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CHARTERED ACCOUNTANT

Professional Corporation



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## MANAGEMENT

# Handling Change

**T**here are two ways for an owner/manager to understand change: as catch up or as strategy.

If you see change as the disagreeable cost of catching up to the competition, you are already behind. But if you see it as the facilitator of your corporate strategy, you are pulling away from the pack at the clubhouse turn and ready to open up in the back stretch. Recognition of change as a constant part of getting where you want to be five years from now will allow you to manage technology more effectively, develop a more flexible business model, run your business more efficiently, and produce a better bottom line.

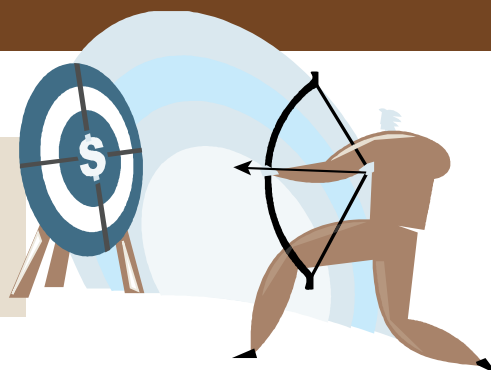
Change is inevitable, but can be made a little easier if one pays attention to the following guidelines.

### Have Clearly Defined Strategic Goals

What business do I want to be in five years from now? What will my business model be at that time? Since investment decisions, human resources planning, and technology choices are all driven by the strategic plan, make sure you have a clear idea of what you want to achieve.

### Be Proactive

Leadership comes from the top – that's you. Start the process, assign responsibilities and get going.



Make sure your production and sales managers provide you with concise and timely information about quality control and customer satisfaction. Project progress will create an appetite for progress and permit changes to be made while ensuring the target is kept in sight.

### Don't Try to do it All Yourself

To go it alone is to set yourself up for failure. Not only will the project become bogged down while you stop to deal with operational matters, but, you will almost certainly lose heart and fall short of your strategic goals. Find people within the organization or hire consultants with the competencies you lack. The role of consultants is not to run your business but to provide a menu of solutions to specific problems and move the project forward. Whether the problem is a new marketing campaign or a revamping of HR policies, management should involve people who solve problems as quickly as possible.

### Recognize Change as a Constant

Solving today's problems with little regard for the future is a short-term view and creates the risk you may lose sight of your strategic goals. Businesses and their

support systems are too complicated and expensive to be dealt with all at once. When embarking on change, document the specific areas in your business, such as administration/bookkeeping, HR, workshop/factory, or technology and develop a plan to review each on a cyclical basis knowing that upgrades will be required.

This approach will ensure that:

- All areas move forward;
- The interdependence of all sectors within the business is recognized;
- Employees know they are working for a common goal; and
- Investment and human resources requirements for the strategic plan will always be kept in sight.

### **Make Change User Friendly**

Whether the change is as simple as starting to pay employees by direct deposit instead of by cheque or as complicated as setting up a new pricing system within inventory, never forget the end user. Failure to ensure seamless change will have an immediate negative impact on users who are naturally resistant to any change. Then, when the future dictates the need for additional change, resistance will increase.

### **Check Your Sources and Resources**

Whether the change involves moving, hiring staff, purchasing new equipment or taking on new suppliers, make a due diligence investigation. Check references, visit sites that use the equipment, interview customers of the prospective new suppliers. These checks will help determine whether the job can be done and what ongoing support will be available if upgrades are needed or breakdowns occur.

### **Be Aggressive**

Once change is decided upon it must be pushed aggressively. If timetables and expectations of management, staff, contractors, and suppliers are not supported with training programs; if testing is not scheduled; if dates and arrival times are not scheduled; chances are the enthusiasm for change will wane as people are struck half in the old and half in the new. The anxiety created will result in frustration and undoubtedly lead to decreased productivity.

Management's responsibility is to manage. When management takes charge of change with a clear purpose and a strong support team, change will be viewed as part of strategic business development and welcomed. ■

## **TAXATION**

# **Avoiding T4 and T4A Pitfalls**

**G**iven all of the different means of compensating employees and owner/managers, it is easy to make mistakes in filling out the T4 and the T4A forms. Unfortunately, such mistakes can lead to unnecessary CRA penalties and interest charges.

The Canada Revenue Agency distinguishes two broad classes of employee compensation: employment income and other related amounts. The T4 reports employment income and the T4A reports the remainder.

