

WMKL NEWSLETTER

Wormald Masse Keen Lopinski LLP

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ISSUE 34

Firm Announcements

What's new with WMKL Partners and staff

Back to School!

For the second year in a row, WMKL held a school supply drive in support of Community Care of St. Catharines and Thorold.

The program sees approximately 1,500 youths from the region come through their building in need of backpacks, sneakers and back to school supplies.



We were able to provide over 20 backpacks and other miscellaneous supplies for this great cause. We are proud to support organizations like Community Care who help so many people in our community!

Returning Staff Members

In October, we will welcome back Kelly Lim and Ries Vahrmeyer as they return from

completing their Master of Accountancy with Brock University.

We are excited to have them back after so long. Congratulations on your hard work, Ries and Kelly, and welcome back!

Fall/Winter Office Closures

The office will be closed in observance of Labour Day on Monday, September 3rd, Thanksgiving on Monday, October 8th, and for the Christmas holidays from Monday, December 24th to Wednesday, December 26th, as well as December 31st to January 1st.

Pay Your Invoice Online

We are pleased to offer our clients the convenient and secure option to pay their WMKL invoices online. You can find WMKL as a payee through your regular online banking with most major financial institutions.



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

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We Owe How Much?: manage cash flow better by projecting future tax liabilities. (See page 2)

The Little Black Book of Scams: common-sense strategies to protect your business from external fraud. (See page 4)

The Last Page: quick tips, news & advice. (See page 7)

Office Hours

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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

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

We Owe How Much? ... OUCH!

Manage cash flow better by projecting future tax liabilities.



Unforeseen circumstances often leave owner-managers short of the cash needed to pay federal and provincial taxes. Unfortunately, many owner-managers consider unpaid tax bills to be the same as unpaid trade credit. They are not.

Unpaid taxes can cause a lot of problems.

Ensuring funds are available to pay obligations to the Canada Revenue Agency (CRA) should be a top priority for any business, whether incorporated or a sole proprietorship.

Withholding Taxes

Every self-employed business owner or owner-manager is obligated to collect HST as well as deductions for employment insurance, Canada Pension Plan, and incomes taxes. These amounts are collected "in trust" from the employee or client on the understanding that the funds will be remitted to the CRA on their behalf. In theory, the business should just collect the money and set it aside in a separate account until the required filing date. However, it is often all too tempting to use the "in trust" funds as working capital and assume sufficient cash flow will be

generated when accounts receivable are collected or additional cash sales occur. This may be fine in theory, but in practice the necessary funds are rarely available. For a corporation, it is particularly important to note that directors could be held personally liable for the unpaid "in trust" taxes.

Income Tax Payable

Income tax payable at the end of the year, whether for corporate tax or income tax owing on self-employed earnings, is another area that is problematic for many. The major issue for most businesses is that they are unable to project the amount of taxable income that will be earned by year end and thus cannot anticipated the amount of income tax owed. As a result, when taxes are due, there may be insufficient funds available to make the payment.

To make matters worse, many corporations are required to pay the taxes owing within two or three months of the corporate year end. Owner-managed businesses may have difficulty finalizing their year ends and providing such information to their CPA in a timely manner. Thus, year-end taxes and the instalment could be owing at practically the same time. This creates incredible cash flow issues for corporations that have a large corporate tax liability at the end of the fiscal year and then have to make a large instalment payment.

The reverse can also occur. A taxpayer remits large amounts in instalment payments throughout the year based on the prior year's tax liability only to discover at the end of the current fiscal year that the corporation made little profit

or suffered a loss and therefore owed much less than the sum of the instalment payments already made. In such instances, the CRA may owe the business thousands of dollars that could have been used within the business but is not refunded until the actual filing of the tax returns.

The CRA Holds All the Cards

The CRA determines when taxes should be paid. If instalment payments are not paid, the business must endure non-deductible interest for late payment. On the other hand, if the instalment payments are made and the business does not have a tax liability, the CRA has held onto funds that could have alleviated cash flow. The CRA pays interest on overpayments, but only on the amount of tax owing at the time of filing, not on the entire amount of the overpayments. Also, the CRA charge the taxpayers arrears interest at 6% while the interest rate on taxpayer overpayments are only calculated at 2%.



1. After your CPA has provided the corporate income tax return for the last fiscal year, ask them to provide and review a printout of the required instalment payment amounts and due dates. If your profits are expected to be about the same in the coming year, those amounts will approximate the instalment amounts required.
2. Project the anticipated monthly or quarterly profits from the first of the new fiscal year. Since most administrative costs are usually constant from year to year, the task is reduced to projecting sales, estimating the cost of goods sold, and determining the gross margin at the monthly or quarterly interval. Once the estimated gross margin is known, simply deducting the administration cost should provide a reasonable estimated profit before income taxes.
3. Review these projections with your CPA. Input regarding potential bonuses and capital cost allowances combined with knowledge of corporate tax rates will provide better insight into the probably tax liability for the end of the fiscal year. By default, this information will determine the instalment amounts required.

