

INDEX

TAXATION

Know the Tax Rules

MONEYSAVER

Managing the Times

TECHNOLOGY

10 Technologies for Your Business

MANAGEMENT

Time to Back Up!

TAXATION

Know the Tax Rules

Keeping up to date with amendments to the Canadian *Income Tax Act* and its accompanying regulations can be a daunting task even for tax lawyers and accountants.

Nevertheless, it is always worthwhile to make the effort to understand as much as possible of our ever-evolving tax laws. Here are a few items you should be aware of.

Increased Tax Instalments

If the amount of taxes owed in 2008 based on the 2007 taxation year exceeded \$2,000, the taxpayer was required to pay in quarterly federal instalments. For 2009, the threshold has been increased to \$3,000. If the taxes owed this year based on 2008 taxable income exceed \$3,000, the taxpayer will be required to make quarterly instalments. Failure to make adequate instalment payments will result in interest charges when filing tax returns for 2009.

Log Those Kilometres

The CRA in conjunction with the Office of the Secretary of State (Small Business and Tourism) is trying to simplify the record-keeping now required for motor vehicle expense claims and a revised administrative policy is expected for tax year 2009. At present, self-employed as well as salaried and commission employees who



use a vehicle for business purposes must keep a log for each vehicle used. The log must record the total kilometres driven plus a record of each individual business trip, its date, destination, purpose and number of kilometres driven. Part of the record must be the odometer readings at the beginning and end of the fiscal year.

Under the new proposals, it is expected the CRA will require a logbook for a sample period only. A record showing the details of a period considered by the employer as representative of how the vehicle was used during the year will be considered sufficient to support a motor vehicle expense claim. This will certainly be helpful for those who make scheduled rounds of clients. Naturally, prudence would suggest the taxpayer choose a truly representative period rather than one that, because of the business cycle or other factors, demands excess travel distances. It would also be wise, as a minimum, to maintain a record of the

monthly opening and closing odometer readings as support for the representative detail in the event of an audit by CRA. Check with your accountant about this matter before filing your 2009 taxes.

Some But Not All

The deterioration of retirement investment income has changed retirement plans for most of the over-65 group. Many will determine they wish to continue in their existing occupations or find renewed employment. Those who are over 65 are entitled to receive Old Age Security to a maximum approximating \$6,100. Taxpayers should be aware that once total income (line 150 on personal tax returns) exceeds \$64,718, CRA will reduce the amount of OAS entitlement. This "clawback" is designed to provide assistance on a "needs" basis and reduces the amount of OAS entitlement to zero when total income reaches \$105,266. For tax planning purposes, a review of the items aggregating total income should determine whether specific income sources may be reduced to maintain an amount under \$64,618.

If as a result of employment conditions you are (or will be) entitled to Employment Insurance benefits and earn in excess of \$51,375, some employment benefits will have to be repaid. EI amounts may have to be totally repaid depending upon the amount received. Naturally, this will have an impact on the anticipated refund or taxes payable.

Retirement

Although there have been no changes to the tax consequences provided for "retiring allowances" (a term that includes severance pay), individuals who are receiving such allowances should determine whether the allowances are eligible to be transferred to an RRSP or RPP.

It is *extremely* important from a tax viewpoint to ensure that existing retirement vehicles within your company are transferred directly to another RRSP. Should you as an individual redeem the funds, the amount received will be added to your income. Just as a point of interest, retiring allowances cannot be transferred to a spousal RRSP.

Long-term employees may receive severance payments if they worked prior to 1995. For the period from 1989 to 1995, those employees are able to make additional contributions to RRSPs following the same procedures allowed for retiring allowances. The amount per year or part year is capped at \$2,000 per annum; for those employed prior to 1989 the cap is increased by \$1,500, unless the employer vested the contributions.

Tax-free Savings Accounts

As an alternative to the RRSP, wherein a tax advantage is received at the time of contribution, the TFSA allows the individual to accumulate \$5,000 each year a tax return is filed. The contribution to a TFSA is not tax

deductible, but all increases to the fund, whether capital or income, accrue without tax consequences. Furthermore, funds removed from the plan are not taxed. TFSAs can be used as collateral on loans advanced by financial institutions whereas RRSPs can not.

When a taxpayer dies, the TFSA is considered ended. The amount accumulated to the date of death, including unrealized capital appreciation, is tax-free. Any amount earned in the TFSA after death is taxable, unless the account is transferred to a surviving spouse or common-law partner. Such transfers do not reduce the contribution limit of the transferee.

