

INDEX

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TAXATION
Reducing your Taxes for 2004

MANAGEMENT
Room for Caution

MONEYSAVER
Keeping Cash Flow on Course

TECHNOLOGY
Hard Drive Back Up

TAXATION

Reducing your Taxes for 2004

The last month of the year provides an opportune time to gather and organize your documents for preparation of your 2004 income tax return. This is also a good time to revisit your tax planning strategies for minimizing your tax liability.



Is everything in order for your 2004 taxation year?

Changes

Have there been significant changes in your personal or business life during 2004? If you have not already done so, be sure to inform your chartered accountant if you have moved, have new dependants, changed your marital status or place of employment, retired or made other major changes. Have you started a new business or received earnings from self-employment during the past year?

Changes sometimes bring new tax-planning opportunities for reducing your taxes. On the other hand, some changes may result in additional taxes, in which case it is better to plan for this expense now rather than be surprised when it is time to file.

Personal Income

Most of the income that you receive is taxable and must be included on your income tax return. However, you do not

have to include your GST/HST credit and Canada Child Tax Benefit payments, lottery winnings, or most gifts and inheritances. Make sure you have retained all records of income from your various sources such as employment, investments and pensions and ensure these are complete.

If you are an owner/manager, you also need to consider additional income you may have received from your company, such as personal use of company property and any loans, draws or dividends you may have received from the company.

Last Year's Filing

A great start for finding ways to reduce your 2004 taxes is to review any unused amounts carried forward from previous taxation years. Review last year's tax return and your latest *Notice of Assessment* or *Notice of Reassessment*.

RRSP

Your *Notice* also indicates your RRSP contribution room for 2004.

- Can you top up your RRSP contribution to take full advantage of the ability to accrue tax-deferred earnings in your and your spouse's/partner's RRSP investments?
- Consider borrowing to contribute the maximum. Although the interest expense is not deductible, the tax benefit may still outweigh the cost.
- If you plan to withdraw funds from your RRSP before the end of the calendar year, consider your income for 2004 and your income for 2005. If you anticipate that your 2005 income may be lower than your 2004 income, you may wish to delay your withdrawal until the first few days of 2005 to reduce the impact of the taxes on these funds.

Transfer Credits

Do you have any transfer credits available?

- For example, if a student does not use all of his or her tuition and education amount on his or her income tax return, he or she can transfer the unused amount to his or her spouse/common-law partner, parent or grandparent.

Investments

Make sure your investment portfolio is in order, including records of your investment income and expenses.

- If you have stocks that have lost value, have you considered selling these before the end of the year? Selling these in 2004 will allow you to use the capital loss to offset capital gains you have realized throughout the year. Plan to place your sell order as soon as possible to ensure the transaction settles before the end of the year.
- Have you borrowed in the past or made new lending arrangements for investments outside of your RRSP? As the interest expense is deductible, gather your documentation.

Employment Expenses

If your employment arrangement requires you to provide your own office, vehicle and other assets to perform your work, make sure you have gathered all related invoices, agreements, automotive expense details and reimbursements received from your employer.

Business Expenses

Because various expenses of your business may be deducted in different ways for tax purposes, be sure to talk to your chartered accountant about the tax treatment of your specific expenses. Generally, you are allowed to deduct in the year all reasonable expenses incurred for the purpose of earning business income unless there is a provision of the *Income Tax Act* that prevents the deduction.

Since expenses are deductible as incurred, it may be advantageous to incur expenses late in the fiscal year in order to reduce income for the year. Generally, a cash payment in the year is not required in order to deduct the expense.

- Do you need to replenish office inventory items? Consider purchasing stationery, photocopying supplies, printer ink, and other general office supplies before the year-end.
- Are there expenses for which you will be invoiced in 2005 that were incurred in 2004? Many of the January 2005 statements and invoices you will receive from suppliers, financial institutions and service providers may include expenses that are applicable to your 2004 taxable income.
- Have you made modifications to your place of business to assist the disabled? These expenses are deductible as business expenses and are not added to the cost of capital property. Modifications include such things as installing ramps and widening doors and other changes to provide for wheelchair access as well as power door openers and bathroom enhancements. However, unlike other expenses, these amounts must be paid in the year in order to get the deduction.

