THRIVING IN A RECESSION – TAX, LEGAL AND ECONOMIC IDEAS

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Gilligan Rowe

Notes:

Personal Profile Matthew Gilligan
- Chartered Accountant in public practice
- Employ 55 full time at GRA
- Client base mixture of business and property clients
- Focus on wealth creation in practice
- Specialist in tax and legal structures

Our Role Today
- Our role here today is to give attendees some practical thoughts to take away on:
  - Cashflow maximising ideas
  - Tax and legal structures
  - Wealth creation ideas

Is it a good time to invest in property?

Understanding Property Cycles
What drives Property Values Up?
Example Economic Cycle

The Financial Crisis

OPPORTUNITY KNOCKS

In adversity there is opportunity

NZ Economy

MAY 2009
Notes:

- **Net Migration into NZ**
  - Chart showing net migration trends with arrows indicating changes.

- **OCR: When will it hit Rock Bottom?**
  - Graph showing OCR forecasts with annotations on the y-axis.

- **Fasten Your Seatbelts...An Ugly 2009**
  - Chart showing GDP (% qoq) with fluctuations indicated.

- **What is the exchange rate doing?**
  - Points:
    - USA – Kiwi Cross rate went to 48c, then back to 62c.
      - Low exchange rate is good for exporters / export led recovery.
      - OCR is supposed to drop the Kiwi.
      - BUT limited effect until our trading partners strengthen.
    - Bad news in the USA, opposite effect – we need more bad news in the USA!
    - USA printing cash, devaluing currency.

- **Low interest rate implications**
  - Points:
    - Household budgets improving
    - Lower credit and fuel costs
    - Some investor confidence returning
    - 1st Home buyer market as fired up with cost of ownership near ceiling
    - Now is the time to buy distressed sales...

- **Effect Of Low Exchange Rate**
  - Points:
    - Encourages foreign investors into NZ
    - Improves exporters margins / grows economy
    - Brings immigrants in long run and reverses brain drain / student market
Interest Rates

- OCR. Affects local cost of borrowing
- Short term yield curves are down – floating rates will be low in 2009
- Long term interbank borrowing rates (3-5 years) are up – long term fixed interest rates will likely go up

Go borrow some money while its cheap and invest it

Calculating Break Costs

- Should you break your fixed interest contracts?
- Short run loss v long term saving
- Long term saving is the difference between the 10 year average and the current fixed rate

Calculating Break Costs

- Use our spreadsheet – email me
- You need to look at cost benefit
- Free to GRA clients
- Go to free resources at www.gra.co.nz

Managing Cashflow – Recession Rules

- Sales up, costs down, reduced overheads
- Reduce inventory if it is not profitable
- Return v cost of funds
- Reduce unnecessary capacity - sell land / stock

Managing Cashflow – Recession Rules

- Collect your debentures before they turn bad
- Get your credit lines open before you need them
- Your bank manager is an employee of the bank first... be careful what you tell them

Financing Structures

Don’t cross secure the banks to the Trust
Split loan structures
Notes:
Smart Cash Generating Tips

Asset Protection

Muriwai Downs Farm Trust

Asset Striping To Trusts
Get rid of the ownership
Retain control

Controlling Loan To Trust

Top Structures At GRA

Fundamentals Of Good Structure
- Strong asset protection
- Tax losses and profits offset without asset protection issues arising
- Estate plan in place

Group Structure
**Avoiding depreciation recovered on sale**

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<thead>
<tr>
<th>Depreciation</th>
<th>Book value</th>
<th>Selling price</th>
<th>Depreciation Recovered</th>
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<tr>
<td>Land</td>
<td>36,000</td>
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**Gain on sale of land equals depreciation recovered**

Tax on $18,500 = $5,762
At 30%

**Write the book value in the S & P As Agreed Transfer Price**

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<th>Selling price</th>
<th>Depreciation Recovered</th>
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**REQUEST FOR INTERVIEW**

[Contact information and details]

GRA

[Contact information and details]