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TAXATION

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 dental 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.
- Employment commissions received by a life insurance salesperson on a policy he/she owns and is obligated to pay the 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 from 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 counselling are not taxable benefits.

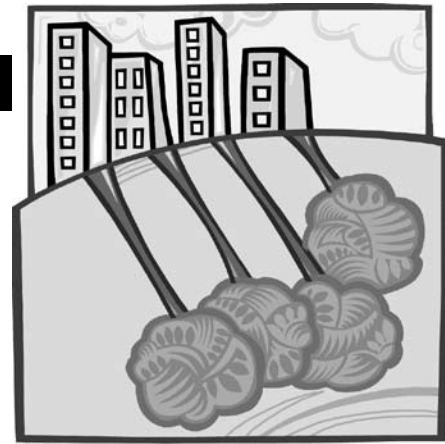
Generally, the costs of the employee benefits outlined above are tax deductible to the employer.

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 their chartered accountant 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. ■

Greening The Office

According to Kermit the frog “it’s not easy being green”, but a “green” or environmentally responsible office will make the most efficient use of resources and reduce waste in order to minimize negative impacts on the environment.



Reduced consumption and waste translate into financial savings, as any initial expenditure needed to transform an office into being “green” are offset by the resulting long-term savings.

The following suggestions will work for every business environment. However, the application of just one or two is a step towards responsible environmental management.

Go Blue

Buy blue boxes for the office and lunch room and separate recyclables such as paper, cardboard, plastic containers, bottles, etc.

Reduce Energy

- Power down all electronic computer equipment at the end of the day.
- Invest in shared photocopiers and printers rather than purchasing a printer for each office.
- Encourage a “lights out” policy when personnel leave the office. Install timers, or motion detector switches.
- Switch all lighting fixtures to the new fluorescent bulbs.
- Programmable thermostats will help reduce energy consumption. Increase the temperature at which the air conditioner comes on. Decrease the temperature for heating.

Spend Now to Save Later

- Purchase new equipment that is more power efficient (most new equipment will indicate the power consumption rates).
- Switch to a high-efficiency furnace or heat pump to warm and cool your building. You can reduce your cost with federal and provincial grants, and incentives from suppliers.
- Install low-volume toilets to reduce water consumption and electric hand-dryers or automatic paper dispensers to reduce paper usage.
- Switch to a heat-on-demand water heater or reduce the thermostat on the hot water heater.

- Purchase a water cooler (eliminate the use of individual plastic bottles).
- Equip the kitchen with a refrigerator, coffeemaker and microwave (eliminate the purchase of fast food in non-recyclable containers).
- Provide coffee, reusable mugs, plates and utensils (eliminate the use of Styrofoam cups and plastic utensils).

Travel Smarter

- Purchase smaller, more fuel-efficient or hybrid company vehicles.
- Encourage personnel to observe speed limits.
- Ensure regular maintenance of vehicle.
- Car pooling may be encouraged but management are advised to seek legal advice before suggesting that employees ride together (liability issues).
- Supply transit passes to encourage staff to use public transit.
- Review your cartage needs. It may be more efficient to hire vehicles as needed or use a courier rather than purchasing a vehicle for occasional deliveries.

Communicate Electronically

- Contact your suppliers and customers and arrange for purchase orders and invoices to be sent by e-mail.
- Arrange with your bank for your payroll to be online.
- Make a policy that all clients, suppliers or sales prospects should be located on the Internet. Refuse delivery of bulky telephone directories.
- Determine that all marketing and advertising will become environmentally responsible. Establish a website and use radio or television for advertising. Provide clients with e-mail advertising instead of print mailing (be sure to get their permission first because of privacy concerns).

Be Flexible

- Encourage employees to work at home.
- Equip all computers with webcams to allow office/

employee connection to reduce the alienation of working off-site.

- Shorten the work week to four days (the employees work extended hours for four days).

Getting Started – the Greening Process

- Get senior management involved – their backing is important. Emphasize the savings!
- Assign responsibilities – establish an informal committee to coordinate efforts, share information and take responsibility that changes will happen.
- Review existing practices and assess where change is needed.
- Set priorities for change – this is a long-term project.
- Communicate – everyone needs to understand what is required and how to do it. Provide feedback on targets and achievements to motivate personnel.
- Ongoing review of processes and equipment to ensure

long-term improvement.

Environmentally Responsible Resources

- For further information, Google “green office (and your province’s name)” for ideas and incentives in your province.
- GreenBiz offers a free service providing daily news on external websites (go to GreenBiz.com and sign up for their free news feed (RSS) or newsletters (GreenBuzz Box) featuring news, columnists and resources.

Finally ...

Going green is not easy. Fundamentally it means changing long-term habits. However, the challenge of change will provide your company’s employees with the satisfaction of meeting their goals together, while improving the bottom line and benefiting us all with a greener environment. ■

TECHNOLOGY

Flash Technology

Within 10 years it is probable that the under-the-desk PC will find itself relegated to a small closet in the backroom as a server. Technology has made “mini” mighty, and is more economical for manufacturers in areas such as production, labour and shipping.

The power of the new laptops is incredible when you consider the specifications and features crammed into a package weighing less than seven kilograms. What was unthinkable less than five years ago is now commonplace.

Laptops now have 4 GB of RAM, 160 GB+ hard drives, 50cm screens, multimedia ability and connections, DVD with blu ray, DVD burning, dedicated number pads, decent-sized keyboards, biometric security, built-in modems, dual core technology and mobile broadband as standard features which, combined with portability, make laptops an affordable and desirable capital expenditure. Rather than budgeting for a high-powered office system, with a less-expensive laptop for the road, businesses will be able to reduce overall capital expenditures by purchasing high-end laptops that will be satisfactory in any location.

