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Taxation

Watch Your Pennies —see your tax savings

Taxpayers often lament they pay far too much in taxes. In truth, many would pay less if they took advantage of tax-saving opportunities. A little care and attention can cut your annual tax bill. The key to maxing out your tax deductions can be as easy as counting to 10.

1. Contribute to an RRSP

It's not too late! To be eligible for the 2008 tax year, RRSP contributions must be made by March 1, 2009. All contributions are fully deductible and are not taxed until withdrawal. The contribution limit for 2008 was $20,000 minus adjustments related to membership in a registered pension plan or deferred profit sharing plan. For the 2009 calendar year the contribution limit will increase to $ 21,000.

2. Keep Receipts

Probably the number one reason individuals pay more taxes than they should is because they fail to keep receipts for expenditures made to earn income. Sales or commissioned staff and the self-employed often provide tax advisors with insufficient source documents for purchases, or submit spreadsheet summaries suggesting that purchases are lower than normal. Failure to submit $2,000 worth of receipts when the taxpayer's tax rate is a low 23%, for example, adds $460 to the tax bill.

3. Cash in RRSPs

RRSP withdrawals are taxed when the funds are removed from the RRSP. If, as a single taxpayer, your taxable income from self-employment or employment is $50,000, the tax before non-refundable credits approximates $8,400 of federal tax plus provincial tax. Withdraw $10,000 from your RRSP in the same taxation year and the tax before non-refundable credits rises to federal tax of $10,600 plus provincial tax. The $10,000 withdrawal has actually cost $2,200 of federal tax plus provincial tax.

4. Keep Track of Kilometres Driven

Each year taxpayers are asked by the CRA to provide proof of the kilometres driven to earn income. In many instances the taxpayer is unable to provide documentation to establish the number of kilometres driven on business. If you are self-employed, keep a log of the kilometers travelled and the business purposes of your trips in order to create a supporting document for the expense. If you receive a set monthly car allowance, maintain a similar log to establish that the funds received are reasonable for the work done.

5. Interest Deductibility

Owner/managers borrow funds for a plethora of reasons. Whether the loan is for investments, capital assets, or everyday purchases made with charge cards, interest is usually deductible if the purpose of the loan is to earn income. To avoid controversy, ensure the loan is easily traceable to a specific purchase. For instance, if the taxpayer borrows $20,000 personally and purchases $20,000 worth of shares of XYZ Co. Ltd., the taxpayer should be able to produce documentation attesting to that fact. The deductibility of interest becomes problematic, however, in the case of a charge card used to purchase goods or obtain cash advances, if the same card is used for both personal and business purposes. Since it is difficult to differentiate personal and business expenses on the monthly statements, it is best to make business purchases with a card dedicated specifically for business expenses.

Taxpayers who borrow on house equity or finance their business with funds drawn from a personal mortgage should ensure the audit trail indicates the principal amount placed into the business. This record combined with the terms of the mortgage and the interest rate will allow the computation of interest expense deductible to the business.

6. Pay your Children and your Spouse

A spouse or other family members often work for self-employed individuals. Payment to family members working in the business is a legitimate form of expense, if the individual actually works and is paid a reasonable amount for the task performed. To avoid future problems with the CRA, it is prudent to have an employee/employer contract establishing the duties and responsibilities and the pay to be expected.

Employers should pay with a cheque to establish payment was made or, if cash is paid, the employee should sign a receipt for funds received. You may wish to ask your accountant whether a formalized payroll system should be established.

Income splitting within a business certainly saves personal income tax. Given that a couple needs $60,000 a year to live, an individual with a dependent spouse would pay combined federal and provincial (Ontario) taxes approximating $11,600. If each spouse earned $30,000 the combined income tax would approximate $9,015. This difference (based upon 2007 tax rates) establishes a tax savings of approximately $2,585. Provincial and territorial tax rates as applied to differing personal situations will dictate the actual savings. Nevertheless, it may be worthwhile for you to discuss the possibility of income splitting with your chartered accountant.

