

Minding YOUR BUSINESS



S P R I N G 2 0 0 8

From The Desk Of

Handling Change

There are two ways for an owner/manager to understand change: as catch up or as strategy.

If you see change as the disagreeable cost of catching up to the competition, you are already behind. But if you see it as the facilitator of your corporate strategy, you are pulling away from the pack at the clubhouse turn and ready to open up in the back stretch. Recognition of change as a constant part of getting where you want to be five years from now will allow you to manage technology more effectively, develop a more flexible business model, run your business more efficiently, and produce a better bottom line.

Change is inevitable, but can be made a little easier if one pays attention to the following guidelines.

Have Clearly Defined Strategic Goals

What business do I want to be in five years from now? What will my business model be at that time? Since investment decisions, human resources planning, and technology choices are all driven by the strategic plan, make sure you have a clear idea of what you want to achieve.

Be Proactive

Leadership comes from the top – that's you. Start the process, assign responsibilities and get going. Make sure your production and sales managers provide you with concise and timely information about quality control and customer

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Not All Benefits are Taxable

Almost all employees receive non-cash benefits as a result of their employment. Although many of the benefits enjoyed are taxable to the employee, some are not. A benefit is even more enjoyable if you know you are not paying tax on it.

Deciding whether employee fringe benefits are taxable or non-taxable benefits can be a confusing task, especially with the plethora of benefits available and the numerous exceptions that exist.

Non-taxable Benefits

The following are some of the more popular fringe benefits that are generally not taxable:

- Group medical and dentals plans.
- Up to two gifts per year if the aggregate cost is less than \$500, and up to two awards per year if the aggregate cost is less than \$500. Additional gifts or awards, or those exceeding \$500, are taxable benefits.
- A party for all employees, to the extent the cost does not exceed \$100 per person. Ancillary costs, such as transportation home, increases that amount.
- Discounts on merchandise available to employees, as long as the discount does not result in the sale price being below cost and the discount is available to all employees. If the goods are old or soiled, the purchase price can be less than cost without any taxable benefit.
- Commissions received by a sales employee on merchandise acquired for his/her own personal use.



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: "Every job is a Self Portrait of the person who did it. :
: Autograph your work with Excellence." ~ Unknown :
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OUR COMMITMENT *To You.*

We recognize that while "accounting" is an integral part of your business, it is only a part of your business. Our approach to accounting doesn't miss the forest for the trees or the people for the numbers. Our dedicated professionals will provide you with the creative, proactive and timely solutions to assist you in responding to the daily challenges confronting your business.



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Not All Benefits are Taxable

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- Employment commissions received by a life insurance salesperson on a policy he/she owns and is obligated to pay premiums.
 - Uniforms of a distinctive nature, which are required to be worn as a condition of employment.
 - Safety clothing, such as safety footwear, designed for protection of the hazards of the employment.
 - Cleaning or dry cleaning of uniforms or special clothing, whether paid directly by the employer or indirectly by reimbursement to the employee.
 - Transportation from a designated pick-up point to the place of employment at which, for security or other reasons, public and private vehicles are not welcome or not practical.
 - Recreational facilities provided for all staff will not result in a taxable benefit to the employee regardless of whether the employee pays a nominal fee for the use of the facilities. Recreational facilities include exercise rooms, gymnasiums, tennis courts, swimming pools, and golf facilities.
 - Reimbursements by an employer for expenses incurred to move the employee and his/her family, along with household effects, to a new work location. Also no taxable benefit arises where the employer pays the cost of moving a new employee to a new work location. Similarly, upon termination of employment at a remote location, the cost of moving the employee is not a taxable benefit.
 - Employees of transportation companies, such as bus lines, airlines and trains, often use their employer for transportation. Those that are employed by bus and rail companies will not have a taxable benefit for any free or low-cost passes used. No taxable benefit will occur for free or low-cost passes used by retired transportation employees, including employees of airlines.
 - A taxable benefit will only occur if an airline employee travels on a space-confirmed basis and is paying less than 50% of the economy fare on the day of travel. Otherwise, no taxable benefit will arise.
 - Professional membership fees are not a taxable benefit as long as the benefit of the membership accrues to the employer. For example, a lawyer's professional membership fees, which are paid by his/her employer law firm, would not be a taxable benefit.
 - Health services provided to an employee for physical or mental health are not taxable benefits.
 - Retirement or re-employment counseling are not taxable benefits.
- Generally, the costs of the employee benefits outlined above are tax deductible to the employer.

