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TAXATION

Taxes, Documents and Records

With the tax season over or just wrapping up, what are your responsibilities for maintaining the documents, records and copies of submitted forms that you gathered to support the preparation of your return? What records do you have to keep and how long must you keep them before they can be destroyed?

For tax purposes, books and records, including computerized and e-business records, must be kept by:

- Every person who is carrying on a business; and
- Every person who is required to pay or collect taxes or other amounts according to federal and provincial statutes, such as the *Income Tax Act*, Canada Pension Plan, *Employment Insurance Act* and other statutes, whether federal, provincial or municipal.

A “person” in this context includes not only individuals, but also corporations, charitable organizations and trusts.

Paper Format Books and Records

Records and books must be kept in a way that will ensure the trustworthiness and readability of the information recorded. Records and books of account (including source documents) that originate in paper format have to be kept in that format except where an acceptable imaging or microfilming program is in place in accordance with the national standard. Note that paper



format also includes paper source documents from which data is entered into an electronic recordkeeping system.

Electronic Books and Records

If you keep records of business transactions or business information on a computerized system, (including e-business records), make sure:

- Your computerized system is capable of providing the correct information you need to calculate your tax obligations.

- Your computerized records are retained and easily converted into an electronically readable format that can be made available to the CRA on request.
- Computerized records (electronic data files) are kept even when hardcopy is available.
- Encrypted records can be decrypted and produced in an accessible and electronically readable format.
- Appropriate back-ups are kept of all electronic records.

If you change your computerized record-keeping system — either hardware or software — you must maintain the capability to retrieve the data already stored on the former system and be able to provide the data in a readable format to the CRA upon request.

If your records are stored on a Web server outside of Canada, you are responsible for making arrangements for the records to be made available upon request.

Your obligations for maintaining, retaining and safeguarding books and records when conducting business over the Internet are the same as for any other type of business. If you use a third party to run your e-commerce business, it is still your responsibility to ensure that the electronic records are complete, are retained, are readable and will be made available to the CRA if required.

Retention of Books and Records

Your books and records must be sufficient to determine and verify your tax obligations. They must:

- Be maintained in Canada, unless permission is granted to maintain them elsewhere.
- Be made available to the CRA upon request.
- Include electronic records that are maintained and created by computerized record-keeping systems.

Generally, books and records (including business transactions or business information on a computerized system) should be kept for a minimum of six years from the date of the last

taxation year to which they relate. The taxation year is the fiscal year for incorporated entities and the calendar year for the individual taxpayers. Keep in mind, though, that other federal or provincial statutes may extend this period for the same records.

If a tax return is filed late, the corresponding books and records must be maintained for six years from the date the return is filed. Further, if a federal Notice of Objection is filed, every book and record necessary for dealing with the notice of objection or appeal must be retained until that process is completed.

If a business closes, a non-incorporated entity must retain certain records until six years after the end of the taxation year in which the business ceased. Similarly, a corporation that is dissolved must keep certain records until the day that is two years after the day the corporation is legally dissolved. However, records for corporations that are amalgamated with, or wound-up into, another corporation must be retained for the time period of the amalgamated or parent corporation.

The records referred to above need to be retained for six years after the year to which they relate. This may be much longer than it originally appears. Records for security purchases or the purchase of other capital assets will also relate to the year in which the asset is sold and, therefore, must be kept much longer.

Certain records, such as all shareholder and director minutes and a general ledger containing summaries of the year-to-year transactions, must be kept until after the corporation is dissolved.

Destruction of Records at an Earlier Date

In some circumstances, individuals and companies may apply for permission to destroy records at an earlier date than that prescribed by the *Income Tax Act*. However, if the CRA gives permission to destroy records and books, this permission does not extend to books and records that you are required to

keep under any other legislation or by any other department or governmental agency.

Safeguards and Company Policies

Owner/managers should ensure that books and records are properly maintained and stored and not accidentally misplaced or destroyed.