7. Purchase a Capital Asset before the End of the Year

If an asset is purchased before the end of the year, half of the capital cost allowance normally permitted in the year of purchase may be deducted. That is, a $5,000 asset with a tax write off rate of 30% would normally reduce taxable income by $1,500. In the year of purchase this would amount to only 15% or $750. Thus, if the asset is purchased near the end of the year, the business receives a write-off of $750 for the end of the first year and an additional $1275 in the year following. The taxpayer not only gains a $1,275 accelerated tax deduction advantage by purchasing in December, but also is able to claim the GST-ITC of $250 at the time of the December purchase (calculation assumes no PST on $5,000).

8. Investment Related Expenses

Taxpayers who invest through brokers may be charged fees for safekeeping, investment counsel, accounting and a myriad other services. Ensure all monthly and other statements are retained for presentation to your tax advisor at the end of the year. Statements provided by investment brokers can be confusing. If there is uncertainty as to whether service charges have been added call your broker for an explanation before the end of the year.

9. Claim Loss Carryovers

Many taxpayers have self-employed income in addition to a day job earning T4 income. Unfortunately, losses in the early stages of a new sole proprietorship are often a reality. Losses from self-employed businesses and property can, however, first be deducted from other income sources for the year. Many individuals are unaware that, to the extent they exceed other income in the year, their part-time business losses can be carried back three years and carried forward 20. It is not mandatory to apply non-capital losses carried forward simply because the year following the loss has taxable income. Thus, if you knew your T4 income was going to be higher two years from now, you could decide to defer application of the loss rather than apply it in year one.

A word of caution regarding non-capital losses. Changes to the carry forward dates mean that non-capital losses incurred in taxation years that ended after March 22, 2004, and before 2006 can be carried forward for only 10 years; losses incurred during taxation years that ended before March 23, 2004 can be carried forward only seven years. So, for example, losses incurred in 2003 expire in 2010 and should therefore be used as soon as possible.

10. File T1-Adjustments

Many taxpayers discover additional deductions or expenses after filing their income tax but decide not to request an adjustment from the CRA. You may feel it is not worthwhile to request an adjustment for a $10 expense; keep in mind, however, that if the CRA unearths $100 that you have not reported they will reassess and add interest on the unpaid balance. Thus, if you discover expenses, union dues or other tax deductible items that were not submitted, do not hesitate to inform the CRA of the changes.

By providing full and correct information to your chartered accountant you ensure the deductions you are entitled to are maximized and your taxes payable are minimized. ■

Technology

Picture this...

In 1921, renowned publicist Fred R. Barnard coined the phrase “One Look is Worth a Thousand Words”. Today, the ubiquitous cell phone with its remarkable digital camera has made Barnard’s slogan literally — ring true.

The cell phone has evolved beyond its roots as a simple, unwired telephone and become a pocket-sized computer. Text messaging, Internet browsing, and the ability to run small applications such as a calculator and uncomplicated games are now basic and included in almost all models. Other functions, such as a contact book, call display, voice recorder and task manager have turned the cell phone into a digital assistant. The iPhone and BlackBerry have even more advanced functions, including a superior e-mail client and they can run more complex applications such as viewing and manipulating documents and spreadsheets.

One feature that at first seems frivolous is the integrated digital camera contained within nearly all mobile phones. Why would anyone want a camera on a telephone? Well, in addition to the obvious answer of taking candid photos of friends and co-workers, the cell-phone camera could not only be a lifesaver but also doubles as a tremendous public relations tool.

Create a Visual Record

Take pictures of:

- passports, credit cards, health cards, insurance certificates and driver’s licences; any item that would create extreme hardship if lost, especially in a foreign jurisdiction;
- all travel equipment, including computers; this will assist in recovery if anything is lost or stolen and also provide a stronger basis from which to file an insurance claim;
- office locations, hotels, client contacts, and other points of reference when travelling to a foreign jurisdiction;

- the front, back and sides of your vehicle with the license plate number legible for identification in the event your vehicle is stolen; if renting a vehicle, these photographs will provide evidence of the vehicle's condition at the time of pickup in case the rental agency attempts to charge you for pre-existing damage;
- facial and full-length views of your travelling companions; if anyone goes missing, local authorities will have an up-to-date visual;
- the accident scene and individuals involved if your vehicle is in an accident; this will record damage to all vehicles or property and assist in recall and to reduce the potential for exaggerated third-party injury claims.

