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2009 FALL NEWSLETTER

September 2009

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2009 ONTARIO BUDGET

Corporate Taxes

Tax Rates

The Budget proposes to reduce corporate income tax rates over a three year period, commencing July 1, 2010. In addition, the small business deduction surtax or “clawback” will be eliminated as of July 1st. These proposals, as well as previously announced proposals in the 2009 Federal budget, result in the following combined Federal and Ontario rates for December 31st year ends:

	Active Business Income				Investment income
	To $400,000	$400,000 to $500,000	$500,000 to $1,500,000 Non-M&P*	M&P*	
2008	16.50%	25.00%	37.75%	34.75%	
2009	16.50%		37.25%	34.25%	48.67%
2010	16.00%		33.10%	30.60%	47.66%
2011			28.25%	26.50%	46.41%
2012			26.25%		45.92%
2013			25.50%		45.16%
2014	15.50%		25.00%	25.00%	44.67%

*Business Income earned in Manufacturing & Processing activities (M&P)

When the corporate year end straddles December 31st, rates are pro-rated.

These changes allow corporations to increase the amount of income tax deferred annually, especially for corporations historically paying shareholder bonuses to reduce taxable income to the small business limit of $500,000 and avoid the Ontario surtax. The decline in corporate tax rates also means personal tax rates on eligible dividends will increase.

Corporate Minimum Tax (“CMT”)

The Budget proposes two long awaited changes to Corporate Minimum Tax. CMT is currently calculated as the excess of 4% of adjusted accounting net income over “regular” income tax. The CMT rate will be reduced to 2.7% effective for taxation years ending after June 30, 2010. Further, currently CMT does not apply to a corporation, or an associated group of corporations, with total assets under $5 million or annual gross revenues under $10 million. For taxation years ending after June 30, 2010, CMT will not apply if total assets are less than $50 million or annual gross revenues less than $100 million.

As a result, for taxation years ending after June 30, 2010, most smaller corporations will no longer be liable for CMT. Companies that paid CMT in the past and have unused CMT credits will be able to apply credits to reduce future Ontario taxes payable.

Co-operative Education Tax Credit ("CETC")

The CETC is a refundable credit available to employers of students in qualifying co-op programs. The credit is 10% (15% if total payrolls are less than $400,000) of wages paid, to a maximum of $1,000 per placement. For expenditures incurred after March 26, 2009, rates will increase to 25% and 30% respectively, and the maximum credit per placement will increase to $3,000.

Apprenticeship Training Tax Credit ("ATTC")

The ATTC is a refundable credit available to employers of eligible apprentices in qualifying trades. The credit is 25% (30% if total payrolls are less than $400,000) of salaries paid during the first 36 months of apprenticeship, to a maximum annual credit of $5,000. The ATTC is available for apprentices who begin their program before January 1, 2012 and for wages paid until the end of 2014.

For expenditures incurred after March 26, 2009, the rates will increase to 35% and 45% respectively, and the annual maximum credit will increase to $10,000. In addition, the ATTC will be available for wages paid during the first 48 months of apprenticeship, and the ATTC will continue to be available to employers indefinitely. A Federal tax credit of up to $2,000 is also available to employers during the first 24 months of the apprenticeship.

Sales Tax Harmonization

General

Starting July 1, 2010, Ontario plans to introduce a combined value-added tax. The rate will be 13%, representing a 5% federal portion and 8% Ontario Retail Sales Tax (RST) portion. The harmonized sales tax (HST) will be largely consistent in its application to the GST.

The HST will apply to a wide range of goods and services. It will not be charged on items such as basic groceries, prescription drugs and medical devices. Businesses making taxable or zero-rated sales will be able to claim input tax credits for HST paid on their purchases.

HST Transition Benefits for Individuals

To assist individuals during the introduction of the HST, benefits will be payable to eligible Ontario income tax filers aged 18 and over. A single person with no children and income of less than $80,000 will receive a total of $300. Single parents or couples with combined income of $160,000 or less will receive a total of $1,000. Benefits will be payable in three instalments in June 2010, December 2010 and June 2011.

