

# INTOUCH

with Martin Jarvie PKF

Summer 2005/06

## INTRODUCTION



Graham Langridge.

This is the final **In Touch** newsletter of the year. The Partners and staff wish all clients and friends the very best for the festive season. We hope you have relaxing and enjoyable holidays, followed by a successful 2006.

The new year will challenge us all, as usual, with ongoing business issues. But with good planning, strategic thinking and identifying the real issues ahead, the challenges can be met. Success will follow.

The January to March period is the ideal time to revisit business plans and personal priorities. 'Most businesses don't plan to fail, they fail to plan'. We at Martin Jarvie PKF can help. Just call us. **PKF**

## MARTIN JARVIE PKF

Our range of professional services

### Business Services

Year End Financials and Accounting  
Tax Compliance  
Financial and Management Reporting  
Profit and Cash Flow Forecasting

### Business Advisory

Strategic Business Planning  
Financial Health Analysis  
Taxation Planning and Advice  
Business and Share Valuations  
Trusts and Asset Protection  
Risk Management  
Succession Planning

### Business Recovery and Insolvencies

Business Recovery and Turnaround Management  
Business and Corporate Restructuring  
Receiverships and Liquidations

### Audit and Assurance Services

Statutory Audits  
Review Engagements  
Due Diligence  
Internal Control Reviews  
One-off Investigatory Assignments  
Scrutineering

### Information Systems

Systems Review  
Installation of Accounting Systems  
Training  
Setting Up and Documenting Procedures

### Finance

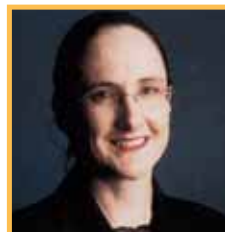
Preparation, Review and Audit of Prospectuses  
Preparation and Presentation of Finance Applications  
Financial Information Memoranda **PKF**

## 'WINDS OF CHANGE'

With the retirement of Gus Gaskin last March and the subsequent resignation of Owen Gibson as a Partner, the firm is seeing some significant change to its structure. The challenges have been met with a number of initiatives that are both practical and exciting.

Graeme Hall, a former senior Partner who has continued as a consultant with the firm, has accepted an invitation to become our independent Chairman. We welcome his contribution on matters of governance.

Although now permitted by our Institute to become a corporate, Martin Jarvie PKF remains a Partnership, but we have increasingly moved towards a more corporate style over recent years. This has evolved to the point now that governance and management are more clearly defined and we have a strong presence of qualified professionals in our management and senior ranks. These senior staff have now assumed responsibility for the compliance servicing of clients. Such delegation is both satisfying for them and enables our Partners to have more time available for firm and client development.



Avril Hillind.

We are delighted to announce the appointment of Avril Hillind and Lyn Aimers, two of our Business Advisory Services Managers, into newly-created positions of Client Directors. These positions will require full input, alongside the Partners and at Board level, into the matters of governance, the firm's direction and future initiatives.

Internal management has been enhanced with the recent appointment of Steve Yee as our Practice Manager.



Lyn Aimers.

Finally, a change in 'style'. By the middle of next year, there is a requirement by PKF International that all its member firms adopt identical 'visual' standards aimed at embedding a common visual identity for PKF internationally. Most noticeably, this will mean a change to our logo and will be evidenced in all visual manifestations of our name, including office signage, letterheads, business cards, financial reports and our website. It is our hope that the new style will be in place by 1 April next year. **PKF**

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# FORESTRY – Still on Track?

by Graeme Hall

Over the years, we have been supporters of the place of forestry in the New Zealand economy, both in respect of its contribution to economic development and risk diversification, and also as a contributor to the environment through offsetting greenhouse gas emissions, providing protection from soil erosion, mitigating water quality degradation through run-off and providing a sustainable and renewable resource.

Many clients have valued the industry similarly and invested in it through personal effort in small woodlots, participation in partnerships or syndicates, and including forestry companies in their share portfolios.

## Difficult Times

The industry is going through difficult times at the moment. Prices for timber continue to be low. Returns have been driven down further by rises in international shipping rates, brought about by the demand for shipping from the burgeoning economy of China. The New Zealand dollar continues at historically high levels, exacerbating the problems of exporters. Shipping costs eased for a while mid-year, but they have moved back up again and it is likely to be some time before the supply of handysize ships (those that can operate in the shallower East Asian and Indian port depths) improves sufficiently to reduce this pressure. The New Zealand dollar is probably unlikely to stay at its present levels, although current interest rate pressures may postpone or frustrate any decline in the short term.

