INDEX

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MONEYSAVER

Counterfeit Products

Counterfeit products are on the rise. As product counterfeiters become more sophisticated, it's getting increasingly difficult to detect the fakes.

Counterfeiters are becoming increasingly adept at the copying, packaging and labeling of any product that sells well — and they are making enormous profits. It is almost impossible for the average consumer to detect the difference. Even retailers have been duped.

Electronic Goods

In 2004, it was estimated that approximately 10% of so-called brand-name electronic goods purchased by consumers turned out to be counterfeit. Counterfeiters deliberately use a false trademark that is identical with, or substantially indistinguishable from, a registered trademark. The aggressive counterfeiters often reproduce the exact housing of the brand name product and simply have a manufacturer provide cheaper components.

Refurbished products are another common source of counterfeit products. The seller usually replaces component parts with inferior drives, memory

modules or graphics cards then sells the product as the real thing. Most users wouldn't be aware of the switch as they wouldn't open up the case and even if they did, they may not know what to look for. The substituted components usually work, although often not as well or as long.

Everyone Loses

The losses are far reaching — affecting trademark owners, consumers and the economy at large. Reputable companies that pride themselves on producing excellent products suffer a loss of reputation and revenue when counterfeit and replica products bear their logo. In many cases, counterfeiters do not charge customers tax but retain it. Because counterfeits are often made with substandard materials and are not subject to the rigorous testing procedures that reputable manufacturers must carry out on their products, they can not only prove disappointing but can even pose safety hazards.

Brand name manufacturers are fighting back with their own investigators that track down the culprit manufacturers and lay charges or start legal proceedings. The manufacturers are also trying to stop the flow by hiding product registration numbers and serial number identifications on their products.

Protecting Yourself

Counterfeit products may be half the cost of the genuine article but is it really a bargain if the goods are poor quality, the performance is disappointing or they prove to be inefficient or even a safety hazard?

To avoid counterfeit products, be wary of the most obvious clues:

- Incorrect, smeared or blurred printing on the packaging;
- Incorrect spelling of brand name and other spelling mistakes;
- Lack of warranty or guarantee documentation; and
- Unbelievably low price.

As counterfeiters make the cheapest possible products in order to maximize their profits, they often pay less attention to packaging. Does the packaging look right? Does it provide contact information for the manufacturer? Most legitimate packaging contains manufacturers' codes, trademarks, copyrights, toll-free telephone numbers as well as bar codes, holograms and recycling logos.

Here are some other tips that can help you ensure that the product you purchase is the real thing.

- Be choosy about where you buy products. Deal with well-known, reputable companies.
- When purchasing online, deal with well-known, reputable companies. Secure websites are recognized by HTTPS before the site address instead of the more familiar HTTP. Always save or print the purchase confirmation page as a record of the transaction. As this will usually have a confirmation number, it is useful if you need to track the delivery.
- Buy products with which you are familiar or for which you have done some research, even if the price is a little higher.
- If you are uncertain about a supplier, check the manufacturer's website to see if it provides a list of legitimate dealers and contact information.
- Check the serial number. Some manufacturers now provide online authentication programs so consumers can verify the product has been assigned a serial number. If the serial number is not registered, the product is likely a fake.

If It's Too Good to be True…

The old adage "if it's too good to be true, it probably is" will stand most purchasers in good stead. In the long run, a counterfeit product could turn out to be very costly in terms of lost revenue, downtime or inferior performance. In a worst case scenario, a serious malfunction could lead to equipment damage and even personal injury. ■

TAXATION

Automobile Changes 2006

The prescribed amounts for automobiles have increased for 2006.

Each year, the Department of Finance Canada reviews the automobile amounts and announces any planned changes prior to the end of the calendar year. This practice ensures that individuals and businesses are aware of the new rates before the beginning of the year in which they apply.

Commencing January 1, 2006, the maximum automobile allowance that can be deducted by an employer and the prescribed rates for the automobile operating expense benefit are as follows.

Employees Using Personal Vehicles for Employment Purposes

Generally, the receipt of an allowance for the use of a motor vehicle is non-taxable to the employee when it is based solely on a reasonable per kilometre rate.

However, the maximum per kilometre allowance that an employer can deduct is limited to 50 cents per kilometre for the first 5,000 kilometres and 44 cents per kilometre for each additional kilometre. In the Northwest Territories, Yukon and Nunavut, the maximum deduction is limited to 54 cents for the first 5,000 kilometres driven and 48 cents for each additional kilometre.

The allowance amounts reflect the key cost components of owning and operating an automobile, such as depreciation, financing, insurance, maintenance and fuel costs.

Employees Using an Employer-provided Vehicle

The general prescribed rate used to calculate the taxable benefit for the cost of operating an automobile in connection with an employee's personal use of an employer-provided automobile is 22 cents per kilometre. For taxpayers employed principally in selling or leasing automobiles, the prescribed rate is 19 cents per kilometre.

Note that the additional benefit of having an employer-provided vehicle available for personal use (i.e., the automobile standby charge) is calculated separately and is also included in your income.