HST Transition Support for Small Business

Effective March 31, 2010, vendors' compensation currently paid under the RST will be eliminated. To assist small business in transitioning to the HST, a credit based on taxable sales in the first full quarter commencing after June 30, 2010 will be provided, as follows:

- taxable revenues of $15,000 or less - $300;
- taxable revenues between $15,000 and $50,000 – 2% of taxable revenues;
- taxable revenues between $50,000 and $500,000 - $1,000.

Income Splitting Opportunity

Income splitting is the process of shifting income within a family from high tax rate family members to those who pay a lower rate of tax. The benefit is an increase in the family's after-tax income. We last addressed this topic in the context of the change to allow the splitting of pension incomes. In today's low interest rate environment, **there exists a unique opportunity to income split using loans to lower-income family members.**

Canada Revenue Agency (CRA) rules are designed to prevent income splitting with spouses and minor children (referred to as "attribution rules"). The rules do not apply to loans when interest is charged at CRA's prescribed rate. The current prescribed rate is at a historical low of 1%. Assuming a return of greater than 1% can be achieved on the invested funds, an overall tax savings will be realized. Given current GIC rates exceed 1%, even the investment of loaned funds into conservative investments will achieve a benefit.

If cash is not readily available to fund a loan, but a portfolio of securities is available, you can either sell securities, or transfer some of the portfolio to family members, and receive a loan as consideration. Any portfolio sales would have to be reported on your 2009 return. Rules to deny capital losses may need to be reviewed.

There are a couple of administrative issues. Loans must be properly documented, and interest must be paid no later than 30 days after the end of the year, in each year the loan is outstanding. Contact us or our affiliate UMA Financial Consultants Inc. if you would like to discuss this planning.

Critical Illness Insurance

Critical illness insurance (CII) is a product which provides a non-taxable cash "living benefit" in the event the individual insured becomes seriously ill with one of twenty-four covered illnesses. Unlike life insurance, benefits are paid during the insured's lifetime, and are not conditional on death or a diagnosis of imminent death. Further, unlike traditional disability insurance, benefits are not conditional on the loss of employment or business income, and not tied to an individual's level of annual income.

All of Canada's major insurers offer a CII product. Many CII products offer a "return of premium" option. If an illness has not occurred within a specific period of time (generally 15 years), all premiums are refunded.

A corporation may find CII a useful option to insure those shareholders key to the company's success. Under a CII "shared ownership plan", the shareholder pays for the return of premium benefits, while the company pays for (and owns) the basic benefit. This type of plan benefits the shareholder by establishing a long-term savings plan utilizing the return of premiums option (provided no covered critical illness event occurs). At present, it appears **both** the shareholder and company premiums can be returned on a tax-free basis to the shareholder after the contract has been in force for 15 years.

The corporation benefits by having financial security in the event of an illness. If a CII event occurs, it receives a tax-free lump sum benefit. The benefit can be used in any way to meet its commitments dealing with the shareholder's illness (e.g. repay indebtedness, cover costs of replacement personnel, etc.). Note the tax-free lump sum is not considered a capital dividend, and cannot be distributed tax-free to the shareholder.

Written agreements define each parties rights and benefits under a shared ownership plan. A qualified insurance agent can assist you in determining whether such a policy makes sense for your business.

Investment Counsel Outlook

The United Sates recently recognized two important anniversaries. Both events had a profound impact on the current state of the world's largest economy with resulting global spill-over.

First was the 8th anniversary of 9/11. The US authorities acted swiftly and decisively following 9/11 to mitigate the economic fallout of the attack on their institutions, to stave off an even deeper and more painful recession than America actually experienced in 2002. Driving interest rates to historical lows and encouraging consumer spending brought about a boom in real estate fuelled by over-leveraged sub-prime borrowers. Much of the economic pain we have experienced in the past 12 – 18 months is a hangover inflicted by those overly aggressive stimulus polices put in place in the first years of the Bush administration.

Second was the one-year marking of the collapse of Lehman Brothers. Already under heavy strain, the US economy and the financial system gave way with news that one of the financial pillars of America and free enterprise had failed. It was the proverbial "straw that broke the camel's back".

