

INDEX

VOLUME 19, ISSUE 5
October, 2005

TAXATION

The Professional Corporation

MANAGEMENT

Turning Prospects into Customers

Managing Change

MONEYSAVER

Optimizing PC Speed

TAXATION

The Professional Corporation

At one time professionals such as doctors, dentists, lawyers, and chartered accountants were not allowed to incorporate their profession.

Although not every profession can be incorporated in all parts of Canada yet, there seems to be a move by most provinces to allow professionals to incorporate. In part, it may be because professionals, usually in a higher income bracket than most salaried individuals, are demanding the same tax benefits available to other incorporated small businesses.

Before setting out to incorporate your practice, first contact your professional association or college to determine if you are permitted to incorporate.

In some provinces, the process of incorporating the professional may be complex. Each province has its own corporations act and the application of its guidelines and regulations can vary widely. In addition, your provincial licensing body may also have additional requirements, regulations and processes for incorporation by its members.

Among the many matters you need to consider are whether there are restrictions under the governing provincial legislation that would have



an impact on the issue of shares. There may be regulations as to who may own shares and the voting rights of those shares.

Once you have the information about the process and requirements of your provincial licensing body and the provincial corporations act, it is time to

talk to your chartered accountant about the advantages of incorporation, discussed briefly as follows.

Small Business Deduction

Since the professional corporation will be a Canadian-controlled private corporation (CCPC), the corporation will generally be allowed the small business deduction. Currently, the first \$300,000 of active business income qualifies for the federal small business deduction; the provincial limit may vary. At current tax rates, the income eligible for the federal and provincial deduction is taxed at a combined rate in the 20% range. Where the corporation is a member of a professional partnership, the amount of income qualifying for the small business deduction will be reduced.

Year-end

Unless the professional corporation is a member of a professional partnership, it can choose a different year-end than December 31st. In the first year of operation, this flexibility may prove advantageous as a shorter year-end may create a lower profit and thus less taxable income.

Liability

A key advantage of incorporation is that it lowers your personal liability exposure. However, generally working under a professional corporation does not insulate you from professional negligence claims. Both you and your professional corporation will generally be jointly liable for any professional liabilities that arise from your professional practice.

Registered Pension Plan

A professional who operates through a proprietorship or a partnership cannot be a member of a registered pension plan. The professional corporation can

set up a pension plan for the professional, often allowing more tax-sheltered retirement savings than RRSPs. An added benefit is that unlike most RRSPs, pension benefits are generally not exposed to attacks by creditors.

Tax Instalments

Corporations are required to make tax instalment payments at the end of each month commencing with the first month in the corporate taxation year. However, in the first fiscal year of its existence, the corporation does not have to pay its tax in instalments. This flexibility could be very beneficial if your taxable income is high but cash flow is tight in your first year of operation.

Bonuses

The advantage of being able to bonus-out profits from an incorporated company is a major reason for incorporating. Assume for a moment that your corporation has an October 31 year-end and a taxable profit of \$30,000. If income taxes were at 20%, the corporation would owe \$6,000 in taxes. If, however, the corporation declared a bonus of \$30,000 for the October 31 year-end, the corporation would have zero taxable income and therefore would not pay taxes. For the corporation to obtain the deduction in the prior year, the bonus must be paid within 179 days of the year-end.

An individual who receives a bonus is not deemed to have taxable income until he or she receives it. Thus if you received the funds in the following calendar year, they would not be taxable in your hands until the following year. The bonus permits the deferral of personal income tax and, if you are in a lower income tax bracket, permits the lowest tax rate to be applied to the income received.

Sale of Shares

The ability to value and sell shares of an incorporated company, rather than sell a partnership or a proprietorship, greatly simplifies the structuring a sale of all or part of a thriving business and makes retirement planning and the disposition of assets upon death less complicated.

Subject to governing provincial legislation for professional corporations and federal income tax regulations, it is likely that the shares in the professional corporation can be sold. If that is the case, the profits made on the sale of the shares would be treated as capital gains. This treatment may allow you to take advantage of the capital gains exemption, thereby reducing the taxes payable upon the sale of the shares.

