Christchurch Cullen confirmed that changes to reduce tax compliance costs for small businesses, foreshadowed last year, would be included in the next tax bill, to be introduced to Parliament next month.

At present, because of an exemption for benefits provided "on an employer's premises", carparks that are leased as part of the premises lease can escape fringe benefit tax while those that are leased from an external provider cannot.

Officials proposed to exclude carparks from the "on the premises" exemption, but limit the change to parks in central business districts.

The proposal was widely opposed as impractical and tax accountants said yesterday dropping it was a sensible move, but it would leave the anomaly intact.

The Government is going ahead with another foreshadowed change, however, which is to give employers the option of valuing company-provided cars for fringe benefit tax purposes either on the basis of their original cost – but with the annual benefit calculated at 20 per cent of cost instead of 24 per cent previously – or on the written-down value of the vehicle in the company's books, in which case the rate would be 36 per cent. It has kicked for touch, at least until the May 19 Budget, the vexed question of the treatment of vehicles, which are used for private and business use. And it is to raise the threshold for fringe benefits other than the specified ones like vehicles, loans and superannuation to \$15,000 a year per employer or \$800 per employee, from \$1,800 and \$300 respectively now.

"That should drop a lot of firms out of the FBT net altogether," PricewaterhouseCoopers tax partner Scott Kerse said.

Cullen said last year's Australia-New Zealand Leadership Forum had raised the issue of the tax treatment of savings in Australia's workplace superannuation schemes.

"Those who come to New Zealand for long-term or permanent employment – whether Australians or returning New Zealanders – may be required to pay tax on those or subsequent entitlements under our foreign investment fund rules," he said.

"There are exemptions..... but determining what qualifies and what does not is not always easy".

Cullen said he proposed to exempt specified Australian employment-related superannuation schemes from FIF rules.

Kerse said the move was welcome. "I suspect there is quite a lot of what you could call accidental evasion...because the rules which apply are so complicated."

## More True tales of how we help clients

So you are buying or selling a business, do you really know its true value or are you listening to all the Monday Experts. As a business person you will be faced with either one of these scenarios in the future and you need to know the process involved to achieve the best deal.

Getting a HWI business valuation gives you confidence in the overall process, we have saved clients 10's of thousands of dollars on buying or selling through successfully arguing the price based on our valuations with the other sides accountants, "that's what we do". Business Valuations Jonathan Hislop

## Uncorked!!

Thanks to all those clients that have been referring us business. We hope you enjoyed the wine we provided as part of our Client Referral Programme as much as we've appreciated the gesture of support.

Remember, we're open to receiving new business at any time!

## And the WINNER is...

Thank you to all of you who responded to our database update so quickly. The winner of the case of wine was Phillip Mosley of Mikasa Tableware.



## Welcome to Our World

Many of you have already seen our new premises. For those who haven't here is the view of the reception area. We look forward to you seeing it in person sooner rather than later.



## Talking the Talk

With the assistance of our great friends Red Design, we have now created & launched our new logo. As you would be aware branding is a valuable asset in ones business and to invest a little to keep it up to date will only increase that value. We hope you like the subtle changes.

All information in Business Matters is of a general nature and does not constitute advice. Readers are cautioned not to act or rely on it without first seeking professional advice.

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