WARD & UPTIGROVE
CHARTERED ACCOUNTANTS
EST. 1958

# 2011 SUMMER NEWSLETTER

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## *IN THIS ISSUE*



## When Cash is Short

Times are tough, cash is tight.

This is not the time to cut costs in an effort to reach short-term goals. You may inadvertently create unforeseen difficulties that may surprise you later. The following list outlines what NOT to do when cash is short.

**DO NOT**:

***Sign Your Life Away***

Prudent debt management suggests that debt incurred for business purposes should be the only debt at risk when operating your business. When times get tough and small businesses need operating capital, financial institutions often ask for personal guarantees from the owner/manager. When one signs as an agent on behalf of a corporation, only the company assets are at risk in the event of bankruptcy; if, however, the owner/manager signs a personal guarantee for the corporate debt, he or she may be subject to unlimited liability.

***Postpone Paying Government Withholding Taxes***

All personal income tax withheld from employees for remittance to the government, Canada Pension Plan, Employment Insurance, as well as the HST collected from customers are collected in trust for the government. With the HST rate at 13% the amount collected can grow quickly. Using the HST collected or employee deductions to augment cash flow between collection and the remittance deadline is not a good idea. Failure to remit by the deadlines set by the various regulatory bodies will result in stiff penalties regardless of the unremitted dollar amount. Penalties increase with each missed deadline. In addition, if your business declares bankruptcy, corporate officers and directors could be held accountable and required to repay the delinquent amounts out of their own pockets.

***Cash Personal RRSPs to fund the Business***

Using your RRSP to keep your business afloat may be available as a last resort but, before you do that, realize the initial cost in personal tax liability may be high. The additional amount withdrawn may push you into such a high tax bracket that cash-flow problems could be exacerbated later when you have to withdraw more capital to pay your higher income taxes.

***Cut All Promotion***

Advertising and promotion are often seen as expenses that can be slashed out of operating costs. Indeed, you should ensure that frivolous advertising is eliminated. No advertising or promotion, however, removes your voice from the market place. You also need to keep existing clients informed of any changes that might affect the products they buy. This may be an opportunity to review the effectiveness of your advertising expenditures and see where it is most and least effective.

***Cut Insurance Coverage***

Reducing insurance coverage is another road to short-term savings. Before taking this route, however, consider the consequences. Do any loan covenants require a specific level of coverage for the assets securing the loan? If vehicles are leased, are they subject to any insurance conditions? Failure to maintain adequate insurance may be a breach of contract that forces loans to be called or vehicle leases to be cancelled.

***Stop Paying Premiums***

Eliminating expensive life insurance premiums on key personnel, especially on you, the owner/manager, is another short-term solution that could become a long-term problem. Before taking this tactic, you should consider how stressful times can create health problems. If you are unable to continue working, you could be placing your business, your shareholders (partners), and your family in jeopardy, particularly if buyout insurance becomes inadequate as a result of a short-sighted cutback in the premiums. If you later try to renew the insurance, medical examinations and/or higher costs may prevent you from reinstating the policy at its former level.

***Reduce Your Take-Home Pay***

Reducing your own remuneration is certainly one more method of maintaining cash flow. But keep in mind that a certain level of remuneration is required for day-to-day living. Often, reduced remuneration is offset by increased draws by owner/managers. At some time in the future the owner/manager must record these draws as personal taxable income with the risk of moving into a higher tax category. Perhaps personal and family income requirements should be reviewed to consider whether hiring family members would provide the necessary family income without raising your personal tax rate.

**WHAT YOU SHOULD DO:**

***Seek Advice***

Maintaining control over business costs is essential in any business. The secret to controlling costs without creating higher future costs is to carefully analyze the specifics of cost cutting and determine with the assistance of your Professional Accountant whether your current plans will be detrimental to your business in the long run.

## Changes to Accounting Standards

Accounting standards for private companies in Canada are changing. Canadian private companies, whose fiscal year begins on or after January 1, 2011, are required to choose a new accounting framework for their next fiscal year end – either that of International Financial Reporting Standards (IFRS), or Canadian Generally Accepted Accounting Principles for Private Enterprises (GAAP PE).