Some Limits Remain the Same

The ceiling on the capital cost of passenger vehicles for capital cost allowance (CCA) purposes remains at $30,000 (plus applicable taxes) for purchases after 2005. This ceiling restricts the cost of a vehicle on which CCA may be claimed for business purposes.

The limit on deductible leasing costs remains at $800 per month (plus applicable taxes) for leases entered into after 2005. This limit, which ensures that the level of deductions for leased and purchased vehicles is consistent, is one of two restrictions on the deduction of automobile lease payments. A separate restriction prorates deductible lease costs where the value of the vehicle exceeds the capital cost ceiling.

The maximum allowable interest deduction for amounts borrowed to purchase an automobile remains at $300 per month for loans related to vehicles acquired after 2005. This limit reflects the reasonable cost of financing a vehicle for business purposes.

Maintain an Automobile Log

If you will be claiming automobile expenses on your tax return, claiming an allowance from your employer or have an employer-provided automobile, you should keep records of kilometres driven for employment purposes and total kilometres driven in the year. You should also keep all receipts to substantiate any tax deductions you may be able to claim.

Make a habit of keeping an automobile log in your glove compartment in which you record your business trips and related expenses. Note the date, destination, purpose and the distance traveled for each trip. Make sure that you record the odometer reading of the vehicle at the beginning and end of each year. If you change vehicles during the year, be sure to record the odometer readings of each vehicle at that point as well.

Maintaining an automobile log throughout the year will ensure that you will have all the information you need. ■

PERSONAL FINANCES

Helping the Kids

The kids have grown and left the nest but the rising costs of real estate keep outpacing their ability to save a down payment for their first home. Instead of building equity, they continue to pay rent while struggling to save.

When parents want to help their children purchase their first home, they need to use the same good financial sense they would use in other financial transactions and not let the emotional issues cloud their judgment. This means being aware of the risks and the steps they can take to protect their money.

Here is an overview of some options. Of course, before proceeding to provide funds to help your children purchase a home, you are well advised to seek professional financial, tax planning and legal advice. While love motivates you, this is a business transaction that requires the same careful planning you would undertake with any investment strategy.

Cosigning a Loan or Guaranteeing a Mortgage

Sometimes parents will consider cosigning a loan or guaranteeing the children's mortgage; however, these can be risky options. If the children fail to make the loan or mortgage payments, the consignors or guarantors must make the payments. In the case of a mortgage, the parents would also have to assume responsibility for related costs such as paying the property taxes and insuring the home until the children were able to meet their obligations.

Withdrawing RRSP Funds

Withdrawing funds from an RRSP is an expensive alternative and could jeopardize the parents' retirement plans. In the year of the withdrawal, the income from the RRSP is added to other earned income for the year and undoubtedly will place the taxpayer into a higher tax bracket. Beyond the additional tax burden, these funds will no longer be earning tax-deferred income in the RRSP investments.

Loaning the Funds

If the parents have the cash to help, they could lend funds to the children and protect the funds with a promissory note. However, a promissory note is not security. If the children default on the loan or go bankrupt, the parents will likely lose their money.

Where the child is married, there are family law considerations for which the parents should seek legal advice. For example, if the parents loan money to the daughter to help purchase the principal residence and the marriage subsequently breaks down, would the funds be considered part of the matrimonial property in the division of assets?

A mortgage is a more secure option as it will give the parents a lien against the home in the case of default.

Home Equity Loan

If the parents do not have the funds to provide a mortgage but have sufficient equity in their principal residence, they could consider taking out a mortgage on their home to provide the children the funds through a mortgage registered on the children's property.

Various principal repayment scenarios and terms can be combined with the existing interest rate to provide the parent lender with a specific amount that fits comfortably within their risk tolerance. Ideally the mortgage should be a first mortgage, as it takes precedent over a second and third mortgage and therefore has lower risk. The mortgage should also be repayable if they sell their home so that it cannot be assumed by a new owner. This is particularly important if it is for a very low interest rate.

Parent lenders are well advised to seek the advice of their lawyer before entering into any mortgage arrangement to discuss the legal implications and to ensure that the appropriate mortgage agreement is prepared.

Tax Considerations

In most situations, parents who mortgage their own home to provide funds to their children will need to recover sufficient funds from the children's mortgage to pay down their own mortgage loan. Thus, it will be important to match the parent's mortgage terms with the mortgage on the children's home.

For tax considerations, it is likely advisable to charge interest on the children's mortgage. As can be expected, the interest that is earned from the children's mortgage is taxable income in the hands of the parent. The interest cost of the parent's mortgage is deductible as interest expense incurred for investment purposes. However, if no interest is charged for the children's mortgage, the interest expense of the parent's mortgage would not be deductible from the parent's income.

The charging of interest to the children on monies advanced will also affect the parent's ability to claim a capital loss should the parents not be able to recover all of the advanced funds.

If parents are so inclined, they can include in the children's mortgage a clause that will forgive any remaining principal amount in the event of the death of the parents. This stops all requirements for repayment of the mortgage and becomes a bequest to the child as if it were in your will. Thus, there are no tax-related debt forgiveness issues.

