WORMALD MASSE KEEN LOPINSKI LLP

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ISSUE 27

NEWSLETTER

In our ever-changing business environment, our goal is to be the one constant that our clients can trust and rely upon to provide the business, financial and advisory services they need at an outstanding value to them.

WMKL

Chartered Professional Accountants & Business Advisors

Welcome!

WMKL has expanded! We would like to welcome our new additions:

- ✓ Tax Manager: Christy Holland, CPA, CA
- ✓ Staff Accountants: John Pollock and Karen Koz-Tieche
- ✓ Support Staff: Tara Jovaisas
- ✓ Co-op students: Dorothy Szymkow, Arin Leffler, and Larissa Hahamian.

Christmas Wishes!

The Partners and staff at Wormald Masse Keen Lopinski LLP would like to wish all of our clients and their families a very safe and Merry Christmas. We would also like to wish everyone a very Happy New Year!

WMKL Is Now On Twitter & LinkedIn!

We invite you to follow us on Twitter at https://twitter.com/WMKL_LLP and LinkedIn at https://www.linkedin.com/company/wormald-masse-keen-lopinski-llp. Please follow us there for tips, insights and news that will benefit you and your business. Keep an eye open for career opportunities with our firm and see what our staff is up to!

The following article is reprinted with the permission of Wolters Kluwer CCH Site Builder:

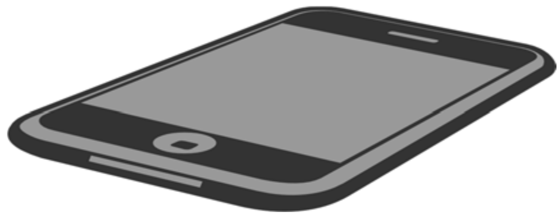
Employer-provided cell phones – the potential tax cost

Having access to mobile communication is useful and practical for any number of reasons and Canadians who don't have a cell or smart phone are likely now the exception rather than the rule. It's also the case, however, that cell phone rates payable by Canadians are among the highest in the world, and so having an employer provide that cell phone (and pay the associated costs) is consequently a valued employment benefit. That said, Canadians who enjoy such an employment benefit should be aware that, while they may not have to pay a monthly cell phone bill, there still can be a cost in the form of a taxable benefit which must be reported on the annual return.

The general rule set out by the Canada Revenue Agency (CRA) is that where an employer provides his or her employee with a cell phone to be used in the course of their employment duties, the business use of that phone is not a taxable benefit to the employee. Where part of the use of the phone is personal (as it inevitably is), the value of that personal use must be included in the employee's income as a taxable employment benefit. The employer is required to calculate the amount of that taxable benefit, based on the fair market value of the service (basically, the employer's cost, assuming that cost reflects current market value of the service), minus any amounts reimbursed to the employer by the employee.

While such an approach may be theoretically correct, it's not particularly practical for every employer to make such a calculation for each and every employee to whom a cell phone is provided. The CRA's assessing policy is therefore that an employee's personal use of an employer-provided cell phone will not be a taxable benefit if all of the following apply:

- The plan's cost is reasonable;
- The plan is a basic plan with a fixed cost; and
- The employee's personal use of the service does not result in charges that are more than the basic plan cost.



When an employer wants to provide cell phone service as a benefit of employment, the alternative to providing the cell phone itself is to give the employee an allowance which he or she can then use to acquire a phone and plan. While that approach gives the employee more flexibility, it's not a great option from a tax perspective. The CRA's assessing policy with respect to that approach is that any such allowance provided by an employer must be included on the employee's T4 for the year and taxed as income.

Based on the CRA's assessing policies and criteria, it seems that the most tax-effective option for employees when it comes to employer-provided cell phones is for the employer to buy the fixed-cost plan which provides the most generous terms that can be reasonably justified by the employee's business-related use of the phone, and for the employee to avoid running up any additional charges related to personal use (for example, for excess minutes, long distance or roaming charges) which will result in charges in excess of the basic monthly bill for that plan.

