

Is your business also your superannuation?

Did you know that the average age for becoming a millionaire is the mid-50s? That's not because more middle-aged people win Lotto – it's when a lot of people sell their businesses.

New Zealand is a land of small businesses, with the Kiwi 'do-it-yourself' ethic carrying through from home maintenance into employment. Around 90% of the New Zealand workforce is employed by businesses with 20 or fewer employees.

Many small business owners quite naturally look on their business as their superannuation nest egg. In fact, many keep their personal drawings (or salary) quite low, so they can plough as much as possible back into the business to build up its value.

However, as with most things in life, a little balance is required.

So as not to have all your eggs in one basket, you need to ensure some money is invested outside the business as well. After all, if the market changes or your business's fortunes wane, you could find yourself in the unenviable position of not being able to retire because you wouldn't get enough to live on if you sell up. Just ask people who were in the niche importing business 10 or 15 years ago what effect the removal of import licensing and the introduction of Internet shopping had.

Looking at it from another perspective, would you advise someone else to invest all their cash in the shares of just one company? That is effectively what you are doing if you don't invest at least some money elsewhere.

Just how much money should go back into the business and how much into another investment option will vary. That's a personal decision you need to make – and regularly review – in consultation with your accountant or business adviser.

It's not always easy keeping your business assets and affairs separate from your personal ones, especially if you operate from home. For example, if your business has an up-to-date asset register, ask yourself how many of the assets listed are also used for non-business reasons. If your household and business expenses are paid together, how accurately do you apportion the two components? How often do you get an accountant to look over your books for you? Not a full audit – just a review of your bookkeeping practices.

These are the kind of questions you should consider and sort out early on, preferably some years before you want to sell. Again, a business adviser should be able to provide you with a thorough checklist and help you work through it.

Remember, some people sell their businesses for enough to enable them to live their retirement dreams – others don't.

ENDS

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