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Windows 7

With the recent release of Microsoft Windows 7, users of Windows XP and Vista operating systems (OS) may not know that support will begin to shift away from those versions in favour of the newest edition.

As of September 2009, only about 22% of personal computers are running Windows Vista. Windows XP on the other hand, although no longer available for sale, still accounts for approximately 68%. The remaining ten percent includes Mac OS, Linux, older versions of Windows and other operating systems.

While Windows XP still has a substantial majority of users, time is running out on the eight-year-old operating system. It is expected that hardware and application vendors will begin to phase out support for the older versions thereby forcing users to upgrade.

Transitioning from Windows XP

Users of Windows XP may assume that Microsoft would have created a seamless upgrade process to Windows 7. Despite the massive market share still enjoyed by Windows XP today, migrating to Windows 7 requires a clean installation, meaning that existing files,



programs, and settings are not retained. All applications need to be reinstalled and data manually copied back to the hard drive from backups.

Applications that run in Windows XP but are not compatible with Vista may also not work in Windows 7. Microsoft includes Windows XP Compatibility Mode with the Professional, Ultimate and Enterprise editions of Windows 7, effectively creating a separate Windows XP installation that runs within Windows 7 in a virtual environment. This option adds compatibility to run software written for XP but may not support all your applications because of the inherent limitations of working within a virtual machine. As a separate

Windows installation, your virtual XP will also need to be patched and kept secure with antivirus updates on a regular basis.

Upgrading from Windows Vista

Unlike the older Windows XP, Vista users have the option to upgrade their operating system directly to Windows 7. Since Windows 7 is based on the Vista code base, upgrading should be a much more straightforward process with fewer application compatibility issues.

These three versions should allow Vista to make a seamless migration:

- Windows Vista Home Premium to Windows 7 Home Premium
- Windows Vista Business to Windows 7 Professional
- Windows Vista Ultimate to Windows 7 Ultimate

Any other OS cannot be upgraded directly to Windows 7 and will require a fresh installation and manual migration of files and applications as described above.

Hardware

Windows 7 has much higher system requirements than XP; this is to be expected given the hardware for which XP was originally designed.

PCs that can run Vista can probably run Windows 7 too. For Windows XP computers, Microsoft recommends purchasing a new PC that comes with Windows 7. That may sound a bit extreme, but the migration process from XP is quite laborious, taking at least two hours per computer.

To take full advantage of the OS your hardware may have to be upgraded; depending on internal components, additional RAM and an upgraded graphics card may be required for a more noticeable change. Also remember that XP has been available for eight years; a PC that is more than three years old may perform poorly with Windows 7 and not be worth upgrading.

The complexity of upgrading and migrating may seem daunting to some users. Microsoft's recommendation to purchase a new computer rather than attempt an upgrade testifies to that.

Why Windows 7?

If you are using Vista right now, chances are good that you will notice a big improvement in performance by upgrading because the installation process, boot-up times and shutdown times are noticeably quicker. Windows 7 has full support for 64-bit and multi-core processors, which is now standard for most new computers. Use of native 64-bit software and device drivers will help unleash the full potential of your computer.



Improvements have also been made to security through the Windows Action Centre, similar to Security Centre in XP. Better power management for portable computers will help extend working time and the enhanced-user interface, taskbar and search functionality will save you time by making information more accessible.

Despite the comfort and familiarity of XP, it is important to keep in mind that it is now in retirement — or the Extended Support phase, as Microsoft puts it. Security patches will continue to be available until 2014; however, software support for older operating systems will begin to fade away. Consider how much software available today is still compatible with versions of Windows older than XP. Not many. As support for Windows XP wanes your business will increasingly be at a competitive disadvantage if you are unable to run some applications or perform certain tasks.

Other Considerations

1. Buy a hard drive backup for each computer and back up everything regardless of the operating system before you convert any of your computers.
2. Keep your old software installation discs and/or install files. You never know when you may need to reinstall your applications.
3. Keep at least one computer and one printer that operate on XP. Like all previous transitions, such as DOS to Windows, Windows 3.1 to 95 and Windows 95 to NT, some applications may not work properly or at all in the new OS. A few years down the road you may need to retrieve data from those applications that were not migrated forward.

4. Your business depends on output. Ensure that all the drivers and applications you require are fully supported either natively in Windows 7, or, at least, in the Windows XP Compatibility Mode of Windows 7 before retiring XP.

The Advisor

If you are considering a migration from XP, Microsoft provides the Windows 7 Upgrade Advisor on its website as a free download. This application will scan the hardware and software on your current PC for compatibility. Microsoft strongly recommends running this application on any PC you intend to upgrade or migrate to Windows 7. The software, once loaded onto your computer, scans the system to:

- determine whether your system meets the minimum system requirements, including CPU, RAM and free hard drive space
- analyse devices for compatibility; the advisor then tells you whether your system, scanners, modems, controllers, cameras and any other devices will be compatible with Windows 7
- report on support for your applications; the advisor indicates whether or not difficulties may be encountered and advises you to go to the software supplier to obtain more information.

