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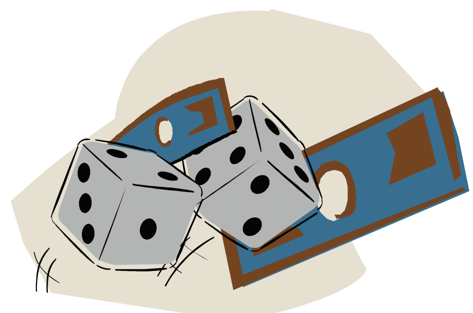
TAXATION

Tax Breaks

Of life's two certainties, there is only one for which we can realistically hope for a break.



You may be very aware of the impact of taxes on your income and investments, but what about those events that may only happen once in a lifetime – such as winning a lottery? This article is about some tax breaks that you may not have known about.

Gambling and Other Winnings

In Canada, any money that you win in a casino or through a lottery or game of chance is not subject to tax.

The courts supported this concept in a recent case involving the Leblanc brothers. Even though the Leblanc brothers allegedly bet $52 million between 1996 and 1999 and cleared over $5 million within that period on gambling, the court determined that the brothers did not have an organized system designed to win while minimizing risk, but rather had a pattern of placing large bets on long-shots and winning large when they did win. The court concluded that their activities could not be construed to be a business and thus, the winnings were not taxable.

However, while the good news is that your winnings are not taxable, the other news is that any income earned from investing or selling your prize is taxable. For example, if you win money and invest it, make sure you can establish that the earnings resulted from the investment of your windfall. If you win say, a car, and decide to sell it, the difference between its value at the time you received it and the proceeds of the sale would be a taxable capital gain.

As the CRA may conduct an audit where an individual's circumstances do not appear to be supported by earned income, it is important to maintain records of the market value of the prize and the source and distribution of the winning. For example, if you earn interest of $900 in one year and in the subsequent year earn interest of $12,000 on the investment of a windfall, this dramatic increase could spark the CRA's interest. Certainly, you should have documentation to support that the earnings resulted from investing your lottery winnings.

Business Losses from Theft or Fraud

If your business has assets stolen as a result of criminal activity, can those losses be written off against income? Generally, the answer is yes. The costs of repairing or replacing items damaged by illegal activities are tax deductible. Of course, the loss is reduced by any insurance proceeds or repayment of amounts for damages, stolen property or restitution of funds.

As the CRA may deny deductions for a loss if no attempt has been made to secure restitution, be sure to report damage, theft or fraud to the police and notify your insurer. Not only does this documentation assist in establishing the amount of the loss, it also provides a basis for tax relief in the event that restitution is not received. Of course, you should first consult with your lawyer before taking legal action against anyone for fraudulent activity.

Note, however, there are circumstances for which the losses would not be deductible. For instance, if the person stealing the assets is a partner, proprietor or shareholder in the business, the losses from theft would not be considered deductible for tax purposes. As well, if the thief was in a position wherein he or she was given the same authority as the owner, there may be some question as to whether the loss would be tax deductible.

Company Death Benefits

Did you know that your business can pay a death benefit up to $10,000 to the spouse of an employee and that this benefit is not taxable in the hands of the recipient as long as it is paid in recognition of the employee's service? A business can structure payments of death benefits so they do not have to be paid to all employees. This allows a business to offer this benefit as a "perk" for specific employees rather than having to offer it to all employees.

Death benefits include:

- Payments of a retirement allowance where the employee had a contractual right to receive it on retirement;
- Payments as a result of severance where the employee has ceased work but not received the severance; and
- Payments made from accumulated sick days account wherein the deceased died prior to retirement but payments made are considered in recognition of the employee's service.

The entitlement to a death benefit normally expires if the employee is no longer working for the company.

There is only one $10,000 exemption in connection with the death of an employee. To the extent that there is a surviving spouse who receives a payment, the amount received by the spouse is exempt from tax up to the $10,000 limit. If there are other persons also receiving proceeds from the death benefit, only the pro-rata share of any remaining portion of the $10,000, after deducting the amount the spouse received, is exempt from tax.