What are your company's policies for maintaining and storing documents?

- Do you have set policies and guidelines as to the specific types of files that are to be maintained such as correspondence, agreements, and source documents by type such as invoices, payroll. How long are these stored?
- How and where are electronic documents stored? Are back-up copies stored off site?
- What documents are kept on site and what documents are stored off site?
- How are records of the location of these documents maintained?
- Who is responsible for the retention, and when required, the proper disposal of documents, e.g., shredding of paper, destruction of electronic media?

Whether you store documents on or off site, make sure storage boxes are marked and catalogued so documents can be easily retrieved when necessary. Certain documents, such as mortgage papers, corporate minutes, your will, your shareholder's agreement and the like, are best kept in a safe or at your lawyer's office.

Good corporate governance on the retention and destruction of documents will help ensure you can meet the requirements of regulatory authorities in the event of an audit or other investigation of your records. Keeping careful records as to the location of your documents will minimize time and stress if you are required to retrieve them. And finally, destroying records that are no longer required will help reduce storage costs.

Talk to your chartered accountant if you have questions or concerns regarding the period of retention or the appropriateness of your personal or company financial records. ■

Continuing to Work After CPP

Retirees who have started receiving their Canada Pension Plan (CPP) benefits sometimes ask “Can I return to work and earn income?”

Once you start receiving your CPP pension, you can work as much as you want without affecting your pension amount. However, you cannot contribute to the pension plan on any future earnings from employment. Another very important consideration is your tax position. CPP payments and other sources of retirement income are taxable and, of course, your employment income above the basic exemption is also taxable.

Starting CPP Early

While CPP benefits are designed to be paid starting at age 65, if you are not working or have a low income, you can apply for a retirement pension as early as age 60. Keep in mind, however, that if you apply for your retirement pension before age 65, the payments are reduced by 0.5 percent for each month that you are under age 65. This adjustment is permanent; that is, if you choose to start your pension early, the payment does not increase when you reach 65.

If, however, you change your mind about receiving your retirement pension, you can cancel up to six months after it starts, but you must request the cancellation in writing. You must also pay back all the benefits that you received and pay CPP contributions on any earnings while you were receiving the pension.

Working Age 65 to 70

If you wish to continue working past age 65, you can apply for the pension and continue to work without affecting your pension amount, provided you have not already started receiving the pension. You are no longer required to contribute to CPP.

However, it may be advantageous to defer your retirement benefits and elect to continue to make contributions while



you continue to work. You are allowed to contribute to CPP until you are age 70, at which time you will start receiving your pension. In this case, your benefits are increased by 0.5 percent for each month after age 65.

In Quebec

While the CPP operates throughout most of Canada, the province of Quebec has its own similar program, the Quebec Pension Plan (QPP). However, there are minor differences that you should review.

Plan Carefully

Be sure to consult with your chartered accountant before making decisions about receiving employment income after you have started receiving your CPP benefits to determine the impact on your tax position.

If you have sufficient income to support your retirement, why not consider doing volunteer work? Many retirees find volunteering is a fulfilling way to use their valuable skills, give back to their communities and mentor others. As a starting point, visit Canada's site for information on volunteering at www.volunteer.ca. ■

Extended Health Care Benefits

An attractive benefits package with extended coverage for dental, vision, pharmaceutical and other health care services that are not covered by our public health care system gives employees an incentive to join and stay with a company.

A group health plan can be costly for the small business with few employees, but there are ways you can lower (or at least control costs) while maximizing the benefits for yourself and your employees.

Shop Around

Make sure you are getting the best package and service at a competitive price. Put out tenders for comparison quotes from insurance companies for your health, dental, disability, critical illness, life insurance and/or employee benefit plans. Be sure to analyze the quotes you receive as not all packages are the same. If a quote does provide the same coverage and quality of service for a reduced premium, your current agent may be able to provide a competitive quote.