It should be noted that, commencing in 2009, fees for services under the TFSA are not deductible and losses incurred on the transfer of securities to the plan are not recognized for tax purposes.

Other provisions within the legislation should be reviewed with your advisor to ensure a complete understanding of the financial impact of investing, divesting, or dying while holding a TFSA.

On the Road Again

Long-haul road warriors will see the deductibility of meals rise by 5% of the total expenditure to 65% for 2008.

Give Me a Home

If neither you nor your spouse or common-law partner has resided in a home owned by you or your spouse or common-law partner during the four calendar years prior to the year of withdrawal and up to 30 days prior to withdrawal, you are eligible to borrow funds from your RRSP without being taxed on withdrawal. The borrowing limit has been raised from \$20,000 to \$25,000 after January 27, 2009. Each spouse or common-law partner can borrow \$25,000 from their own RRSP.

For those who own a home and have contracted for renovations, the new Home Renovation Tax (HRT) credit will apply for work performed after January 27, 2009. A 15% federal tax credit is available if the contracted work falls between \$1,000 and \$10,000. The goods must be purchased and the work completed between January 27, 2009 and February 1, 2010 for the federal tax credit of \$1,350 (15% of \$9,000) to be accepted. There are a number of areas, however, in which the tax credit will not apply. It is advisable to review the CRA website to determine the conditions that may affect you.

Understanding tax issues requires a specific interpretation of the tax laws. Often the layperson's understanding of tax issues, based on their own interpretation of the wording, may be subjective. It is *a/ways* beneficial to seek the guidance of your chartered accountant to maximize the benefits available from interpreting income tax laws and regulations to avoid the costly process of a reassessment. ■

Managing the Times

New business is always hard to find. In these difficult times, even harder.

So hard, in fact, that when an opportunity comes knocking we may toss good business practices aside, complete the work, and then discover the client cannot pay. Before this happens, consider the following:



Cautious Optimism Should be the Order of the Day

Make sure the prospective new customer is approaching you because of your expertise and reputation and not because of an inability to pay the old supplier and with the hidden agenda of getting help to finish a project.

Dun and Bradstreet is a Good Idea

Look up the credit rating of any prospect. If your business cannot afford the subscription to Dun and Bradstreet but you belong to a local business association, make a few phone calls and do some research. Alternatively, call a few business associates in the trade as well as your bank manager to find out the latest street gossip.

Consult with Sales Staff

Sales people are in a unique front-line position to evaluate customers. Their regular visits to customers' offices allow them to meet and talk with personnel and obtain a picture of the customers' operational health. Staff layoffs, reduced orders, or disgruntled purchase managers may all provide insight into a troubled business. Debriefing your sales staff about key clients may be helpful in making decisions about granting credit.

Stress Collectability, Not Just Sales

In tough times sales staff may be overly optimistic about the deals they have made. Sales people must be trained to look beyond the order; they need to evaluate the ability of the customer to pay. If your business remunerates sales staff in part by commissions, it may be time to review when those commissions are paid. Rather than paying 100% of the commission when the sale is made, perhaps you should consider a partial

payment at the time the sale is closed and the balance upon collection. A sales staff more alert to both their own interests and those of the company will prevent your business from paying out a commission without ever recovering the costs of labour or supplies from the customer.

A Retainer or Deposit Up Front is Necessary

Current economic times make cash flow difficult for everybody. Long-standing clients may have just as much trouble collecting from their customers to pay you as the new prospect who just walked through the door. Do not be shy about the retainer. Consider asking for enough up-front funds to purchase material or hire labour for at least 20% of the project.

Encourage Billing on a Percentage-of-completion Basis

The current stage of completion cannot be measured exactly for all jobs. To conserve your own cash flow and ensure you are not out 100% at the end of the job, get paid stage by stage as the project progresses. If the job cannot be measured as a percentage of completion, set up a payment schedule based on the percentage of time spent, such as a week or even a day.

Consider Having the Customer Pay for All Materials

When the customer pays for the materials up front, your business is not out of pocket. If you are the only one working on the project, the only collection concern is for your own time. Granted, if you have put time into a project, not being paid is difficult to accept; however,

you always have the option of putting down the tools and going home!

Meet with Your Employees or Subcontractors

Explain that you need their help controlling expenditures on the job. Make them aware that extras are not to be provided without your specific approval. Seek their cooperation regarding the percentage-of-completion calculation. Tell them the payment terms agreed to with the customer. Ask them to contact you when each stage of the job is nearing completion so you can notify the contractor that payment is expected.