Death benefits are reported on a T4A prepared for the recipient. If the death benefit paid exceeds the $10,000 limit, the amount in excess of the $10,000 will be taxable in the hands of the recipient(s).

Note that death benefits or these purposes do not include:

- Payments for accumulated vacation time, CPP or QPP pension benefits;
- Payments from a superannuation or pension fund plan; or
- Payments for deferred employment income on which the employee would have been taxed if the individual had not died.

Strike Pay

Workers who belong to a union do not have to pay taxes on strike pay as long as they are not employees of the union. Thus, if a worker receives remuneration while picketing, the amount is not considered earned income for tax purposes.

The Silver Lining

With all of life's ups and downs, sometimes the tax treatment can be the silver lining in your moment of sunshine or rain. In all of these situations, it is important to talk to your chartered accountant before you act. ■

Telephone Prospecting

When properly planned and managed, telephone prospecting can be a profitable direct marketing tool for generating new business.

New clients are the lifeblood of any business. Here are a few tips to consider before making that important prospecting telephone call.

Develop a Targeted Telephone List

One of the most important steps is to prepare a targeted telephone list. As the best prospects are the referrals you obtain from your existing clients, canvas them to see if they have associates who could benefit from your products or services. Look for potential prospects in the directories for industry or trade association and chambers of commerce as well as the yellow pages. And don't forget the prospects you may have met at networking events, seminars, alumni events and so on. Perhaps these generated a stack of business cards that need to be followed up.

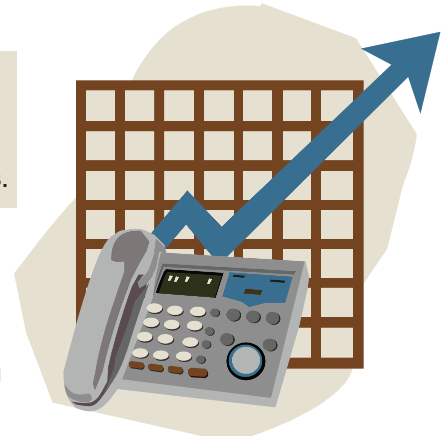
Gather Information

The more information you can gather on your prospects and their organizations, the better you will be able to plan and execute your telephone pitch when you make the call. Consider:

- What are their current needs in view of the services or products I am offering?
- What position does the contact have and does he or she make the purchasing decisions for your product or service?
- What does the prospect have in common with my current clients?
- What do you want to accomplish with each call? Do you want to set up a meeting, send literature or provide a quote?

Plan Your Approach

Once you have answered these and other relevant questions, you should then prepare an outline or script that will help you achieve your goal. Certainly you do not want to sound as though you are reading a script, but having prepared notes will keep you on track and make every word count. Keep in mind that the impression you make during the first 20 to 30 seconds can make or break your first contact by phone. Do not waste the prospect's time with meaningless attempts at familiarity such as "how are you today". Get to the point and avoid chitchat.



The first thing you need to do when you make the call is to introduce yourself by stating your first and last name and your company name. "My name is John Smith and I am the owner/manager of ABC, a local moving company that specializes in company moves."

Focus on the Purpose of your Call

The next step is to use what you know about the prospect to state the purpose of your call. It is usually most effective when you can relate what you know about the prospect's activities or business interests to the service or product that you intend to talk about. For example: "I was reading an article on local businesses that are planning to relocate to the new industrial park and noticed that your company was mentioned. The reason I am calling is that I understand you're the person who's in charge of this project."

Make sure you have prepared a clear, simple statement that indicates what the benefits might be if they do business with you. A brief case study can help convince the person to ask for more detail. For example, "We were able to move XYZ to their new location over the course of one weekend so that there was minimal disruption to their business." But make sure your clients agree to your mentioning their names before you start name dropping.

Overall, prepare a script that is polite, informative and direct. If you are going to train others in your company to make the calls, this preparation will help ensure consistency of your message. If you prepare frequently asked questions and answers, these are handy for quick reference when placing the calls. Callers should also be prepared for times when they do not know the answer, including jotting down the question, indicating they will call back with the answer and making sure they follow up as soon as possible.

