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# Business Matters

## MANAGEMENT

### History...the Forerunner of Change

**Business risk is a many-headed monster. Get to know them all.**

The difficult financial times of the last two years have provided entrepreneurs an opportunity to reflect on their businesses and determine how learning from history can alter the future.

When times are good, few consider what is at risk in their business. When times are bad, there is a tendency to become caught up in the moment as we try to reduce the difficulties. Now is perhaps a good time to review the history of the past two years, discover the areas damaged most and complete a risk assessment to make changes to avoid making the same mistakes in the future.

Business risk can be classified in 10 broad categories. There is no one way of determining the “fix” for each category; however, by examining each category, you should be able to repair any vulnerabilities.

#### Employee Risk

Without employees a business cannot survive. As the Boomers move into retirement, they are taking a wealth of skills out of



individual businesses and the economy as a whole. Training replacements is going to become very important for entrepreneurs. Hiring young employees or skilled immigrants or purchasing high tech equipment are solutions to consider.

#### Owner Risk

Where would the business be without the owner managers? Is the success of the business too dependent on the owner? What happens if he/she dies or is incapacitated? Has any succession planning been done? Is there a strong management system in place that can ensure the continuation of the company even if the owner/manager is not there?

## Economic Risk

How does the business respond to downturns in economic activity, changes in interest rates, exchange rates, fiscal policy, political ideology of the government in power?

## Market Risk

How vulnerable is the market value of the company's shares? Does the business trade in the commodities or derivatives markets in amounts where losses could imperil the existence of the business.

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*Would the loss of any single supplier create financial hardship?*

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## Supplier Risk

Do you have alternate sources for your products or raw materials? How would your business cope if your current supplier went bankrupt? Would the loss of any single supplier create financial hardship if another cannot be found quickly to take its place?

## Supply Risk

The economic consequences of the Japanese tsunami demonstrate the importance of understanding supply risk. Dependency on one major supplier of electronic components has hampered automotive manufacturers worldwide. Review your production needs to determine whether your future supply chain is solid. If you are relying on scrap metal, for instance, is your source for next year guaranteed, will your production grind to a halt for lack of product, or will the business have to purchase more expensive new metal?

## Consumer Risk

Failure to predict the trends of consumer spending is one of the biggest risks to the entrepreneur. Inability to anticipate and adapt to new trends in consumer tastes and changes in technology has led to the downfall of businesses. As with harness and carriage makers who failed to adapt to the advent of the horseless carriage, so too now, for example, companies are failing to adapt to new ways of providing music for what was once an exclusive record, cassette or CD market.

## Credit Risk

Is your business subject to the ability of your best customers to pay their bills on time? Since most businesses operate on

the goodwill of debtors to pay, they may find themselves with a cash-flow problem if a major accounts receivable is not paid. The credit risk may be exacerbated if your own accounts payable or lines of credit payment schedules are dependent upon one or two major debtors paying within 30 to 60 days.

## Catastrophic Risk

What would happen to your business in the event of fire, earthquake, flood, theft of major equipment, total server wipe-out, loss of specialized equipment? Without location, equipment or product you may also lose key employees, customers or suppliers who cannot hang on until your business recovers.

## Legal Risk

Legal risk is associated with product development, employee and client injury, product failure, statutory requirements, patent infringement; the list goes on and on. If your business was hit with a major lawsuit, even if unwarranted, would procedures, policies, and design profiles support your defence or would lack of documentation or procedures leave your company and the directors open to an adverse judgement?

## Review Risk...Embrace Opportunity

It is sobering to realize that regardless of how well your business is run, its downfall may be caused by a random series of events over which you have little control. One event may cause a domino effect that is impossible to hold back. For instance, the inability to obtain raw materials reduces the level of production. When there is no product to sell, no cash comes in; reduced cash flow may force the bank to call in a loan or may cause the loss of a major client.

Management should review the risks facing their business in order to determine the impact a disastrous event may have upon operations. Appreciating the possible effect of unforeseeable events allows you to establish survival protocols. Businesses may, for example, determine that goods should be stored in more than one location, replacement equipment is available from a local supplier, or that new product lines should be developed.

## Team Effort

Risk review and management of potential concerns should be the work of a team involving employees, production managers, sales staff, insurance agents, Chartered Accountants and engineers. Such a comprehensive group will not only help you to find and analyze vulnerabilities but also can initiate solutions.

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## TECHNOLOGY

# Dangerous Devices

**The new personal communications devices may make life easier but they also carry some very great risks.**

The convenience of tablets, smartphones and other personal-communication devices has made it easy to send and receive data from almost anywhere.