It is a good idea to save and/or print the results for each computer and review the recommendations before upgrading or migrating to Windows 7.

The Cost

The cost of upgrading to Windows 7 ranges from \$115 to \$350 per machine, depending on which version has the features you require and whether or not you qualify for the Upgrade version pricing or need to pay for Full version. If your XP computers are not compatible with Windows 7, there is either the incremental cost of upgrading your hardware or the cost of replacing the computers entirely with new hardware.

Help!

We strongly encourage all businesses that choose to upgrade their existing computers from XP or any other operating system to contact their local computer service provider for assistance rather than tackle the task themselves. The on-site involvement of a service provider will ensure that essential files are backed up, appropriate hardware upgrades are installed and the most suitable fixes for existing software are obtained. A proactive approach early on should ensure that the transition from XP and/or Vista to Windows 7 is completed as efficiently and effectively as possible. ■

TAXATION

The Envelope Please

When the federal government offers a tax incentive, it's always worthwhile to consider taking advantage, if possible.

A rare opportunity to reduce our taxes while benefiting ourselves and helping our fellow Canadians keep working during tough economic times is available until the end of January. Don't let it slip by.

In its February 2009 budget, the federal government created the Home Renovation Tax Credit (HRTC) to encourage families to help stimulate the economy by spending money on renovations at their house, condo or cottage. The federal government is even providing special envelopes obtainable at participating hardware stores and other renovation centres for keeping the relevant receipts and other records of the work done.



A tax credit is a direct dollar-for-dollar reduction of taxes payable; it is more beneficial than an itemized deduction, which merely reduces the amount of taxable income. The HRTC is a one-time-only tax credit:

all work will have to be done or goods acquired in the period after January 27, 2009, and before February 1, 2010, in order to be claimed on your 2009 return. It should be emphasized that January 2010 expenditures can be included in the 2009 claim.

To be eligible, expenditures must be greater than \$1,000 but less than \$10,000 and must relate to a dwelling that can be treated as a principal residence of the individual or other family member. To obtain the maximum \$1,350 the family unit must spend the \$10,000, deduct \$1,000 and calculates the 15 % on the balance of \$9,000 which is \$1,350. (A family unit is considered to be an individual, spouse or common law partner and children under the age of 18).

For those with \$10,000 available for investment, the opportunity to earn a return of 13.50 % should look attractive in the current interest rate climate. Even if the \$10,000 has to be borrowed (current low interest rates allow the homeowner to borrow \$10,000 at 5% or less) and assuming full repayment of the loan within 12 months, the return on the upgrade of your domestic assets will be greater than that provided by most financial instruments.

Receipts are Necessary

To prevent unscrupulous contractors from taking advantage of the government's largesse, the CRA has provided guidelines outlining acceptable documentation. The FAQ portion of the website (www.cra-arc.gc.ca/hrtc) indicates the following:

"Documentation, such as agreements, invoices, and receipts, must clearly identify the type and quantity of goods purchased or services provided, including, but not limited to, the following:

- information that clearly identifies the vendor/contractor, the business address and, if applicable, the GST/HST registration number
- a description of the goods and the date when the goods were purchased
- the date when the goods were delivered (keep your delivery slip as proof) and/or when the work or services were performed
- a description of the work performed including the address where the work was performed
- the amount of the invoice
- proof of payment.

Receipts or invoices must indicate paid or be accompanied by other proof of payment, such as a credit card slip or cancelled cheque. "

Although it will not be necessary to include the receipts at the time of filing your 2009 return it would be prudent

to keep them for at least six years. To ensure compliance with information requirements and to assist your chartered accountant when compiling your personal tax return we suggest you print the CRA worksheet and provide the completed form along with the supporting documents to your chartered accountant at tax time.

What is Allowed?

The government requires eligible expenditures to be "of an enduring nature and integral to the dwelling." Thus expenditures on permanent hot tubs, new windows, etc. would likely be acceptable but television sets or portable air conditioners would likely not be. Costs associated with the eligible expenditures, such as building permits, labour of tradesmen or architects, equipment rental, building materials, and fixtures are considered part of the HRTC — but the purchase of tools to do the job are not. Routine maintenance expenses such as furnace cleaning, carpet cleaning or lawn care are not eligible. If you are unsure whether your planned expenditure will fall into the acceptable category, visit the above-mentioned website for a list of the allowable items.

Additional Incentive

The tax credit for the HRTC does not interfere with the deductibility permitted under the medical expense tax credits. Thus, if renovations are necessary for health or disability reasons supported by your medical practitioner, you will be able to claim both on your 2009 tax return.

