PolsonHiggs
BUSINESS ADVISORS

better business

FEBRUARY 2016

THE ELEPHANTS IN THE ROOM

At the end of last year, there were all sorts of media reports covering the UN's 21st annual climate conference in Paris. Some of these were sensationalism and some were more real.

The conference again had the near-on impossible goal of producing a legally enforceable treaty, binding all of the 194 countries to individual targets to reduce Green House Gas (GHG) emissions.

I am no scientist but the thought of the world warming by more than 2°C this century does exercise the mind regardless of your views on the veracity or otherwise of the science.

Often in our role as business advisors we look to where we can make the most meaningful and value adding change for our clients. Surely this is what must be done when addressing GHG emissions.

It is fairly obvious from the table below where the proverbial Green House elephants reside. Even more so when I read in the New York Times recently that, for more than a decade, China has been burning more coal than previously disclosed. And not just a little more coal, but a lot more coal, in fact 17% more coal annually than previous reports suggested which translates to more carbon dioxide emissions than the whole German economy emits from fossil fuels.

This is not an attack on China but just reflection on the reality of the situation. In fact China is taking serious steps by imposing coal tariffs and with the movement towards a more service - and consumption-based economy, may well cap their carbon emissions well before the 2030 goal pledged by Beijing.

Our 0.1% contribution (ranking 78) is merely a tick on the elephant's toe. We could choose to aggressively target a significant reduction of our GHG emissions particularly in agriculture which contributes 50% of our total emissions. Sadly this would not make one tiny dot of difference to the planet's chances of survival. The impact on all NZ citizens from such a hit to the economy would be very material however. I

am therefore reasonably confident that the Government's review of the emissions trading scheme due early this year will not be extreme.

We do of course have to do our bit and will continue to do so. We have brilliant scientists looking to find ways to mitigate methane release from our farming stock and hopefully we have been able to use our excellent diplomacy skills to help facilitate a meaningful agreement acceptable to the biggest elephants in the room.

Tim Dunn
Advisory Services
Email tim.dunn@ph.co.nz
DDI 03 474-9705

Greenhouse Gas Emissions as % of World Total – 2012 data (includes land use changes and forestry) – *Source: World Resource Institute*

Rank	Country	$MtCO_2e$	% of total	Cumulative
Country	MtCO2e	% of total	Cumulative	
	World	47,598.55	100.0%	
1	China	10,684.29	22.4%	22.4%
2	United States	5,822.87	12.2%	34.7%
3	India	2,887.08	6.1%	40.7%
4	Russian Federation	2,254.47	4.7%	45.5%
5	Indonesia	1,981.00	4.2%	49.6%
6	Brazil	1,823.15	3.8%	53.5%
7	Japan	1,207.30	2.5%	56.0%
8	Canada	856.28	1.8%	57.8%
9	Germany	810.25	1.7%	59.5%
10	Mexico	748.91	1.6%	61.1%
78	New Zealand	58.47	0.1%	

IT Advisory Service

There's no question these days that technology is a fundamental function of any business. A simple analogy for this is technology is as fundamental to business as the air we breathe is to humans.

If technology is so important, why is it that business owners often make technology decisions without fully understanding what they are investing in? The simple answer to that question is that those decisions are often based on advice or recommendations from their IT supplier. Decisions are made without understanding the solution because they have not been described in a language that the customer understands.

Unfortunately, we hear these stories all too frequently. The IT industry is full of individuals who have a great understanding of technology but often have difficulty explaining that to their customers using language that their customers understand. Some IT advisors enjoy baffling their customers with "tech-speak" while others are simply unable to translate it into natural language. The customer will often say "Yes" to a technology decision because they are too afraid to keep asking questions. As technology continues to rapidly advance, we're finding more of our customers are asking Polson Higgs for independent advice regarding their technology even when they already have an existing IT supplier. As professional business advisors, Polson Higgs takes great care to ensure that our IT Advisory clients fully understand their technology investments. We also work alongside our clients and their suppliers to ensure the best outcome for the client.