### **What is Reported in a T4?**

The T4 reports:

- Salaries;
- Wages;
- Tips and gratuities;
- Bonuses;
- Vacation pay;
- Employment commissions;
- Taxable benefits or allowances;

- Deductions withheld during the year; and
- Pension adjustment amounts for employees who accrued a benefit for the year under a registered pension plan or deferred profit-sharing plan.

### **Pitfalls**

Employers often do not complete the CPP and EI boxes correctly. If the employee is exempt from either, the exempt box should be ticked. An employee must be over 18 to pay CPP. Once the employee starts collecting a CPP pension, no further deductions should be made. An employee under the age of 18 usually has to have EI amounts deducted.

Low-interest or interest-free loans to employees or shareholders are taxable benefits. A prescribed interest rate, which is set quarterly, is used to calculate the



amount to be taken into income. The rate for the first quarter of 2008 is 4%. An appropriate withholding tax should be deducted by the employer.

Making sure the right items are reported correctly on the T4 is important for several reasons:

- Employment income is the basis for the calculation of other line items such as the RRSP contribution limit for next year, Canada Pension Plan contributions and child care expenses, to name a few.
- The employer must withhold and remit income taxes, CPP and EI at source rather than have the employee report "other earned income" at the end of the year.
- The CRA wants to ensure that employers pay their share of CPP and EI.
- The amount of employment income paid to employees and/or owner/managers may trigger the payment of other taxes, such as a provincial payroll tax, depending on the provincial jurisdiction.

### What is Reported in a T4A?

The T4A reports income types that do not fall under the definition of employment income. These types include:

- Pension or superannuation;
- Lump sum payments;
- Self-employed commissions;
- Annuities;
- Retiring allowances;
- RESP accumulated income payments;
- Fees or other amounts for service;
- Death benefits;

- Research grants;
- Payments under a wage-loss replacement plan; and
- Certain benefits paid to partnerships or shareholders.

Payers are required to file a T4A slip if they have paid, in total, more than \$500 in any of these types of income or if tax was deducted from a payment of any amount.

If an employer is paying taxable group life insurance benefits to former employees or retired employees, T4As must be filed even if the total benefits paid in the calendar year do not exceed \$500.

If you are unsure whether payments or benefits should be assigned to a T4 or a T4A, contact your chartered accountant for guidance. The appropriate allocation will ensure your business provides accurate information to employees for tax planning purposes, meets CRA requirements, and eliminates any possible penalties and interest.

### Amendments

If, after filing the T4 and T4A Summaries, it is discovered that additional amounts should have been allocated to the employee's income, the employer will need to file an amended slip with the CRA.

### Avoid Mistakes to Avoid Penalties

By recording the various types of employee remuneration correctly, management can avoid CRA penalties and interest. Attention to the categories in these two broad classes of compensation will pay off in the time saved reclassifying items and paying penalties and interest later. For difficult decisions, consult your chartered accountant. ■

## MONEYSAVER

# Reducing Vehicle Costs

**N**ext to salaries, wages and benefits, rising vehicle costs are a growing concern for businesses. Initial purchase prices combined with high fuel and maintenance costs are forcing owner/managers to take a second look at their vehicle policy.

When an employer provides an employee with a vehicle, both the employee and employer must realize that the vehicle is a resource for earning income and that the cost directly affects monthly cash flow and profits. The employee should want to treat the vehicle as if it were his or her own and use it with the same economy. This

sense of responsibility can be achieved by including the employee in the selection process and sharing the facts of operating costs.

But before any vehicle is chosen, the owner/manager should consider some general policy issues regarding vehicles.



### Who Needs a Vehicle?

The first step is to determine who needs a vehicle, what kind and how many for the job and geographic area to be covered. If, for instance, sales people are constantly travelling across the province, it may prudent to consider:

- Number of kilometres driven per year;
- Physical size of sales staff in relationship to the vehicle;
- Creature comforts required such as air conditioning, adjustable seats, power windows, hands-free cell phones, mapping software, etc.;
- Type of vehicle required: van, truck, midsize, diesel, number of cylinders, all-wheel drive;
- Original warranty and extended warranty coverage;
- Service centres in the areas most frequently travelled;
- Size and quantity of samples or display that must be transported;
- Image that the company wishes to portray to customers;
- Kilometers per litre;
- Insurance costs either on a group or individual basis;
- Cost of vehicle, including laid down cost, GST/PST, plus provincial add-on taxes such as air conditioning tax or gas-guzzler taxes;
- Cost of leasing the vehicles with increased emphasize on the per kilometre cost beyond the contracted distance limit; and
- Cost of returning the vehicle to its original condition after excessive wear and tear.