## The Kyoto Protocol

The other factor having a huge impact on the industry is New Zealand's participation in the Kyoto Protocol. New Zealand has signed that protocol along with 155 other nations. It is aimed at reducing greenhouse gases which are viewed as a major contributor to global warming. Significantly, some large economies such as USA and Australia have not signed. Some, such as China and India, as well as Chile and South Africa, are excluded from the commitment as developing nations.

The protocol calls for greenhouse gas emissions to be stabilised at 1990 levels during the period 2008 to 2012. As part of the protocol, forests planted since 1990 on former pasture land attract carbon credits because the forests absorb atmospheric CO<sub>2</sub> during their growing phase. The Kyoto Protocol provides for the international trading of such credits as a market mechanism to encourage forest planting and to discourage discharge of CO<sub>2</sub> through industrial and vehicle emissions, farming discharge, deforestation etc.

Early calculations by the Government suggested that New Zealand's position would be favourable in an overall net sense to the tune of about \$500m annually. So, against this background,

the Government moved to nationalise the carbon credits created by forest growth, rather than devolve them to forest growers, and to use those credits to "shield" greenhouse gas emitting industries including land uses that directly compete with forestry. Furthermore, the Government imposed a cap of 10% on the amount of deforestation which could take place within the first commitment period of the Kyoto Protocol, 2008-2012. Forests harvested and not replanted in excess of the area harvested would attract a carbon tax.

## Uncertainty

The uncertainty arising from this proposal has created a major disincentive to further forest planting. New Zealand has moved from an average of 65,000 hectares of new forest planting per year in the eight years to 1999, down to a little over 10,000 hectares last year and probably less than 2,000 hectares this year.

Latest calculations by Government, based on reassessing greenhouse gas emissions, and a reconsideration in the light of revised forest plantings, suggest that instead of a financial windfall, participation in Kyoto will cost something in excess of half a billion dollars annually. It will produce a dramatic reduction in gross domestic product, driven by higher costs through carbon taxes, with resulting job losses and lower standards of living.

## More forest plantings needed

A significant part of the answer to the problem, in New Zealand's case, is to reverse the trend in forest plantings. There is dialogue currently, therefore, between forest growers and Government officials to discuss the need to publicly promote the multiple benefits of forestry, particularly the environmental and economic attributes of this resource and its contribution to New Zealand's climate change strategy.

## Changes of heart

Internationally, also, there are moves away from seeing the Kyoto Protocol in its present form as the answer to apparent global warming. For instance, British Prime Minister Tony Blair has recently declared a change of heart from his previous support for the Protocol and noted the need to rely to a greater extent on technological innovation for progress with a problem that will require a long-term solution.

For those with an interest in the industry, it is a case of "watch this space". The inherent benefits of forestry must be recognised as part of the solution. **PKF**

## TAXATION AND PROPERTY TRANSACTIONS



Mike Ruffell.

Despite the Reserve Bank hiking the official cash rate for the seventh time since the start of last year, Kiwis are continuing to invest heavily in property, be it commercial or residential, a passive investment or a full-on development.

Whatever your level and type of investment, you will encounter tax matters. To help you identify those niggly tax issues, we have listed a few arising from property transactions that we deal with every day. If you have an issue that needs to be worked through and resolved quickly, call our Manager Taxation, Mike Ruffell, on DDI (04) 496 9096 or any of the Partners. We'd like to help.

- Rental property repairs. Repairs carried out as a result of letting a property, but after the letting activity has ceased, are generally not deductible. Further, where you return from your Big OE and proceed to kick the tenants out of your house, remember this will trigger a deemed sale. As such, it will often result in tax depreciation claimed to date being recovered in one amount. This 'income' is taxable in the year after the change in use.
- Depreciation changes delayed. With a new Government, we should see legislation that moves to decrease the depreciation rates for buildings, increase the depreciation rates for productive equipment and machinery and increase the low-value asset write-off amount to \$500 effective from the 2005 year.
- Loss Attributing Qualifying Companies or LAQCs are popular vehicles with which to own investment property. They have other uses too. But be warned, if you rent the family home to yourself and claim the resulting loss as deductible, the IRD may claim this is TAX AVOIDANCE!
- Land transactions (& associated persons). 'Capital gains' from the sale of long-term investment properties can be inadvertently brought within the tax net by virtue of 'association' with builders or developers. With some careful planning, the investment property can be protected from the tax net. But a word of warning – it is better to sort out investment structures from the outset.
- Capital expenditure. Our definition of capital expenditure may not be shared by the IRD. For example, the legal fees relating to the sale of a property or business, staff expenses relating to the installation of a fixed asset, or receipt/payment of a lease inducement or even staff expenses related to installing a machine, can be capital in nature. If in doubt, but you want to maximise your deductions, we recommend

calling us to review the more difficult items at the end of each quarter.