Unfortunately, we hear these stories all too frequently

For independent and expert advice on your technology decisions, please contact our IT Manager, Shane Boyle. Shane offers a free one hour introductory meeting for every new client needing our Polson Higgs IT Advisory service.

Shane Boyle
Information Technology Manager
Email **shane.boyle@ph.co.nz**
DDI **03 474-9710**

Farming on the front foot

Figured is a farm financial management solution that helps you farm on the front foot. It gives you everything you need to make immediate and future-focused farming decisions.

Livestock tracking, farm budgeting and forecasting tools work with Xero enabling you to confidently plan and reforecast with real time information when conditions change. Figured plus Xero ensures you know exactly where the farming operation stands – and where it's heading.

How it works:

XERO
Accounting Platform
Rural supplier feeds
Tax and EOFY reporting

FIGURED
Stock tracking
Production reporting
Production feeds
Budgeting & Forecasting

5 Great reasons to use Figured

1. Complete picture: All your farm's financial and stock information in one place - cash, budgeting and stock-on-hand positions are integrated with your profit and loss.

2. Budgeting and forecasting Track livestock movements, operating expenses, see overall profit and future cash available, enabling decision making based on a true picture of farm performance.

3. Production Reporting Dollars per hectare, per kg milk solids and per stock unit are built into Figured and are available in a click.

4. One team: The whole farming team can collaborate online with one set of information in real time ensuring quick decision making with up to date information

5. Saves time: Quick and easy stock reconciliation. Bank reports can be quickly generated when needed. Stock numbers are automatically updated online so less time chasing paperwork

Polson Higgs is a Xero Gold partner with over 20 certified consultants.

We offer consultation services where we can work with you to deliver the best possible outcome for you and your business. Call us today to make an appointment to see how we can help you.

Contact Donna Hall for further information or an on farm demonstration.

Donna Hall
Business System Support Manager
Email **donna.hall@ph.co.nz**
DDI **03 479-4810**

Closely held companies & debt remission

The IRD's tax policy division has released two discussion documents which are of broad interest. The first discusses taxation issues specific to closely held companies, of which there are nearly half a million in New Zealand. The second worthy of noting addresses tax issues where debt is remitted.

Closely Held Companies

The main focus of this review is in relation to the look-through company (LTC) rules, introduced in 2011. As anyone who has dealt with these will know, some of the rules are needlessly complex and designed to counter a "mischief" that does not exist in reality. It is felt that the complexity of the regime, designed specifically for small businesses, could be driving people's decisions in the choice of business structure.

The main proposed changes to the LTC rules are:

- The loss limitation rule will be replaced for most and previously disallowed deductions will be deducted in a full in the 2017-2018 year
- More than one class of share should be allowed with different voting rights.
- Foreign income restrictions will apply where the LTC is over 50% overseas owned.
- Counted owners will be widened to include any beneficiary receiving a distribution in the past 6 years.
- Companies cannot be LTCs if they have a trust shareholder that has distributed to a corporate beneficiary, or have a charity as a beneficiary.

Other significant changes in the proposals are:

- Existing QCs will lose their status if their shareholding changes.
- Extension of the exemption from tainted capital gains provided the gain is genuine and made to a non-corporate associate of a "close company".
- Changes to RWT obligations on fully imputed dividends between companies and for small companies for dividends and interest paid to shareholders.

Some of these proposals will be welcomed in the SME arena – in particular the LTC loss limitation provisions which have caused big headaches for many taxpayers and advisers alike. The extension of the exemption from tainted capital gains will also give taxpayers more options for structuring their businesses. We expect these changes to be introduced to Parliament early next year.

Debt Remission Proposals

Where debt is remitted, this generally creates taxable income to the borrower. This can be a significant impediment to restructuring debt and ownership.

Earlier this year consultation was undertaken on some proposals to alleviate the tax consequences which arise where a debt remission occurs between related parties. Tax policy released their updated proposals in September. Cabinet has agreed to the proposals in the original issues paper and we can expect legislation early next year.