The ubiquity of these devices enables a wide variety of personal and business transactions "by phone." But for every advantage there is a disadvantage. In this case, convenience is offset by the risk of having the device stolen and/or its data compromised. Information stored on the stolen or compromised device may then be used to access email, social networking accounts such as Facebook, financial records, or other sensitive data.

## Is Data High Risk?

Ask yourself how much personal information you carry on your device. Obvious answers include: names, addresses, telephone

numbers, email addresses, birthdays and personal appointment schedules, etc. Since PINs and passwords are now needed for pretty much everything from day-to-day financial transactions to corporate or personal user credentials for any number of systems or websites, the temptation to store this information directly on a handheld device is enormous.

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*Personal information can be an invitation to identity thieves.*

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The significant memory capacity on these devices has also made them useful for temporary backup of business or personal data that may be on spreadsheets, word processing, accounting and other software. In essence, someone hacking into your device could potentially obtain and use information that could destroy your life or seriously damage your company or employer. This could be an invitation for identity thieves.

### Safety Considerations

To lessen potential embarrassment or financial or personal difficulties if someone should access your mobile device, consider the following:

1. **Never, at any time, leave the device on the counter** when you're shopping in a retail environment, even if just for a moment. A momentary distraction could provide the opportunity for someone to steal it. If you have just punched in the unlock code, anyone who has the device simply has to keep it active to provide unlimited time to download the data.
2. **Complex passwords are essential;** most security experts suggest at least 8 characters. Changing passwords frequently is a good idea even though most individuals find the familiarity of the existing passwords comforting.
3. **Set your device to lock automatically** after a short timeout period. Further, set a maximum number of invalid attempts, after which the device is disabled or the data erased.
4. **Don't disable the built-in security on your phone.** Before changing security settings on your device make sure you know why you are making changes. An inadvertent modification, even one as innocuous as storing cookies, could prove devastating if an attacker is able to exploit those settings.
5. **Do not use an unsecured, unencrypted wireless network** such as Wi-Fi.
6. **Do not use the option that automatically fills in passwords and login information** to websites such as your bank account or "points account." Disable that function; once access to a specific user website is gained it may be possible to link to your other accounts within the website. It's also a good idea to disable cookies.
7. **Download "apps" from the store that supports your device,** such as the App Store or App World. Be wary of what you're downloading. Apps from other sources or manufacturers may not have been screened as stringently for quality and security. Consider that if you download an "app" from an unknown source there is a possibility it could access all data in your device. Unsupported apps and "jailbroken" devices, i.e. Apple devices whose security system has been broken to enable the user to download "apps" not authorized by Apple, should be considered a potential security risk.
8. **Memory cards should require, when possible, security codes.** If you are using memory cards for temporary backup, ensure required data is downloaded and subsequently purged from the card when the data is no longer needed. Many devices have built-in apps that allow you to "wipe" the memory card.
9. **For those who use email on a regular basis** ensure the device is Secure Socket Layer (SSL) protected. The SSL indicator implies the transmission will be encoded. For web-based connections, use the encrypted HTTPS rather than unencrypted HTTP, whenever possible.
10. **Treat your mobile device as you would your office computer.** Do not lend it or provide passwords for access to anyone. Do not allow your children to play games, access the Internet or Tweet their friends from it.
11. **To avoid overage charges from your carrier,** consider deactivating any "apps" that might use a lot of bandwidth such as interactive online games and video streaming apps.



### Dénouement

Convenience and versatility are the greatest features of personal devices. Used with caution they are time and money savers. Use them with flagrant disregard for security and you may regret the consequences and wish to turn back the clock to a simpler time.

### AFTER 30 YEARS

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## TAXATION

# Let Me Give You a Tip

**Failure to report tips can have consequences far beyond the worry of getting caught.**

Workers in the service industry often have the opportunity to earn substantial amounts over and above the wages and benefits provided by their employers. For many, especially servers, such as waiters and waitresses, taxi and limousine drivers, bell-hops, red-caps, tour guides, etc., the funds earned from gratuities can far exceed the wages earned.

Many service-industry workers receive the provincial minimum wage from their employers. Even though minimal income tax, Employment Insurance (EI) and Canada Pension Plan (CPP) deductions are withheld, the weekly take-home amount may still not be great. For some workers, however, earning an additional \$300 to \$400 a week is a possibility. Over a 50-week year an additional \$20,000 above the minimum wage of \$20,500 (40 hours per week @ 50 weeks @ \$10.25-per-hour Ontario rate) creates serious taxable income.