As an added security measure, store pictures in both the cell phone's internal memory and another medium separate from the phone such as a flash memory card, USB key, your computer hard drive, or an online storage medium such as your company e-mail or network drive.

Client Contact

Many camera phones allow you to take a picture and assign it to an individual in your contact book. When that person calls, their picture is displayed on the screen. This is a useful memory aid both for people who have difficulty associating a name to a face and as a way of jogging your memory when dealing with a contact whom you see infrequently and may not recognize immediately. The picture can also be sent to another phone or e-mail address where it could be used by staff picking someone up at an airport or hotel.

Now That's Customer Service

The full benefits of using a camera phone in everyday business are limited only by the needs and imaginations of the users. Encourage your employees to treat their camera phones as an extension of their everyday business applications.

Consider, for example, the benefit of a camera phone during a service or sales call. If your customer wants to find, replace or repair a widget you never knew existed rather than trying to describe it to your suppliers or parts department, just take a picture and email it to them.

If it is a replacement-warranty issue, take a picture of the item and the serial number and email it to customer service. The replacement can be on its way even before you leave the client's office.

Moving Pictures

Many cell phones can capture short video clips. Some newer third-generation handsets even allow video calls in real time between subscribers using built-in cameras! ■

Management

Future Satisfaction

Working without a long-term strategy is like walking down a road looking at your feet: you're moving forward but you can't see where you're going.

Long-term planning is necessary to succeed — even in the short run. Unfortunately, owner/managers usually have to deal with so many problems in the present that long-term planning often gets pushed to the side.

The following 10 "big-picture" areas are worth reviewing as you move into 2009.

1. Establish a Formal Employee-review Process

- Review and summarize dates of hire, raises, performance evaluations, comments and promotions.
- Do a job analysis on each function in your company to see whether job descriptions are up to date. Without an accurate job analysis and description, performance evaluations are impossible.

- Have the line managers meet with employees to get their input about the specific skills and procedures necessary to perform all the job functions required by the corporate strategy. Assure employees that their input is an important part of the employee-review process.

2. Establish a Capital Asset Replacement Budget For 2009 and Beyond

- Take pictures of all capital equipment and, where possible, record all serial numbers.
- Create a list indicating the type, model, and model year of the equipment based on the photos taken.
- Use the list to determine resale value.
- Identify assets to be replaced and assign a planned replacement date, estimated cost, financing requirements, a building or installation time-line, and any training period and associated costs.
- Extrapolate any impact on cash flow requirements, profit and corporate tax position.

3. Start an Operational Budget

- Review existing database capabilities to determine their adequacy for your budgeting processes. If not, you may need to prepare a spreadsheet or purchase customized budget software.
- Review actual figures to date to "get a feel" for fixed costs such as leases, and variable costs such as production costs move with sales.
- Consider using a zero-based budgeting method instead of just looking at the status quo and adding two or three percent to last year's figures. Zero-based budgeting requires a fresh analysis of the needs and costs of each function within the strategic plan. Implementation of ZBB is time consuming but much more precise than traditional budgeting.
- Commit to a continuous budget plan that seeks to update the budget systematically once the current budget term is over. For many owner- managers, quarterly or semi-annual budget cycles may be sufficient to control expenditures.
- Compare actual results with budgetary estimates to find problem areas; assign responsibility and encourages change.

4. Manage Your Cash Flow

- Review accounts receivable daily to identify clients exceeding your 30-day payment terms. Remember the rule of thumb: the longer an account goes unpaid, the less likely it will be collected.
- Telephone clients to ensure they are satisfied with your product or service and, if so, reaffirm the need for timely payment.
- Send statements by mail or e-mail with interest added for overdue accounts on a regular basis.
- Consider reducing credit levels for delinquent clients.
- Review accounts payable daily.
- Identify accounts that must be paid in 30 days and those allowing discounts for early payment.
- Match cash inflows with anticipated cash outflows.
- Consider whether paying on a fixed schedule such as the 15th and/or 30th of the month would improve cash flow.