The process of deriving this information will be of value to your business by:

- ensuring a better understanding of your business cycle

Business owners need money on hand to pay tax instalments.

Take Charge

Business owners need to have sufficient funds on hand to make payments when due. To minimize the risk of insufficient funds, management must take into account not only the withholding tax requirement but also the need to minimize instalment payments and/or interest charges on the funds needed to make the corporate tax instalments.

The following procedures provide a way to anticipate future obligations:

- providing insight into periodic profits and losses and thus any potential income tax liability
- projecting the estimated HST/ITCs and withholding taxes that will be due
- providing indicators of when cash flow may be tight
- reducing the uncertainty as to the amount of income tax instalments and thereby providing a reasonable payment schedule for corporate income tax
- lessening the impact of non-deductible interest and/or penalties on amounts due but unpayable because of inadequate cash flow
- reducing the probability of scrutiny by the CRA because of late payments

The Present Guides the Future

If management makes reviewing financial statements an integral part of their work cycle, not only will they benefit the future by understanding the present, they will also be better able to sleep at night knowing their cash flow needs are under control.

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“Pinocchio dreamed of becoming a real boy, until he found out that real boys grow into real men who pay real taxes.”

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

The Little Black Book of Scams

A few common-sense strategies can protect your business from external fraud.

Scams and frauds are probably as old as humanity, but recently they have taken a new turn with the arrival of the Internet and the development of sophisticated telecommunications technology. The Government of Canada has reacted by setting up the Canadian Anti-Fraud Centre, and the Competition Bureau has published a valuable handbook called *The Little Black Book of Scams* (full text available at www.competitionbureau.gc.ca), which describes 12 important classes of scam and how to protect yourself against them.

Included below are five scams of special concern to small-business owners.

Business Scams

- In the **directory** scam, your company receives a proposal for a listing or advertisement in a magazine or business directory. Someone then calls to confirm the address and billing information. Accounts payable soon receives an official-looking invoice and unwittingly pays.
- The **office supply** scammer bills your company for paper, toner, etc. you did not order.
- In the **health-and-safety products** scam, someone pretending to be a government inspector will tell you that you need to replace outdated first-aid kits or safety equipment.

How to Protect Yourself

Create a list of regular suppliers; any new names should be questioned by the accounts payable staff. Because scammers can create company names and logos that look genuine, staff should look closely at all incoming invoices to verify dates, account numbers and other identifying information. The number of persons authorized to pay bills should be limited, since scams are sometimes committed by an employee conspiring with an external fraudster.

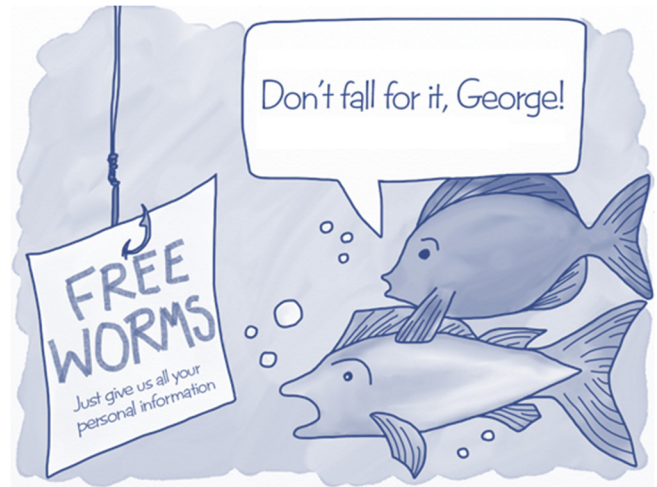
Senior executives can be the target of special scams.

CEO Scams

Persons who have signing authority for large sums of money or report directly to the CEO are particularly common targets for this scam. The scam occurs when the CEO or other senior executive is known to be away from the office on a business trip. After hacking your email server, the scammer sends an email or other communication allegedly from the absent executive saying extra funds are needed immediately to close a deal, secure a contract, or take advantage of an unexpected opportunity. The email will ask that the money be sent to a third-party account.

How to Protect Yourself

Secure your computer systems with strong passwords and up-to-date antivirus software from a reputable supplier. Validate the request. Check the email for spelling and grammar mistakes and use of the language



uncharacteristic of a native speaker or your executive. Have a standard, multi-level process for signing off on wire transfers. Remember, a wire transfer is cash; recovery is virtually impossible. Limit the amount of information available to the public about your key employees.

Sale of Merchandise Scams

If you market online, you need to be aware of scammers posing as buyers of your product.

A scammer will agree to buy your product and pay through PayPal or an email money notification claiming the payment is pending and will be released after you provide a tracking number. Since a tracking number is usually only created when the purchase is being shipped, the product is on the way to the buyer before you find out the payment-pending notification was fake.