The original issues paper proposed that no debt remission income would occur when a debt is either written off or capitalised if:

- Both parties are within the NZ tax base; and
- Both parties are within a wholly owned group; or
- The debt is from shareholders / partners to the company / partnership; and
- Is being remitted proportionately to ownership, and would not result in any change in ownership of the company if it was capitalised instead of remitted.

This latest release has extended the concessionary rule to the following situations:

- Remission of inbound debt (money is lent by an overseas party)
- Debt remission where a "relative" of the shareholder has made the loan not the shareholder (e.g. husband loans money to company where wife is shareholder). "Relative" has not yet been defined.
- Nominal shareholdings can be ignored in determining if debt is remitted pro-rata to shareholding (e.g. trust owns 99%, individual owns 1%, only the trust has made a loan). Again, "nominal shareholding" remains to be defined.

The mechanism for remitting the debt will be to deem it to have been repaid in full (as occurs where debt is remitted for natural love and affection) so no income will arise.

One further point of interest is that any debt remission will form part of the "available subscribed capital" of the debtor company so can be returned tax-free to shareholders in certain situations.

The new rules for debt remission will apply retrospectively from 1 April 2006.

Michael Turner
Taxation Services
Email **michael.turner@ph.co.nz**
DDI **03 474-9706**

Otago Youth Wellness Trust

Walk into the modest brick building in Parry Street, Dunedin, and you immediately realise that this is a very caring place for young people: from the warm and welcoming atmosphere to the décor, the art on the walls, the trail bikes in the foyer and the pool table.

The Otago Youth Wellness Trust (OYWT) is a free community-based service for 11 to 18 year olds who have lost their way – for whatever reason - and need support to get their lives back together. The Trust is justifiably proud of its nearly twenty-year history in which they have grown and developed to be a positive influence on the lives of thousands of young people. Polson Higgs was involved with the Trust from its inception in 1996. Ray Polson and his team did all the accounting for OYWT in the early days.

The Trust is justifiably proud of its nearly twenty-year history

Barbara Payton has managed the OYWT since 1998. She explained that the Trust has adapted the wraparound model (developed by the National Wraparound Initiative) as a way of working to provide support to address the physical, emotional and social needs of the young person. Wraparound is an intensive, holistic method of engaging with children, youth, and their families so that they can live in their homes and communities and realize their hopes and dreams. The Trust uses the HHEADSS framework, in which the factors of home, health, education, adolescent offending, drugs/alcohol, sexual wellbeing and suicidality, are taken into consideration.

The multidisciplinary OYWT staff, numbering 15 to 18 – many of them Otago graduates – are highly talented and qualified. Students studying social work, teaching, nursing, occupational therapy, come here on placement and leave with a wealth of hands-on experience and learning.

Young people are referred to the OYWT by many different agencies including schools. The Trust, on average, works with some 230 teenagers each year, with new referrals making up about 100 of that number. Once a young person is referred to the Trust, a comprehensive assessment is carried out and an individual plan developed with the young person. A caseworker is allocated to work with the teenager and family. The costs involved in such a service are considerable, $1,000,000 a year, of which about two-thirds comes from government contracts. The rest comes from fund raising.

This year the OYWT is one of the first beneficiaries of the Polson Higgs Charities Initiative. Amy Coleman and Neil Judd of the OWYT administrative team explain how this came about. Amy: "The Ministry of Social Development sponsored a review of IT used by charities. Sandy Baines, who works close with Polson Higgs, carried out our review and suggested we apply for the PH Charities Initiative. This was very timely, because our server had just died, and we were operating on a borrowed server."

The OYWT filled out the PH Charities Initiative application form, but also added a lot more information in their proposal for sponsorship. They included both their capability report and the IT report, which suggested how they should proceed with their information technology.

The PH sponsorship entailed migrating the OYWT email from their in-house server to Microsoft Office 365 Exchange, which lives in the Cloud. Amy: "The Polson Higgs IT department, and in particular Shane Boyle, who understands 365, moved the emails to the new system. This was a big chunk of the work we needed to do. The work was spread over a few weeks, but Polson Higgs worked around us, and weren't at all disruptive." Neil: "Polson Higgs was very accommodating in catering to our organisation's needs, and also in fitting in around our time. Now the loan server, with half its data removed to the Cloud, can perform its other functions better, and our email is no longer at risk of being lost."