5. Integrate Personal and Corporate Tax Planning

- Meet with your chartered accountant early in the year to discuss potential corporate profit and the impact that draws, salaries, and bonuses could have on both the fiscal and calendar yearend.
- Review your profit and loss and other corporate financial statements at least monthly to uncover, any issues that need to be discussed with your accountant.
- Provide your chartered accountant with corporate financial data on a monthly basis to aid these discussions.
- Review actual performance results constantly as the year progresses to make yourself aware that expectations may have to change and how these changes may impact projected income splitting, timing of capital asset purchases, and cash flow needs to pay corporate taxes, additional salaries, bonuses, and dividends.

6. Consider an Energy Audit

- Hire a consultant to review your current energy use.
- Use the consultant's report to develop a three-to-five-year plan to decrease energy consumption.
- Tie the energy audit to capital asset replacement to save funds in the future.

7. Review Insurance Policies

- Ask your insurance agent to summarize your policies by type, policy number, coverage, deductibles and premium.
- Make sure the policies adequately cover capital assets, medical requirements, third-party liability, theft, embezzlement, fire, flood, and natural disasters, as well as employee operation of company vehicles.
- Review bank loans and lease agreements to ensure covenants for insurance coverage are being met. Meet with your insurance advisor to discuss any necessary changes.

8. Pay Yourself First

- Calculate the amount of personal income you require to live comfortably.
- Review the remuneration of others in your position by researching trade magazines, employment placement agencies, or by going online.
- Once you have established a reasonable package for someone in your position determine whether the current price of your product or service supports a fair return for the effort, time and risk you assume as owner/manager.
- Discuss with your accountant any possible changes in pricing, production costs, staffing, business model or corporate structure that would produce the results required for greater personal remuneration.
- Discuss with your accountant whether any changes could be made to your compensation package itself that could increase your take-home.

9. Formalize Your Marketing and Selling Strategies

- Hire a marketing consultant on a per diem basis to review your marketing and sales strategies.
- Review the track record of product lines or services and consider whether there will be a market for them two or three years down the road.
- Analyze your customer base to determine whether their current needs are being met and whether they are the customers you will need in the future.
- Review your advertising strategy. Should you increase the advertising budget and, if so, where: Internet, radio, television, billboard, sponsoring charitable events? The possibilities are endless.
- Examine your sales department to determine staffing needs, sales goals, and remuneration packages.

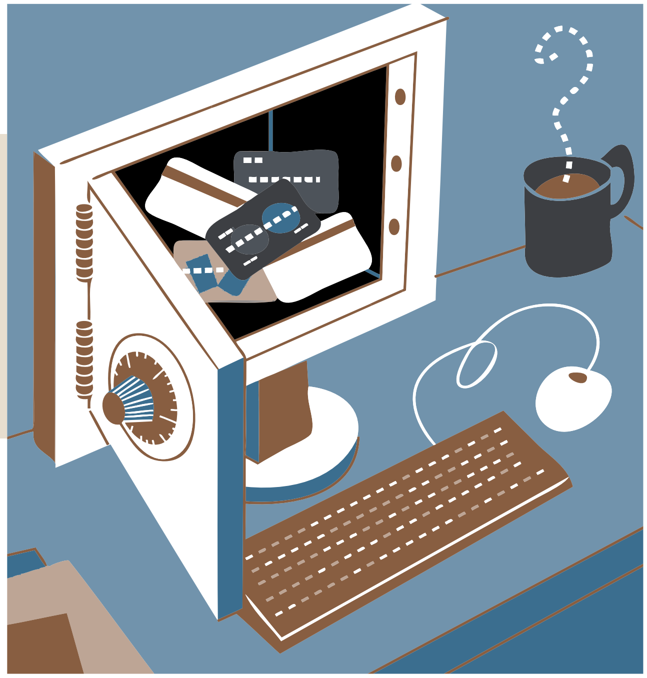
10. Review Your Job Description

- Do a job analysis on yourself. Don't wear too many hats.
- Write out the tasks currently performed.
- Limit and formalize your own responsibilities.
- Offload those that belong with the shop supervisor, office management or others and formally assign the responsibility.
- List family events such as holidays, birthdays, anniversaries or the kids' school pageants for the coming year and commit to attending.
- List critical work times when your presence is mandatory. Delegate when possible.
- Meet all your commitments.