Major Changes Are Coming

Two major drawbacks of many laptops are the hard



drive vulnerability to impact (i.e., being dropped!) and inherently poor battery life. The introduction of flash-based solid state drives (SSDs) within the next two years will transform the computer industry and change end-users’ willingness to use only SSD-equipped laptops as SSDs do not have moving parts subject to shock and do not need power to maintain the information stored in the chip. (Think of the SSD as a large USB key.)

Major electronic manufacturers have retooled with a vengeance as they realize that consumers will like the features of the laptops equipped with SSDs.

Features of SSD-equipped Laptops

In addition to having all of the normal features in today’s laptop, the most important feature is storage. Currently,

major manufacturers offer 30 to 80 GB drives that are more than adequate for most small business applications. Given the development in the near future of 120 GB drives, storage capacity will not be a problem. SSD memory capacity will increase, and traditional hard drives will be obsolete.

Newer laptops are currently being developed with roll cages and head parking capability that reduce the probability of damage if they are dropped, but they can't compete with SSD hard drives which have better kinetic shock resistance than traditional hard drives.

Flash memory is also non-volatile, which means that it does not need power to maintain the information stored in the chip. It also offers faster read access times. Another feature of flash memory is that when packaged in a "memory card", it is enormously durable, being able to withstand intense pressure, extremes of temperature and immersion in water.

Longevity of SSD-equipped laptops has yet to be proven. However, with virtually no moving parts, less heat build-up and less power draw combined with roll

cage construction, they are expected to replace the current laptops.

How Much Will It Cost?

At the moment, the major drawback to purchasing SSDs is price. Be prepared to pay a large premium. The higher price combined with the smaller hard drive will undoubtedly ensure that the traditional hard drive stays around for a while, but for how long?

Predicting the long-term viability of traditional hard drive technology, its pricing and availability is not easy. However, experience has taught us that newer technology, such as the SSD, will become the dominant industry norm.

Small businesses which are considering upgrading in-house and off-site computers to laptops may wish to wait until the fall of 2008 to see if the new technology reduces the price of the traditional hard drive, which would mean there may be incredible bargains to be had on traditional hard drives. However, the competitive nature of industry may provide small businesses with competitive pricing for the new technology. ■

MANAGEMENT

A Higher Dollar

The surging Canadian dollar has certainly had an impact on business – both negative and positive. Couple this with record oil prices and sensitive interest rates and there are interesting management challenges ahead.

Businesses that export goods and services and those in the tourism and hospitality sectors are struggling to deal with the effects of our surging Canadian dollar. Generally sales are dropping, either from currency exchange or from fewer customers.

On the upside, Canadian importers, wholesalers, manufacturers and retailers are winning big with the costs of bringing goods into Canada becoming cheaper. And consumers are continuing to rally with lower prices.

The parity or premium that our Canadian dollar has reached with the United States greenback creates opportunities for Canadian small businesses that have been unprecedented in the last half century. While it is presenting challenges to many sectors, it is also prompting many owner-managers to rethink their business strategy. Perhaps it is time for owner-



managers to go back to the drawing board and think about some ways your business can benefit from the higher dollar.

Invest in New Equipment

When our dollar was sitting at historic lows, the cost of importing equipment and machinery was at its peak. This may have prevented some businesses from upgrading equipment. As the higher dollar makes these purchases more affordable, this is an opportune time to acquire new technology, equipment and machinery. In many instances, these purchases will be less expensive than before while providing benefits such as less set-up time, improved accuracy or faster processing ability. Even if the equipment costs more than the older equipment, the enhanced productivity and potential to lower costs and/or prices will far outweigh the higher cost.

Boost Sales

Now is the time to become proactive in your marketing strategies and efforts. Trying to compete with less expensive offshore products is difficult at the best of times and, with a healthy Canadian dollar, the difficulty is compounded. However, many imported products may offer lower quality or have other limitations. Some may meet only minimum safety standards, be suitable for only light rather than heavy duty applications or lack support for parts or service.

How do your products compare? Demonstrating the advantages of a superior Canadian-made product that offers proven reliability, durability and service support can increase your sales. Consider targeting your marketing to higher-priced niche markets.

Expand Your Market

Increase your reach. With the Internet making it easier to sell across borders, consider entering this market or enhancing your online visibility and functionality.

In countries where the Canadian dollar is still considered a weak currency, there may be opportunities to build a new or expanded market or establish a distribution system.

Enhance Processes or Products and Become Full-service

If your product is a singular electrical component for assembly by a third party, would your client benefit in terms of cost and turnaround time if your company assembled the entire product?

Keep Costs under Control

Consider revamping your supply chains. Review the cost of importing products or components from your current suppliers. Can the same units be purchased in a country where the Canadian currency has a more favourable exchange rate?

Invest in Human Resources

This could involve training new employees, enhancing the experience-based knowledge of seasoned workers, or hiring knowledge-based outside workers, all of which can improve productivity. Many new Canadians may be from countries where opportunities exist for your company. Hiring someone who has both the required skills and knowledge of the foreign market, language and customs would definitely be advantageous.

Project Your Future

The success of any new venture begins with an idea, solid strategic planning and new or improved processes to achieve results. But to ensure those dreams are realized, you need to attach financial considerations to each step in the process. Make sure your budget provides for marketing, new equipment, hiring and training staff and the host of other costs that bolster new ventures.

Review your current and future cash-flow needs to determine if you need to increase your working capital with external financing. An integral part of any future development is to understand how the cost of financing future developments can affect present operating requirements.

The high-flying loonie is an opportunity to revitalize business with strategic change, increase productivity, improve staff morale and underpin the future of your business. Now is the time to work with partners, marketing and production staff and your chartered accountant to outwit the currency market. ■

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