Introducing New Benefits

As in many areas of tax planning, whether or not an employee benefit is taxable is a grey area. Management contemplating the implementation of fringe benefits should consult with Majewski Shaler & Co. to not only ensure that employees are aware of the tax consequences of benefits provided, but also to ensure that those benefits are deductible to the business.

Anyone receiving this newsletter in hard copy format who would prefer to receive it by e-mail, please write Milynda at info@ms-co.com to let her know. We will add your name to our e-mail list. Thanks.

Tax Tips & Traps

TRAVEL FROM HOME TO A POINT OF CALL

In an October 29, 2007 External Technical Interpretation, CRA notes that the use of an employer-provided motor vehicle by an employee to travel between his/her home and regular place of employment is generally considered personal and not deductible.

However, where the employee proceeds directly from home to a point of call, other than the employer's place of business to which the employee regularly reports, or returns home from such a point, use of the vehicle is not considered personal and is deductible.

Some Good News for a Taxpayer!

In an October 30, 2007 Tax Court of Canada case, Mr. H was required to travel for employment purposes and received 31.5 cents per kilometre and a fixed allowance for travel which he included in income and then deducted expenses.

Included in the expenses deducted by Mr. H was the daily 30-kilometre drive between his residence and his office for which he did not receive an allowance. His justification was that the only reason he took the motor vehicle to work was his employer's requirement that he do so. He had alternate and less expensive means of transport of which, but for the employment requirement, he would have availed himself.

The Court concluded that these commute kilometres are allowable motor vehicle expenses and noted that:

1. The employee was required to have his motor vehicle available at the office.



2. The only way that requirement could be satisfied was to drive it there each day.

3. The Court accepted the taxpayer's argument that, except for the requirement that he have his vehicle at work, he would have relied on the cheaper alternate transportation that was available to him - catching a ride with his son who lived at home, carpooling or taking the bus. Instead, he had to take his car back and forth and was responsible for the expenses incurred in doing so.

Editor's Comment

CRA does not always follow these Tax Court informal decisions in its assessing practices.

THE BONUS DOWN DECISION

In the past, Canadian-controlled private corporations (CCPCs) ordinarily bonused down their active business income to the small business deduction amount. This approach has been complicated through the reduction of tax on eligible dividends paid out of the General Rate Income Pool (GRIP). In all provinces, there is a significant deferral in leaving income in the corporation at the top corporate rate versus the top

personal rate. However, there is a 2.6% overall cost in B.C. when the amounts are taken out even though they are eligible dividends. This will be phased out by 2010.

An additional complication is that by not bonusing down the corporation must make its final corporate tax installment payment two months after the year-end (not three months) and have much higher monthly corporate tax installments. Also, quarterly, rather than monthly, tax installments would not apply.

Other considerations include the shareholders' current or future cash needs, the effect on any scientific research and experimental development claim, the effect on the small business corporation status through the buildup of surplus inactive assets, the loss of the small business deduction as taxable capital if the corporation exceeds \$10 million, and the accelerated payment of corporate tax installments.

There are also provincial tax implications to consider.

ESTATE PLANNING

RDSP

A new Registered Disability Savings Plan (RDSP) with a Canada Disability Savings Grant (CDSG) Program and Canada Disability Savings Bond (CDSB) Program is applicable in 2008. There will be a lifetime limit of \$70,000 on CDSGs and \$20,000 on CDSBs.