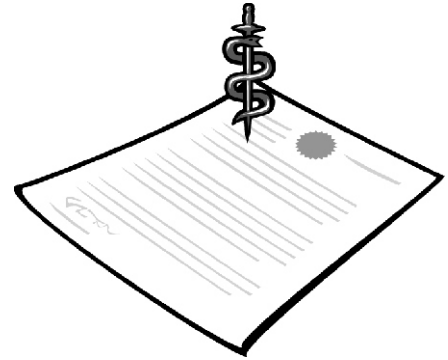
Find the Right Broker

The right broker can save your company a lot of money on health insurance plans. On one hand, brokers work for the insurance companies by selling you a product on which they make a commission. On the other hand, they work for you by finding the best possible coverage for the least amount of money.

Your broker should be knowledgeable about costs, limitations of the coverage, maximum per year coverage, as well as the tax implications to your company and its employees. In that employees often want to include family members on their coverage, it is important for the agent to be able to provide specific coverage limits for the employer and perhaps additional coverage options available to, and payable by, employees.

Fine Tune the Coverage

The more options there are on the table for coverage, the higher the cost. Thus, if the plan calls for dental, extended



hospital and a drug plan, it may be possible to negotiate with the insurer, through the broker as to dollar or percentage limits for coverage, specific care packages or shared costs with employees.

The objective of this exercise is to prevent insurance premium costs from escalating. Certainly you will need the cooperation of your broker to determine what is best for the bottom line and your employees.

Join a Pool

There is definitely an advantage to being a small fish in a big pool when it comes to health insurance coverage. Purchasing within a pool allows smaller businesses to join together and purchase health insurance and thereby spread the risk and the cost of the insurance coverage.

A number of associations such as the local chamber of commerce or automobile clubs offer members the opportunity to purchase medical insurance as part of a pool of members. As with any insurance offering, carefully review the coverage that is provided. It may be prudent to determine which insurance company is carrying coverage for the association or club and the stability of the insurer.

Contract a Consultant

Aside from the cost of the insurance, handling medical claims and any issues that arise can be time-consuming and costly. It may be advantageous to consider having an independent consultant process your employees' claims and liaise with the insurance company. If you already have an employee benefits plan, a consultant can review it and recommend changes to improve the value as well as help you find the right product at the right price.

Promote a Healthy Workplace

Although the benefits may not be apparent at the start, there can be little doubt that encouraging employees to be healthy all through the year will eventually pay dividends.

- Invite health speakers for lunch and learn seminars to talk about topics such as nutrition, fitness, smoking cessation, workplace safety, first aid, CPR and so on.

- When providing snacks or lunches for meetings, offer healthy choices such as fresh fruit, fruit juices, bottled water and avoid foods that are high in fat or sugar.
- When people exhibit cold or flu-like symptoms, encourage them to remain at home to minimize contact with other workers.
- Encourage washroom hygiene with signs, soap dispensers, heat dryers and paper towels.
- Ensure computer keyboards, telephones and other items you and your employees use are regularly sanitized.
- Help employees to join a local health club or gym by finding one that offers a corporate rate for employee groups.
- Ask employees how they envision a healthier workplace and listen to their suggestions.
- Set a good example.

Return on Investment

Take a proactive approach to managing your company's health care benefit plans and encouraging employees to live a healthier lifestyle. An attractive benefits plan can help:

- Attract and retain employees and help minimize the costs associated with high turnover.
- Provide you and your employees with access to insurance at a reduced cost, compared to an individual insurance plan.
- Increase productivity and improve morale by providing financial security and support when your employees need it most.

The cost of providing health care benefits should be on the agenda when budget time comes around. With demographics suggesting that good employees will be harder to find as the population ages, taking care of existing employees is one way of ensuring your company has productive employees in the future. ■

MANAGEMENT

You Deserve It

Owner/managers are constantly working to build their company, to keep clients and employees happy and, of course, ensure a profit at the end of the day. The large majority of owner/managers are successful at these tasks but fail to see that the most important reason for being self-employed is to ensure the future well being of themselves and their family.