Making the Call

Be very attentive for signs that suggest the prospect is distracted, rushed or annoyed. Since the last thing you want to do is to appear insensitive or inconsiderate, acknowledge the importance of their time. A comment such as: "You seem to be very busy so I won't take up much of your time" can help make this point. Depending on how the prospect responds, it may be appropriate to reschedule the telephone call to a more convenient time. Alternatively, if the prospect agrees to give you a few minutes, then you should proceed with the call.

Focus on the Prospect's Needs

At this point, you should be able to sense whether the prospect is interested in speaking to you. If you've made it to this point, it is a good indication that the prospect has some interest in what you have to say. Still, before you go on any further, it is important to ask: "This will only take a few minutes. Is this a good time?" If there is some hesitation, you might ask for a more convenient time to call or even suggest a meeting.

Even if the prospect wants to continue the conversation, a face-to-face meeting is still your ultimate goal. Before you hang up the telephone, try to arrange an on site meeting with the prospect.

Be Flexible

As events rarely happen in the order that you expect, do not try to make your phone call conform exactly to the order outlined above. The best approach is to have as much information as possible about the prospect on hand along with a general plan of how you want the conversation to unfold, but with the flexibility to adjust to a change in direction should it occur.

And if you get voice mail? Avoid leaving voice mail messages the first two times you call. If you still cannot reach the person after the third call, then leave a voice mail message. But make sure your message includes a compelling reason for the person to return your call.

Timing and Follow-up

Keep in mind that prospects may not have an immediate need the first time around. If they express any interest, be sure to keep this information on file and follow up appropriately. ■

Moneysaver

Upgrading Your Cell Phone or PDA

With the many feature-rich PDA/cell phones now available, many users are tempted to upgrade. However, selecting the right equipment and package can be an onerous task – and one that can be very costly if you sign on for services you do not really need.

Before you purchase or upgrade your PDA or cell phone, take time to assess the features you will actually use and the cost of the air time. You will find all carriers offer some identical features but some may also offer some unique features. Of course, the more features, the higher the cost. But do you really need everything that is included in a particular package?

Here are some guidelines that can assist you in the decision-making process when selecting equipment and determining which service provider offers the best options and pricing for your particular needs.

Plans

The monthly rates for plans can vary considerably depending on the services and features you select, such as a television, radio, music, camera, hands-free dialing, text messaging, e-mail, emergency roadside assistance, call forwarding and custom ring tones that identify the caller. Of course, you cannot expect a $400 cell phone to provide the same pixel resolution as a $400 digital camera.

Most carriers offer "free" or reduced costs for PDAs and cell phones if the purchaser signs a one, two or three-year contract. Choose carefully. If you make the wrong choice, you could be locked into a plan that doesn't suit your needs. A one-year contract may be more cost-efficient in the long run. If you are considering a longer term, ask about the cost of the termination fees should you need to cancel the service prior to the contract's expiration.

Review your calling pattern. How many minutes per month do you use your cell phone? If you often "roam" outside your rate plan area, what are the additional costs?

If you use your cell phone all of the time, consider purchasing a plan that provides 1,000 or more minutes of free incoming and/or outbound as part of the package. If you tend to use it infrequently, the "pay-as-you-go" cards may be a more cost-effective deal. Although the per-minute cost is higher, you will save money by not paying for a long-term contract when the cell phone sits idle.

If several employees use the same service provider, consider a plan that allows you to pool your minutes. A "share plan" may reduce costs, yet users can still make the same number of calls.

Communications Costs

Some packages offer free text messaging but charge for e-mail. Not only is it important to determine which communications are free, but you need to determine the cost of all the various communications you may be using.

Battery Life

Many PDAs/cell phones are touching the 10-hour mark and if you work long days, anything less may not be satisfactory. Ask if you can purchase a second battery for the unit.

Sound Quality

If the PDA/cell phone has a speaker, test the sound quality both talking and listening. Does it come with ear buds or headsets or do you have to purchase these add-ons separately? Are they universal or brand-specific (the latter being more expensive)? Does the headset have volume control?

