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TAXATION

Two Things are Certain



Death and taxes. Whether you are nearing retirement or prudently investing for that seemingly far-off future, you may be accumulating a substantial portfolio for your retirement years. This may include contributions to an RRSP, a private pension plan and perhaps investments in mutual funds,

shares, stocks and bonds, a cottage or rental property. If you are an entrepreneur, you may also have a successful company that you may plan to sell or pass on to family members when you retire. But what happens when you die?

In tax law, a person is deemed to dispose of all property at fair market value immediately before death. As the income from that property will be taxed as part of the deceased's estate, the taxes will ultimately affect the size of the estate that you pass onto your beneficiaries. Unless you have made appropriate plans, this accumulated wealth may be subject to substantial income taxes as well as probate fees/taxes.

Of course, the tax liability of the deceased's estate will depend upon a number of variables, such as a surviving spouse or partner, bequests

willed to charities, the amount of tax already paid at source and income earned from investments.

When Should You Start Your Estate Planning?

Many taxpayers may feel that tax planning for the event of their death is not an urgent matter. It may be that they:

- Are young and not concerned with the inevitable.
- Perceive tax liability on their estate as relating only to annual income rather than changes in the value of their entire portfolio of assets.
- View any discussion of estate planning and their eventual demise as morbid.
- Underestimate the value of their holdings and the potential tax liability that may arise upon their death.

However, estate planning is an essential part of your personal financial planning, regardless of your age or the size of your portfolio. As such, it is something you should be doing now, not some time in the future.

Prepare a Will

The most basic estate planning strategy is making sure you have a will. Anyone who owns assets should have a will to simplify matters upon death and to ensure that all property is distributed according to his or her wishes.

When drawing up your will, it is important to get professional advice on ways you can:

- Minimize or defer taxes upon death.
- Provide a means of funding taxes upon death.

You may also wish to make gifts during your lifetime to reduce the value of your estate at death.

What are the Tax Implications?

Discussing the tax implications of your estate planning with your chartered accountant will give you the opportunity to find ways to minimize or defer taxes on your estate.

You need to consider matters such as:

- Yearly income from investments, dividends, and other income sources such as rental properties.
- The value of all properties including a cottage or rental property.
- Using the principal residence exemption to shelter the residence with the highest gain and possibly part of the gain on another property.
- The value and location of properties owned in foreign jurisdictions and the applicability of estate or other taxes in that jurisdiction.
- Capital growth of mutual funds or investments in stocks that are held outside of an RRSP. It is important to have the appropriate records of the cost and timing of all transactions for determining capital gains or capital losses.
- Whether the February 22, 1994 Capital Gains Election placed a valuation on assets as at that date that would affect the tax liability at the time of death should this property form part of your estate.
- The value of a sole proprietorship or a partnership with consideration to buy-out clauses or the sale of the assets of the business or the business itself.

- The value of shares in privately held corporations taking into account the provisions of any shareholders' agreement regarding the deceased shareholder's shares. Consideration should also be given to funding alternatives to pay the tax liability on the gain if the shares cannot easily be sold or the company is to be retained in the family.
- Insurance policies and whether the beneficiaries are individuals or a corporate entity.
- Company pension plans from your owner/managed company and/or current or previous employment.
- The value of RRSPs and the ability to roll over these assets to a spouse or dependant, as provided under the *Income Tax Act*.
- Capital gains or losses and the CNIL (Cumulative Net Investment Loss).
- The various taxes that can have an impact on succession planning for a family business.
- Any GST/HST consequences that may be involved in wills and estate planning matters.

What are Your Options?

What are some of the estate planning options you could discuss with your tax advisor? Depending on your particular circumstances, you may discuss how you could:

- Provide for property to pass outside of your will to reduce the value of your estate for probate purposes, such as having property in joint ownership.
- Designate beneficiaries for the proceeds from your insurance and RRSP or RRIF rather than make your estate the beneficiary.
- Use an estate freeze to limit the increase in value of some or all of your assets, in order to minimize the tax liability arising from the deemed disposition of property on death.
- Create a family trust as a will substitute to simplify estate administration and avoid probate fees/taxes.
- Prepare multiple wills. In some jurisdictions, a will can be prepared for assets that will be probated and another for those that do not require

probate. A separate will may also be prepared for assets held in a foreign jurisdiction.