Entrepreneurs are often so consumed with the need for success and growth within the business that they forget the old adage: Don't put all your eggs in one basket. Owner/managers who have survived the critical first five years of growing a business owe it to themselves to review their business and their goals with a view towards rewarding themselves for the hard work and success that they have achieved.

Reward Your Success

Have you put all of your future in your business or do you have personal working capital outside the business' bank account for riding out a downturn or worse? If your business is incorporated, consider raising your salary to accumulate personal savings.



Far too often, the rewards of working are simply left to the end of the year to see what the profits are going to be. Consider the salary that would be expected if a third party did your job. Revisit your billing practices and pay yourself on a regular basis. Set a goal to put away the equivalent of at least six months' earnings in personal savings or investments.

Of course, also consider stepping up your RRSP contributions to reduce the impact of income taxes on any

additional draw or salary. At the same time, if you are not at the maximum, additional income will increase your RRSP contribution level.

Secure Your Position

The profit figure at the end of the year is a welcomed indicator of a successful business. Many times, the owner/manager reinvests the profits back into the business with asset acquisitions, the expansion of premises or the addition of a new product line. Using profits to take care of the future is admirable, but consider curtailing the impulse to invest all the profits back into the business and reward yourself with a bonus or dividend payments.

Owner/managers are sometimes reluctant to take bonuses or dividends because of the cash flow crunch it creates and the income that is taxable income in their hands. To alleviate the cash flow difficulty, consider lending the money back to your company. To protect the investment in the company, be sure to have your lawyer register you as a secured creditor on the assets of the company. Then, if the company does run into financial problems in the future, your investment will not be as at risk as if the investment was not secured. Of course, moving money out and loaning it back cannot be used to defeat current creditors but is a strategy to protect against future claims.

Taxation is certainly a consideration; however, the net difference between corporate and personal income taxes may be a small price to pay to provide for your future and secure your investment at the same time. The use of

a holding company may lessen the current taxes payable and still provide this protection.

Lessen Liability

In the formative years of a business, owner/managers often have to provide personal guarantees for the company loans. As your company's debt/equity ratio improves, approach the lender to see if it is possible to have the personal guarantee removed.

When times are good, work towards creating a reserve of working capital for the business. When your business has excess funds, invest in equity or interest-bearing investments, even if only short term. If you can accumulate a base of excess funds, this can serve as security to negotiate a better interest rate for future borrowings — and further enhance your profits. It is often prudent to accumulate these additional assets in a holding company out of the reach of any claims that creditors may make in the future.

Plan for the Unexpected

Ensure the survival of the business in the event of disruption. Make sure you have a partnership or shareholder agreement and provisions for dealing with the impact of changes or disruptions. Speak to your chartered accountant about the impact on your business if a business partner dies, if you divorce, or if you die. Your chartered accountant can give you guidance on the appropriate corporate structure as well as the need for shareholder/partnership agreements, buy-out alternatives, and various

financing alternatives that can help ensure business continuity and sound estate planning.

Invest Wisely

Whether your investments for the future are in your business or also in the stock market, real estate or other ventures, the key is to invest objectively. Invest funds back into the business based upon achieving a return on the investment within a reasonable time frame. If the numbers do not support a reasonable rate of return, do not invest. Similarly, funds drawn out of a business for personal investment represent your future and should be prudently invested to ensure constant growth.

Talk to your broker, financial planner and chartered accountant about your investment strategies. Keep in mind that the profits that you make on your investments are subject to different tax treatments depending on the type of income you receive from the particular investment and whether the investment is inside or outside of an RRSP.

Take Care of Yourself

"I will take care of myself" is a credo that all owner/managers should consider. As can be expected, there are both personal and corporate tax consequences to looking after your own interest. To ensure that your decisions are planned and not simply made, discuss your long-term goals and tax planning strategies with your chartered accountant. ■

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