History teaches us many lessons we tend to ignore in the midst of a crisis, and the economic turmoil of 2008 – 2009 was no exception. Over the past 12 months, many investors panicked and re-evaluated their investment strategies. It was difficult in late 2008 and early 2009 to stay the course. Each day brought bad news, and every new report or forecast sent the world's equity markets lower. To add further to investors' pain, bonds and other traditional "safe haven" investments led the way down.

The second week of March 2009 finally saw investor sentiment turn positive. Some closely-watched leading economic indicators showed signs to fuel optimism. Bargain seekers began entering the market, picking up distressed debt issues and the equity of many solid companies at bargain prices.

We have now enjoyed nearly six months of positive momentum in the world's financial markets. And like all previous bear markets, the one just experienced has been followed by huge gains (approximately 40% in six months). So now the question is where do we go from here?

Predictably, equity markets were responding positively ahead of the economy. Now that most indicators are pointing to positive momentum, we anticipate the growth in equity values will slow. We may even experience some downward pressure, particularly if current projections and forecasts fall short. On the positive side, some stability has returned to the world's banking systems. Interest rates remain at historic lows, and all indications are they will remain low well into 2010. Although the deep discounting of quality stocks may be behind us, the market is still relatively attractive. Stocks still look like bargains when compared to the yield on treasury issues. The auto industry also appears to have weathered its worst downturn in decades, despite Chapter 11 filings from Chrysler and GM.

Viewing events in hindsight is always easy. While we cannot predict the future, we can structure our investments to mitigate volatility and risk. The past 12 months have reinforced lessons easy to preach but difficult to follow - stick to a long-term investment plan, stay diversified, rebalance to maintain target asset allocations aligned with specific risk tolerances, and invest in good companies with strong financial fundamentals.

H1N1 Preparation

Information and events concerning the H1N1 flu virus continue to frequent the news. The World Health Organization raised its pandemic level in June to Phase 6 (its highest level and indicative of a global outbreak) for this virus.

If you are a business owner, you should have policies and procedures to address health risks from a possible outbreak of the H1N1 or other viruses. We've chosen to implement workplace policies at Ward Uptigrove to address the following elements:

- control and prevention of the spread of the virus in the workplace, while protecting the rights, safety and privacy of individuals;
- ensuring the continuance of business activities;
- flexible working arrangements, where possible, for staff;
- time off work for illness, and
- workplace procedures that support good health and prevent the spread of illness.

Everyone can use common sense, simple procedures such as washing their hands frequently using soap and water or an alcohol-based hand sanitizer, cleaning and disinfecting common areas (e.g. keyboards, countertops), and taking steps to boost their immune system. Your local health unit is a good source of information about H1N1 and flu matters. If you require assistance with putting policies in place for your business, contact Carrie Sharpin (carries@w-u.on.ca) for assistance.

HR Matters

Part Time HR Manager Service

Is your current HR person leaving for another job or going on leave, creating a gap in HR coverage? Is the organization struggling to solve many HR challenges due to lack of expertise or resources? Are managers spending too much time trying to solve complex HR issues (such as staff conflict or morale issues), and not getting to their other duties?

We can assist by placing in your workplace, a fully trained, experienced HR professional to alleviate your HR headaches. Assignments can range from one day a month to three days per week, and can be timed to match your needs. Contact Ben (benc@w-u.on.ca) or Carrie for more information.

Ward & Uptigrove/McDonald Green Leadership Training – Special Pricing

We sold out all five of the high quality management training series, delivered by McDonald Green at our offices in Listowel over the past year. The next offering will be in early 2010 and runs for five consecutive weeks. This personal development opportunity is designed for supervisors with various functional responsibilities. As such, it is ideal for new or potential managers or supervisors.

We originally offered these workshops at $849 per person. Due to assistance through the County of Perth's RED Grant Program, we are now able to offer this series for $467 per person. Please contact Linda Brown at 519-291-3040 ext 272 (lindab@w-u.on.ca.) to reserve a spot.

McDonald Green also offers customized workshops at your workplace on a variety of topics; if interested, contact Ben.