The following article is reprinted from the Newsletter Business Matters with the permission of the Chartered Professional Accountants of Canada:

Corporate Year End

Before choosing a date for your year end, think about the date that works best for your kind of business.

When entrepreneurs incorporate their businesses under their respective provincial articles of incorporation, often, little thought is given to the date for the fiscal year end. Many company founders unconsciously identify the company's fiscal year end with the calendar year end of December 31, and therefore automatically select this date. After the articles of incorporation have been issued, the business may choose any date as yearend provided the number of days of the fiscal year do not exceed 371. Conventional wisdom suggests, however, that the last day of the chosen month is the most practical date since most businesses and financial institutions process client data on a month-end basis. Setting the year end date at the end of your chosen month permits an easier cut-off and reconciliation process.

Factors to Consider

Inventory

If, for example, you are a retail business, physically counting inventory during your busiest sales period (i.e., Christmas) would disrupt business, so January 31 would be a good date for your year end. Inventory, as well as the level of in-store activity, will be at their lowest in January when your staff can count, price and value inventory without taking time away from selling. For a service industry such as landscaping, work-in-progress may have to be calculated. It may be best to have a yearend such as November 30, after the bulk of the contracts are finished.

Choose a year-end date that works with your accounting cycle.

Accounting

Choosing an arbitrary year end such as December 31, which may not match your accounting cycle, could create issues for your in-house accounting staff as well as your CPA. Internal staff is often overwhelmed with completing year-end procedures for payroll, government reports, and finalizing year-end inventory, not to mention cut off of receivables and payables or budgeting for the coming year. Such stress can lead to errors, increased overtime and frustration.

Also, if your year end is December 31, your CPA may not be as available as you would like because they are consumed by tax planning and tax preparation for individuals and may be in no state of mind to work with staff that is already frustrated by their own year-end requirements. (This is not the best of formulas for getting quality time with your CPA to analyze your financial results.)

Start-up capital

When a business starts up, cash flow difficulties are common, given the need to borrow working capital for start-up costs and capital assets. If, by good fortune, the business does extremely well in its first year and substantial taxable income materializes, a year end set 365 days from the date of incorporation may be advisable. Since there is no requirement to pay monthly or quarterly instalments in the first year of operations, the business gets the maximum tax deferral by setting the first year end as late as possible. A later year end would lessen the actual cash outflow for corporate income tax and provide additional working capital in the start-up period.

The requirement to pay monthly or quarterly instalments begins in the second year, the payment amounts are determined by the taxable income reported in the first year. In case the first year end was shorter than 365 days, the taxable income is normalized to reflect the income had it been for the full 365 days. This may be helpful for seasonal businesses, to set a year end prior to the peak income period because that would not only defer the tax liability of the first year but also reduce the required instalments in the second year. This allows businesses to have more working capital during the start-up phase.

Tax Deferral

Choosing a year end of July or later allows tax deferral of corporate profits. Suppose, for a moment, that the corporate profit is $150,000. Rather than pay the corporate tax on the $150,000, management may decide to pay out the $150,000 in bonuses to various employees of the company. If the bonus is declared for the July 2016 year end but not paid until January of 2017, the income tax expense for the corporation is nil and the tax on the bonuses is not taxed in the hands of the recipient until it is paid in January of 2017. This approach provides working capital for the corporation that otherwise would have gone to the Canada Revenue Agency (CRA).

Changing Your Year End

Your business may have changed over the years so that now there are compelling reasons to change its current year end, such as staffing or administration issues that make it impossible to complete the year-end process in a timely fashion. If, for instance, your business now has a high sales volume or high inventory at the current year-end date, it might be less disruptive to end the year on another date. If you are a subsidiary or highly dependent on another business such as a supplier, there could be administrative and accounting advantages to aligning year ends.

