

Business recovery information for Christchurch businesses

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Our thoughts and sympathies are with all of those who have suffered loss and endured hardship as a result of the Christchurch earthquake. At this time, we wanted to provide you with some practical information and advice that we hope will be of value in helping get your business back up to speed.

Some of the issues you may need to consider are:

Accelerating your business insurance claims

Assessing your cashflow needs

- Managing your relationship with your bank
- Cashflow management and forecasting

Emergency funding sources

- Christchurch Earthquake Support Package (wage assistance)
- Red Cross Emergency and Hardship Grants (housing assistance)

Recovering lost business data

Tax compliance issues and relief

- IRD returns and payments due
- Donations to the Canterbury Earthquake Appeal
- Tax consequences of your EQC payments

Therefore, we have assembled this brief document to provide some useful information on these topics for you, and our contact details.

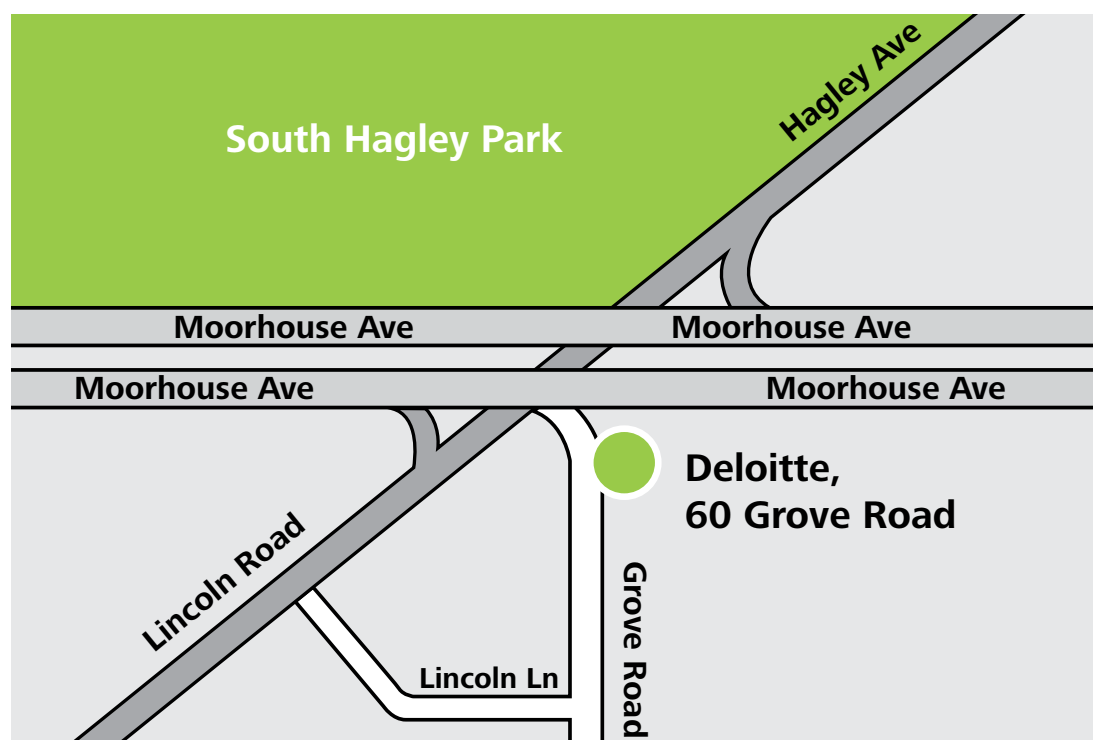
The Recover Canterbury initiative also provides helpful information for Christchurch businesses. Visit www.recovercanterbury.co.nz for more information or our own website www.deloitte.co.nz.

Deloitte Christchurch has reopened for business and has relocated to **60 Grove Road**, at the intersection of Lincoln Rd and Moorhouse Ave. We are now fully operational and able to provide advice and assistance in whatever way we can to help your business recover as quickly as possible.

Please do not hesitate to phone or visit us at our temporary offices. A full list of Deloitte Christchurch contacts and their mobile numbers is provided at the back of this publication.

Deloitte Christchurch's new office location:

60 Grove Rd
Addington 8011
PO Box 248,
Christchurch 8140



Accelerating your business insurance claims

In the first instance you should contact your insurance company with regard to business interruption insurance claims. While you have many immediate business priorities to get your business back on track, it is important to file your claim as soon as possible. You should have a good understanding of the extent of your coverage, and be well prepared to provide your insurer with the appropriate information required, as this will help your claim to be processed as efficiently as possible. The longer a claim may take to settle, the longer you have to wait for payment and this will undoubtedly have an effect on your business cashflow.