Barbara Payton summed up the relationship with Polson Higgs very neatly. "They created an opportunity from what they knew about us. It is nice to have a local organisation respecting the work of another local organisation. Each of us, OYWT and Polson Higgs, acknowledges and appreciates what the other does."

This year Polson Higgs launched a new initiative to better target our support of charitable organisations.

We are offering support to charitable organisations in the Otago/ Southland region by way of free or subsidised accounting/advisory services.

The Trust, on average, works with some 230 teenagers each year...

Our objective in offering assistance is to make a quantifiable difference to the organisation and assist it to achieve its objectives, and to demonstrate Polson Higgs' commitment to the community.

The next funding round will be February 2016. Applications will be called for closer to the time and advertised on our website.

It's OK to look away.

If you follow investment markets or have your own investment portfolio you'll have realised that volatile times such as these can make for nervous investors.

Dr Richard Thaler, of the University of Chicago, is considered one of the founders of the field of behavioural finance which sets out to explain how people make decisions about money. In his new book he discusses the behavioural biases that affect decisions around money and investing. Those include:

- The endowment effect (we value things we own more highly than things we don't yet own)
- Hindsight bias (we think we knew a given outcome was likely, if not a foregone conclusion, after the fact)
- Confirmation bias (the tendency to search for, interpret or recall information in a way that confirms our pre-existing beliefs)
- Prospect theory (the hurt from losses is greater than the pleasure derived from equivalent gains).

All these biases converge on the thing Thaler describes as the single most powerful tool in the behavioural economist's arsenal – myopic (short sighted) loss aversion.

Our summary of myopic loss aversion is:

- We hate losing money
- We are much more likely to see losses in short time periods
- When we see losses we instinctively believe (1) it was avoidable, (2) the worst is yet to come, or (3) both

These reactions can lead us to make poor, emotionally driven decisions about money and investing. Another conclusion we can make from the above is that it might be best not to look at your portfolio balance over short time periods.

One of the biases Thaler discusses, prospect theory, suggests that investors feel the pain of losses about twice as much as they feel joy from an equivalent gain.

In investing, short term losses are inevitable and common. According to ifa.com, since January 1965 the market (as represented by a US share market index) has gone up 51% of the days, and down 49% of the days. That's nearly a draw.

But it's not a draw emotionally. If we assign a loss an emotional score of -2 and a gain an emotional score of +1, how would we feel after seeing gains 51% of the time and losses 49% of the time?

Our emotional score would be: (51 x 1)+(49 x -2) = -**47**

Translation: we'd feel lousy.

Checking your portfolio value every day is very likely to make you feel bad because, emotionally, the down days outweigh the up days, even if there are slightly more up days.

However, ifa.com informs us that the more time you are in the market, the more likely you are to see positive results. If you only check your portfolio balance monthly, you have about a 62% chance of seeing a positive return. If you check it quarterly, this increases to a 68% chance, then 78% for annually and 89% for five year cycles. If you have the fortitude to go 15 years before you check your portfolio balance, based on a 50 year time period you will have never seen a loss.

So, if seeing a loss feels twice as painful as seeing a gain feels good, how often could you check your portfolio and still break even emotionally? The answer is no more than quarterly. You'll need to see gains at least 66% of the time for you to even feel neutral about it.

In his book Thaler says that investors who look at their portfolios more regularly take less risk, because they can't stand the volatility that they see by checking more often. If you don't check your portfolio very often, and are happy to leave that job to your adviser, you should be able to emotionally tolerate a higher percentage of shares in your portfolio. This gives an opportunity for higher long term returns.

Rhodes Donald
Wealth Management
Email **phwealthmanagement@ph.co.nz**
DDI **03 477-9923**

You've got to accentuate the positive work place coaching

Arguably the single most important leadership and managerial competency is motivating and developing staff. Prime motivating factors for people at work is the feeling of being good at their job and that their work is valued. If your job or business involves leading or developing others the most important thing you can do every day is support and help your team become proficient and learn new skills.