The scammer might also tell you the payment cannot go through because of some problem with your PayPal or bank account and you will have to pay a fee to get another account to complete the transaction. The generous scammer offers to pay the fee now if you will transfer or wire the

fee amount to a false bank account. Now you will not only lose the product and the payment, you will also lose the fee. The scammer may also simply use a stolen credit card number, issue a fraudulent cheque or make a fake money transfer.

How to Protect Yourself

Beware of buyers who are geographically distant with unverifiable email addresses. Never send money to get money.

Door-to-Door Scams

These scams are committed by fraudsters seeking charitable donations or claiming to be selling maintenance or other services. These scammers are often very aggressive, very articulate, and know every trick of persuasion in the book.

How to Protect Yourself

Do not make a quick decision no matter how great the pressure. Do some research on the charity or maintenance company. Get their address. Get the name of the person making the sales call and call the charity or company to make sure the person you talked to actually represents them. Do not let strangers see any company documents such as receipt forms that could give them information about your company. Do not sign anything. Make sure your employees know you have a procedure in place to review any proposals that come through the door.

Identity Theft

Identity theft is the theft of a person's unique identifiers such as a Social Insurance Number (SIN), passport or driver's licence, as well as

personal information such as bank account or credit card numbers, birth date, signature, address, mother's maiden name, user names and passwords. Possession of this information enables the scammer to assume the victim's identity and transact as if they were that person.

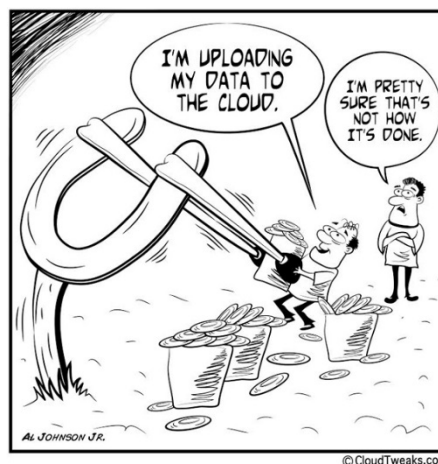
How to Protect Yourself

Shred and destroy documents with sensitive information. Destroy redundant IT equipment, especially hard drives and other storage media. Never use SIN numbers as a filing system. Never send personal identifiers or sensitive personal information by email, text message or give it to unknown callers over the phone. And (it cannot be said too often) always use strong passwords for all online accounts.

You Cannot Be Too Careful

Fraud, whether committed by an employee or by an outside scammer, can destroy a business. As technology changes and scammers become more sophisticated, owner-managers must protect their business even more. Constant vigilance is a low price to pay for keeping your business safe.

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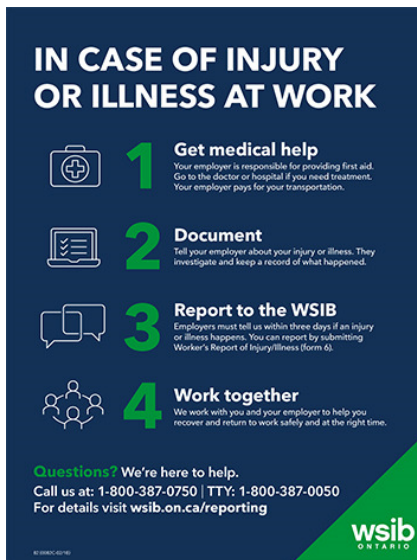


The Last Page

Quick Tips, News & Advice

In Case of Injury or Illness at Work Poster – Recent Changes

An updated In Case of Injury or Illness at Work



poster is available. You can download the current version on the WSIB website to make sure your business is up-to-date.

Download the poster [here](#).



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

The Eyes Have IT

Regardless of occupation, we all spend an inordinate amount of time staring at computer, laptop or smartphone screens. The result is often eye strain known clinically as computer vision syndrome (CVS).

Experts indicate the following processes are helpful for reducing CVS:

- **Correctly position the monitor.** The best position is straight ahead and tilted slightly down. Place the monitor (including your smartphone) from 45 to 76 centimetres away from your eyes and tilt your screen to avoid glare from overhead lights. Glare creates eye strain.

- **Close the blinds,** reduce back and side light and consider a matte screen filter.
- **Give your eyes a rest.** The Mayo clinic suggests observing the 20/20 rules. Every 20 minutes look at an object that is at least 20 feet away for 20 seconds to relieve the stress on the eye muscles and thereby reduce the progression of nearsightedness.
- **Consider changing the monitor's display settings.** Increasing the font size will reduce eye strain as will changing the contrast level on the monitor. Believe it or not, the best setting for using a monitor is the tried-and-true black text on a white background. Reducing the monitor's brightness level to replicate a standard piece of office paper is a preferred standard. For those using more than one monitor, ensure that both are matched to the same settings.
- **Size counts.** Buy a monitor that is at least 19 inches with anti-reflective surfaces. If within the budget, upgrade monitors to UHD.



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

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