Before You Incorporate

Incorporation may not be advantageous for all professionals. However, for sole practitioners and start-ups, the many corporate benefits such as having more money left to repay loans, buy equipment, pay rent, deduct corporate expenses and make investments can make incorporation very attractive.

Before incorporating your practice, be sure to meet with your chartered accountant to discuss your financial and tax planning strategies. There are issues dealing with personal remuneration, draws, expenses and other matters as well as some pitfalls to avoid that should be discussed before you proceed. You should also meet with your lawyer to discuss the legal implications of starting a professional corporation.

Professional advice and careful planning will allow you to move forward with your profession secure in the knowledge that your efforts are being rewarded with a steady income and a growing practice. ■

Turning Prospects into Customers

Prospecting often starts with a cold call with hopes that you can make it to the next step — meet with the prospect to sell your company and the services or products it offers. With the time pressures of running a business, the decision-makers do not have time to waste. How can you help ensure your efforts will pay off?

Here's some advice that can help you turn prospects into customers.

Getting in the Door

Cold calling can be a very effective method for getting in the door but it does require careful preparation. Being prepared will prevent your call being considered a waste of time or an irritation.

First, research the company as much as you can and try to find out the names of the decision-makers, those with the authority to purchase.

Set out your strategy for reaching your goal: getting an appointment. The telephone call is for marketing purposes; the meeting is the time for closing the sale. Make some point form notes before you call so that you are prepared to tell the prospect how your products or services can benefit their company. If a mutual contact has referred you to this person, be sure to mention this as it can help establish rapport and a common ground.

Keep a record of your call. If you do not get a positive response from this first contact, end the call politely but try to leave your name, number and company. A "no" does not necessarily mean there is no opportunity for future

business. The company may not need your product or services right now or the person may be dealing with pressing matters and cannot focus on what you are offering at this point. Having a record of your call makes sure you can recall the name and company that you contacted if you do hear from them at a later time.

You have an Appointment

From the buyer's perspective, the most frustrating meetings with potential suppliers are those where the information exchanged is a waste of their time. The prospect does not want to hear how good your company is or how many or how big your clients are. What they want to know is how your product or service can help their particular business. For example, rather than tell them about the applications your product can handle, determine what applications the prospect needs and explain how your product can help meet those needs.

Of course, they need to know something about your company but keep it brief and be prepared to leave behind a brochure or other sales collateral that gives them more detailed information about your company and its offerings.

Listen. Often the salesperson may be too eager to fill the gaps of silence by talking incessantly about their company, customers and the like. Convincing people to make a purchase decision means listening to determine what their needs are and then matching their needs with the product or service.

Ask probing questions about their company and their needs. Make all your questions as open-ended as possible; that is, ask questions that require more than a "yes" or "no" response.



Naturally the prospect will ask questions about your products or services, but be careful that the prospect does not start to lead the conversation. No one understands your products as well as you and how they will fit into their operations. If you are unable to take the lead in the discussion, it will be difficult to determine their needs and how your product or service can meet them. If a prospect is taking over, gently steer their questions into questions of your own until you have the prospect answering your questions.

Be respectful of the person's time commitments. Do not overstay the allotted time unless asked to stay. Be alert to lulls in the conversation, tone of voice and body language that may signal the person's interest is lagging.

The specific purpose of the meeting is to sell your product or service. Too often, the salesperson fails to ask the prospect if they are willing to purchase the product or service. You have invested time, energy and interest in the prospect. It's time to close the sale.

If the person is unwilling to buy today, remember the company may need your product or services at some future date. All prospects are different and the

selling process often follows its own course, depending upon the urgency and needs of the prospect.

Make Marketing a Priority

Marketing your products or services should be part of your daily business schedule. Seeking new customers is the only means of ensuring that your business will not become stagnant. New business brings in ideas for new

client needs and challenges management to find solutions. Further, if you are not constantly seeking new customers, the loss of any of your established customers might dramatically affect your bottom line.

While you need to market to new prospects, do not forget those you have contacted in the past. Their needs may have changed since the last time you called or met with them.