Deloitte can help you with your business interruption insurance claims, and assist in making the process as efficient as possible. We are able to answer questions you may have with regard to claims and can help you more fully understand the extent of your coverage and troubleshoot potential issues or disputes.

Some of the things that you need to consider in lodging your business interruption claim are:

Is your business covered?

Cover for business interruption is linked to the material damage provisions in the insured's policy. These provisions will identify what is the insured property and list the types of damage where cover is provided. Therefore, business interruption losses will be covered if the damage occurs at the insured property and the type of damage causing the interruption is not excluded. With this in mind, it is important that you carefully review your insurance policy so as to determine what you are covered for.

What are you covered for?

There may be various items insured under your business interruption policy and you should carefully read the business interruption policy to determine what you are covered for. The three most common insured items are:

- Loss of gross profit / revenue or loss of rent
- Additional cost of working (expenditure in order to avoid a loss of profit, e.g. hire of a portable building for temporary premises)
- Claim preparation costs (costs incurred for the purpose of assessing, preparing and presenting claims, e.g. engaging financial experts or seeking legal advice).

What information may you be requested to provide?

Insurance assessors may request information to develop an understanding of your operations and how the interruption affected your business. Below is a standard list of documentation an insurer may request (this should cover the period immediately before, during and after the interruption):

- Monthly Profit & Loss statements
- Annual financial statements
- Budgets and forecasts
- Bank statements
- Payroll records
- Tax Returns
- PAYE & GST records
- Transaction listings and invoices

Claim preparation and assessment

We have considerable experience in working with commercial parties to robustly quantify the financial impact of any interruption in operations for a business interruption claim. Our deep understanding of all the factors that impact on business operations mean we can make sure that a claim (linked back to the insurance policy coverage) has the required level of impartial and well-founded supporting information.



Assessing your cashflow needs

Cashflow management and forecasting

In the immediate term, it is critical that you assess your cashflow requirements and have a good understanding of what relief packages and insurance settlements are available to your business, and when you are likely to receive any payments.

Once you know what cash you will need to restore your business operations to normal, you can then look at ways to cover any cashflow shortfalls and where potential alternative funding sources may come from in the short and medium term.

Some of the ways you may be able to quickly manage cashflow issues include:

- Request the immediate payment of accounts from debtors outside of the earthquake affected region
- Request an immediate deferral of payments to creditors outside of the earthquake affected region
- Talk to your bank and any shareholders in your business
- Look at emergency relief packages available from central government
- Review your end of year taxation requirements and immediate tax payments
- Reforecast profit expectations to manage future cashflow requirements
- Defer capital expenditure and reassess current projects
- Sell any surplus assets outside of the earthquake affected region

Managing your relationship with your bank

All the banks are offering emergency support and/or relief packages for clients. At this point, maintaining the channels of communication and a good working relationship with your bank is critical to ensuring you meet your cashflow requirements and get your business operations back to normal. Relief packages may include emergency borrowings and/or an alteration to current repayment terms.

Deloitte has a good relationship with all trading banks and can assist by contacting the bank and supplying a reliable and independent viewpoint on your behalf. This can be as easy as a phone call or a letter to the bank from your Deloitte advisor.

Forecasting for short-term and long-term requirements

Additional assistance in providing forecasts may be required at this time. Deloitte can assist with the preparation of forecasts for both short-term and long-term trading. This will not only assist with your business performance, but also help banks assess any emergency and long-term funding requirements for your business. This will also help you gain an understanding of your business performance, and will allow for improved tax planning and identification of cashflow pressure points. Contact with your banker and the Inland Revenue Department from Deloitte will assist with providing legitimacy to any requests as well as speeding up the process of approving any relief required.

Once you know what cash you will need to restore your business operations to normal, you can then look at ways to cover any cashflow shortfalls and where potential alternative funding sources may come from in the short and medium term.



Emergency funding sources

Christchurch Earthquake Support Package

The Government has implemented an initial support package to assist with the recovery and rebuilding of Christchurch. The Christchurch Earthquake Support Package has two components:

1. Earthquake Support Subsidy

- This is a subsidy for employers who believe they are going to remain in business and want to keep their staff. They will receive \$500 gross per week for each full-time staff member or \$300 gross per week to cover part time-staff members, for up to six weeks.
- This subsidy gives companies up to six weeks to get back into operation while still employing their existing staff.
- The subsidy is also available to the self employed or business owners who draw a wage.
- The subsidy is not subject to GST but is subject to PAYE.
- It is paid as a lump sum payment and the first payment will represent a three-week subsidy.

You have an obligation to call the Government Helpline 0800 779 997 once your business gets up and running and you no longer need a subsidy. If they don't hear from you they will automatically pay you a further three-week subsidy.

Who qualifies?