Workplace training is a core strategy to develop the skills, knowledge and attitudes that can provide a competitive edge and build resilience within an organisation. Attendance on formal courses and workshops can be expensive in both money and time. An effective coaching programme is a way to increase Return on Investment (ROI) and improve staff engagement by focusing on the strengths of your team.

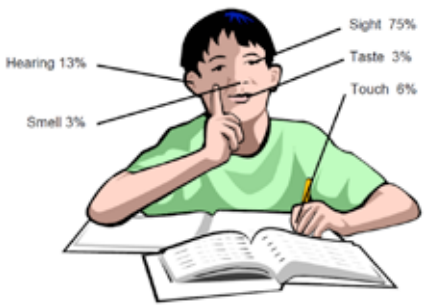
What is coaching?

Even though the individual members of a team may have experienced the same formal training, individual performance will differ due to natural ability, comprehension and motivation. The most effective leaders take an interest in individuals. They recognise strengths and weaknesses, take time to expand on formal training, identify what is required for career advancement and encourage staff to take on responsibilities in order to improve. This is what coaching is.

> *"Good management is about maximising people's strengths and making their weaknesses irrelevant"*
> Peter Drucker

Making Coaching Effective

Critical to effective coaching is mutual credibility and trust. The coach gains credibility through operational competence, and trust by being reliable and fair. The individual being coached must be open and respond to the coaching. It is important to recognise how learning is stimulated and that the majority of people learn best by doing. Good practice is to employ a variety of methods to present material and provide opportunities to put ideas, skills and strategies into practice.



Mental activity is stimulated through our five senses

A basic structure for an on-the-job coaching session would be:

- Explain 10%
- Demonstrate 20%
- Allow Practice 70%

Tips for the Coach

Feedback

- Give feedback as soon as appropriate after an event
- Communicate directly with the person concerned
- Be specific and accurate
- Frame feedback to get a response and remedial action when criticism is involved

Focus

- Address specific issues
- Be prepared

Don't rush to provide solutions

- Share experiences and ideas
- Don't assume your experiences are valid in the current situation
- Encourage individuals to identify solutions

Delegate

As well as being an excellent motivator and contributor to job satisfaction delegations to staff in transition to a leadership role add to performance and provide for career growth

Tips for the person being coached

Avoid defensiveness

- Accept positive feedback graciously
- Listen carefully to what is actually being said
- Seek constructive outcomes from criticism

Contribute to the process

- Ask questions and seek information
- Make suggestions

Take Responsibility for your own performance

- Responsibility for individual performance rests with the person being coached

Paul Galloway
Training Manager
Email **paul.galloway@ph.co.nz**
DDI **03 474-9732**

Accounting Solutions

Playing a great endgame

So, you've thought about your business and your next stage. You're ready for the next big adventure and you're prepared to cut the cord with your current business. There are no natural successors interested in taking on the business. You've worked through the options and the best one is to sell. Now, how do you maximise your return?

To realise the best possible return for your business, you need it to be in the best possible shape for market. Like a house, ideally it needs to be solid from the foundations up, look good and smell of freshly made coffee and new-baked bread… metaphorically speaking. In a competitive market, you can be sure that any prospective buyer will look into all aspects of the business. Be prepared. And the best way to have a business that looks good is to have a business that is good.

Research
Look into the market so you understand what would attract a prospective buyer. Think about the kinds of questions they will ask to satisfy themselves that there is a winning opportunity for them in acquiring your business.

Review
Have a plan to work through so that every facet of your business is attractive to a buyer. What is the face of the business you want to market? Ask the basic questions first: will a buyer be most attracted to a venture that, while it has a lot of promise, isn't delivering on that promise yet? Or a venture already yielding solid returns while promising more room for growth in revenues and profit? Or one that, while it is delivering good margins now, is flexible and lean enough to change direction with a new owner? Or will your primary selling point be that your business is mature, delivering good yields consistently, with established markets and suppliers and an experienced team?

