

## PRESENTERS

### **Christine Grice, Harkness Henry & Co, Hamilton**

Christine has practiced for many years in the areas of commercial, corporate and insolvency dispute resolution. She regularly acts as mediator in disputes and negotiations throughout New Zealand. She holds various board memberships and directorships. Christine is a former president of the WBOP DLS and of the NZLS. She is retained by the Institute of Directors to provide governance training nationally.

### **Ian Haynes, Kensington Swan, Auckland**

Ian has been a partner in the firm of Kensington Swan or its predecessor firms for over 35 years. He is a past-president of NZLS, a former president of ADLS and a former board member of NZLS. He has special interest in reform of the profession and in professional ethics. As president of the NZLS, he initiated and promoted the NZLS reform model and obtained unanimous support of the model by district law societies. Since then, he has been actively involved in developing and advancing the model and advising the NZLS in relation to the Lawyers and Conveyancers Bill. Ian is also a specialist in commercial property law, but with experience in various other areas, including arbitration, expert evidence and litigation support.

### **Greg Thompson, Grant Thornton, Wellington**

Greg is a partner with Grant Thornton Wellington. He heads up the Taxation Advisory Services Division and has a wide range of experience in domestic and international taxation. Greg advises a full range of clients on managing their tax affairs including high net worth individuals, owner-operated business, not for profit organizations, listed entities and multi-nationals. His clients cover a broad spectrum of business. Greg also has responsibility for Grant Thornton's tax services nationally as its National Service Line Director and represents Grant Thornton New Zealand in relation to international tax services lines and the resolution of cross border tax issues including transfer pricing. He has over 20 years of specialist dedicated taxation experience through Grant Thornton, working for a Big 4 firm and Inland Revenue.

## CONTENTS

<b>1. INTRODUCTION .....</b>	<b>1</b>
<i>Acknowledgements .....</i>	2
<i>Lawyers and Conveyancers Act 2006 .....</i>	3
<i>Definitions – s 6.....</i>	3
<b>2. INCORPORATION OF LAW FIRMS – STATUTORY AND REGULATORY PROVISIONS .....</b>	<b>5</b>
Introduction .....	5
<i>Directors.....</i>	5
<i>Shareholding .....</i>	5
<i>Personal liability.....</i>	7
Misconduct and unsatisfactory conduct .....	7
Barristers .....	7
Miscellaneous provisions .....	8
Regulations .....	8
Service companies.....	9
<b>3. STRUCTURING THE INCORPORATED LAW FIRM .....</b>	<b>11</b>
Pros and cons of incorporating .....	11
<i>Advantages .....</i>	11
<i>In addition: .....</i>	12
<i>Disadvantages .....</i>	12
<i>Shareholders and directors .....</i>	13
<i>Alternative structures .....</i>	14
<i>Company constitutions .....</i>	16
Key preliminary issues .....	21
Liability sharing of directors/shareholders.....	29
<i>Entry and exit of shareholders .....</i>	30
Employees .....	35
Deemed directors.....	38
Dispute resolution .....	39
<b>4. TAXATION ISSUES.....</b>	<b>41</b>
What tax implications does the transfer value have? .....	41
<i>Identification of everything to be transferred .....</i>	42
<i>Valuation principles .....</i>	42
<i>Gift duty possibilities.....</i>	43
<i>Income tax implications .....</i>	44
<i>Goods and Services Tax .....</i>	48
Tax effective structures and remuneration strategies .....	48
<i>Structures.....</i>	48
<i>Remuneration strategies.....</i>	53
New tax issues for corporates.....	56
<i>Cash basis – barristers.....</i>	56
<i>Employment obligations – PAYE v provisional tax .....</i>	56
<i>Non-cash benefits – FBT and dividend considerations.....</i>	58
Is it all tax avoidance? .....	61