- New Zealand-owned businesses
- Christchurch City Council area based employers
- Christchurch City Council area based self employed, sole traders, or contractors
- Businesses which are unable to access the workplace due to damage, a cordon, or an essential service is not available.
- Small businesses which can open but are experiencing significant loss of trade.

Who does not qualify?

- employers who can continue to operate and/or meet obligations to pay employees
- government or government-related organisations
- international and large national organisations
- businesses with staff who have been injured or bereaved and who are receiving weekly compensation from ACC cannot also get the Earthquake Support Subsidy for those staff members.

Employers who have business interruption insurance should contact their insurance company in the first instance. If insurance payments are likely to be delayed, employers can access the Earthquake Support Subsidy to cover the intervening period, but will be required to repay it when the insurance payment is received.

2. Earthquake Job Loss Cover

- A \$400 a week net payment to full-time employees (\$240 for part-time employees) for a period of six weeks for those who are unable to contact their employer or the business has closed permanently.

How to apply

- Online at www.workandincome.govt.nz.
- By phoning the government helpline on 0800 779 997 (this line is operating 24/7).
- At a Work and Income office.

Red Cross Emergency and Hardship Grants

The Red Cross has announced it is offering emergency and personal hardship grants subject to the following criteria.

Criteria

In order to be eligible for an Emergency and Hardship Grant:

- (a) At the time you apply, you must have had to leave your home due to damage to your home, OR
- (b) you have had to leave your home due to lack of power, water or sewerage services, OR
- (b) you are living in your home but lack power, water or sewerage services

Please provide supporting material for this application as requested on the Application Form. Copies or photographs of certificates must be clearly legible and show your name, address and other relevant information. In order to apply, you must be at least 16 years old and able to provide identification.

Amounts

Where an application is successful, the amount of the Emergency and Hardship Grant will be \$500 for each single person applying and \$1,000 for each couple or family.

For further information or to apply please refer to www.redcross.org.nz.

STOP PRESS
22 March 2011

The Government has just released an additional \$6.8 million needs-based support package for Christchurch businesses.

For more details visit:
www.recovercanterbury.co.nz

Recovering lost data

As you go about the task of restoring your business, access to business data will be critical. Not only will you need this information to manage your business but almost certainly it will be needed if you are making a claim under a business interruption insurance policy.

The data is likely to be both printed and saved on electronic devices (such as servers, mobile phones, laptops and desktop computers). If the electronic information has been exposed to water or has suffered physical damage, it may look like it has been lost. This may not be the case. The data recovery tools we have in our computer forensics laboratory can help you get access to the data and information in situations where simply plugging in and starting up is not an option.

For further information or to get an early assessment of options please, contact your local Deloitte advisor or our head of forensic technology Barry Foster on 09 303 0974, 021 289 0906 or bfoster@deloitte.co.nz.

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Tax compliance issues and relief

IRD returns and payments due

Paying tax and filing returns

Please contact us so we can advise Inland Revenue about any expected delays in filing returns or paying tax. This will be noted on your file and will give you time to reconstruct your records or make subsequent payment (if applicable).

When your accounts have been reconstructed, your returns filed, and the amount showing on the return is paid, you can apply for remission of any late filing penalties, late payment penalties and use of money interest.

You can make payments online, at any open branch of Westpac Bank, or by post to: Inland Revenue, P O Box 39050, Wellington Mail Centre 5045, Lower Hutt.

Inland Revenue has the discretion to remit penalties and will apply this on a case by case basis. If you're charged a late payment penalty or a non-filing penalty please call us to discuss your situation.

Inland Revenue is also able to remit interest you may be charged because you were prevented from making payment on time, due to the earthquake. Inland Revenue will consider this on a case by case basis.

If your records are destroyed

If your business has lost all its paper and electronic records or you're not able to access your computers at the moment, please let us know so we can advise Inland Revenue that you are not able to file your returns.

Financial hardship

We understand it may take some time for you to be in a financial position to pay your tax. A number of options are available for paying overdue tax, such as an instalment arrangement. In some circumstances Inland Revenue may be able to write off your debt. Please contact us before the due date if you can. There are greater reductions in the penalties and interest charged if the arrangement is made before the due date. We are happy to make repayment arrangements with the Inland Revenue on your behalf.

Terminal tax due 7 April 2011

We will post tax payment slips to clients in the next couple of weeks. If the address which we normally send tax letters to is no longer appropriate please advise us of an alternate address as soon as possible.

Provisional tax due 7 May 2011

If you have a standard March balance date, your third and final instalment of provisional tax for the 2011 tax year will be due on 7 May 2011.

You may want to consider your provisional tax payments at the next due date. Depending on your circumstances, your taxable income may have changed. We suggest you contact your Deloitte advisor to discuss re-estimating your provisional tax, and arrange an early refund if provisional tax has been overpaid.