### Working Capital

The next step is to review the company's ability to meet the working-capital requirements for financing or leasing. This requires gathering hard numbers on a vehicle-by-vehicle basis for comparison purposes. Consider:

If purchased:

- Total cost of each vehicle;
- Licensing, delivery, and processing cost;
- GST/HST lump sum refund investment tax credit that will be received;
- Financing terms, i.e. interest rate and duration of the loan; and
- Estimated trade-in value at the end of the financing term.

If leased:

- Monthly leasing cost;
- Licensing, delivery, and processing cost;

- Amount of deposit required, security, first and last, etc.;
- GST/HST refund that will be received monthly;
- Duration of the lease with a projection of the overall cost to term;
- Deposit amount, if any, to be refunded; and
- Estimated additional cost for excess kilometres.

With this information, you can project the estimated cash flow on a vehicle-by-vehicle basis for the initial purchase or lease as well as the operating cost of each vehicle. A spreadsheet with monthly estimates and annual summaries, under each the following headings will provide an idea of cash-flow requirements per vehicle over the life of each vehicle:

- Principal payment, interest payments (obtainable from an amortization table);
- Lease payment (obtainable from the dealer or the leasing company);
- GST/HST payments (if not included in the principal or lease payments);
- Insurance cost (assumed paid on a monthly basis);
- Fuel cost (based on Transport Canada ratings);
- Maintenance and service schedules for oil changes, tire rotations, etc. required to maintain warranty;
- Wear and tear cost outside the warranty such as new tires, lights, car washes, etc.; and
- Estimated residual value.

This spreadsheet will provide the owner/manager with an idea of the monthly cash flow requirements to keep vehicles on the road. For businesses with seasonal fluctuations, a monthly breakdown will assist in building cash reserves for those months that have minimal cash inflow.

The spreadsheet of comparable cost between leasing and purchasing will also provide insight into whether it may be more economical to lease or purchase.

Once the cash flow needed for operations and loan/lease have been determined, existing cash availability, business operating lines, and last year's 12-month history of cash flow will need to be reviewed. Using historic cash-flow information will assist in determining:

- The company's ability to manage cash requirements;
- Whether purchasing, leasing, or a combination of both, is the best solution to ensure adequate cash flow;
- Whether borrowing from the financial institution will curtail the company's ability to meet future capital expenditure or working capital needs; and



- Whether financing with other than the company's financial institution would offer better rates and less exposure to the volatility of lines-of-credit limits.

Although tax issues affect annual cash flow considerations, management may wish to exclude their introduction into a cash-flow module since the additional information may not be of great benefit in the process.

### **Consult With Your Chartered Accountant**

Whether you decide to lease or purchase, the end result is a long-term commitment of resources. Be sure to review the information gathered in the foregoing analysis with your chartered accountant not only as a check on assumptions but also to determine the

potential tax implications to your business and the impact, if any, on individuals who use the vehicles. Personal and corporate income tax issues will depend on vehicle users, purchase cost, capital cost allowance, residual value at trade in, and the cost of leasing.

### **A Good Vehicle Policy Can Mean Higher Earnings**

A well-thought out policy that gives consideration to the vehicles needed to earn income, combined with an in-depth understanding of cost and cash-flow requirements should help you maximize the return on the capital investment, lessen exposure to unexpected fluctuations of working capital and improve earnings. ■

## TECHNOLOGY

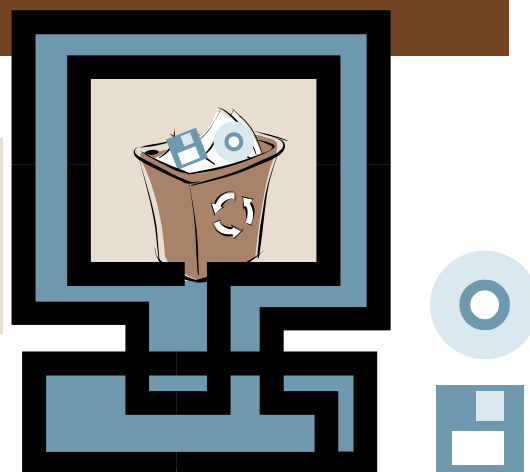
# Junkware

**H**ave you ever wondered why your new computer takes so long to start up or why simple applications suddenly hang up?

The answer may lie in the fact that there are many programs operating in the background. Some are essential to the smooth operation of various software systems used everyday, but others are add-in trial software, or adware; both may have links to existing programs as well as to the operating system.