Manage Staff and Materials

In a 1958 statement subsequently referred to as *Parkinson's Law*, C. Northcote Parkinson, an English soldier and historian with a substantial knowledge of bureaucracies, asserted:

"Work expands so as to fill the time available for its completion."

Since work means labour and labour means cost-plus benefits, it is more important today than ever to affirm with staff and/or subcontractors that cost overruns are not permissible. This will mean more site management that stresses starting work on time, sticking to the time allotted for breaks, and working until quitting time rather than being already packed and ready to go at quitting time. Some organizations that start their day at 0800 hours stress to employees that they should arrive at 0745 hours and be ready to work at 0800 rather than arriving at 0800 and starting work at 0815. Consider that if 10 employees/subcontractors all used 15 minutes of paid work time to put on their boots, drink their coffee, etc., the cost to business over a 300-day work year amounts to 750 hours or 18.75 weeks of lost productivity at 40 hours per week.

Maintain Up-to-date Financial Records

From a management viewpoint it is now more important than ever to maintain and review sales/receivable records. Encourage staff and/or subcontractors to get their billings in on time. Subcontractors'/staff time

and material cost must be gathered, processed and charged to the job as quickly as possible to ensure that all percentage-of-completion can be calculated, invoices processed, posted to accounts receivable and sent to the customer. Allocation of cost, labour, material, and overhead to the job will enable the owner/manager to determine whether the job will be profitable. In some instances, early recognition of problems may make it possible to renegotiate if cost overruns appear unavoidable. In other situations, where recovery of overruns is not possible, the owner/manager will have gained data that will be invaluable when quoting on similar jobs in the future.

When possible send invoices by facsimile or email.

Visit Customer Sites

Whether your customer is new or old, it pays to visit their offices on a regular basis. Visiting the location ensures they still exist and, if you have been a regular visitor, you will be able to determine whether all is not what it used to be. Staff turnover, shortage of staff, an empty employee parking lot, reduced factory activity, or a half-filled warehouse can be indicators that the customer may have difficulty fulfilling obligations.

Be Upfront with Staff and Subcontractors

People understand that times are tough. Most are willing to make sacrifices to help you because they know that by helping you they are also helping themselves. If hours, wages, commissions must be cut, call a meeting to let them know why the cuts are necessary. In some situations discussions may lead to solutions such as four-day weeks, reduction or shared cost of benefits, or a revamping of the total remuneration package. Employees should understand that 80% of something is better than 100% of nothing.

The Glass is Half Full

Owner/managers have been through tough times before. Cautious optimism when combined with loyal employees, prudent financial management, and understanding customers will ensure that at the end of the day business will survive the current economic slump intact. ■

10 Technologies for Your Business

Recent advances in computer technology have not only made several devices quite inexpensive and accessible but also have made running your own business a lot easier.

Just as cell phones are now ubiquitous and essential business tools, the following devices can also change the fundamentals of how you work.

1. Flash Drives are quickly replacing writable CDs and DVDs as a portable storage format for many common applications. You can now access data on a flash device about as fast as on a CD or DVD; however, flash drives are far more convenient for copying and pasting files. Unlike a CD or DVD, flash drives can be written and rewritten many times and their small size makes them extremely portable. With 4-gigabyte capacity approaching \$6 per unit, these devices are also extremely affordable and are a “must-have” for all mobile employees.

2. Portable Hard Drives are about the size of a small book but have significantly greater storage capacity than a flash drive. Portable drives are useful for backing up or transporting larger amounts of data and can be easily stored offsite. Everyone in your office who uses a laptop and/or a standalone should be provided with a USB hard drive back-up. With prices for a 160-gigabyte drive under \$100, securing data from loss or theft on a daily basis has never been easier or cheaper.

3. Smart Phones, sometimes called PDAs (Personal Digital Assistants), are “do-it-all” devices that are rapidly replacing the voice-only cell phone. Today’s business climate requires instant access to information on the go – email, applications and the Internet. A Smartphone enables you to review data such as Excel spreadsheets, Word documents and pictures. Combine these features with the ability to sync with Microsoft Office or equivalent to allow updating of contacts, scheduling appointments, updating files or listing tasks and you will never miss an appointment or forget to pick up the milk.

4. An Uninterruptable Power Supply (UPS) provides clean and stable power for electronics such as servers, network equipment and desktop computers. Blackouts, brownouts and power surges can erase any unsaved information and could fry delicate computer circuits in a fraction of a second. Battery backups can provide an hour or more of run time, depending on the system(s) being protected.