Donations to the Canterbury Earthquake Appeal

Individuals and families making donations of \$5 or more to approved donee organisations such as the Red Cross and the Salvation Army are eligible for a tax credit.

Donations by companies to the Red Cross and other approved donee organisations will also be tax deductible. The maximum deduction a company can claim is limited to the amount of its net income, calculated before taking into account the deduction. Please retain all receipts to claim your credit and give them to us with your year end information in due course.



Tax consequences of your EQC payments

The Earthquake Commission has been busy processing Canterbury earthquake claims since the first earthquake. Insurance companies have also been paying out large claim amounts. But what are the tax consequences of these payments?

For most people the answer is none. However if the EQC payment is made in relation to a business (including rental properties) then there may be income tax and GST consequences.

If you are GST registered and the EQC payment relates to your business then 3/23 of your EQC cheque must be included in your GST return and paid to the IRD. The same will apply to amounts received from your insurance company.

If you are GST registered you can of course claim GST back on any expenditure on repairs provided the repairs are done by someone who is GST registered and they give you a GST invoice. However, this can result in a cash flow timing problem as you will only have the net of GST amount to pay for repairs which will generally include GST.

The income tax treatment of the EQC payment will depend on the extent of the damage to your property.

If your property cannot be repaired then for tax purposes it will be treated as if you have sold it for the total amounts received from the EQC and your insurance company (net of GST returned and excess withheld). Where this amount is more than the tax book value of the property you will be taxable on the lower of the depreciation claimed to date and the difference between the net amounts received from the EQC and your insurance company and the tax book value. It is also possible to subtract any expenditure related to the insurance claim when determining what amounts, if any, will be taxable.

Paying tax on the difference between tax book value and the amounts received would also apply if you hold the property on revenue account – ie you acquired the property for the purpose of selling it for a profit (rather than rental) or if you are a property developer.

What if you do not have insurance or the total net amounts received from the EQC and your insurance company are less than the tax book value of your property? A loss on disposal for a building is not generally deductible. However, after the flooding in the Manawatu and the Bay of Plenty in 2004, the government introduced specific provisions which allow a deduction for losses on buildings which cannot be repaired through no fault of the owner. A tax deduction can be claimed for the difference between the tax book value of the building and amounts received. Deductions are also available for any demolition costs.

If your property isn't damaged beyond repair then amounts received from the EQC and your insurer are taxable to the extent which you have claimed deductions for repairs in your tax return. Any amount received which is not used to pay for repairs must be applied against the tax book value of the property that the claim relates to – ie the tax book value of the property is reduced, and as such the future amounts of depreciation claimed are also reduced.

If the tax book value of the property is negative after applying the surplus EQC and insurance payments, then this negative amount becomes income and is taxable. This could happen if, for instance, you carried out all the repairs yourself at little cash cost.

As you can see the tax consequences are varied and reasonably complicated. If you need more information please contact one of our Christchurch tax team.



Christchurch contact details

For more information, please contact:

Tax

Partners

Andrew Button 021 246 3064

Aaron Thorn 021 590 292

Managers

Don MacKenzie 021 221 3275

Sarah Kennedy 021 137 5742

Stephanie Freeman 021 070 7498

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Maryann Richardson 021 082 36539

Audit

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Paul Bryden 021 228 4597

Michael Wilkes 021 248 3319

Managers

David Bennett 027 737 3004

Leonard Hansen 021 230 4698

Andrew Simpson 021 225 4121

Corporate Finance / FAS

Partners

Paul Munro 021 286 6995

Brett Chambers 021 318 803

Managers

Richard Bailey 021 221 7157

Tim Burnside 021 823 459

Rob McDonald 021 468 762

Hayden Garbutt 021 427 288

Steven Paul 027 419 7810

Brent Smith 021 066 2717

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Shari Carter 021 878 485

Grant Jarrold 021 478 683

Grant Stewart 0274 302 423

Managers

Jim Allen 027 313 8075

Bronwyn Baird 021 611 062

Jane Glentworth 021 355 991

Kylie Meyer 021 116 5660

Consulting

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Steve Wakefield 021 221 4903

Managers

Paul Willyams 021 221 7148

Anthony Clayden 021 803 318

Richard Todd 021 318 833

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Deloitte New Zealand brings together more than 900 specialists providing audit, tax, technology and systems, strategy and performance improvement, risk management, corporate finance, business recovery, forensic and accounting services. Our people are based in Auckland, Hamilton, Wellington, Christchurch and Dunedin, serving clients that range from New Zealand's largest companies and public sector organisations to smaller businesses with ambition to grow. For more information about Deloitte in New Zealand, look to our website www.deloitte.co.nz.

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