Employee Wellness Programs

These programs have been proven to increase the health of staff, reduce sickness and injury, improve productivity, increase employee retention and reduce the occurrence of targeted diseases. A properly designed wellness program should:

- Provide individual lifestyle counselling related to fitness, work/life balance, heart health, nutrition education, and weight management,
- Prescribe home based fitness programs and provide ongoing follow-up and support,
- Include special events such as wellness clinics, health fairs, nutrition fairs & workshops,
- Provide fitness and wellness educational resources through an intranet site,
- Provide resources for professional wellness information boards, and
- Organize and implement incentive challenges and campaigns to keep interest and motivation high.

Ward & Uptigrove and its affiliates are implementing a wellness program for staff starting October 1st. If you're interested in implementing a wellness program in your workplace, contact Ben or Carrie for more information.

New Electronic Device Use Rules in Vehicles

Effective October 1, 2009, legislation to control the use of certain electronic devices (e.g. cell phones, blackberries, iPods) in vehicles will be in place in Ontario. Stiff penalties will be imposed on drivers using hand-held electronic devices while driving. Employers of such drivers face potential liability as well. Business owners should update technology policies and communicate these to staff as soon as possible. A simple solution for cell phone use is to require staff to use an earpiece. E-mailing, texting etc. should be banned while driving.

HR Policies and Policy Manual

Do you have workplace policies defining rules for hours of work, employee conduct, pay administration, performance reviews, harassment, violence, drug & alcohol use, health & safety, progressive discipline, use of the computer, vacation, leaves, retirement, etc.? Are the policies summarized in a manual, kept current, and communicated to staff regularly?

Policies allow efficient, fair and consistent management of the daily operation of your business. They allow an owner/manager to clearly communicate what is or is not allowed. Policies provide guidance to resolve issues and avoid employee complaints and government investigations. We have sample "best practice" policy manuals that can be easily adopted to your workplace. Contact us for more information.

CRA Audit Activity

Commencing late this summer, CRA announced its intention to audit eBay sellers for unreported income. EBay has provided CRA with names of sellers, as well as their contact information and sales records. If it is determined a taxpayer did not report income from these sales, reassessments for additional taxes will result. Reassessments will include penalties and interest, and possibly even fines.

To avoid the imposition of penalties and fines, taxpayers must come forward **before** any audit activity commences, under CRA's Voluntary Disclosure Program. Disclosure can be made in writing to the taxpayer's local District Taxation Office.

Congratulations

Lindsey Berlett officially became a CA in February of 2009. Lindsey works in our business group as a staff accountant.

Comings and Goings

- Rachel Elliott joined our farm group in January as a staff accountant. Rachel is a graduate of the University of Windsor and resides in Brussels.
- Shehar Khan worked a co-op term with us from January to April, and returned this September for an eight month term. Shehar attends Brock University and works in our business group.
- Peter Dykstra joined our business group as a staff accountant in May. Peter is a graduate of Conestoga College and lives in Waterloo.
- Jennifer Loree, CA, started with our farm group in July. Jen obtained her CA designation in 2004 and her previous work experience was with a national accounting firm. She presently resides in Listowel.
- Shayna Morgan joined our farm group as a staff accountant in September. Shayna is a graduate of Conestoga College and lives in Listowel.
- Johnny Herries started with our business group in September. Johnny is also a graduate of Conestoga College and lives in Kitchener.
- Caitlin Bellamy joined our farm group in September as a staff accountant. Caitlan is a graduate of the University of Guelph and resides in Brussels.
- Marvin Cajina started with our business group in September as a staff accountant. Marvin has degrees from the University of Ottawa as well as Algonquin College. Marvin lives in Listowel.
- Lindsey Nylander worked for us from January to April in our business group.
- Tyler Domenico spent a co-op term with us in the January to April period before returning to school at Conestoga College.
- Lauren Bakker and Matt Town worked for us this summer, and assisted with several large scanning projects, before heading to school in the fall.
- Corey Schneider left in January to pursue other career opportunities.
- Becky Harding left on maternity leave in June, and Barb Driscoll left for maternity leave in July.