5. GPS Devices based on the Global Positioning System can provide location information and directions. Devices are available with large seven-to-nine-centimetre screens that accept voice prompts and provide turn-by-turn spoken instructions. An entry-level device is available for approximately \$150; higher-end devices can approach \$600. For the budget conscious, some Smartphones include a GPS feature so a standalone GPS device may not be required.

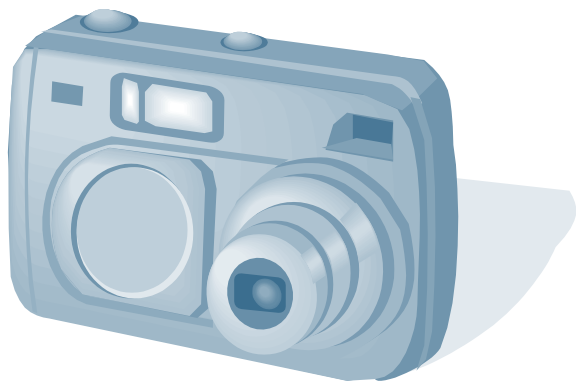
6. Multimedia Projectors are now a must-have in the business world; a projector can be used for in-house meetings and educational purposes, boardroom presentations and sales presentations to clients. Entry-



level units start at just under \$600 while mid-range models can approach \$2,500. Most units are small, lightweight and portable.

7. Computer Accessories that should accompany every laptop purchase include:

- A wireless full-sized numpad for entering data into spreadsheets and accounting programmes saves time, promotes accuracy, and lessens the frustration of those who have to peck at the top row of the laptop. When purchasing a wireless numpad, why not also purchase a wireless mouse? Some manufacturers provide package deals that include a wireless receiver that plugs into the USB port and allows use of both simultaneously.
- Quick cams for your notebook or standalone office computer if your notebook or office PC does not have built-in cameras.



8. A Digital Camera is a useful tool for nearly everyone in a small business. Whether the job involves purchasing, sales, inventory control or personnel, the ability to record digital images for future reference is worth its weight in gold. A digital camera under \$100 typically provides a minimum of 8.0 megapixels, sufficient for day-to-day needs.



9. Laptops are no longer the heavy, expensive, slow computers they once were. For most applications, a modern laptop is just as capable as a desktop. The laptop has the added advantage of portability that lets traditional office work be done in non-traditional settings, including client and vendor sites, home or even the local coffee shop.

10. Scanners are essential for today's green environment. Scanners allow permanent recording of documents, reduce the need for physical storage, and can substitute as a makeshift photocopier. Entry-level scanners are available in the \$100-\$150 range and will serve most day-to-day purposes.

Outfitting your business with these conveniences is not as expensive as you might think; each can provide a boost to employee satisfaction and productivity, reduce storage space, enhance client service and ensure the security of data. ■

Time to Back Up!

Each year businesses lose countless hours of productivity because of hardware failure. A solid back-up strategy may save you more than just time.

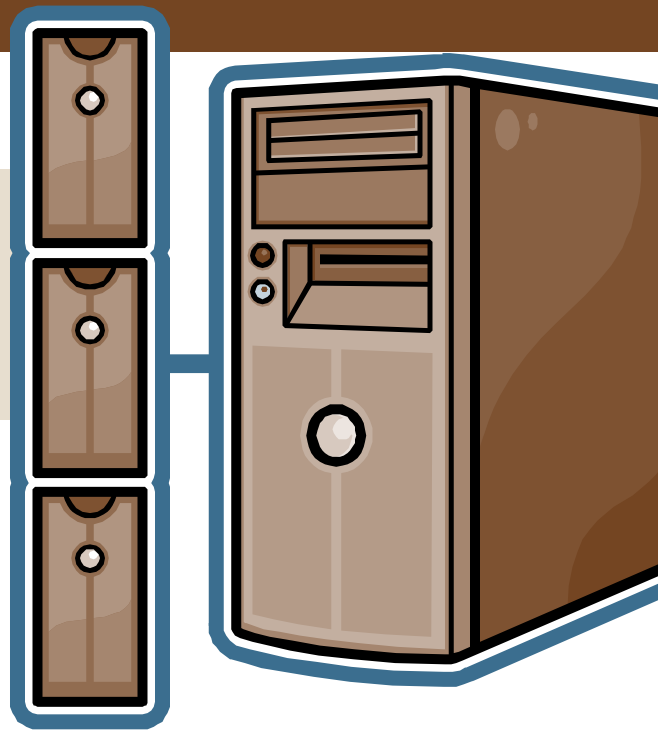
The cost of saving data has dropped dramatically with the declining cost of USB flash memory and hard drives. Many businesses do not have a solid plan to back up data on a regular basis. Should a hard drive in a server or PC fail, you may be able to avert disaster and restore your data if a recent back-up is available. A traditional back-up plan involves a combination of onsite and offsite back-ups. Onsite back-ups store your data on your premises and are readily accessible; conversely, offsite back-ups store your data at an alternate location. Online, or Internet-based back-up services now provide an alternative to traditional methods, or can be added as part of a complete back-up strategy.