It is equally important to keep in regular contact with your established customers. From time to time, ask them about changes to their businesses, what they are planning to do in the future and determine how you can help them. ■

MANAGEMENT

Managing Change

When a company needs to implement changes and the resultant new policies, how does it ensure everyone understands the new requirements, garner support and commitment and successfully manage the process?

Changes in processes and procedures require clear, comprehensive policies and procedure documents to ensure all employees understand and comply with them. Whether you are upgrading existing policies or creating new ones, here is a step-by-step process that can help you introduce new policies and procedures and ensure compliance.

Prepare

As the owner/manager, you will likely oversee the entire process, from creating the required policies, communicating with staff, to ensuring compliance. It is important that you or the employee designated to lead the process be enthusiastic about the change being made and the benefits to be gained. If you do not care about or support the change, why should anybody else?

Involve Staff

Change is difficult in any organization. A critical success factor is how well you communicate the objectives and how much you involve your employees in developing the solution. To do this well, you must first document your objectives, the alternative courses of action considered and the process followed in making the decision.

Next, you must share this information with your employees and ask for their input, so you can respond and possibly make changes to the plan. Consider



having a staff meeting to encourage them to ask questions and discuss their concerns. This will help avoid back office discussions where employees complain about what is happening, without having an informed person there to answer or respond to the points raised. Keep in mind that back office talk drains momentum and will undermine the success of any project.

For example, if your company is implementing a technology-use policy:

- Discuss the reasons for the change, such as the need to address security threats and vulnerabilities inherent in the use of certain technologies.
- Detail the concerns such as regulatory compliance, network congestion or demand on bandwidth resources.
- Explain the benefits such as protecting the company's information systems or reducing the threat of viruses.
- If the changes will have an impact on workflow processes, explain the impact on people's jobs and the training support that will be provided.

- Explain any other changes that may be required upon implementation.
- Ask employees to provide their input and suggestions.

The more your employees understand why the changes are needed and the impact, the more they will be willing to accept and support these changes.

Develop

The third step is to take the input and draft the new policy and procedures. A number of questions should be asked and then documented as part of the background to the actual policy, including:

- How will the new policy and procedures affect operations overall?
- Will they have an impact on anyone's job description or employment contract? If so, what steps need to be taken?
- How will the company monitor and enforce the new policy effectively? Outline the process that will be followed for noncompliance.
- How long should the policy be in place before it is reviewed again and possibly updated?

Keep in mind that when employees are involved in preparing or at least reviewing the proposed wording or intent of a new policy, they are more

likely to take some ownership. They may also be able to identify missing or unworkable elements.

Document

Once all these factors are considered, finalize the policy. Documentation of the policy is fundamental for a successful implementation. Guidelines for a good policy include:

- Keep it simple and clear.
- Write in clear, concise and easy-to-understand language.
- Address staff's needs and concerns.
- Keep it consistent with other company policies.

Communicate

The company should use one or more ways to ensure all employees know about the new policies. To ensure it is available and easily accessible to everyone:

- Display copies in key locations within the office.
- Post it on the company's Intranet.
- Insert it into the company's policy manual.
- Include it in the manual for new employees.
- Send an e-mail to staff.
- Roll it out at a staff meeting.

Monitor Compliance

The company must be willing to monitor compliance and enforce it at all levels. If employees realize that another person is not adhering to the policy and there are no consequences, they will feel the policy cannot be important so they will also not comply. For this reason, it is important to take prompt action to deal with complaints or breaches.

Schedule a Review

The most neglected part of implementing a new policy is ensuring it remains current. When a company creates a new policy, it should also create a review schedule indicating the review date, the person responsible for the review and how changes will be approved and communicated.

Acknowledge

The last step in the successful implementation of new policies is to acknowledge when objectives are reached and celebrate the achievement. For example, invite everyone to lunch to show the company's appreciation for a job well done. Employees will remember the rewards and recognition and, most importantly, their resistance will be reduced the next time changes are required. ■

MONEYSAVER

Optimizing PC Speed

Is your computer system sluggish?