- Depreciation – transfers between associated persons. As a general rule, a purchaser cannot claim more depreciation than the associated vendor. However, the IRD does have the discretion to allow depreciation to be claimed on the actual cost – but on limited terms. If you are restructuring your asset ownership, and want to confirm your depreciation entitlement, we can help.
- Lease surrender payments. While the IRD have high expectations that these receipts are taxable, not all of them are! The tax treatment of these receipts is complex, but our advice will be straightforward!
- GST Refunds late? The IRD is clearly targeting property developers to make sure that their tax affairs are in order, particularly with regard to GST refunds. As a matter of course, the IRD will delay any large refunds claimed in a property developer's GST returns. The effect is a squeeze on your cashflow. We can often fast-track refunds by dealing directly with the IRD on your behalf.
- GST – Apartments, "Change in use". We are aware of a number of instances where the IRD are reviewing the GST treatment of commercial or serviced apartments. With the glut of apartments, many of them have been rented out as long-term 'residential only' accommodation to increase returns. In these circumstances, the IRD will assert that the apartment's use has changed from being taxable (i.e. GST applies) to exempt (i.e. no GST) and will seek to assess GST output tax on what has become a deemed sale. This is not always the outcome, but the IRD often needs persuading!
- GST – secondhand goods. A GST credit for second-hand goods (i.e. land and buildings) will be limited where the purchaser and seller are related. The input tax credit will be limited to the amount of GST originally paid by a related vendor (often nil). As the 'related party' rules for GST are far more wide-ranging than those that apply for income tax, careful consideration is needed before claiming that input tax credit. **PKF**

## PANDEMICS AND BCPs

Risk assessment and risk management are integral parts of the operation of every business. Many clients have sought our advice concerning a range of risks which may threaten the continuity of their business. These range from natural disasters, which might be earthquake- and weather-induced, through fire, to death or incapacity of the proprietor or key personnel.

Currently the possibility of a pandemic developing if Avian Influenza (bird flu) mutates to affect humans is being well discussed in the media. Some say it is a matter of when, not if, a major flu pandemic hits New Zealand. A business continuity plan (BCP) for such an eventuality is a very important aspect of business maintenance and planning.

Most examples of business interruption envisage an event which is usually sudden and localised and where the recovery period can commence immediately, e.g. earthquake, fire, death etc. In contrast, a pandemic is likely to have a widespread impact, be over a much longer duration, and primarily affect staffing levels, both within the business and within the population, including suppliers and customers with whom the business interacts.

Some scenarios, for instance, mention that during the six to eight weeks of the first wave of a pandemic, 60% may be off work sick, caring for the sick or at home because schools are closed. Up to 33,000 may die. A possible second wave could mean as much as four months of business interruption. It is possible that many businesses will be likely to grind to a halt with a significant number of business failures through the loss of cash flow over that period.

The way in which individual businesses are affected will be many and varied, depending principally on the human factor in their operations. Some, such as primary production, may be quite minimally affected, but those involving people in close proximity in such fields as health, education, entertainment and hospitality, are likely to be much more greatly affected.

Early work on a business continuity plan (BCP) is an essential prerequisite to holding the business together, protecting jobs and investment.

The BCP for each business will vary, in some cases significantly, depending on its individual circumstances, but it is likely to include:

1. Short, medium and long-term planning
  - Influenza manager    • Medical advisor    • Activation of pandemic continuity plan
  - Communication with staff
2. How will essential business activities be maintained?
  - Identification of core people and core skills    • Business planning for absence
  - Knowledge management    • Communications
3. How might shortages of supplies affect business operations?
4. How can we protect staff and visitors from getting sick?
  - Restricted workplace entry    • Personal hygiene
  - Workplace cleaning    • Air conditioning    • Social distancing
5. Managing staff who become ill at work
6. Contact management
7. Staff travel
8. Personal protection equipment. **PKF**

## ACCOUNTING TECHNICIAN OF THE YEAR

Congratulations to our Andrew Johnston, a Business Advisory Services Manager at Martin Jarvie PKF, who was named New Zealand's Accounting Technician of the Year for 2005 at the NZ Institute of Chartered Accountants' Gala Dinner held in Wellington on 27th October.

Andrew is an active member of the Wellington Branch of the Institute and has recently been involved in visiting secondary schools to promote the accounting profession.

"In selecting the ultimate recipient of the award, the judges were unanimous in their decision, agreeing that Andrew displayed a real passion and pride for accountancy," says Chief Judge Murray Taylor. "Andrew was seen as someone who will act with distinction, and will make an excellent ambassador for both the Accounting Technicians' College and the Institute of Chartered Accountants as a whole." **PKF**



Andrew Johnston celebrates his success at the NZ Institute of Chartered Accountants' Gala Dinner recently.

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