Physical Back-up Media

There are two popular and portable physical back-up methods: tape-based and hard drive-based. Tape back-up is only suitable for archiving data that does not need interactive, real-time retrieval. Tapes have been used as a back-up mechanism for a long time, mainly because a single tape could traditionally store a large amount of data relative to other media, such as floppy diskettes and CDs. There are also downsides to the medium: data is stored and accessed in a linear fashion that makes it inconvenient and impractical to access on a regular basis.

On the other hand, hard drives have significant advantages over tapes and have gained popularity in recent years. The low cost and massive capacity is appealing; hard drives are also very fast and can be combined to form arrays of drives known as Redundant Array of Independent Disks (RAID) to increase performance, redundancy or both. Compared to delicate tapes, hard drives are also fairly resilient, particularly when powered off.

Tapes and hard drives may both be used and stored directly onsite, or can also be shipped to an offsite location for archiving.



Online Back-up Solutions

Online back-up services are also becoming popular. Here are a few considerations to keep in mind when evaluating an Internet-based back-up solution.

Foreign Jurisdictions: Many back-up services offered over the Internet are physically located in another country. Although storing data at an offshore site may not necessarily pose a problem, the local laws regarding data storage should be investigated beforehand to ensure your data is protected.

Operating System Support: Back-up services usually run interactively with your operating system. This works to your advantage as back-up times can be prearranged and the process is completed automatically. The more prominent offsite back-up services should be able to provide back-up to almost any operating system in the market place.

Encryption: Ensure your data is encrypted both for transmission over the Internet and for secure storage.

Redundancy: The back-up facility should not only maintain your data on the computer your company accesses regularly, but your data should be stored again on another computer that is offsite from the provider's main server. This limits the risk of losing data should the provider's main server go down.

Privacy: Read the Provider's privacy policy. Your company will have to ensure that it complies with *the Personal Information Protection and Electronic Documents Act (PIPEDA)*. As well, you will also want to ensure that

any information about your business or business associates is not shared with outside parties.

Data Access: Access to data by employees will require control. If a number of computers, including offsite laptops, are to be backed up to a provider, be sure you maintain *complete control* over passwords. All users should be prevented from accessing data that is not their concern and the employer should be able to lock out any employee at any time to prevent compromising data security.

Bandwidth: Online back-up services are appropriate for relatively small amounts of data. If you need to back-up a large amount of data, this option may not be cost effective or feasible. The speed of your own Internet connection and any potential bandwidth caps are important factors to consider.

Cost: Subscription charges are usually based on the amount of data space used on the provider's server, but may be impacted by the number of computers you have to back-up onsite. Typical back-up costs start at \$5 per month and can run to more than \$100 per month.

The lower cost reflects storage usually in the 500 megabytes range, whereas the higher price approaches 30 gigabytes. Online back-up is geared to data files only rather than to a complete system back-up. Most provid-

ers focus on important files such as accounting files, project files, personal document files, contact management, patient data, client data and other data essential to your business.

History: Determine how many days' history your business needs to retain. A small operation may need only a week's data. However, if there are a number of employees, you may wish to ensure they can retrieve data stored two weeks ago or even three months ago as well as yesterday.

Peace of Mind

The traditional back-up methods are able to save very large amounts of data quickly and are fairly inexpensive to maintain once the initial hardware cost has been paid. An Internet-based back-up service is more suitable for backing up a smaller amount of data on a handful of independent workstations and only works when connected to the Internet. The online services may have a lower initial cost but will likely require a monthly fee. Whichever way you go, backing up your data regularly is not only smart business but will also give you peace of mind. ■

BUSINESS MATTERS deals with a number of complex issues in a concise manner; it is recommended that accounting, legal or other appropriate professional advice should be sought before acting upon any of the information contained therein.

Although every reasonable effort has been made to ensure the accuracy of the information contained in this letter, no individual or organization involved in either the preparation or distribution of this letter accepts any contractual, tortious, or any other form of liability for its contents or for any consequences arising from its use.

BUSINESS MATTERS is prepared bimonthly by The Canadian Institute of Chartered Accountants for the clients of its members.

Richard Fulcher, CA – Author; Patricia Adamson, M.A., M.I.St. – CICA Editor.