Capital Asset Purchases for the Business

For tax purposes, expenditures for major purchases of property such as computers, office furniture and manufacturing equipments are not usually written off in the year of acquisition. Rather, the capital cost is written off over a period of years as a capital cost allowance (CCA). As there are many classes, each one specific to different types of property, be sure to discuss the appropriate CCA class with your chartered accountant.

- If you are planning to purchase capital assets, have you considered purchasing these before the end of the year? Although only one-half the normal CCA may be claimed in the year of purchase, it is advantageous to make your purchases in December so you can claim the half-year CCA for 2004.
- If you plan to sell capital property, have you considered selling it in January rather than now? Delaying the sale until 2005 would allow you to claim the CCA for the property for 2004, since the CCA can only be claimed on property that you own as at the end of year.
- If you are experiencing a low-income year, consider deducting less than the maximum CCA available and carry forward the unclaimed amount to a higher income year.

Shareholder's Considerations

Take time to review any loans, draws and dividends you have received from the company and ensure you have all the required documentation in order.

- Have the shareholders' accounts been updated for all draws and contributions during 2004? Be sure to document any expenses if you have used a draw to purchase corporate assets or to pay expenses on behalf of the company.
- Have all loans to shareholders been reviewed to determine the tax impact? Generally, shareholder loans are included in the shareholder's income in the year that the loan was made. An exception is where the loan is repaid within one year after the end of the company's taxation year in which

the loan was made. The loan must be repaid within the required time otherwise you will incur a tax liability for the year in which you received the loan. As there are many other important considerations regarding shareholder's loans, be sure to talk to your chartered accountant.

- Has the interest on all shareholder loans been calculated and submitted to the shareholders for payment? If the loan had a low or zero interest rate, there will be a taxable benefit added to the shareholder's income.

Saving Tax Dollars

While many taxpayers will typically procrastinate until April, taking charge of your tax situation now rather than later can help you maximize the opportunities to minimize your taxes. ■

MANAGEMENT

Room for Caution

When using other computers at a hotel or other public places, make sure you take steps to protect your information from being stolen. Here are some valuable security tips that help protect your money, privacy and identity when you are travelling.



Computers

Be careful when using computers at hotel business centres, Internet cafes, airport business centres, trade shows, conference centres and other places that provide computer access. Unscrupulous individuals who want to steal your password, and possibly your identity, could easily install various kinds of software and hardware that can essentially record everything that happens — every key you press and every screen you see. Even if they only steal the password for your remote access to your company's system, they can hack in and cause some damage.

Also remember that normal programs like Internet Explorer and Word automatically store records of what you do. If you simply type in a Word document and print it without ever saving it, a recoverable copy may well be left on the hard drive for the next user to access.

Be aware that some printers have storage capacities and may be able to reprint your documents after you leave. If you need to use a printer when travelling, switch it off for a minute and then turn it back on after you're finished using it. In most cases, this will clear the memory and reduce the possibility of your work being compromised.

Wireless Internet Access

An increasing number of hotels are providing free wireless access to the Internet. While this is convenient, it

also means you will be broadcasting everything to and from your computer. Anyone within range can record those signals and reproduce your activities. If you need to use such a connection, the safest way is to establish a VPN (Virtual Private Network) connection to your company network and then use the VPN connection. VPN connections are encrypted from your computer back to your company network, so the probability of having your work intercepted is greatly reduced.

When using your computer in public areas, shut off your wireless communication ports. This includes your infrared, Bluetooth and WiFi (including Centrino) features. If they are open, they can be a way of either losing data or having someone attempt to put a rogue program into your computer.

More Security Tips

Remember that a computer left in your room or car can be stolen or even have its hard drive copied. Consider keeping your confidential documents on a removable flash-memory device. If you choose to do this, ask your IT people to modify your software to use the flash memory device for temporary files and back-up copies, to avoid leaving traces on the hard drive.

