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## MANAGEMENT

# Succession Planning

**W**ith the baby boomer generation heading toward retirement, there is going to be a huge turnover of business ownership in the coming decade.



Do you think about retirement? What will you do with your business? Is a family member or a key employee interested in assuming ownership of the business? If you are thinking about the next stage of your life, you've already started your succession planning. It's an informal plan but it's a starting point.

A "formal" succession plan is a strategic document that sets out a process and schedule for a business owner's eventual withdrawal from the business. It includes the legal and other supporting documents to put this plan into effect.

There is no cookie-cutter solution to the succession planning process. Every situation is unique. Whether you are near retirement or planning to retire several years from now, the more time you have for planning, the more options you can consider and the more likely you will achieve your goals.

### What are the Issues?

Throughout the planning process, you will have to deal with many "technical" issues and "soft" issues.

- The technical issues involve legal, accounting and financing matters such as share ownership, the transfer of ownership, tax planning, the financing of the transition and the funding of your retirement as well as the "tools" — the legal and planning documents — that ensure your plan will meet your objectives.
- The "soft" issues involve interpersonal relationships within the family and with other stakeholders and the need to maintain open and transparent communications. In succession planning, communication can spell the difference between success and failure.

## **What are Your Options?**

Generally, the most common options for exiting your business are:

- Passing the business to a successor;
- Transferring ownership through a management buy-out or employee buy-in; or
- Selling the business (shares and/or assets).

There are also variations on these options and other options that may be suitable for your particular circumstances.

### **Passing the Business to a Successor**

Family members can be good choices for successors, but only if they have the aptitude, commitment and proven business skills to manage the business. Some business owners select a single successor, while others may select a sibling or family team to serve as co-managers. Great care should be taken if you are considering a team approach. Roles and responsibilities should be clearly outlined to avoid any potential conflicts.

You will need to plan the successor's development and your own future goals as you make the transition from the business. Doing as much advance planning as possible will help ensure your successor builds the skills and knowledge he or she needs to assume the leadership role in the future. The process of grooming your successor will include matters such as training, introductions to key business contacts and managing the transition so that there is little or no disruption to the business.

### **Transferring Ownership through a Management Buy-out**

You may want the business to stay in the family, but after discussions with family members and thoroughly assessing this option, decide it is not the best decision for all involved.

One alternate option to transferring the business to a family member is to offer key management an opportunity to purchase all or part of the business. There are many methods of structuring the financing of a management buy-out (commonly referred to as an "MBO"), including stock option plans, a financed purchase or a buy-out over time. Initially, however, you will need to consider whether there are employees in the business who are willing and prepared to take the risk of ownership and whether the business itself is a good candidate for this succession option.

The management buy-out can be advantageous in ensuring continuity of personnel and the business itself. Like many proud owners of private businesses, you may not want to risk losing your company's identity or seeing loyal employees transferred or terminated after a sale. A management buy-out is more likely to achieve your wish for continuity than a sale to an outside party.

### **Selling the Business**

You and your family may decide that the best strategy for all involved is to sell the business outright to an outside party. A sale can be structured in several ways. It may involve an active role for you in running the business for a period of time or maintaining a minority

ownership interest. Or you may decide to take advantage of the proceeds of the sale and fully disassociate yourself from the business.

Selling a business is not like selling other assets you might own. It requires considerable time to get a business ready for sale. Another factor is that your family members may have mixed emotions about selling. You will need time to resolve any issues before you begin negotiations with a purchaser.

Once you have made the decision to sell, your short-term plan will include determining the value of the business, identifying areas that diminish value and then finding ways to improve these areas so you can obtain the maximum price.

### **Decisions, Decisions, Decisions**

Whether you are on the doorstep of retirement or looking into the future, the decisions you make will affect the future of the business, your customers, your employees and, most importantly, your family.

Good, sound professional advice has a way of paying for itself. Your exit from the business may well be the most complicated financial transaction you undertake. Working with your chartered accountant and other professional advisors throughout the planning stages will help ensure that you lay the groundwork for successfully developing and implementing a succession plan that will achieve your goals. ■

# It Doesn't Pay to File Late

A recent survey shows that many Canadians are penalizing themselves at tax time. A full 19% of those polled admitted to missing a tax deadline and 28% think they have probably overlooked a tax write-off or exemption. In fact, 70% of respondents said they do not know the first official day they were eligible to submit their returns.



## Personal Income Tax Returns

Just as April is sure to bring showers, April also brings the tax-filing deadline for most individuals. Each year, Canadian taxpayers must file their personal income tax returns for the previous calendar year by April 30.

Self-employed individuals must file their personal income tax returns by June 15; however, they must submit any taxes owing by the earlier filing date, April 30, to avoid interest on the balance owing. The spouse or partner of a self-employed person can also defer filing his/her tax return until June 15.