In general, GAAP PE will retain most of the current accounting standards and simplify others. One new provision we believe will be of interest to our clients is the one-time ability to restate the value of capital assets (e.g., land, buildings, equipment, etc.) from their historical cost to fair market value.

The ability to restate the value of capital assets may have a positive impact on an entity's financial statement covenants and/or the ability to use these assets as security. Costs are involved to revalue these capital assets, such as a professional appraisal or valuation to support the increase in value. There may also be other considerations when contemplating this one time revaluation of capital assets.

Professional advice should be obtained in making a decision on adoption of these new provisions and a proactive approach is the best plan.

## Renewable Energy Projects

Whether the project be solar, biomass or wind, renewable energy projects are the green wave of the future. Unfortunately, due to the recent demand for these projects, issues encountered are being dealt with as they occur and conclusions have yet to be reached on many of them. Hopefully the following will help you understand the decisions yet to be made, and update you on a few that have.

The first hurdle in the renewable energy process is receiving back the HST paid on installation. The Canada Revenue Agency (CRA) has been holding up some large refund requests, as they suspect a renewable energy project has been erected and they are not 100% sure on the treatment of HST on these purchases. The question is whether the project is an investment (no HST refund) or an asset purchased for generating business income (qualify for HST refund). CRA requires HST to be paid on the income generated; leading us to believe the only conclusion that the CRA can come to is to refund the HST on the cost associated with the project. CRA has yet to reach a definitive decision on this issue.

The second decision that is yet to be made is on the taxation of income earned by these projects. The CRA has affirmed that the income earned from these projects is not farming income, but they have not decided whether it should be treated as active business income or income from property. If the taxable income earned from the project (which is the income earned from energy generated less all associated costs, e.g. repairs, insurance, interest) is treated as active business income, it will be taxed similar to farm income. By treating this income as active business income, it will allow the farm corporation to possibly use the capital gains exemption when the farm shares are sold in the future. However, if the solar project is not considered an eligible farm asset the corporation may not qualify as a family farm corporation. Tax free transfers of the shares to the next generation would not then be available.

If the taxable income is treated as property income (an investment), it will be taxed at a higher rate of 47.41%, with a 26.67% refund of this tax when dividends are paid to the shareholders. This would net to about 21% tax in a company, but the dividends would than be taxed in the hands of the shareholder as well. This tax treatment would not allow the farm corporation to qualify for the use of the capital gains exemption or the tax free transfers if the value of the project's assets are greater than 10% of the fair market value of the farming assets in the farm corporation (e.g. land, buildings, equipment, inventory, quota) at the time of sale.

In either of the above taxation scenarios, the energy projects are placed in asset class 43.2 and the capital cost allowance (CCA) deduction is limited to the taxable income earned through the project. Class 43.2 allows for 50% unrestricted CCA deduction in year one, if the project is not connected to the grid, and the energy is being used by the owner. If the project is connected to the grid the regular CCA deduction limit will apply. For example:

| | |
|---|---|
| Income generated through project | $10,000 |
| Less: Repairs | 500 |
| Insurance | 300 |
| Interest | 1,500 |
| Taxable income | 7,700 |
| Maximum CCA deduction | 7,700 |
| Total taxable income | $ 0 |

As a solar project's operations are not farming, net income must be reported on an accrual basis. In most cases the farm net income is calculated on the cash basis. Farm cash basis adjustments cannot be used to offset the solar project profits.

Lastly, there have been many issues with projects unable to connect to the grid. If you are having trouble, the following website

http://www.hydroone.com/Generators/Pages/StationCapacityCalculator.aspx

allows you to input your feeder and connecting station number, and it will let you know if your station has enough capacity for your project. This calculator is real time, and includes all energy that has been assigned to projects already approved. The OPA is strongly encouraging the preapproval of all projects by the hydro supplier before proceeding with any capital investment.