Eligibility

Generally, any person eligible for the Disability Tax Credit (DTC) and resident in Canada, or their parent or other legal representative, will be eligible to establish an RDSP.

satisfaction. Project advancement will create an appetite for progress and permit changes to be made while ensuring the target is kept in sight.

Don't Try to do it All Yourself

To go it alone is to set yourself up for failure. Not only will the project become bogged down while you stop to deal with operational matters, but, you will almost certainly lose heart and fall short of your strategic goals. Find people within the organization or hire consultants with the competencies you lack. The role of consultants is not to run your business but to provide a menu of solutions to specific problems and move the project forward. Whether the problem is a new marketing campaign or a revamping of HR policies, management should involve people who solve problems as quickly as possible.

Recognize Change as a Constant

Solving today's problems with little regard for the future is a short-term view and creates the risk you may lose sight of your strategic goals. Businesses and their support systems are too complicated and expensive to be dealt with all at once. When embarking on change, document the specific areas in your business, such as administration/bookkeeping, HR, workshop/factory, or technology and develop a plan to review each on a cyclical basis knowing that upgrades will be required.

This approach will ensure that:

- All areas move forward;
- The interdependence of all sectors within the business is recognized;
- Employees know they are working for a common goal; and
- Investment and human resources requirements for the strategic plan will always be kept in sight.

Make Change User Friendly

Whether the change is as simple as starting to pay employees by direct deposit instead of by cheque or as complicated as setting up a new pricing system within inventory, never forget the end user. Failure to ensure seamless change will have an immediate negative impact on users who are naturally resistant to any change. Then, when the future dictates the need for additional change, resistance will increase.

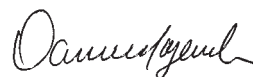
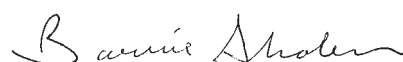
Check Your Sources and Resources

Whether the change involves moving, hiring staff, purchasing new equipment or taking on new suppliers, make a due diligence investigation. Check references, visit sites that use the equipment, interview customers of the prospective new suppliers. These checks will help determine whether the job can be done and what ongoing support will be available if upgrades are needed or breakdowns occur.

Be Aggressive

Once change is decided upon it must be pushed aggressively. If timetables and expectations of management, staff, contractors, and suppliers are not supported with training programs; if testing is not scheduled; if dates and arrival times are not scheduled; chances are the enthusiasm for change will wane as people are stuck half in the old and half in the new. The anxiety created will result in frustration and undoubtedly lead to decreased productivity.

Management's responsibility is to manage. When management takes charge of change with a clear purpose and a strong support team, change will be viewed as part of strategic business development and welcomed.

CLEARANCE CERTIFICATE

In a July 10, 2007 External Technical Interpretation, CRA notes that the distribution of property to a non-resident beneficiary in satisfaction of their rights under the Trust or the Estate is subject to a withholding tax unless a Clearance Certificate is obtained.

Taxpayers should also be aware that every non-resident person who in a taxation year disposes of any Taxable Canadian Property shall send to CRA a Notice.

Failure to comply may result in a penalty of \$25 per day to a maximum of 100 days for a total of \$2,500.

If this has been missed, a "Voluntary Disclosure" to CRA should be considered.

WARNING

In a November 29, 2007 Release, CRA warned investors about questionable RRSP and RRIF tax-free withdrawal schemes. To date, CRA has reassessed over 3,100 taxpayers, commenced audits on another 1,800 taxpayers and, audits on other arrangements are about to begin.

CRA advises that taxpayers should avoid schemes that promise withdrawal of funds from an RRSP or RRIF without paying tax, immediate access to assets in "locked in" RRSPs or RRIFs, or income tax deductions of three or more times the amount invested.

The Problem

CRA notes that the full amount of any withdrawal or ineligible investment is included in income.

Also, in many cases taxpayers have lost all, or part, of their retirement savings. These schemes are usually promoted either over the Internet, newspaper ads, or promotional meetings.

Please check with Majewski Shaler & Co. before embarking on any of these schemes.