Some programs are already partly preloaded at startup. Thus, even if you are not using the application, a part of it is always running in the background using precious resources and slowing the operation of your computer.

Many programs also have pop-up windows that appear when the software detects a "need" to link to a program in use. Pop-ups can also be activated by triggers such as a time or date, or the availability of a new version of the program. These interruptions distract the user who often has to intervene manually before continuing work. Since each of these applications is connected to the computer's operating system and may share similar commands, the operating system can sometimes become confused and hang up. This stoppage in turn frustrates the user who must reboot the system, reopen the applications and check that no critical data has been lost.



### **Software Vendors Want Exposure**

Why are these unwanted programs on your new computer in the first place? There are three reasons that major computer manufacturers load what has become known as junkware, adware or trial software in their systems:

- Software vendors want to give purchasers the opportunity to investigate new software applications. Installation creates user awareness of additional features.
- Software vendors provide incentives to computer manufacturers to install their software. The manufacturers are then able to lower the cost of the hardware to the consumer.
- Software vendors provide incentives to computer manufacturers to advertise their software in their print and other media advertising.

If unsolicited software were the domain of only one or two manufacturers, computer buyers could force an end to these practices by switching to other

manufacturers. Unfortunately, all major PC makers carry unsolicited software.

So pervasive is this proliferation of unsolicited software that manufacturers find themselves caught between customer complaints and the fear they will lose market share if purchasers turn to another brand. To maintain consumer loyalty some computer manufacturers have started to offer their systems with “no-trialware installations.”

### **Not All Junkware is Bad**

To suggest that all unsolicited software is “junkware” is, of course, unfair. Few would argue that free CD/DVD burning or basic photo software, for example, are undesirable. On the other hand, preloaded background applications that must be processed before you can begin to use the computer only increase your frustration by adding to the time needed to start your spreadsheet program. Given that sometimes the system must sort through upward of 80 irrelevant applications, it is understandable why startup takes so long.

### **Eroded Efficiency**

All these hidden applications affect the operational efficiency of your system. Tests of computers from major manufacturers showed that, after removal of this junkware, performance improved by 1.4% to 8.2 %, depending on the manufacturer.

### **Combating Junkware**

Some advocate reinstalling the operating system immediately after the computer is out of the box and before company software is installed. Since most computer manufacturers preinstall the operating system and seldom supply a copy in CD/DVD format, you may wish to purchase the original operating system from your computer manufacturer, or make your own “recovery disk.” (This is not a complicated process; manufacturers often supply instructions in the operations manual.) Once this process is completed, the reinstalled operating system will, in most cases, be free of bundled junkware.

Unfortunately, there are exceptions. Reinstalling the operating system may not work on all manufacturers’ computers since some have integrated the junkware into the operating software install program.

Try the traditional means of ridding the system of junkware in XP by clicking the Add or Remove icon and reading the populated list of software that is installed. Unnecessary software can be uninstalled. Before doing this, however, be sure you know which applications are safe to remove or you may not be able to access your operating system and certain applications without using the Safe Mode to bring your system back online.

Another approach is to have a computer technician evaluate your system and remove as many unnecessary applications as possible. This may be the preferred approach if you are uncomfortable about the possibility of removing necessary programs. If you don’t have a computer technician, many big-box computer retailers provide a “computer optimization” service, which removes programs not needed to run your everyday applications.

You may contact your computer manufacturer or computer technician and ask whether they can provide either a third party software removal utility or access to an appropriate website that will permit downloading a removal utility.

### **Realize You May Have a Problem**

For the most part, junkware may simply be an inconvenience. But, if your system freezes without apparent reason when switching between programs or other processes, then perhaps it is time to consider whether junkware, trialware or adware is the problem.

### **Less Software Can Mean More Productivity**

Consumers may never be able to void all background items since every manufacturer has a vested interest in ensuring the consumer has the opportunity to purchase enhanced and updated software products with Internet links. As a user, however, if your system can be enhanced by removing software not directly connected to the manufacturer’s requirements, performance and productivity can be improved without compromising operational integrity. ■

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