## Employee or Self-Employed?

Whether a worker is an employee or a self-employed individual will impact on how a worker is treated for Canada Pension Plan (CPP) Employment Insurance (EI), and income tax reporting. A ruling can be requested from CRA as to whether an individual is an employee or a contractor. If the employer considered an individual a contractor, and the CRA considered the individual an employee, the CRA may demand payment of CPP and EI contributions back to their date of hire, and may levy significant financial penalties for non-compliance with the applicable legislation.

To determine whether a worker is an employee or a self-employed individual, consideration should be given to the following three factors: control, ownership of tools and equipment, and financial risks. There are other factors that may also be considered, and no one factor is decisive.

### *Control*

The factor of control is generally considered the most important. Generally, in an employer/employee relationship, the employer controls when and how the employee performs their duties. With professionals it can be difficult to determine the degree of control; however, if the employer does not directly control the worker's activities, but has the right to do so, the notion of control still exists.

***Ownership of Tools and Equipment***

Consider if the worker owns and provides their own tools and equipment as well as the amount invested, and the "right to use" these assets for other uses. Workers who make a major investment in equipment or tools, and pay for costly maintenance, are usually self-employed individuals.

***Financial Risks***

Consider the chance of profit and risk of loss including risks of bad debts, damage to tools or other business risks, and whether the worker is liable for any operating costs.

## Canada Pension Plan (CPP) Changes to Retirement Benefits

Several changes to the CPP retirement benefits will become effective January 1, 2012, as outlined below.

***Removal of the Work Cessation Test***

Currently, the Work Cessation Test requires individuals applying for early benefits (i.e. before age 65), to either stop work or reduce their earnings for at least two months. This test will be removed in 2012, allowing individuals to take their benefits as early as age 60 without any work interruption or reduction in hours worked or earnings. This change will not affect existing CPP recipients or someone commencing CPP before 2012.

Related to this, individuals applying for early benefits will have their pension reduced by 0.6% (from the current 0.5%) per month, for each month their pension is taken before age 65. Those who delay benefits will see them increased by 0.7% (from the current 0.5%) per month.

***Increase in the "General Low Earnings Drop-Out"***

A CPP retirement pension is based on the number of years a person has worked and contributed to the Plan, as well as the salary or wages earned. Specifically, it is calculated as 25% of an individual's "average career earnings", starting at age 18 and ending at the age CPP benefits commence. Periods with the lowest 15% of contributions are excluded from the "average career earnings" calculation (for example, to allow for full-time post-secondary education attendance, or periods of unemployment). This provision is called the "general low earnings drop-out".

The government will increase the drop-out percentage from 15% to 16% in 2012 and to 17% in 2014. As a result, the maxmimum number of years that may be dropped out of the average earnings calcuation increases from 7 to 8. Again this change will not impact existing beneficiaries or someone receiving benefits before the change is effective.

***Working Beneficiaries to Participate in the CPP***

Under existing rules, individuals who commence receiving CPP benefits and later return to work ("working beneficiaries") do not pay further CPP contributions. Beginning in 2012, **working beneficiaries under the age of 65, and their employer**, will be required to make CPP contributions. CPP benefits will increase by up to 2.5% of the maximum CPP pension.

This change will be voluntary for individuals aged 65 or over, and contributions will also be required from employers of individuals opting to participate in the CPP past age 65.

## Canada Revenue Agency (CRA) – New Tax Credits

The CRA issued a news release on June 7, 2011, announcing two new tax credits, excerpts of which follow:

***Hiring Credit for Small Business (HCSB)***

The HCSB is a one-time credit of up to $1,000 based on the increase in an employer's employment insurance (EI) premiums paid for 2011 over those paid for 2010. A small business whose total EI premiums paid for 2010 was $10,000 and whose total premiums increased in 2011 is eligible for a credit. The credit is calculated as the difference between the 2010 and the 2011 EI premium amounts.

The CRA will automatically calculate the credit for eligible businesses upon filing of the employer's 2011 T4 information return. Employers must file their 2011 T4 return prior to January 1, 2015 to obtain this credit.