- Create an alter ego or joint spousal or common-law partner trust to extend rollover treatment as well as take advantage of the additional tax and estate planning alternatives these trusts provide for individuals 65 years of age or older.

Get Professional Advice

Estate planning is a complicated area of tax law. Simple solutions do not exist as each individual has particular circumstances, holdings, expectations and financial requirements. Your chartered accountant can help you carry out a preliminary analysis of:

- Cash flow;
- Estimated tax liability at death;
- Disability insurance needs;
- Life insurance needs;
- Estimated probate fees/taxes; and
- Calculation of estate needs after death.

With this analysis, your chartered accountant can then help you address the ways you can achieve your estate planning goals and minimize the impact of taxes upon your death.

Estate planning also involves consulting your lawyer and, depending on your particular circumstances, other professionals such as your banker, trust officer, insurance agent, investment advisor, financial planner and a valuator or real estate appraiser.

An Estate Plan is Dynamic

Be sure to review your estate plan periodically. Circumstances change. Tax laws and other laws change. As these changes can have an impact on your estate planning strategies, adjustments may be necessary.

You cannot cheat the inevitability of death, but can achieve the satisfaction of knowing you beat the taxman. ■

The Digital Photo

Thinking about purchasing a digital camera for your business? With prices of digital cameras continuing to come down, an investment in even the most basic camera could provide many benefits for your business.

Digital photography offers many practical applications that can enhance your company's communications and recordkeeping and save money. While a top-of-the-line camera can cost well over a thousand dollars, the basic models start at much lower prices.

A Picture is Worth a Thousand Words

Unlike traditional cameras, the digital camera provides images immediately. The technology also allows the taking of several pictures without regard to processing costs, as the photographer can select and print only the "keepers", store the images on a hard drive or CD-ROM, or e-mail selected pictures.

Here are some ways you can put your digital camera to work right away in your office, plant and/or work sites.

Property, Plant and Equipment

Keeping digital images and other records of your company assets on file in your computer is an efficient means of having the supporting data on hand if required for accounting or tax purposes. The photos can also be provided to the police and your insurer in the event items are stolen.

Create an electronic file folder for your asset records and store a photo image of each of your company's assets along with a word processing file on which you have listed information such as the

serial number, date of purchase, location and other descriptive information.

Scan the original purchase documentation into a file and keep this in your computer records of assets for future reference.

When you sell an asset, attach a picture of it to the sales invoice.

Employees

A digital camera is a quick means of creating photos for:

- Company identification cards for service representatives.
- Business cards for sales representatives.
- In-house communications such as a company newsletter in which you feature the employee of the month or share memories of a special employee event.
- A "Who's Who" database of employees with job descriptions. This is a particularly helpful resource when new employees come on board.

Damages and Repairs

When equipment breaks down or is damaged, e-mail pictures to the repair crew to ensure they bring the right equipment and supplies.

When the equipment installation or set-up manual is confusing, e-mail photos of any problem areas along with your inquiry to the manufacturer.

Take photos of a repair process that is required infrequently and keep the pictures together with the repair manual for reference by other employees.

Take pictures of any damages caused by vandalism so you have a visual record in addition to your report to the police and your insurer.

Safety and Training

Use pictures of work-in-progress to visually tell the story of a job well done.

Document a well-prepared job site with photos that reinforce the various safety features that must be in place before work commences.

Post photos of safe practices on a company bulletin board or electronically on the intranet to keep employees aware of the need to follow safety guidelines and company policy.

Take photos at job sites or other work locations and post them as visual reminders about the importance of:

- wearing proper safety equipment, such as hardhats, safety glasses and harnesses;
- ensuring that the work site is properly maintained;
- taking extra precautions in risk areas; and
- following proper procedures.

Marketing

Take "before" and "after" photos of a work project. For businesses such as home renovations and automobile body shops, these pictures can help demonstrate the quality of your work and support your marketing efforts to gain new clients.

Tell the story of the steps involved in a job, such as a renovation, to help customers understand the process and the timelines.

Buying a Digital Camera

Before you purchase a digital camera, take time to read the many reviews that are available on the Internet and in books, magazines and newspapers. Visit a few retailers, pick up brochures and ask questions.

Some of the specifications you need to consider include:

- **Lighting:** Do you need a flash or will you be shooting only outdoors?
- **Resolution:** Will you require basic snapshots for your applications or do you need high quality images that can be posted on a Web page or included in desktop-published print materials or a PowerPoint presentation?
- **Lens and zoom-in capabilities:** Do you need to be able to shoot close-ups or wide angle scenes? Would a digital zoom be sufficient or do you need the higher-end optical zoom?