A request to change the year end must be sent to the CRA. Changes can only be made for sound business reasons (i.e., *not* for the purpose of an income tax benefit). A request for a change is not required if:

- The corporation is wound up and the final return is filed with a shorter fiscal year
- The corporation is emigrating to another country, is becoming exempt from tax or will cease to be exempt from tax
- Persons or a group of persons acquired control of the corporation under subsection 249(4) of the *Income Tax Act*.

Owner-managers should keep in mind that, if a change in yearend is granted, it will be necessary to produce financial statements and tax returns for the shorter period. Further, depending upon your accounting system, there may be additional cost in establishing the new year-end protocols.

Check with Your CPA before Making a Change

Decisions about establishing a year end or changing a year end can be fraught with unforeseen income tax consequences for both the corporation and owner-managers if personal and corporate tax issues are not considered. Entrepreneurs should meet with their CPA to discuss tax consequences; seasoned owner-managers should consider meeting with their CPA if making a change to the business year-end seems to be more and more necessary.

"You gave away 60 billion toys and didn't get one receipt?!"

The following article is reprinted from the newsletter Business Matters with the permission of the Chartered Professional Accountants of Canada:

Consider 2017

Look beyond revenue for profit growth.

Businesses are already looking toward 2017 and considering what has to be done to keep profits growing. The Canadian economy is expected to grow at only 1.5% according to a prediction by the Conference Board of Canada, which claims that "…there are plenty of headwinds for Canada's economic growth prospects:

- Investment in the oil and gas sector is still falling.
- Non-energy investment is lackluster, so Canada may soon face lack of capacity in manufacturing.
- Canadian consumer spending may not improve because incomes aren't rising sufficiently.
- Consumers are also stretched thin with debt.
- Growth prospects for the global economy remain poor.
- U.S. growth this year is also tepid."

Preparing for 2017

In a slow-growth environment, the best way to maintain or improve the bottom line is to reduce expenses. Now is the time to look at year-to-date financial figures and establish budget goals for the next fiscal year.

Start with zero-based budgeting.

Consider the Following

Start with zero-based budgeting rather than simply adding a percentage to last year's expensed figures. Every item of revenue and expense in the general ledger is reviewed and the revenue and expense items are justified with realistic assumptions.

1. Consider the possibility of having employees work from their homes in order to:
   - reduce the cost of lease space
   - reduce travel allowances or reimbursement costs
   - reduce in-house cost for utilities, telephones, taxes, maintenance, and interest
2. Review the communications system. Determine whether a separate facsimile line is necessary. Consider using an Internet system that connects to each employee's smart phone rather than using the traditional land line.
3. Consider whether the cloud would reduce computer, printing and communication costs and still enable employees to find data from one source.
4. Purge old documents. Much data older than eight years can be shredded to free up space.
5. Review the age and condition of your work vehicles. Should you buy a new vehicle or spend money on repairs and maintenance?
6. Can some vehicles be sold to reduce the cost of insurance, licenses, repairs, maintenance and fuel?
7. Review the budget for snow removal and ground maintenance. Perhaps a flat rate per snow removal would be cheaper than a contract. Could ground

maintenance be performed less frequently?

8. Review electricity consumption. Can work schedules be altered to take advantage of lower, off-peak rates? Is it time to update the lighting systems, both in the warehouse and in the yard, to higher-efficiency lighting?

9. Consider whether “just in time” delivery is a better way to manage inventory. Delivery “only as needed” reduces the amount of space devoted to storage and frees up working capital by cutting inventory costs.

10. Examine your lines of credit, credit cards, mortgages and loans. Perhaps interest costs can be reduced, advance payments made, and credit cards paid off with lines of credit at lower interest rates.

11. Determine whether it is necessary to maintain all full-time personnel. Could their jobs be done by part-time employees or contract workers?

12. Evaluate employees on performance and return on investment. Give raises simply based on productivity, quality of work, interaction with clients and staff. Have candid interviews with employees to obtain feedback on how they view their performance.