To the Future

Over the years your business has grown and the personal and business demands on your time have also changed. In the early days, the time taken performing tasks probably reduced the time that should have been spent thinking problems through and meeting both your personal needs and those of your family. Yes, the reward for planning, execution and completion of even one of your many tasks was the feeling of accomplishment and finality. But, as more and more tasks are completed, your productivity and satisfaction will come more from envisioning, thinking, planning and monitoring. ■

Credit Card Fraud



No one likes to think they might be the victim of credit card fraud. The hard cold fact is that everyone is a potential target for these bold and unscrupulous crooks.

Credit card fraud can be committed two ways: the card is stolen and used until you discover the thefts and cancel it; or, the information contained on your credit card is compromised either at the point of transaction or in a data base. Thefts occur using this information while you remain ignorant but in physical possession of the card. This latter type of theft is particularly insidious since you only find out a fraudster is using your card when you check your monthly statement.

A particularly brash form of this second type of credit card fraud is conducted over the telephone.

How the Fraud Works

You make a purchase and hand the clerk your card. Your credit card information is gathered either by scanning the card into a legitimate scanner, a secondary and illegitimate scanner or physically copied.

The information captured by the secondary scanner or physically copied can be delivered to a fraudster for later use. Fraudsters sometimes patiently refrain from using your information for months in order to disassociate the date and place where the information was taken from the date and place of its first illegal use.

Sophisticated modern fraudsters are less interested in using this information to buy things than they are in using it to gain access to more of your personal information. This is why credit card theft is so often associated with identity theft.

To get this additional information, the fraudster uses the name on the card to find your telephone number then calls you.

The caller first identifies him- (or her)self as an employee of the “security” department of the card issuer, provides a reference or badge number to give the call an aura of authenticity, and asks you to record the data in case you have to call back. The fraudster proceeds to tell you that your card has been flagged because there seems to be some unusual activity. He then asks whether you have purchased an item for $X from Store Y in Z location. Naturally, you answer in the negative and, as anyone would, thank him for calling and ask how he is going to reverse these improper charges.

The fraudster tells you the reversed charge will appear on your next credit card statement. He confirms where the statement will be sent by telling you your own address and asking you to verify. You confirm.

The fraudster suggests that if you have any more questions to call the 1(800) number on the back of the credit card and ask for him and quote the reference or badge number given earlier in the conversation. At that point you will be provided with a case reference number to record in the event there are any problems with the reversal of the charge.

The Sting

The fraudster then implies that he hates to question the credit card holder’s integrity but procedures require they be assured the credit card is in the holder’s possession. To prove you have the card he will ask you to turn the card over and read the last four numbers of your 16-digit card number and the last three (VISA, MasterCard, Discover) or four (American Express) digits which are the Card Verification Value (CVV) code. This is what the fraudster is really after. The CVV is not part of the card number but a cryptographic check that identifies the card number as uniquely yours. Because the CVV number is not embossed it is not printed on any receipts. The CVV is used primarily as a check in "card not present" transactions such as an Internet purchase, especially when the purchase is made in another jurisdiction, e.g. buying a book in Germany.

Once this data is acquired the fraudster politely thanks you for your cooperation, hangs up and immediately initiates an online purchase using the credit card number and the CVV number, thereby confirming rightful ownership.

Later, when your actual statement arrives, it will be difficult to deny the purchases because the credit card company will determine that not only were the credit card number and expiry date provided, but the credit card use was confirmed by the CVV number.

How to Avoid being Stung

To limit the potential for being scammed take the following precautions:

- Never let your credit card out of your site when making purchases.
- Provide absolutely no information about your card over the telephone or the Internet than is needed to complete the transaction.
- Keep all of your receipts whether issued over the Internet or issued at point of sale to establish a spending profile.
- If you have lost or misplaced your credit card, immediately call the number on the back of your credit card. Should you receive calls such as the one described call your credit card issuer immediately and report the incident.
- Prudence would suggest recording credit card numbers along with the 1(800) numbers for quick reference.
- Minimize your losses by dedicating one credit card for use only on the Internet. Maintain a low credit limit $500 to $1000 to limit losses that may not be covered by the credit card issuer.
- Review your statements each month and match your credit card receipts with the statement. ■

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