- **View finder:** Would it be useful to have an LCD display so that you can view the images right after capture before you download them?
- **Internal memory:** How many photos do you anticipate taking at a time? The more internal memory the camera has, the less frequently you will have to download images in order to continue taking pictures. Alternatively, a high capacity memory card can increase the number of photos you can take during a session.

As there are many different features and specifications as well as a wide price range, plan to do some comparison shopping to ensure that the camera you select is the best one for your purposes.

If you only need simple photos for applications such as identification, basic recordkeeping and e-mailing, a low cost or mid-range model may fit the bill – and the budget. ■

MANAGEMENT

Spam – You're History

While the Internet has brought many advantages to businesses around the world, it is increasingly impossible to log on to your e-mail these days without finding your in-box inundated with spam.



While less offensive and dangerous than the work of hackers, e-mail spamming is an annoying activity. Generally, spamming is the widespread distribution of unsolicited e-mails.

Spam means more downloading time for your e-mail. While it may take only a second or two with a high speed connection, it takes considerably more time with a dial-up service. This lost productivity is exacerbated when you must carefully review all e-mails before opening them to separate the valid ones from the suspicious ones that should go directly to the trash bin. Spam mail can also create traffic jams (also referred to DOS or denial of service) when spammers flood an Internet service provider (ISP) with messages to slow down or interrupt service.

Dealing with Spam

As a first line of defense, do not open spam or suspicious e-mails. Delete them. While many of these e-mails are sent to advertise products and services, some may have a malicious intent such as spreading virus infections through attachments or collecting e-mail addresses that you have stored on your computer.

Managing Spam

How can you protect your system from spam and reduce the nuisance of this unwanted junk mail?

Your e-mail software can be configured to work with your virus scanner to protect your system from viruses as well as suppress spamming.

Your e-mail software can be set to automatically isolate and quarantine spam and other suspicious e-mails and e-mail attachments so that you can review them and decide which ones are legitimate.

Your ISP may provide spam management services for a reasonable monthly fee or as part of a bundled package.

If you have only one PC, you can purchase and install a spam filter program; however, the ISP's spam services may be a better solution.

If you are using a corporate e-mail system on your network, the systems administrator should be responsible for implementing the spam filters. It is easier for the filter to be maintained centrally than for employees to have this software on their individual PCs.

Spam Tools

Rule-based tools require that the user must train the system by providing details about junk-mail attributes that are not acceptable. The approach could be as specific as names, or as general as specific phrases, prices, or key words common to junk e-mail.

Permission-based tools provide the highest degree of spam reduction. The permission-based approach requires that only e-mail that you have listed as acceptable will be permitted. There are two downsides. You must add contacts to your list before they send an e-mail and if you do not regularly update your list, important messages may be rejected. Obviously, this is a very high maintenance tool.

Challenge response filtering means that when you receive e-mail from an unknown, your system sends back a request to which the sender must reply before the e-mail is accepted. Since only people will reply to this request and not automated and anonymous spam systems, you effectively defeat the mass e-mail that clogs your system. However, the downside is that you will not receive announcements from senders such as suppliers and associations as they also use automated systems.

The spam filtering services provided by ISPs are constantly being upgraded to enhance the rule-based tools that filter

junk e-mail by sampling the junk e-mail that is within their user base and updating the filtering ability.

The purchased software, on the other hand, requires the user to train the software to identify and block or segregate spam. Obviously, having your own software requires a great deal of maintenance if it is to remain effective.

Spam Software

Generally, the spam filter bundled in a security package is not as effective as a stand-alone product.

Here are some of the purchase considerations.

False positives

A low rate of false positives means the program will not mistake legitimate mail for spam. To do this, the program must provide adequate filtering levels. However, the more filtering levels the program offers, the more technical expertise you will need.

Filtering

Programs that filter in general categories such as low, medium and high are not as effective as those that can be more finely tuned, resulting in a high percentage of false positives. The better programs offer as many as five levels of filtering for junk mail with the

toughest parameter allowing only e-mail from those listed in the user's address book.

Compatibility

The spam program must be compatible with the system's communications software, such as Outlook.

Review folder

Some programs store all spam in a review folder so that you can review for false positives. This prevents legitimate e-mail from being rejected.