Get Professional Advice

Events such as declining real estate values, a job loss or a marriage breakup could mean losses if the financial arrangement with the children is not properly set up. Before loaning money to your children to purchase a home, be sure to talk to your chartered accountant concerning the tax implications and talk to your lawyer about the risks and the ways you can protect your investment. Above all, make sure all arrangements are in writing. ■

Success

Yes… some businesses become overnight sensations. Sometimes a unique product or service skyrockets the company into instant recognition. However, most businesses have taken more than a few years to reach what their owner/managers consider a plateau of success.

When asked about the secret to their company's success, seasoned owner/mangers give advice that is not strictly based upon finances.

Set Goals and Measure Progress

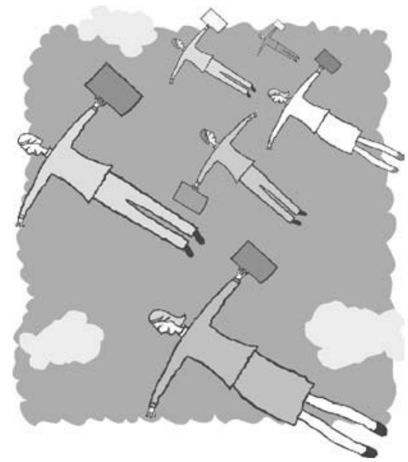
Write your long-term and short-term goals down. Make sure they are specific and have timelines: for example, your goal may be to increase sales by 25 percent in the next year. Generally, goals should be:

- Measurable;
- Attainable; and
- Rewarding.

Plan carefully, stay focused and be patient. Achieving your goals for growth often takes longer than anticipated.

Delegate Wisely

Owner/managers can sometimes get into the trap of believing that they should develop or invent everything in their business by themselves. This self-learning process is admirable but slows down the success of the business. Rather than try to be a master of every area, assess your strengths and weaknesses and identify where additional talent and skills would benefit the company. Hire the right people. When needed, augment your team with the additional experience and talent that an outside contractor can provide. Then focus on motivating the people and steering the company towards your primary goals.



Know When and Where to Spend Money

Many start-up entrepreneurs want to start with the best of everything, drive the newest vehicle, utilize the most up-to-date technology and the like. This approach may work if the entrepreneur has unlimited working capital and no debt load. For most start-ups, however, funds and lines of credit are issues and therefore expenditures need to be restrained. Rather than incurring expenses that hit the administrative section of the income statement, ensure that funds are spent on items that impact the cost of "goods or services sold" section.

Know All the Parameters of the Deal

Before going into negotiations, anticipate all of the needs that will make the deal work. For example, if you are hiring a consultant or contractor to complete a project, look at both sides of the deal. It is not sufficient to simply list your needs and ask for a price. Find out what the contractor needs, such as required material, transportation or staff, and perhaps inquire as to the mark-up for any disbursements.

Provide Incentives

The best product will not make a business successful if the product sits on the shelf or the staff member simply fills a chair all day. Not only do you need to reward staff for their success, but you should also allow them the latitude to be successful. For instance, sales staff should know the lowest possible price at which they can sell the product, the alternate products that will entice customers and "add-ons" or giveaways that are permissible.

Providing a reasonable base salary augmented by achievement-related bonuses or commissions is one means of ensuring employees will work hard and thus benefit the company.

Turn Mistakes into Lessons Learned

Employees will make wrong decisions. Good management knows to "fix the problem, not the blame." This approach communicates to the employee that while an error was made, knowledge can be gained in determining what is required to fix the problem — ultimately, this builds loyalty and confidence.

Keep Doors Open

When dealing with customers, do not close the door to opportunity by inadvertently expressing self doubts. Every item on an agenda or needs list should be treated as a challenge. Every obstacle should be treated as an opportunity rather than a problem.

Unless you are certain that you do not want to do business with a prospect, never say no. If you are uncertain as to your capabilities, indicate that the area needs further study and that you will get back to them.

Encourage all members of the team to maintain a "yes we can!" attitude during negotiation or fact finding.

Build Relationships

Relationships are not built overnight, thus, you should not expect a prospect to provide you with an order on the first encounter. Studies have shown it can take seeing your product or name seven times before a customer is ready to buy.

Work on building relationships with your customers. Take the time to find out what services your customers value the most and what areas need improvement. As Bill Gates once said, "Your most unhappy customers are your greatest source of learning". At the end of the day, it is the customer who determines which business is most successful.

Build relationships within the community. Find ways to give back to the community. For example, support local businesses, advertise in the local newspaper, get involved in community events, support local teams and donate to local charities.

Work with Your Professional Advisors

Your banker, chartered accountant, lawyer, insurance agent and other advisors can help you monitor the results you are achieving and provide advice on any adjustments that need to be made within the business.

Learn from the Success of Others

Talk to successful owner/managers and ask them to share their strategies for success. Search for success stories on the Internet and in newspapers, publications and business magazines, particularly those that are specific to your industry. These sources can provide valuable ideas and techniques that can help you manage your growth while avoiding many of the problems other business owners have encountered. ■

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