## What Happens if You File Late?

Failure to file your personal income tax return or filing late can be an expensive exercise.

Say, for example, you did not pay your 2005 personal income taxes on time or there is a balance owing for 2005 on your Notice of Assessment. The CRA would have started charging interest as at May 1, 2006 on any unpaid amounts owing. The current rate of interest charged on unpaid taxes is 9%, compounded daily. Note also that the prescribed rate of interest can change every three months. If the return is filed late, you would also be subject to a late-filing penalty on which the CRA will charge you interest at the prescribed rate, starting the day after your return is due.

In the example above, the late-filing penalty is 5% of your 2005 balance owing at the time the return was due, plus 1% of your balance owing for each full month that your tax return is

late and the amount remains unpaid, to a maximum of 12 months. The total penalty can be as high as 17%. If this is the second occurrence within three years and there has been a demand made by the CRA for that year's tax return, the penalties are increased to 10% of the balance owing plus 2% for each full month to a maximum of 20 months. In this case, the penalty could be as high as 50% of the taxes owing.

There is some relief. If you file your tax return late because of circumstances beyond your control, you can request the CRA waive or cancel the late-filing penalty they have charged you. The CRA will consider your case and may, in its discretion, waive the penalties.

Taxpayers who anticipate a refund or have a zero balance sometimes do not file on time. If you belong to this group, perhaps it is time to rethink your approach. If you are entitled to a refund, you will not face penalties for filing late. However, if you late-file a return with a refund requested then are reassessed later reversing the refund to a balance owing, late-filing penalties will be applied on the reassessment. If you are entitled to a refund, you do not start to earn interest on it until 30 days after the later of the day the return was due and the day you file it. Why leave your money in the Treasury's coffers?

If you have little or no income, you should still file your return. Child tax credits and GST credits can only be claimed if the tax return is filed.

## Corporate Tax Returns

Corporations must file their returns no

later than six months after the end of each tax year. The taxation year of a corporation is its “fiscal period”, which is usually the twelve-month period over which a business or profession reports its income-earning activities. The fiscal period may or may not coincide with the calendar year. The business usually establishes its fiscal period when it files its first income tax return. For example, a corporation with a tax year-end of March 31 has a filing deadline of September 30. For a tax year-end of August 31, the filing deadline would be February 28.

All corporations have to file a tax return every year even if there are no taxes payable. This includes non-profit organizations, tax-exempt corporations and inactive corporations.

### **And if the Corporate Tax Return is Filed Late?**

If your corporate tax return is filed late, the same penalties described above also apply to your corporation.

### **Other Penalties**

Failure to file certain information returns, which are normally part of your tax return, can result in additional late-filing penalties. These can apply even if you are entitled to a refund for the year. For instance, the failure to file form T1135 – Foreign Income Verification Statement, which is required when you own foreign investment properties with a cost of at least \$100,000, can result in a penalty of \$25 per day to a maximum of \$2,500.

### **The Bottom Line: File on Time**

Interest and penalties for late-filing can add up to a substantial amount very quickly. Not only does timely filing eliminate the non-deductible penalties and interest that could accrue but it provides an opportunity for more effective tax planning.

Be sure to meet with your chartered accountant throughout the year to discuss your personal and corporate financial strategies to ensure that the personal and corporate transactions you carry out do not result in unanticipated tax consequences. Your chartered accountant can help you review your financial structuring and advise on the timing and other requirements that help reduce the strain in paying your fair share. ■

## **MONEYSAVER**

# **Credit Card Smarts**

**W**hen the mail brings you the good news that you are pre-approved for \$10,000 or can obtain 25,000 free air miles or an interest rate as low as 1.9%, the credit card offer can be hard to resist.

Credit card companies are increasingly offering attractive incentives to get you to change to their card or sign up for another card. Whether the offers are lower interest rates, easy transfer of balances from other cards, travel insurance coverage, reward points or miles, how do you decide which cards to keep and which ones you should swap? Should you apply for new cards to take advantage of these appealing promotions?

As a first word of caution, although the offer you've received may say you are “pre-qualified” or “pre-approved”, it is your application that will determine your eligibility. If you apply to several and get turned down, the turn-downs will show on your credit record.



As a second word of caution, take time to shop around. Compare fees and services as well as the specific terms

and conditions.

### **Transfer of Balances**

Transferring other credit card balances may sound like a good idea, especially when you are offered a much lower interest rate. However, before you transfer the balance of one card to a new one, calculate the difference to determine if the transaction will reap real savings. Often the low interest rate is temporary and it will be raised after a specified period of time.

Depending on the terms and your payments, transferring debt from one card to another may actually increase your interest costs and cash flow requirements. For example, the promotional offer may treat the payout of the other credit card as a “cash advance” that is subject to additional interest until the amount is paid.

