# WMKL NEWSLETTER

Wormald Masse Keen Lopinski LLP **9/1/2017** ISSUE 30

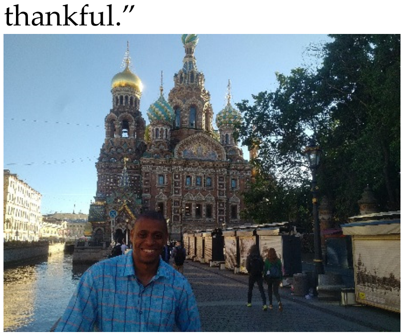
## *Firm Announcements*

What's new with WMKL Partners and staff

### *You'll Get a Kick Out of This!*

This summer, partner Joe Fletcher officiated at the 2017 FIFA Confederations Cup in Russia. He officiated two games on the field and two as Video Assistant Referee.


Upon his return, Joe said, "The overall experience was amazing. We are very well taken care of, and everyone around me both at home and in Russia were extremely supportive. For that I am very thankful."



We're very proud of Joe's accomplishments!

### *Global Engagements*

Congratulations to Derek Nagy on his engagement to his fiancée, Kayla Mallard, who recently became engaged on a vacation in China!

Congratulations also to John Pollock and his fiancée, Megan Walterhouse, who became engaged on a vacation in Scotland!

We wish you all the best for a future full of happiness!

*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.*

## *In This Edition*



## *Office Hours*

Our regular office hours resume in September and continue until next spring.

Mon: 8:30am – 5:00pm

Tues: 8:30am – 5:00pm

Wed: 8:30am – 5:00pm

Thurs: 8:30am – 5:00pm

Fri: 8:30am – 5:00pm

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

# *Rising Interest Rates*

Start planning now for interest rate increases

Historically low rates have encouraged borrowing for equipment, real estate, operating lines of credit and everyday purchases. How much longer interest rates will remain at these levels is an open question but now is a good time to start thinking about the potential impact of higher rates on your business and personal life.

## *Potential Effects of Higher Interest Rates*

Here are some of the effects higher rates could have on your business:

- Higher interest rates will drive up the cost of operations, manufacturing and delivery, which will force small businesses to either increase prices or face a smaller bottom line. If prices go up, consumers cut back their purchases if they need to borrow for vehicles and mortgages, or use lines of credit.

- Any resulting cash crunch may force customers to stretch payment time on their payables. This makes you your customers' banker.

- Payout periods of as much as eight years for equipment and vehicles have led many purchasers to believe that if they can make the monthly payments they can afford the asset. But, as the years pass, the warranty expires, the vehicle value plummets and repair bills mount. It may be difficult to finance a replacement if a significant amount is still owing.

- Personal finances are affected as well. A salary increase decreases company profit while increasing personal income taxes.

- Financial institutions become more selective. New companies without credit ratings may find it impossible to obtain a loan. Established companies may not be able to extend lines of credit.

*Review income statements and balance sheets.*

## *Proactive Planning*

The following suggestions may help reduce the impact of rising interest rates on your business:

- Review your corporate income statements and balance sheets for the last five years because they reflect the lower cost of outstanding debt as well as the historical cost of your operating assets. Calculate the impact on the corporate bottom line if interest rates increase by two, three or more percentage points.

- Review your asset base. Determine what assets will need to be replaced within the next five years and estimate their replacement cost. If sales and expenses in the next five years remain the average of the last five years, would the increase in asset cost, combined with the need to borrow additional funds at higher interest rates, put undue stress on your operational capability?