The Right Solution

The principal reason for purchasing SPAM filtering software is to reduce the time needed to read your e-mail. If the software takes too long to identify spam, blocks important e-mail, sends it into a folder for you to review later, or does not adequately filter unwanted e-mail, the software is effectively useless.

Before deciding whether you should use the spam filtering service offered by your ISP or purchase and install spam software on your systems, take time to read the many reviews about the services and various products on the market that are readily available on the Internet. Also talk to people who use the ISP's services and those who have installed spam software and ask about the advantages, disadvantages and success rate. ■

MONEYSAVER

Managing Your Insurance

Before your next policy renewal date, plan to meet with your insurance agent to discuss your current coverage and determine if you require additional coverage or other changes to your policy.

Every business needs protection from loss, damage and liability. Do you have the appropriate insurance coverage for your business? As part of managing your business, take time to assess your insurance needs to protect both yourself and your business. Planning ahead will help ensure you find the best insurance solution at the right price.

Commercial Insurance Packages

While each insurance policy is unique to its coverage, there are common considerations that the owner/manager needs to consider when purchasing or renewing their commercial and business insurance.

Generally, the insurance policy is written on an all risk basis and is subject to conditions, provisions,

restrictions, deductibles and exclusions. The policy may also include extensions that expire unless the insured notifies the insurer within a certain time period. The amount of insurance and deductible are outlined in the policy schedule.

Many insurers offer packages specifically designed for small businesses that include basic coverage for business liabilities, loss of earnings, damage or loss to inventory and other areas of exposure. The business package may also include insurance related to the owner/manager and other principals in the business.

However, as each business is unique, a generic package may not be the best choice. A policy only covers what is in the fine print. For that reason, it is important to discuss the policy with your agent to determine what the policy actually covers and does not cover. A generic package may also include coverage that your business does not need. In some instances, a customized package may ultimately prove to be more cost-effective.

Some of the considerations include:

- The type of coverage, whether all risk or specific coverage.
- The amount of insurance, the deductible, the date the insurance is required, the term and the date of renewal.
- If there is a co-insurance clause (which would apply separately to each location or division of property that is covered) to what limit is it subject?
- What is excluded in your coverage? Have the exclusions been amended or expanded in the new policy?
- In view of changes and expansion, does your company need to extend its coverage?

Extensions

Before renewing your policy, take careful stock of any changes that have occurred in the company since your last policy was drawn up. If, for example, you have acquired or now control another location, do you have sufficient coverage for these premises and contents?

There are many other types of extensions you may wish to consider such as inflation protection, coverage for property that is temporarily off premises, property in transit, accounts receivable, the company's electronic data processing equipment and similar media, valuable papers and records, property protection systems, debris removal and pollutant clean-up and removal.

For example, accounts receivable insurance covers amounts that are uncollectible due to the company's records being destroyed or lost as a result of an insured loss. Business interruption coverage offers protection with respect to the profits, gross earnings and extra expense of a business for named perils; however, this coverage may exclude electronic data processing and similar media.

When extending your coverage, be sure to ask about the maximum coverage for each extension, the deductible and whether the maximum is per occurrence.

Other Insurance Considerations

Do not forget your personal coverage. This includes life insurance to protect your family. This policy is particularly important in a sole proprietorship because the owner is personally liable for the debts of the company. Other insurance considerations for owners,

partners and key employees include disability insurance, critical illness insurance and partnership insurance. Key person insurance may also be necessary to protect the business from losses if an essential person should be unable to work because of illness or injury.

Depending on the type of business and the risk involved, home business owners should review their homeowner's or tenant's insurance policy to determine whether they have sufficient coverage for the business operations or whether it should be supplemented to provide extra coverage. In some cases, a commercial policy may be required.

Make Sure You Are Covered

With insurance rates rising, you cannot afford to wait until your renewal date to find out if the new rates are affordable.

Review your policy at least 90 days before its renewal date so you are aware of any rate increases and other issues that may require research and discussion. Review your assets and exposures – vehicles, equipment, inventory, office and equipment, general liability and employer's liability. Talk to your insurance representative about your current business needs. Review your existing policy and determine any additional coverage you may need.

While raising the deductible or making other adjustments to your policy can reduce your premium, these changes have to be considered very carefully to ensure a few dollars saved today do not result in thousands of dollars lost tomorrow. ■

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