A smart strategy for taking advantage of a lower interest rate is to pay off the transferred balance before the introductory offer expires. If you cannot pay off this amount within the introductory period, the interest rate on the remaining balance could jump from 2% to 18.5%, resulting in a significant increase in your monthly payment. It would be wiser to use a bank line of credit to pay off the debt, as the interest rate is usually less.

### **Read the Fine Print**

Before completing an application for a new credit card, ask questions.

- What is the annual fee? Are there fees for the additional benefits? If you do not need the “extras” with the premium card, consider looking for a

card without an annual fee.

- How are the monthly minimum payments calculated? Some cards require an amount that includes interest and principal while others may calculate a minimum amount based on the previous month’s balance.
- Is there a grace period during which you are allowed to pay your balance without being charged a finance and/or late fee?
- Are there additional fees for some services such as cash advances?
- If you fail to pay the minimum payment, are there penalties in addition to the interest?
- What types of travel and other insurance coverage are provided and does it meet your needs? A lower level card may only cover North America while the top card may extend coverage around the world.
- What are the details of the insurance coverage? For example, auto collision and loss damage insurance will be subject to limitations and exclusions outlined in the certificates of insurance that are distributed when you receive the card. Find out the details before you apply for the card. Also keep in mind that for the coverage to be effective, you would have to use that card to pay the rental fee.
- What is the impact on your overall credit needs? Each time a credit card with a specified limit is issued in your name, the maximum amount of

the allotted credit may be subtracted from your total available credit. This additional credit may limit your ability to borrow in the future.

### **Managing Charge Card Debt**

How many cards do you actually need? Do you really need a higher credit limit and, more importantly, can you manage the payments? Moving from a \$4,000 limit to an upgraded limit of say \$8,000 can rapidly increase your debt load, as there is a temptation to use that extra credit.

While credit cards are convenient, they can lead to significant debt if they are not managed carefully. Credit cards with financial institutions may have interest rates of 18% or higher; credit cards with retailers may charge even higher interest. The harsh reality is that bankruptcies frequently involve having too many credit cards and misusing the credit.

Also keep in mind that every late payment will show up as a bad mark on your credit history and it may take years for that to be removed. Keep track of the time and mail in your payment at least five business days before it is due to ensure it is received by the payment date. If you pay online, pay two business days before the due date.

### **Enjoy the Perks**

Reading the fine print and asking questions about the conditions and terms will help you determine if the savings and benefits of that credit card offer are advantageous. It will also help you avoid unpleasant surprises. ■

# Tapping into the 50-plus Market

To tap into the economic power of the age 50-plus market, businesses need to focus with greater savvy on serving the needs of these consumers.

If you are starting a new business to serve the older market or looking for ways to increase business from this growing population, here are a few tips that can help you start making your business a “mature-friendly” atmosphere.

- Make sure your business cards, signs, packaging and marketing materials are easy to read. Use larger type sizes (12 to 13 points) and simple type styles. Avoid using all uppercase lettering as this can be more difficult to read.
- Use “white” space effectively in your brochures and other marketing materials to avoid copy that is too dense.
- Choose colours carefully. For example, gold on red and white on gray can be difficult to read. Use contrast rather than subtle colour combinations to increase clarity. Similarly, avoid high-gloss papers that reflect too much light.
- Choose your spoken and written words carefully. The words “mature” or “prime” are more positive than “older” or “senior” when addressing the age 50-plus group.
- If you need to provide a print-out of a spreadsheet, do not reduce the size to a standard page. Print on legal-size paper or use the photocopier to increase the document size.
- If you use a computer screen for face-to-face presentations, increase the size of the screen display or consider setting up a second monitor for the customer.
- Where possible, place chairs in strategic locations so customers can sit down and rest. Replace any overstuffed chairs or soft couches with chairs that have firm seats and upright backs.
- Make sure your lighting is adequate both inside and outside your business. If you have a window behind the desk in your office, close the blinds when meeting with older clients.
- Tone down the background music and reduce any other potentially distracting sounds.
- When you leave a voice mail message, speak slowly and clearly and repeat the number to give the person time to write it down.
- Have some “dollar store” reading glasses or magnifier cards on hand for clients who forget their reading glasses.
- Walk through your business taking a close look at the width of hallways, obstructions, doorways, floor coverings and steps or thresholds. Make modifications to improve accessibility. Keep the outside of your business premises free from obstacles.

The changes in mobility, flexibility, strength, vision and hearing of aging consumers can have a major impact on how they interact with your business and its products or services. These changes need to be considered in both your business environment and your approaches to promotion and information resources. They can even affect whether your customers interact safely with your products or services.

Companies that understand and respond to the changing needs of our maturing population can ultimately create a solid customer base for many years to come. ■

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Richard Fulcher, CA – Author; Kathleen Aldridge, B.A., Dip. Ed. – CICA Editor.