Before you consider replacing it, find out if you can enhance your PC's speed with utility tools or upgrades.

Disk Clean Up

Before considering new hardware, make sure you are getting the maximum performance out of your system. You may have a large number of unnecessary programs running in the background that are consuming



valuable resources. Investigate the many utility tools available that can be used to fine-tune your resources, including hardware, systems settings and Internet usage, to boost your system's performance and improve stability.

Spyware

Consider also that some of the programs running in the background could be spyware. Spyware may be monitoring your Internet usage and sending this personal information to remote servers without letting you know and without asking for your permission. The information could be a list of websites that you visit or even usernames and passwords. An anti-spyware program can detect and remove these unwanted software programs. This will not only improve your PC's speed, but also improve security and protect your privacy.

CPU

The PC's "brain" is the CPU or central processing unit. Process speed is measured in megahertz (MHz) — for example a desktop system should be at least 800 MHz and a notebook, 600 MHz. While the most obvious way to improve the speed of your computer is to replace the CPU with a faster one, this is the most expensive way.

RAM

Increasing the amount of memory in your PC is one of the most economical ways to improve its performance. RAM (random access memory) is measured in megabytes (MB) and is the place where the PC temporarily stores information that is on its way to or from the processor. The more memory you have, the faster your applications will run and the more stable your computer will be. As with the CPU,

generally the higher the number is for the RAM, the faster the computer. RAM also helps determine how many and what size programs you can effectively open and run simultaneously.

Many desktops are equipped with a standard 256-MB memory, the lowest memory required to run Windows XP. The problem with the lower memory is that it forces the operating system to constantly transfer data between the hard drive and the RAM. Thus, if large data files are being worked on, speed is compromised. For most office applications, upgrading to 512 MB would improve speed. However, if you use high quality graphics or large spreadsheet programs, then spend the extra dollars and upgrade to a minimum of 1GB of RAM. It is even possible to increase memory to 2 GB, depending on your PC.

While it is very inexpensive and relatively easy to add more memory, be aware that every computer has a maximum amount of RAM that it can accept. It also requires a specific format (e.g., SDRAM or DRAM). To determine the required format, you will need your computer's make and model number, which can be found in the System Information tool in Windows and in the System Profiler on a Mac. You can then look up the memory requirements online or ask your computer supplier or technician.

USB

The USB port allows the use of, and the data transfer to, a variety of devices from printers, to cameras, to external hard drives with incredible convenience when compared to the slower parallel or serial port application. If your system is more than a couple of years old, it probably is using the USB 1.1

application. If you want to boost file transfer speed, consider upgrading to USB 2.0.

Upgrading is as simple as buying and installing an add-in card costing approximately \$40 — provided that your current system's motherboard supports USB 2.0. Installation is not difficult. Shut off the power, open the case, install the card into an available slot, power up the system, and install the device drivers and you are ready to go. If you are nervous about opening the box, have a technician complete the installation.

Dual-core Processors

Dual-core processors are destined to make today's processors history within five years. Dual-core technology is like having two processors, and two working together is better and faster than one working alone. Effectively, this allows unprecedented speed and instant access when running even the most processor-intensive tasks at the same time. The dual-core processor allows you to be on the Web downloading graphs or pictures while working on your accounting program and searching a database, all without significant speed loss or risk of the system crashing.

Adapting the dual-core processor to your existing system may be possible, but first determine whether the increase in processor speed will benefit your workplace.

Assess Current System First

Before investing in a new system, take time to determine if utility tools and/or upgrades will maximize your existing system's performance. You may be able to achieve peak performance at much less cost. ■

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.

Although every reasonable effort has been made to ensure the accuracy of the information contained in this letter, no individual or organization involved in either the preparation or distribution of this letter accepts any contractual, tortious, or any other form of liability for its contents or for any consequences arising from its use.

BUSINESS MATTERS is prepared bimonthly by The Canadian Institute of Chartered Accountants for the clients of its members.

Richard Fulcher, CA – Author; Kathleen Aldridge, B.A., Dip. Ed. – CICA Editor.