- Review your personal debt at the same time as you review the corporate financials.
- Start building a cash reserve within your business.
- Consider reducing the long-term payouts on equipment and vehicles.
- Lock in existing secured loans.
- Lock in mortgages.
- Start incremental price increases to avoid a sudden and dramatic increase that may scare off clients if imposed later.
- Reduce the number of days outstanding for accounts receivable. Review your client base with the goal of reducing the lines of credit granted. Negotiate new payment terms with your long-term customers.
- Consider deposits on all jobs. Potential customers should understand that there are up-front costs that must be paid for, and that you are not a bank but a contractor.
- If your business has credit card balances or lines of credit with high interest rates, pay them off. If business credit cards are essential to your business, structure cash flow to pay off monthly balances.
- Use a percentage-of-completion method for payment on long-term contracts. If payment is not made as arranged, stop working. Better to walk away with a 20% loss than a 100% write-off.
- Review all sources of company credit. Eliminate those with variable rates. Fledgling entrepreneurs should work to establish a line of credit with their financial institutions and increase it over time to ensure that in the future, that line of credit is still available.
- More established businesses should work to reduce the debt on their lines of credit in case a buffer is needed to meet short-term cash needs.

### An Ounce of Prevention

Should interest rates start to rise, the trend is likely to continue upwards. Owner-managers should start now to model their business activity in potential future economic and credit conditions. Business plans derived from these models will help ensure the continued success of their business and family finances when the 2020 decade rolls around.

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**"It's an adjustable mortgage. If interest rates go up, your payment increases. If interest rates go down, your payment increases."**

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## The Tax Refund Myth

A "tax refund" is really just the CRA giving you back your own money.

"The government gave me money back" is a common phrase often heard after the April 30 or June 15 filing deadline. The truth is that the government is not being charitable; it is only refunding the tax that you or your employer had overpaid throughout the year.

Because the rate of tax withheld at source throughout the year may be different than the tax rate applicable to your actual taxable income (after taking into consideration all other income and deductions), you might have remitted more money to Ottawa than was necessary. Your "tax refund" is the difference between your remittances and your actual tax liability.

One of the biggest misconceptions is that, upon filing of their personal income tax returns, people with a lower income will likely receive a tax refund while people with a higher income will usually end up owing tax. This is not necessarily true because the tax refund/liability is not based on your income level but rather on the difference between the remittances paid compared to the actual tax liability.

### How It Works

For example, assume Mrs. A, who normally earns a $200,000 annual salary, only worked six months during 2016. Mrs. A's employer would have withheld taxes based on the $200,000. However, since Mrs. A worked only half the year, her actual 2016 income was $100,000. Because the tax remittances calculated on $200,000 were higher than the actual taxes applicable on the $100,000, Mrs. A will receive a tax refund.

On the other hand, assume Mr. B has two jobs each paying $30,000 throughout 2016. Mr. B's employers would have withheld taxes based on Mr. B's actual income of $30,000 from each of them. However, Mr. B's actual income for 2016 was $60,000. Because the sum of the two tax remittances calculated on $30,000 earned from each employer would be lower than the actual taxes applicable on the $60,000, Mr. B. will likely have to pay additional taxes.

In order to avoid such differences between the withheld taxes and the actual tax liability, everyone should review their current personal and taxable income situation to determine whether they can reduce withholding taxes to minimize the cash advance provided to the treasury. It is very important that your employer be aware of any other sources of income you may have or other deductions to which you are entitled, so that all of it can be considered when determining the appropriate amounts to be withheld.

### What Should I Consider?

Here are some of the personal tax credits that your employer should consider in reducing the amount of withholding taxes to be remitted:

- Are you eligible for an age amount (e.g., tax credit available for those 65 or older)?
- Are you eligible for a spousal credit (i.e., if the spouse's income is under the basic personal amount)?
- Are you (or your children) enrolled at a university, college or other educational institution and are eligible to receive tuition credits?
- Are you (or your dependants) qualified for a disability amount?

Before you approach your employer to reduce source deductions, consider the total of all deductions allowed as well as your individual tax bracket. On the one hand, there is little to be gained in cash flow savings if the overall taxable income reduction is miniscule. On the other hand, if the gain could be substantial, taxpayers should make every effort to minimize the tax dollars advanced to the Canada Revenue Agency (CRA). At the same time, taxpayers should understand the rules and regulations that accompany an attempt to reduce deductions at the source.

> *Ensure correct information is provided on your TD1 at the start of employment.*

### Be Informed

The CRA requires that employees complete a TD1 form when starting employment. Make sure the information provided is correct from the start to enable payroll to make the correct calculations for source deductions. Correct information regarding spousal amounts or caregiver amounts make a difference to non-refundable tax credits and the calculation of source deductions. If life circumstances have changed, submit a revised TD1 form.