Tax issues on the horizon .....	61
<i>Company tax rate</i> .....	61
<b>5. PERSONAL LIABILITY AND RISK.....</b>	<b>63</b>
Overview .....	63
Special issues under the Act – professional duties of care under the Lawyers and Conveyancers Act .....	64
<i>Liabilities of directors and/or shareholders (Douglas White QC)</i> .....	64
<i>Liability of employees – assumption of personal liability</i> .....	67
<i>Exclusion or limitation of liability</i> .....	68
<i>Professional liability generally</i> .....	71
<i>Fundamental obligations and practice rules</i> .....	71
<i>Tortious duties</i> .....	73
Contractual duties.....	73
<i>Duty to exercise due skill, care and diligence</i> .....	73
<i>Duties which are strict</i> .....	74
<i>Duty in the event of delegated performance</i> .....	75
Cases on breach of duty .....	76
<i>Duty in relation to matters incidental to the retainer</i> .....	76
<i>Duty to give complete advice</i> .....	77
<i>Duty to warn against particular risks</i> .....	77
<i>Duty to advise on the wisdom of a transaction</i> .....	77
<i>Duty to prosecute proceedings with adequate diligence</i> .....	77
Fiduciary obligations.....	78
<i>Solicitors owe a fiduciary duty to their clients</i> .....	78
<i>Who is a “fiduciary”?</i> .....	79
<i>Duty of loyalty</i> .....	79
<i>Not every breach by a fiduciary is a breach of fiduciary duty</i> .....	79
<i>Fiduciary duties particularly relevant to professionals</i> .....	80
<i>No profit duty</i> .....	81
<i>Financial adviser</i> .....	81
<i>Sharebroker</i> .....	82
<i>Solicitors</i> .....	82
<i>Solicitors involved in financial transactions with a client; conflict of interest</i> .....	82
<i>Careful consideration required</i> .....	83
Conflict of interest, acting for two parties or more in a transaction .....	83
<i>General</i> .....	83
<i>When does a conflict of interest arise?</i> .....	84
<i>What is informed consent?</i> .....	84
<i>Steps to be taken</i> .....	84
<i>Independent advice</i> .....	85
<i>Examples of failure to obtain informed consent</i> .....	85
<i>Situations outside the retainer</i> .....	86
<i>Changing retainer</i> .....	86
<i>Obligation to disclose information</i> .....	87
<i>Confidentiality</i> .....	88
<i>Mediation</i> .....	90
<i>Statutory personal liability</i> .....	90
<i>Summary of personal liability issues for incorporated law firms</i> .....	91

<i>Insurance</i> .....	92
<i>Considerations in insurance</i> .....	93
<b>6. TRANSITION TO AN INCORPORATED LAW FIRM .....</b>	<b>95</b>
Planning.....	95
<i>Implementation plans</i> .....	95
<i>Protecting the firms name and projecting the image</i> .....	95
<i>Strategic plans</i> .....	96
Structure/Incorporation .....	96
<i>Directors/shareholders</i> .....	96
<i>Shareholding</i> .....	97
<i>Shareholders' agreements/Company constitution</i> .....	97
<i>Share capital</i> .....	97
Governance.....	98
<i>Benefit of good governance</i> .....	98
<i>The role of the board</i> .....	98
<i>So how could it work in New Zealand?</i> .....	99
Structuring the sale .....	100
<i>Structure of the sale and purchase agreement</i> .....	100
<i>Taxation issues</i> .....	100
<i>Timing</i> .....	100
<i>Value</i> .....	101
<i>Supply of a going concern?</i> .....	101
<i>Business valuation</i> .....	102
The transition.....	104
<i>The Inland Revenue</i> .....	104
<i>Banking/Business arrangements</i> .....	105
<i>The team</i> .....	105
<i>Engagement procedures</i> .....	105
<i>Stationery</i> .....	105
Compliance.....	105
<i>Minutes</i> .....	105
<i>Constitution</i> .....	106
<i>Solvency</i> .....	106
<i>Appointment of an auditor</i> .....	107
<i>Financial statements</i> .....	107
<i>Formation and compliance – company versus sole practitioner or partnership</i> ...	109
Owner cash management.....	110
<i>Profit flow and getting cash out of a company</i> .....	110
<i>Overdrawn current accounts</i> .....	112
Systems.....	112
Marketing .....	114
(Post) implementation review .....	114
<b>7. BARRISTERS .....</b>	<b>117</b>
Court work.....	118
Personal liability.....	118
Duty to the court.....	118
Trust accounts and fidelity fund.....	119
Other changes .....	119
<b>APPENDIX 1 – CONSTITUTION REFERENCE GUIDE.....</b>	<b>121</b>

<b>APPENDIX 2 – SHAREHOLDER AGREEMENT CHECKLIST .....</b>	<b>151</b>
<b>APPENDIX 3 – SAMPLE BUY-SELL AGREEMENT.....</b>	<b>159</b>
<b>APPENDIX 4 – STRATEGIC PLANNING.....</b>	<b>179</b>
Key benefits of strategic planning are:.....	179
<i>Key success factor: the process champion.....</i>	179
<i>The key steps in the strategic planning process:.....</i>	179
<b>APPENDIX 5 – STEPS REQUIRED TO INCORPORATE A COMPANY .....</b>	<b>181</b>
Online application .....	181
<i>Step 1 – Reserve a company name .....</i>	181
<i>Step 2 – Make your company incorporation application.....</i>	181
<i>Step 3 – Receive the certificate of incorporation.....</i>	182