***Children's Arts Tax Credit (CATC)***

The federal budget proposes a new non-refundable tax credit for 2011 and subsequent tax years based on eligible expenses paid for the cost of registration or membership of your or your spouse's or common-law partner's child in a prescribed program of artistic, cultural, recreational or developmental activity. The CATC will let you claim up to $500 per year for each of your children who are under 16 years of age at the beginning of the year in which the expenses are paid.

A new line will be included on the Schedule 1 – Federal Tax of the 2011 personal income tax return to allow you to claim the benefit.

Eligible programs must be supervised and suitable for children and include:

- a weekly program of a minimum 8 consecutive weeks in which at least 90% of the activities are eligible activities.
- a program of a minimum 5 consecutive days in which at least 50% of the daily activities are eligible activities.

Eligible activities in the above programs include an activity that:

- contributes to the development of creative skills or expertise in artistic or cultural activities;
- provides substantial focus on wilderness and the natural environment;
- helps children develop and use particular intellectual skills; or
- provides enrichment or tutoring in academic subjects.

Programs that are part of a school curriculum will be ineligible. In some cases, fees may appear eligible for both the CATC and the previously introduced Children's Fitness Tax Credit. If the fees qualify for the latter credit, you will not be able to use them for the CATC. You should receive and keep receipts issued by the organizations providing the programs. These receipts should be submitted with the rest of your 2011 income tax information.

## Human Resources (HR) Matters

### *Complimentary September 14, 2011 HR Client Conference*

You're invited to our Ward & Uptigrove HR Client Conference.

**Matthew Mihailovich** of Hicks Morley Law Office in Waterloo will speak on various aspects of **employment law** including hiring, discipline, terminations, and human rights.

Get updated on the new customer service standard of the **Accessibility for Ontarians with Disabilities Act (AODA)** required to be implemented by all non-profit and private sector organizations by January 1, 2012. There will be time for questions after the presentations.

Details:
Place: Listowel Golf Club
Date: Wednesday, September 14, 2011
Registration and refreshments: 7:30 to 8:30AM
Sessions: 8:30 to 11:30AM
Maximum two attendees per organization please.

To register for this complimentary event please contact
Lindsay Hunsberger at 519-291-3040 (Ext. 700) or lindsayh@w-u.on.ca.

Space is limited. To avoid disappointment, please contact Lindsay as soon as possible to reserve your spot.

### *New HR Service: HR Risks & Opportunities Assessment*

Are you aware of the risks and opportunities related to your most valuable resource, your people? We have developed an assessment tool that allows us to assist in evaluating how your organization is performing. Contact your accounting Partner/Principal or one of our HR Professionals for more info.

### *New HR Service: HR Mentoring*

Are you struggling managing your people due to lack of time or expertise? Does your HR person need some help solving your HR challenges? We offer an HR mentoring service for you or your HR person. Contact one of our HR Professionals for more information.

### *Accessibility for Ontarians with Disabilities Act (AODA)*

The Ontario legislature passed the Accessibility for Ontarians with Disabilities Act (AODA) in 2005 with the purpose to move businesses in Ontario forward on accessibility for people with disabilities. Businesses in Ontario will fully benefit from the contributions, involvement and spending power of people with disabilities.

The customer service standard is the first standard developed under the AODA. This standard affects the **private, non-profit, and public sectors** that provide goods or services either directly to the public or to other organizations in Ontario (third parties) and that **have one or more employees** in Ontario. Non-profit and private sector organizations must comply by **January 1, 2012**.

Other proposed standards are being developed in the areas of transportation, information and communications and employment.

The customer service standard requires that all providers of goods or services do the following:

**Step 1**: Create and put into place a plan that:

- Considers a person's disability when communicating with them.
- Allows assistive devices in your workplace, like wheelchairs, walkers and oxygen tanks.
- Allows service animals.
- Welcomes support persons.
- Lets customers know when accessible services aren't available.
- Invites customers to provide feedback.

**Step 2**: Train staff on accessible customer service.

Learn more about the AODA, how it impacts your organization and what you need to do to become compliant by attending the Ward & Uptigrove Client Conference on September 14, 2011. See further details about this event in this newsletter.