Discarding a confidential document in a trash can is not a secure way of getting rid of it. Ask if the business centre has a cross-cut shredder. Or ask to use such a device at a company you are visiting.

Until you find a shredder, it is better to carry the unneeded documents with you.

When talking on your cell phone in public areas, keep your voice down, and don't say anything you would not

want overheard. This is equally true on trains and airplanes. You can almost always get your message across without revealing confidential information (for example, by referring to "the client I visited yesterday" instead of using the company name).

It Couldn't Happen to Me

Although you may think some or all of these precautions aren't necessary for you, bear in mind that almost all victims of information or identity theft thought the same. ■

MONEYSAVER

Keeping Cash Flow on Course

Like many businesses, lower interest rates may have allowed you to take on a higher debt load. But if interest rates increase, how will this affect your cash flow?

Depending on your debt load, an interest rate increase of just a point or two could have a significant impact on operations. Consider also that when interest rates rise, customers and suppliers may find themselves scrambling for cash as the ripple effect permeates the economy. This may be a wise time to look at your current cash flow as well as projections and controls.

While changes in interest rates are outside the influence of the owner/manager, cash flow can, and should, be constantly managed and controlled. Cash flow difficulties happen to companies with good sales as well as those with declining sales. No company is immune. Indeed, during a period of rapid growth, a company could face a cash flow crunch in trying to pay its debt obligations and operations expenses while waiting for accounts receivable.

Warning Signs

Poor cash flow can lead to the demise of a business. Some warning signs include situations where:

- Projects are put on hold because of budget concerns.
- The operating line of credit is being used to meet monthly long-term debt obligations.
- Financial institutions are in frequent contact about the company exceeding its line of credit.
- Meeting payroll is often dependent on accounts receivables.
- Accounts payable are creeping over 60 days.

- The owner/manager frequently advances personal funds to finance operations.
- The owner/manager reduces his/her draws from, or repayments of personal loans to, the business.
- The business' credit card balances are reaching, or are at, the maximum.
- Wages or bonuses paid to family members who work in the business are being cut back.
- Suppliers are being sent minimum payments or post-dated cheques to keep them happy.
- Suppliers are asking for payment or requesting C.O.D. for future shipments.
- The company is frequently paying penalties and interest on late payments to suppliers, municipal and other regulatory authorities.
- GST, PST and/or income taxes are often submitted late.

Resolving Cash Flow Difficulties

The first step to resolving cash flow problems is to recognize that they exist. The next step is to carefully review your business practices to determine if there is any unnecessary cash output. In its simplest terms, you need to see where the cash is coming from and where the cash is going.

Your chartered accountant can assist by reviewing your financial data and compiling a cash flow analysis and statement of cash flow. With this information, you can then work towards a more disciplined approach to developing a cash flow plan.



Here are some strategies that can help improve a company's cash flow:

- Sell equipment and lease it back. Leasing may cost more in the long run but a leaseback provides for more cash flow.
- Lease rather than purchase new capital assets.
- Consolidate small loans to reduce service and interest charges.
- Negotiate with your financial institution for a more cost-effective service package.
- Pay GST, PST and other withholdings on time to avoid non-deductible penalty costs.
- Ask key suppliers for extended payment periods.
- Implement just-in-time supply of inventory requirements.
- Accelerate receivables. Review invoice and collection procedures to determine if processing can be sped up.
- Contact customers as soon as accounts are overdue.
- Offer a discount as an incentive for early payment.
- Request cash on delivery for overdue accounts until outstanding amounts are paid.
- Hire a collection agency to collect long overdue accounts.
- Ask for advance deposits on orders for products or services.
- Review the credit line policy for all customers. Consider tightening credit terms for customers who appear to be financing their purchases with your accounts receivable.
- Make all employees aware of the need to reduce expenses. Encourage them to make suggestions about expenses that can be trimmed or eliminated.
- Adjust or establish purchasing approval levels.
- Implement measures for improving efficiencies and productivity and reducing overtime.
- Review sales of services and product lines to determine if it is time to terminate less profitable ones.
- Schedule a monthly update and review of cash flow to assess actual and future requirements.
- Forecast sales and expenses and make adjustments to projections during each quarter.