## The CRA and Direct vs Fixed Tips

The CRA classifies all gratuities or “tips” as either “direct” or “controlled.” Direct tips are money left on the table and/or directly into the hands of the service-industry worker; controlled tips are amounts added to the bill by the employer. Employers are responsible for recording only controlled gratuities; reporting of direct tips is the sole responsibility of the worker. Currently, Quebec is the only province whose tax legislation requires employees to declare their tips to their employers.

## Added to Your Bill

In some establishments, the employer adds a controlled gratuity (such as 15%) to the bill and then divides the amount among the employees. In these instances, the employer is responsible for ensuring the appropriate taxes are withheld from the employee's paycheque and remitted to the Canada Revenue Agency (CRA). The employer considers these gratuities as remuneration, includes them in wages and withholds the appropriate income tax, EI and CPP contribution. Of course, by doing so the employer is required to contribute its share of EI and CPP.

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*Employees who receive direct tips are responsible for reporting them on their tax returns.*

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## I Left it on the Table

The CRA recognizes it is difficult for employers to record direct tips given to a specific server either at the table or as an add-on to the credit- or debit-card transactions. The employee is responsible for maintaining a record of direct tips received in order to file income taxes correctly at the end of the year. Service workers who receive direct tips, especially if such tips are cash rather than debit- or credit-card amounts, may mistakenly believe this



income is not taxable and therefore does not need to be reported. Not reporting this income violates the *Income Tax Act*.

## The Benefits of Full Disclosure

To help maximize employees' CPP retirement funds, CRA allows them to make additional contributions by completing an *Election to Pay Canada Pension Plan Contributions* (Form CPT20). A number of conditions must be met before additional contributions can be made, but for most service-industry employees the three main requirements are:

- residence in Canada
- receipt of income from any of the various types of employment listed in the application
- information including the names, addresses of employers, type of employment, and T4 income earned from each employer along with the CPP contributions deducted.

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***Reporting that additional income is the better path over the long term.***

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## Short-Term Gain...Long-Term Pain

The short-term advantage of not reporting tips as income is obvious in that it provides more disposable income. Over the long term, however, reporting that additional income is the better path to follow because:

1. The CRA has, in the past, audited establishments to find unreported tips and has imposed penalties as well as interest on unreported amounts.
2. Higher income makes it easier to qualify for mortgage loans, credit cards, and lines of credit.
3. The ability to maximize contributions to the CPP and a Registered Retirement Savings Plan (RRSP) is enhanced because contribution levels for both these retirement funds

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are determined by the amount of income earned through the years of employment. Higher income allows higher RRSP and CPP contribution room which, in turn, ensure more pension income for the retirement years.

4. The higher RRSP contribution reduces the net amount reported.
5. It is easier to sleep at night.

## MONEYSAVER

# Travel Insurance

**Make sure your policy covers your needs.**

Most of us don't give a second thought to jumping in the car and heading out of province or taking advantage of a discount flight to attend a course or meeting.

Unfortunately, many don't give a second thought about purchasing travel insurance to cover us in the event of injury or illness.

## Different Jurisdictions, Different Coverage

Even though your province may offer medical coverage, travel insurance should be the number one consideration of any business that has employees on the road. Even if the trip is within Canada or just to the United States for the day to close a business deal, owner/managers and employees should not leave their province without maximizing coverage. An accident outside the coverage area of the provincial healthcare insurance could cause personal bankruptcy and potentially leave a business in financial turmoil.

Although many credit-card issuers provide insurance coverage they often only cover death and dismemberment rather than medical treatment for heart attacks, strokes, or broken arms.

When purchasing travel insurance consider the following available types of insurance. Brokers may bundle some types of coverage or provide the insured with the opportunity to purchase additional types of coverage. Purchasers would have to consider their destination, the length of stay and the cost. In most instances, the cost of the insurance is so minuscule in comparison to the cost of the incident that full coverage is the only way to go.

## Types of Insurance

**Comprehensive travel medical insurance** is for those who may not have any medical coverage at all. This type of insurance would be of benefit to those who decide to see the world, are living and working outside their country of residence, or have no permanent address.