13. Ask all employees how they would improve their expertise to increase productivity or reduce costs.

14. Examine the time taken to collect receivables. If your company is not receiving payment within 30 to 45 days, perhaps it is time to implement a COD policy for late payers. If a large part of a delinquent client’s bill is, for example, machine parts, then perhaps you should have a deposit-for-parts policy in place. Otherwise, your business is acting as a bank for your clients but it is you who is paying your bank or supplier for overdraft or overdue accounts payable.

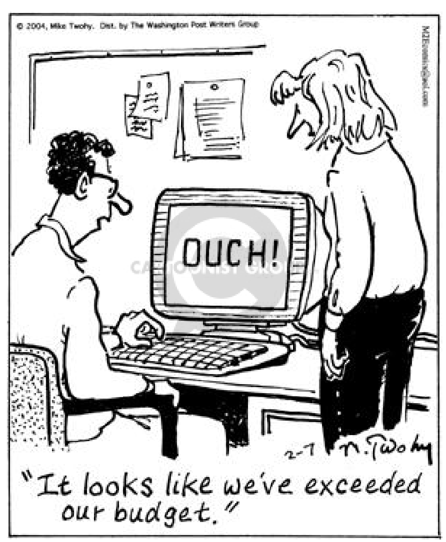
15. Examine credit card costs. If the cost of collecting credit card payments is excessive, consider switching to a debit card or e-transfer.

    Going paperless can save funds. Establish a system of filing for incoming email; items received by surface mail should be scanned, filed, and then discarded. Use the Internet to transmit information related to invoices, payroll and payments. Consider e-transfers to clients rather than cheques.

16. Apply the 80/20 rule. Evaluate your customer base and determine the top 20% of your clients. Stratify the remaining 80% and determine which are the most aggravating to deal with. Stop dealing with them and concentrate on the best 20%. Work on improving your relationship with those in the remaining 80% who show promise.

Budget like a Start-Up

Ensuring a solid continuous bottom line in times of economic uncertainty requires owner-managers to veer away from the traditional budget process. Management must look at all revenue opportunities and expenditures as if their business were still in the start-up phase and justify the figures for the following year on a line-by-line basis. This will give a better understanding of how to build opportunities and reduce costs.



“It looks like we’ve exceeded our budget.”

The following article is reprinted from CPA Magazine:

The Couple That Pays Together Stays Together

Partners who discuss their finances at least once a week say they are happier (78%) than those who talk about money every few months (50%), according to the second annual TD Bank Love & Money survey. Joint bank accounts also seem to help: among the three-quarters of couples who share at least one account, 79% say they are happy in their relationships. Similarly, of the 63% of couples who share at least one credit card, 68% are happy.

Fun Accounting Facts:

1. International Accounting Day takes place annually on November 10th.
2. The first CPA exam was given in New York in 1896.
3. Accounting offers a stable rate of employment amidst economic fluctuations compared to other professions.
4. Luca Pacioli wrote the first book on double entry accounting in 1494. He is frequently referred to as the father of accounting.
5. The word "accountant" comes from the French word "compter" which means to count or score.
6. According to Info Corner accounting is one of the top 10 safest jobs to have.
7. The FBI employs more than 2,000 accounting special agents.
8. There is a team of CPA's who spend an average of 1,700 hours prior to Oscar night counting the Academy Award ballots by hand.
9. Nearly 7 out of 10 accountants would stick with accounting if they could go back in time and choose a different career.
10. New York City is the city where accountants currently earn the most pay.

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Reminder

Don't forget to check out the WMKL website under our Taxation News Quick Links. Each month we post articles involving tax updates and tips as well as a Quarterly Newsletter for Personal and Corporate Tax.

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We encourage your feedback! Please send your comments or suggestions for future issues to: Brittney Ransom at ransomb@wmklca.com

Disclaimer:

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