If part of your home renovation includes energy-saving retrofits such as a new high-efficiency furnace, the HRTC will apply. As a homeowner you may also be eligible for tax-free cash grants that would reduce the cost of your expenditure. In some jurisdictions the province or utility companies may provide additional incentives.

If two or more families own a home jointly, each is entitled to the HRTC credit. Thus, if joint ownership is established each taxpayer would be able to spend \$10,000 on the renovation and each would receive the full tax credit of \$1,350.

If you own a condominium or a co-op unit your share of eligible expenses incurred for the common area will be eligible for the HRTC.

It's Not Too Late

Given that the eligible expenditures must be made by the end of the day January 31, 2010, little time is left to help the economy recover and improve your home or cottage while taking advantage of a tax credit for your 2009 filing. For further information or if you have any questions, speak with your accountant or check the website. ■

Money for Nothing

Owner/managers are constantly approached by individuals willing to work for cash only.



This under-the-table deal will enable the owner/manager to save money by paying below-market labour rates while the individual avoids paying income tax because the income is not declared. Or so the argument goes.

But do under-the-table payments really save a business money? Let's see.

Assume for discussion purposes that someone is hired by a corporation as an independent contractor and works the entire year for \$50,000. Assume further that the cash transaction does not produce the receipts that would make the expenditure deductible for tax purposes. Since provincial and federal corporate taxes together approximate 16.5% and the GST rate is 5%, the tax loss from the inability to recover corporate taxes (\$8,250) and GST (\$2,500) on the \$50,000 approximates \$10,750.

If a proprietorship or partnership took this route, the inability to deduct the \$50,000 would increase the income tax liability and could, depending upon the tax bracket, be extremely costly.

Paying in cash is not in itself illegal. The owner/manager does not have responsibility for the data subcontractors submit to CRA or any other reporting agency. Owner/managers are entitled to believe that businesses or individuals paid in cash have integrity and report the cash sale as required by tax authorities or other regulatory bodies. Indeed, just because a business invoices your business and a cheque is issued does not guarantee the reporting integrity of the subcontractor receiving the cheque.

Potentially Corrosive Issues

In the event that this cash employee is injured on the job and requires medical attention most, if not all, provincial jurisdictions require the medical examiner to report the job-site injury to the provincial Workplace Safety and Insurance Board (WSIB). If you, as an employer, have not ensured that the individual is covered, either personally, or through your plan, a subsequent audit could cost your business time and money to defend any resulting reassessment levies and penalties.

Good Reasons to Reconsider

Individuals requesting cash may balk at providing receipts for the cash received. Failure to obtain a receipt creates negative business issues for the owner/manager for the following reasons:

- Busy owner/managers may lose track of who has been paid cash. Thus, if challenged by the subcontractor, the invoice may end up being paid twice.
- In the event of inferior workmanship it is difficult to withhold payment, stop payment, or recover the payment once the cash has changed hands.
- Regular employees may resent that the individual working beside them is getting cash. Although completely without foundation, most employees would assume that the individual receiving the cash was working under the table and may not be paying income tax and other deductions.
- Misplaced or lost cheques can be voided and reissued without loss to the business. The cost of lost cash is equal to the amount lost.
- Lost cash may not be covered by corporate insurance policies.
- Cash payments upset cash-flow management. Businesses normally work on a 30-day invoice-to-payment cycle, which allows for the collection of accounts receivable.
- In the event of an audit by CRA, consistently large cash withdrawals may attract the auditor's attention not only for business but also for personal income tax reasons. Business owners would be remiss if they were reluctant to reveal to CRA the purpose of the continuous cash withdrawals.
- Cash payments raise the question: "Where did the cash come from?" Naturally, if the cash is withdrawn from the business it can be easily verified. If bank records indicate cash was deposited before each withdrawal the owner/manager may have to prove the cash was deposited from verifiable sources.

- In the event cash payments to contractors are not traceable to the business bank accounts or other business cash sources but have instead come out of the deep pockets of the owner/manager it may appear as if the owner/manager of the business had failed to report all income. It may prompt further investigation as to whether these transactions are the launching point for other questionable activities.

Impact on Business

CRA and other regulatory bodies (in addition to generally accepted accounting principles) normally require expenditures be offset against earned revenue if that expenditure was made in the pursuit of business income.

Businesses are required to obtain a GST registration number from individuals with whom they conduct business in order to claim the input tax credit (ITC). Once the contractor has provided the business owner with a GST number, the business owner would assume the GST charge is included in the billing. Conceptually a \$50,000 cash payment over the year would create a \$2,380 ITC offset against GST collected and a deduction against income of \$47,620.