**Emergency travel medical coverage** is what most Canadians want when they travel outside their province to other parts of Canada or the world. This type of policy normally covers emergency services outside the provincial health jurisdiction. Coverage is usually up to a maximum of 30 days with premiums dependent upon such factors as whether it is family cover-

## See Your CA

Service-industry workers who receive direct tips may not appreciate how appropriate tax planning can minimize the impact of the additional taxes. To learn more, make an appointment with a Chartered Accountant. For the 2010 year, Form CPT20 must be filed with the CRA by June 15, 2012 and the required contributions must be paid before April 30, 2012.



age, the number of individuals within the family and the ages of the applicants.

**Medical evacuation insurance** is often included within emergency travel medical coverage. Under normal circumstances individuals injured or ill would recover in the country where the incident occurred, then fly home on a domestic airline. But, consider that if the country where you are injured or ill lacks modern hospital facilities or is unable to provide a specialist, you may have to be airlifted to better facilities. The cost could run into the tens of thousands of dollars whereas the cost of the insurance may be as little as a few dollars a day. Examine the exclusions applicable to medical evacuation insurance. For instance, the policy may be null and void if injury resulting from, for example, a skydiving or scuba-diving accident created a medical emergency that could not be treated at a local hospital.

**Trip cancellation and interruption insurance** covers the cost of cancellation of the trip and, in some instances, may cover the additional cost of getting home should your trip be cut short. If a business cruise is cancelled, more comprehensive insurance policies will cover any cancellation before or after your departure for such incidences as mechanical failure, grounding or quarantine of the ship or repositioning of the ship due to inclement weather.

Policies could exclude the requirement for refund in the event of war or acts of terrorism. The fine print of some policies suggests that the act of terrorism must have occurred after the ticket has

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been purchased and within the foreign city originally ticketed. There may be a rider that the policy is only valid if you were to arrive at that destination within 30 days after the act of terrorism as well as a stipulation that the act of terrorism has been reported by the Canadian government or other reliable sources such as Reuters.

In some instances the policy may not offer a refund of money but rather a credit voucher for another trip to the same location or with the same company.

**Suppliers default insurance** is designed to cover in the event the carrier, cruise line, tour operator or other providers of travel services declare bankruptcy or are unable for other reasons not to provide the service. With natural disasters on the rise, acts of terrorism and political instability within many destinations, insurers have been reviewing coverage. Enquire of your general policy and the specific default insurance as to the exclusions that may apply.

### Insure That Rental Vehicle

Never assume that your at-home business/personal vehicle insurance will cover you if there is an accident with a rental or borrowed vehicle while in another province or country. Before leaving home determine with your automotive carrier *specifically* what you are covered for in a foreign country or province. Determine also whether it is possible to purchase vehicle insurance through your broker to cover you, third parties, and repairs to the third-party or rental vehicle. Expect to have to pay for the cost up front and then be reimbursed by the insurance company many months later.

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*An additional premium may be required.*

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### Pre-Existing Medical Condition?

Travelers with a pre-existing medical condition should disclose this information when applying for the insurance. An additional premium may be required, depending on your medical condition. Actual misrepresentation or failure to disclose may result in cancellation of the policy or denial of coverage if a claim is submitted. Older travelers (considered by many insur-

ers to be those over 60) may have to pay a deductible or higher premium.

### Having a Baby?

Pregnant women may wish to check the availability of travel insurance. Most policies will exclude you once you are within nine weeks of term. (Also, check with your airline for any restrictions on when within your term they prefer you not to fly.)

### Credit-Card Insurance Coverage

Credit-card holders should not automatically assume they have all the coverage needed. Indeed, unless you have the policy in front of you, and unless you have a copy of all the changes made since the time when you received your "gold" or "platinum" card, you may not have the insurance you thought.

### Foreign Countries Have Different Rules

Canadian travelers must put aside their "made in Canada" perceptions of how the world runs. Keep in mind that foreign countries' insurance requirements, socio-economic conditions and jurisdictional differences could make recovering medical and rehabilitation cost through other insurance companies or law suit next to impossible. And even if you can, the cost and time involved may bankrupt you both financially and emotionally.

### Maximize Your Medical Coverage

Don't worry about dying while out of the country, worry instead about illness. Most policies will provide a death benefit, or you may already have life insurance. Consider however, a severe heart attack, a tropical disease or infection, or a personal-injury accident that hospitalizes you for an extended period of time, may cost over half a million dollars. And if you die, the bill is still there for your survivors to deal with.

Health policies that complement your provincial coverage will provide out-of-province coverage 365 days a year regardless of where or when you travel. If these policies provide adequate coverage they may be the most economical and convenient means of taking the worry out of traveling.

Travel insurance is probably the most valuable part of any travel expenditure. Maximize the coverage and the coverage limits every time you leave the country or your province.

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