**CRA Form T1213**

Should you have significant deductions available in any given year to reduce the withholding taxes at source, file a "Form T1213 Request to Reduce Tax Deductions at Source" (see CRA website for the forms). Regulations require that this form be submitted each year; however, if similar circumstances will exist for two consecutive years, you can apply for two years as long as you submit one T1213 form for each year. Given the CRA's response time, it may be advisable to consider the two-year option and provide such data to the CRA before the end of 2017 so that it will become effective January 1, 2018. When you receive the letter of approval from the CRA, submit it to your employer to reduce the source deduction amount or adjust your instalment payments as required. Some of the tax deductions that can reduce the tax withholding at source are listed below:

- Will you be contributing a lot of money to your RRSP for the next few years?
- Are there significant child care expenses?
- Are you making any support payments?
- Does your employer contract or self-employment require you to pay for work-related expenses such as vehicle, lodging, supplies, or tools?
- Will you split pension income with a spouse in a lower income tax bracket?

- Are you anticipating costly moving expenses when moving for employment reasons?
- Do you have non-capital losses you can carry forward for a number of years?
- Do you pay significant brokerage fees to manage your investment portfolio?
- Have you borrowed for investment purposes?
- Have you purchased rental properties that will create rental losses for the foreseeable future?

**CRA Interest Packages**

In the event you do not make sufficient source deductions or instalment payments, the CRA will charge you with interest and penalties of 5% on overdue income taxes. If you are overzealous and overcontribute to the treasury, the prescribed rate for refunds of overpaid tax is 3% for individuals.

**Example**

A single adult living in Ontario earning $100,000 employment income had source deductions for 2016 of approximately $24,829 or $2,069 per month. If the anticipated RRSP contribution for 2016 was $12,000, the tax liability would have been $19,763 (using 2016 tables), an annual cash flow reduction to the CRA of $5,066 ($422/month).

If other factors increased the overall deductions to $20,000, total source deductions drop to $17,127 and thus reduce cash outflow to the CRA to approximately $7,702 ($642/month).

By filing the T1213 form, the foregoing scenario anticipates two-year reductions in cash outflow to the CRA ranging from $10,132 to $15,404.

Rather than waiting for a lump-sum refund at the time of filing, these funds could be received each month and used to pay down a mortgage, reduce high-interest debt or invest in additional RRSP, Tax Free Savings Account (TFSA) or other investments.

### *Keep Cash Advances to a Minimum*

As personal debt and the cost of living rise, taxpayers should consider the financial advantages of ensuring cash advances to the treasury meet their obligations and nothing more. The advantages of reviewing the impending 2018 and 2019 taxation years with your CPA and forecasting the potential to put money in your pocket sooner, rather than later, is certainly worthwhile.

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"My accountant says this is the best way for me to avoid paying taxes until he comes up with a better plan."

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## *The Last Page*

Quick Tips, News & Advice

### *"Siri, pay my phone bill."*

Do you bank with RBC? Tell Siri (Apple's voice-activated personal assistant) to send your payments for you. RBC is the first bank in Canada to launch Interac e-transfer using Siri. This feature is available through its mobile app for iPhone and iPad. Once you give the command, Siri confirms the payee's name and the app automatically debits your chequing account and transfers the funds.


***Reader Photo Submission: Canadian Tire train traveling through Lake Louise.***

### *Financial Wellness*

Forty per cent of people over the age of 18 say monetary stress affects their overall health, according to a recent survey of 2,024 Canadians.

- 83% say they're not prepared to financially protect their families; 82% are concerned about debt.
- 49% of the respondents admitted money-related matters made them distracted at work.
- 45% of those who feel financially unwell engage in healthy physical activity

Source: Manulife Financial Wellness Index

### *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.

### *Feedback*

We encourage your feedback! Please send your comments or suggestions for future issues to: Michelle de Prinse at deprinsem@wmklca.com

### *Follow Us on Twitter & LinkedIn*

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