However, the inability to provide a receipt may have a negative impact on the business. Tax authorities may disallow the cash-payment deductions because the business lacks appropriate supporting receipts. It is conceivable that the business would not be allowed the tax benefit of \$7,857 and, as a result, be required to repay the ITC amount of \$2,380 used to offset the GST remittances.

Impact on Owner/Manager

The absence of receipts from the contractor for owner/manager withdrawals from the bank for the purpose of making cash payments will undoubtedly raise the eyebrows of tax authorities. These withdrawals may be perceived by taxation authorities as personal income. This would require the owner/manager to claim the amount as additional income and pay personal income tax at the appropriate tax rate. If the owner/manager had already claimed personal income from the business of, for example, \$40,000, an additional \$50,000 would boost taxable income to \$90,000. The result for an individual with basic personal exemptions would be to raise the personal income tax payable from approximately \$7,000 to the \$25,000 range.

Although the business, in this scenario, should be able to claim the additional \$50,000 as a wage deduction against revenue to reduce the combined income tax, the business could be penalized for failing to remit appropriate CPP deductions.

You Can't be Too Careful

Business owners who wish to pay cash should be aware of the cost to their business and the potential difficulties that may result if cash payments are not appropriately receipted. Ensuring that dated receipts include the name of the recipient, either the social insurance number or business (GST) number for the individual, a description of the work completed, the date of the invoice, the amount paid, and that the invoice was paid in full in cash is just good business. ■

MANAGEMENT

Cash is King

Without adequate cash flow a business will run into difficulty.



Startup businesses always underestimate the need to have adequate cash on hand. Here are a few tips to take away some of the worries surrounding the need for cash.

1. Ensure you have adequate operating cash before you start. Most startups can negotiate loans for equipment, or advances for leases but few consider the need to have at least four months operating cash to keep them going. Sales projections seldom match the optimistic forecast and, as a result, new entrepreneurs usually find themselves struggling to find enough cash to pay for rent, wages, PST and GST, inventory purchases, utilities, vehicle expenses and repairs and, of course, their own remuneration.
2. Make deposits daily. This keeps you on top of actual cash, allows early tracing of NSF cheques,

and enables you to make those telephone calls to the customers who bounced the cheques.

3. Try to make payments to suppliers on the same basis as your customers pay you. Thus, if your terms are 30 days for clients, attempt to get the same terms from your own suppliers. Thus cash receipts will more closely match your cash disbursements and the timing gap between the two that needs to be covered by borrowing will be reduced.
4. Startup companies should request payment when the job is done. Thirty-day terms are polite but not set in stone. Ensure that customers understand payment is due when the merchandise or service is completed.
5. Cash needs for large jobs requiring extensive labour, high-volume inventory, or purchase of specialized or customized parts should be reviewed to reduce your need to finance your customer. Negotiate deposits for taxes such as GST and parts. Completion-of-work or weekly payment amounts must be rigidly adhered to in order to not jeopardize the ability to complete the project. Reasonable clients understand that undermining any project because of cash flow is counterproductive to all parties involved.
6. Always be on top of accounts receivable. Review all accounts weekly. If payments slide, contact the customer. Determine when payment can be expected. If payment promises are not met, stop working or make all orders from these clients C.O.D.
7. Sometimes offering a discount for payment within 10 days will bring in much needed cash. Collecting 98% of an invoiced amount within 10 days is better than waiting 45 days for 100%.
8. Accept payment by credit card. Many smaller business owners like to collect points on their credit cards and may prefer to pay the invoice by card to add to their rewards program.
9. Negotiate a line of credit with your financial institution. Avoid using credit cards for your own business purposes unless you are 100% confident the purchase will be paid for as soon as the statement arrives. Better to pay with the line of credit with a 6% per annum rate than a card payment at 18%+ per annum if the amount is not paid immediately upon receipt of the statement.
10. Manage inventory cost cash flow. Carefully monitor inventory on hand. Weekly review of items that are moving may mean buying more. If some items are moving slowly, consider discounting to recover at least the initial cost.
11. Understand your actual cash needs. Many startup businesses fail to build fixed and variable costs into their selling price. For example, assume an entrepreneur purchases a product for \$60 cash and sells it for \$100 cash. The thinking is: "I've just made a \$40 profit." In reality additional costs for processing, advertising, financing, or wages were not paid for and the "profit" could actually be breakeven or loss. Selling at a breakeven point or a loss will lead, over time, to the collapse of cash flow and likely the demise of the business.

Go With the Flow

Cash flow control is essential to every business. Talk to your chartered accountant for assistance in setting up a cash-flow forecast. The method can be as simple as using a spreadsheet to project receipts and disbursements; more sophisticated software use markup percentages and historical trends for the collection of receivables, the payment of payables and the influx of funds from lines of credit. By managing your cash you will be better able to ensure the survival of your business. ■

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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