Stay Alert

Set aside time for careful financial analysis on a regular basis. Be particularly alert to small problems that can be corrected before they evolve into big problems. Your chartered accountant can help you find ways to reduce unnecessary cash output, optimize the use of available cash resources and work towards a more manageable and healthier cash flow position. ■

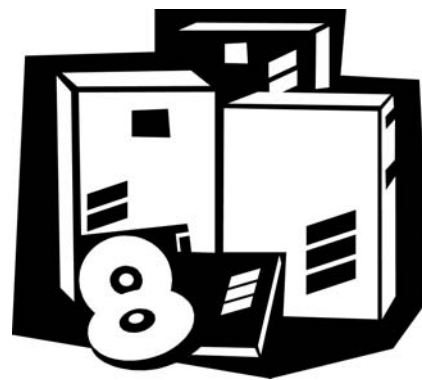
TECHNOLOGY

Hard Drive Back Up

It's a brand new system... nothing can go wrong. We're too busy right now. We'll do it tomorrow. Is this absolutely necessary?

While most every computer user knows the importance of backing up data, the wake-up call for completing this task on a regular basis is too often the sudden need to restore the system. A destructive virus, file corruption, a hard drive crash or the theft of the computer itself could seriously threaten the survival of your business. Consider also that the hard drive is a mechanical device and it can, and will, wear out at some point.

Like many, you may routinely back up your files, or at least the most important files, on CDs or with other back-up media. However, do you have back-up copies of all the application programs and utilities that you regularly use? You should have the original disks for most of these but have you customized



some programs or created shortcut keystrokes? Do you have a back up of your e-mail address book?

CDs are an inexpensive means to back up files such as Word, Excel, PowerPoint, e-mails and address books. They cost less than a dollar each and the capacity is 700 megabytes. However, if you need to back up a 60 gigabyte hard drive, this would require several blank CDs. It would be a slow process for doing the back up and a slow process if you needed to use these to restore your system.

Generally, you should consider doing a full back up of your hard drive each month. Have you considered using a second hard drive?

The Second Hard Drive

Given the constantly falling price of hard drives coupled with their increasing capacity, backing up to a second hard drive makes a lot of sense in terms of time, efficiency and flexibility. The choice then becomes whether to install a second hard drive in your PC or to add an external hard drive.

The addition of an external hard drive connected through the USB port does not require opening up the computer or

incurring costs for the services of a computer technician. A self-contained unit with a USB connection can cost as little as \$200. Current operating systems, such as Windows XP, recognize the newly plugged in drive within seconds without any user intervention so you can be backing up your data in minutes.

Another advantage to the external hard drive is that you can remove and store it safely off site by simply unplugging the USB connection and the power cord. If you purchase a second external USB-based hard drive, you can ensure that you have the security of an on-going back up in place and operating when the first unit is off site. Exchanging the two units on a weekly basis will ensure that you always have a secure off-site back up that is no more than one week out of date, while the on site unit remains handy if a file becomes corrupted or is inadvertently erased while the system is in operation.

You can also use the back-up hard drive in another system in a matter of minutes should there be a catastrophic situation such as a fire or flood making access to your main computer impossible.

Back-up Utility Programs

There are numerous back-up programs that allow the user to either selectively back up files or back up the entire system on a continuous basis. Some of these programs are bundled with the external USB-based hard drive. These programs allow you to specify the frequency of back ups, e.g., every two hours, or at start up or shutdown or at 3:00 a.m. daily.

Back-up Management

Advances in technology and hardware have made back-up management easier and more reliable than it was even a very few years ago. When you consider the relatively modest cost of the tools that can help you avoid the losses that could occur with a computer failure, backing up is not an option. Your livelihood may depend on it.

Search the Internet and talk to your computer specialist. There are many excellent products and tools available as well as a wealth of information detailing and comparing the various approaches to backing up your critical data and applications. ■

BUSINESS MATTERS deals with a number of complex issues in a concise manner; it is recommended that accounting, legal or other appropriate professional advice should be sought before acting upon any of the information contained therein.

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