Our HR practice offers a service to help you develop a plan and train your staff to comply with the AODA. Contact Deborah Good, CHRP to discuss further.

***Bill 119 Mandatory WSIB Coverage in Construction***

This bill has received third reading but has not been passed into law. The Ontario PC party opposes this bill. Based on the proposed changes, effective January 1, 2012, construction firms will be limited to exempting only one Executive Officer from WSIB coverage. In addition, construction independent operators will be required to register for WSIB. Call Ben Cornell, CA CHRP to discuss further.

***Upcoming Training Workshops***

- 2011 Autumn Leadership series: 5 half days Tuesdays October 4, 11, 18, 25 and November 1
- 2012 Spring Leadership series: 5 half days Wednesdays March 7, 14, 21, 28 and April 4

This 20 hour, popular and high quality series will give you, your supervisors and your key staff the tools to become leaders in your organization.
Learn to:

- Communicate more effectively
- Manage your time
- Delegate to reduce your workload
- Motivate your staff to improve performance
- Manage workplace conflict
- Lead in stressful situations and with difficult staff

The Leadership Series are held at Ward & Uptigrove's training room at 145 Main Street East in Listowel.

We also offer various custom workshops that can be delivered at your workplace such as:

- Time Management
- Dynamic Communication
- Conflict Management
- Ethics
- Team Building

To register for the Leadership Series or get more information on the custom workshops email Lindsay Hunsberger at lindsayh@w-u.on.ca or call 519-291-3040 (Ext 700).

***Using Application Forms for Recruiting Employees***

Using an application form will help protect your business from dishonesty and Human Rights complaints, as well as make your recruitment process more efficient.

It is well known that some people falsify information on their resumes in order to achieve a position they desire. Examples of false information include dates of employment, inflated job titles and responsibilities, and educational accomplishments. Having applicants sign off an application form that the information they have submitted is true and that falsifying such information would be cause for dismissal, if hired, may promote a higher level of honesty.

It is dangerous to ask any questions about the applicant's race, ancestry, place of origin, colour, ethnic origin, citizenship, creed, sex, sexual orientation, age, record of offences, marital status, same-sex partnership status, family status and handicap. These are the prohibited grounds under the Ontario Human Rights Code. All people have the right to be free from discrimination or harassment under these grounds. A standard application form will help your business avoid collecting or asking for information about the above items.

Reading several resumes in many different formats makes narrowing an applicant pool very difficult and confusing. To get consistent information, consider having applicants complete an application form. The application form should ask about work history, personal information such as name, address, phone, email, education and training, other qualifications and work related references. When information is more consistently laid out, it is much easier to find.

If you recruit for the same position regularly, consider including some questions specific to the position on the application form to help you quickly pre-screen applicants. For example, if regularly hiring students for sales/service, you may want to ask specifically about any past experience they may have had providing some kind of service.

Before making an offer to any candidate, be sure to check work related references and verify information as well as possible.

W&U has a standard application form and reference checking questions available in a Word document, that can be customized to your business. For more information, please contact Lindsay Hunsberger at lindsayh@w-u.on.ca

## Investment Counsel

### *The Valuable Role of an Accountant in Wealth Management Services*

Your financial well-being can be impacted by the relationships you hold with a number of professionals. Accountants, financial planners, portfolio managers, bankers and lawyers all play a role in ensuring your specific financial objectives and needs are met. The optimal solution is to have all of these professionals working together as a team, as what may be a good idea in one part of your plan may have a negative impact in other areas. Communication between the individuals working on your behalf is a key element for success. However, this component is often lacking, as many fail to see the added value of a team-based approach.

Wealth management is an area where open and continuous dialogue between the client's accountant, financial planner and portfolio manager can be of tremendous value. In structuring a portfolio, the first step is to establish an appropriate asset allocation. The primary task of a portfolio manager is to invest in a mix of short-term instruments, bonds and other income producing assets, with domestic and foreign equities, in relative proportions appropriate for each client. In order to carryout this process the client's risk profile must be established. Determining the amount of risk an individual can tolerate merely on the basis of age or some other mathematical formula ignores other issues that are unique to the client's particular circumstance. Valuable input from the accountant regarding the client's family dynamics in their business, financial needs and future plans helps shape a more comprehensive and complete picture.