Upgrades

If your needs change two months after you sign the contract, is there an additional fee for changing the plan? If you decide to upgrade the unit, is there a penalty or cost for transferring to the new unit?

Memory

What is the average MB size of the files or pictures you may wish to download? PDAs may have as much as 48 MB. That may be enough for most users but ask if expansion slots are provided. 64 MB is not unusual. If you plan to download pictures or files, you may need additional memory.

Screen

Is the screen large enough? If you plan to review office documents, browse the Web or take pictures, consider a larger 7.62cm (3 in) screen.

Keyboard

Do you need a keyboard? Pecking at a traditional telephone dial pad to send a text message is cumbersome so if document transmission is essential, look for a PDA/cell phone with a functional keyboard rather than use the dial pad of a cell phone. The familiar QWERTY layout of the keyboard lets you input your message faster and reduces the likelihood of typing errors.

Test the various keyboards that are available to find the one that is most comfortable. The positioning of the keys varies from model to model so some may not suit your finger size or movement. While you are checking out the keyboard, look for delay in keys registering. Some keyboards may take longer to register the keystroke. Some users may find the delay frustrating.

Communication Limitations

All carriers provide great service within metropolitan areas, but what if you need to use the device in northern British Columbia, traveling across the Prairies, north of Lake Superior or on the ferry to Newfoundland?

What wireless technologies does the device support? Ask your supplier about WIFI, Bluetooth, GPS and the various wireless standards used in North America such as GSM/GPRS/EDGE.

Some cell phone/PDA devices allow the synchronization of desktop applications (e.g., schedules, address books, etc.) to your cell phone for convenient and mobile access to important data. Find out the rate of transmission. The newer devices are transmitting at 3G. The speed is important if you need to send large files as e-mail attachments or if browsing the Internet is your life.

Warranty and Service

If the PDA or cell phone breaks down, will the repairs be covered or do you have to pay for service? Do you return it to the place of purchase or to the manufacturer? Is a loaner provided while your unit is being repaired?

Local Number Portability

With Local Number Portability (LNP), you can now take your phone number with you when you switch providers. However, do not cancel your current service before applying to be switched. In order to take advantage of this service, your current number must be active.

Before You Purchase

Review your requirements and choose the plan that most closely fits your business needs. Selecting the right package can improve your mobile business communications while saving you both time and money. ■

Good News for Retirees

The good news for RRSP contributors is that the government is proposing to extend the age at which an RRSP matures from the end of the year in which the individual turns 69 to the end of the year the individual turns 71. The benefits are two-fold. First to the extent that the individual has RRSP contribution room, he or she can make additional RRSP contributions. Secondly, the balance of the RRSP can continue to grow tax-free before RRSP withdrawals must commence.

Since the individual does not have to start receiving income from an RRSP until age 72, the funds can stay in the RRSP longer. This means there will be additional growth in the RRSP and the tax on the required payments can be deferred. This coupled with possible additional contributions will result in higher retirement income in the future.

For those individuals who are 70 or 71, the rules before March 19, 2007 required that RRSP contributions to their plan had to cease at 69. Further RRSP contributions could not be made and a transfer to a Registered Retirement Income Fund (RRIF) or certain annuities was required with scheduled mandatory payouts.

If you are now 69, or younger, and have not yet converted your RRSP, you will be able to maintain your existing RRSP and continue to make contributions until the year in which you turn 71. If you are 70 or 71, you will still be able to make RRSP contributions in 2007. Although the proposals contemplate the possibility of converting an existing RRIF back to an RRSP, it is likely administratively easier to open a new RRSP for the additional contributions.

If you are 70 or 71 in 2007, the proposals also provide that the mandatory withdrawal requirements will not apply for 2007. Therefore, you can stop the amounts scheduled to be paid to you without the requirement to convert back to an RRSP. Similar rules will apply to those individuals who are 71 in 2008.

Taxpayers, who are 70 or 71 or who are contemplating converting their RRSP to a RRIF, should address the tax issues with their chartered accountant as soon as possible to determine if there are investment and tax advantages that may accrue to them and their spouses for 2007. ■

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