Remedy
Next, work on the underpinnings of the business to make sure they can stand scrutiny. For any issues that might put off a prospective buyer, set targets and put together an action plan to remedy any problem areas.

When you have worked through all aspects, you have what you need to put together the information or sales memorandum for your business. This is essentially a marketing document for your business. However, while 'marketing' may mean smoke and mirrors to some, the information memorandum should be grounded in hard facts, clear and to the point. Your main purpose here is to present to a buyer how easy it would be to run, grow, or improve the business.

Your action plan for market readiness

Take an honest look at your business. Give yourself a reasonable timeframe to bring your business into full market readiness. Strategise and set targets to improve performance and minimise risk.

Financial: go beyond asking do the numbers add up. Where do revenues, costs and profit need to be to present the best buyer opportunity?

Strategic: a compelling business model, sound management systems, streamlined processes - these are what a potential buyer is looking for.

Human: be upfront with your team and work through potential HR issues well before taking the business to market.

Assets: make sure all equipment is well-maintained, the premises are clean and well-organised and that any other assets are in good order. A potential buyer will be turned off by the prospect of any urgent major upgrade during the honeymoon period as new owner.

Risk: assess the risks to your business and put in plans to minimise or manage them. For instance, does the business depend on a single key client or one vital supply chain? Can you attract other clients or line up alternative suppliers? Or can you secure that key client or supplier with suitable contracts? Make sure your systems are fully compliant with all relevant legislative requirements - such as health and safety - and all staff are fully trained on all systems.

Legal: settle any court cases or disputes looming over the business before you go to market. Look at the ownership of all the business' assets - do you or the business have complete (and documented) ownership over them all? Does the business have any intellectual property assets which give the business competitive edge? If so make sure they're trademarked and patented.

Henry van Dyk
Partner
Email **henry.vandyk@ph.co.nz**
DDI **03 474 9707**

ALAN McCONNON

It was with great sadness that we learned of the tragic passing of our independent director Alan McConnon following a car accident.

Alan was not only our board Chairman; but he has been a significant contributor to Polson Higgs over many years. He was known to all the staff through his participation in the business and wise cousel.

Alan brought positive energy, extensive knowledge, and thoughtful analysis to any situation and he added much value to our business.

It was a pleasure to work with Alan and spend time with him. We will miss him being a part of our wider Polson Higgs team

GUMBOOT THROWING

Polson Higgs decided to get behind a different type of sport and sponsored Mairead Fox in an international gumboot throwing competition, held in Ascoli Piceno in Italy. The setting was stunning and New Zealand will be in tough competition when the competition is hosted here in 2017!

Mairead came 11th in the open female final, Brent Newdick came 16th in the open mens final, Jack Fox won the 60yr+, Elizabeth Mortland 3rd in 60yr+ and Colin Baird 2nd in 75yr+. So you can see this is a sport for young and old.

The main countries who were involved in the competition were Finland (who won overall) Italy and The Estonia and Sweden. These countries take the sport seriously and have clubs all round their countries where people frequently train and compete.

The competitors were supported by their families and a lot of families have been involved in the sport previously.

Mairead found the experience not only exciting but quite eye-opening in that this is a seriously competitive sport.

real people, better business

SENIOR TEAM

Partners	
Business Advisory	Stephen Higgs
	Steve Dunbar
	Tim Dunn
	Henry van Dyk
Taxation Services	Michael Turner
Business Advisory	
Associate	Carole Adair
Consultants	Philip Broughton
	Jim Reay
	Hamish Walker
Accounting Solutions	Jamie Reidie
	Jenni Redding
	Alison Glover
Business Systems Solutions	Donna Hall
Information Technology	Shane Boyle
Payroll Services	Michelle MacDonald
Human Resources	Julia Connor
Training	Paul Galloway
Wealth Management	Rhodes Donald

PolsonHiggs
BUSINESS ADVISORS

Email betterbusiness@ph.co.nz
Location 139 Moray Place, Dunedin 9016
Postal PO Box 5346, Dunedin 9058
Phone 03 477-9923
Fax 03 477-9795
www.ph.co.nz