Once the client's risk profile has been established with an appropriate asset allocation, the accountant can assist in modeling cash flow in and out of the portfolio. This involves an analysis of assets and income outside of the portfolio, marginal tax rates, and the impact portfolio income may have on the client's overall tax position, such as the claw-back of Old Age Security benefits.

Another extremely valuable role the accountant plays in the wealth management process is in managing capital gains tax. The portfolio manager typically generates gains and losses throughout the year as the portfolio is rebalanced to align with target asset allocations. An annual review of those gains and losses prior to the end of the tax year, in conjunction with any other gains or losses that may have been generated outside of the portfolio, may lead to the strategic sale of assets within the portfolio to minimize the client's total taxable capital gain. For example, suppose an investor had sold a cottage two years ago and paid a substantial tax bill on the capital gain realized. Working with the portfolio manager, the accountant can convey this information so strategic tax selling can be implemented. The portfolio manager can identify any assets with imbedded losses, sell those assets to realize the loss and purchase similar securities, commonly referred to as proxies, to keep the portfolio fully invested. The accountant can carry back those losses for a period of up to three years to recover some or all of the tax paid on the sale of the cottage.

Finally, the appropriate asset allocation for an individual client will likely change over time. As people age and accumulate wealth, their need for growth may diminish, replaced by a need for tax efficient income. The accountant is usually closest to the client and has a better understanding of changes in family dynamics and financial objectives. Again, by conveying information to the portfolio manager, the client's risk tolerance can be reassessed and adjustments can be made to a more appropriate target asset allocation.

In summary, an accountant can play a key role in providing wealth management services. The intimate knowledge of the client's unique situation held by the accountant can help shape the client's risk profile and target asset allocation. The accountant can help in the assessment of total cash flow and minimization of taxes. Valuable input to assist with strategic tax selling to minimize capital gains can also be provided by the accountant. Finally, the accountant can convey changes in the client's personal and financial circumstances that may warrant adjustments to the client's target asset allocation.

## In Remembrance

On March 17, 2011, tragedy struck our office. Ray Walter, a Senior Accountant in our farm department and a volunteer with the North Perth Fire Department, lost his life while on duty at a fire call. The news sent a shock through our office, and we are still struggling with and recovering from the loss today. Ray is dearly missed.

We would like to thank all of our friends and clients for their kind words of sympathy. Many clients expressed their desire to contribute to a memorial fund in memory of Ray. We will be setting up a committee to determine how best to honour Ray, and will be in touch later this fall with those who wished to contribute in some way.

## Comings and Goings

It has been a busy year at Ward & Uptigrove where staffing is concerned. As happens every so often, we have had to say goodbye to several staff and welcome many new members.

Lindsay Robinson, Rachel Elliot and Patty Zurbrigg have all left Ward & Uptigrove to pursue careers in the private sector, and we wish them success.

Joan Livingston retired at the end of July. Joan was with Ward & Uptigrove for more than 16 years, and her dedication and expertise in the area of payroll compliance will be greatly missed. We wish her happiness in her retirement.

Cheryl Laffin returned to our business department in July after a maternity leave.

Alicia McDonald joined our farm group in June. Alicia brings several years of experience in the agri-business sector, most recently with BDO in Kincardine.

Brad Bakker CA has also joined our farm group. Brad brings experience in the small business sector and joins us from BDO in Waterloo.

Dan Benbow joined the farm group in July. Dan is a graduate of Conestoga College and has a BA – Accounting Honours from Redeemer University. He is beginning his public accounting career and has experience on farming operations.

Kerri Schuettel joined the business group in July. Kerri is a graduate of Niagara College. She has most recently held positions with various municipalities, both in accounting and non-accounting roles.

Tim Bridge CA joins our firm in August in the tax department. Tim has completed parts 1 & 2 of the CICA in-depth tax course. He joins us from KPMG in Waterloo and his detailed tax knowledge will be a welcome addition.