

# Business Matters

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## INDEX

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**TAXATION**  
End of Year Tax Tips  
Frequent Flyer Points  
Keeping Track of Vehicle Expenses

**TECHNOLOGY**  
Standby and Hibernation

**MONEYSAVER**  
Taking Stock

## TAXATION

### End of Year Tax Tips

Once again it is time to get ready to welcome the new year. And once again, it is that time of year when you need to think about your personal income taxes and tax planning strategies.

The month of December is an opportune time to ensure you have everything in order for your tax filings for the 2003 taxation year. A few hours of effort now could help you minimize your tax liabilities. And if, like many, you habitually search for your supporting documents only when your tax filing deadline looms on the April horizon, these preparations could also spare you added stress in the new year.

#### Salaries, Bonuses and Dividends

If you are an owner/manger, review the salary, bonuses and dividends you have received from the company in view of any additional draws or other income and discuss with your chartered accountant. If you have declared bonuses in the last corporate fiscal year-end, talk to your chartered accountant to determine the potential impact on your personal income taxes.

If your business employs your children, spouse or partner, make sure you have copies of their cancelled cheques. If you have been unable to pay them because of poor cash flow, talk to your chartered accountant to determine the best means of rewarding their unpaid efforts. This may be an important consideration for lowering your personal taxable income.

#### RRSP Contribution

Determine your combined earned income and income from other sources for the year and decide whether you will make an RRSP contribution for 2003. To determine your contribution room, review the 2002 Notice of Assessment that you received from the CCRA.

You should ensure you have sufficient earned income in 2003 to be able to maximize your 2004 RRSP contribution. The maximum RRSP



Business Matters

contribution for the 2004 year is \$15,500, which requires earned income in 2003 of at least \$86,111.

Top up your RRSP contribution for 2003 to take full advantage of this opportunity to accrue tax-deferred earnings in your RRSP investments while receiving an immediate tax benefit for 2003. Consider borrowing to contribute the maximum. Although the interest expense is not deductible, the tax benefits may still outweigh the costs involved.

The deadline for RRSP contributions for the 2003 taxation year is February 29, 2004.

### **Investment Portfolio**

Make sure your investment portfolio is in order and you have records of your investment income and expenses. It may be time to sell stocks that have lost value so you can apply the capital loss against capital gains you have realized this year. If you have borrowed in the past or made new lending arrangements for investments outside of your RRSP, gather your documentation.

### **Business Loans**

Review your documentation for your business loans. Make sure your financial institution or lender has forwarded statements showing the opening balance for 2003, any additional loans, loan repayments, transfers to and from operating accounts, and interest charges.

If you have provided your company with operating funds and/or personally borrowed funds to support the business, gather the loan agreement and supporting documents for repayments and interest expense.

If you have borrowed money from the corporation, consult with your chartered accountant to ensure that account balances have been properly monitored and the loan is repaid within the required period of time.

### **Automobiles**

If the company has purchased, leased and/or sold vehicles, gather all relevant documentation. Ensure you have a record of the odometer readings for vehicles that are transferred and acquired.

Make sure your automobile log is up-to-date with records of your trips for business, including the dates, destination, purpose and total kilometres. If you have forgotten to record some business trips, review your day planner or electronic organizer to determine where you were and then calculate the distance and record the details. Jot down the odometer reading at the end of the tax year.

### **Self-employment Earnings**

If you receive earnings from self-employment, gather and organize your receipts for business travel, office costs, and vehicle expenses as well as your charge card statements, bank statements and line of credit statements. You should also have an auto log, as previously discussed, in which you have recorded your business trips in your car.

Many of the statements that arrive from suppliers, financial institutions and services in the new year are applicable to your 2003 taxable income. Before closing your books for 2003, review the statements and invoices that you receive throughout January 2004.

If your home is your principal place of business, document your home office use to substantiate any allowable deductions for the applicable portion of the rent or mortgage interest, property tax, home insurance, utility bills and maintenance costs.

### **Capital Purchases**

If your cash flow permits, consider purchasing capital assets before the end of December to maximize the allowable capital cost allowance (CCA) that can be claimed. Generally, a portion of the capital cost is deducted over a period of years according to the CCA rules. Since only one-half the normal CCA may be claimed in the year of purchase, it is advantageous to make that purchase in December before your year-end so you can claim the half-year CCA even though the asset was owned for less than a month.

### **The Year in Review**

Has your business had a good year? Or a bad year? Compare your operating results with those of the past two or more years. This process can help you prepare a realistic operating income and expense budget in view of your goals for next year.

### **Talk to Your Chartered Accountant**

Your chartered accountant can help you plan for the coming year based on current year sales, cost of sales, profits and draws. This is also an opportune time to discuss any outstanding business issues as well as determine your plans for maximizing your tax planning strategies for 2004.

***Yes, we are accepting new clients.*** *We are often asked if we have time to serve additional clients.*

*We are a growing firm, and we'd appreciate your referrals. If you are pleased with our services, please mention us to your friends and business contacts.*

# Frequent Flyer Points

**A** worldwide economic downturn has significantly reduced travel to the point where some airlines are struggling to stay in business. Nevertheless, business goes on and many people continue to take business trips and chalk up those valued frequent flyer points.

Employers and employees should be aware of the taxation rules when using frequent flyer points earned on employer-paid business trips to obtain air travel or other benefits for their personal use.

When an employee travels on business, the cost of the trip is an expense of the business. Since the frequent flyer points are usually awarded to the individuals rather than the business, the employee reaps the benefits of these awards. If the employee uses these points to

purchase air tickets for a vacation, enjoy a night on the town or obtain other personal services or gifts, the fair market value of these benefits is included in the employee's income.

In theory, the employer is required to determine the value of the bonus points and report this amount in the "Taxable Benefits and Allowances" box on the employee's T4 for the taxation year. Given the employer would incur costs tracking the timing of benefits and determining their value, it is a relief for owner/managers that, for the most part, frequent flyer points are provided directly to, and are controlled by, the individual who travels. Where an employer does not control the credits that an employee accumulates in a frequent flyer program while traveling on employer-paid business trips, the employer does not have to include these benefits on the employee's T4.

It should be noted, however, that the employee is responsible for determining and including in his or her

income the fair market value of any benefits received or enjoyed from these points.

In a 1995 case, the tax court ruled that frequent flyer points earned on employer-paid travel are a taxable benefit when used and should be valued at the lowest equivalent ticket sold for the flight on which the points are used. Undoubtedly, employees may have the same difficulty as employers in determining how much of a taxable benefit should be included in income.

If the employee uses the points earned on business travel for other business travel, there would be no personal benefit and, hence, no taxable benefit. Similarly, if points earned on personal travel were used for personal travel, there would be no taxable benefit.

Be sure to talk to your chartered accountant about the amount of any taxable benefits to be included in your income when you use frequent flyer points accumulated from business travel for your personal benefit.

## TECHNOLOGY

# Standby and Hibernation

**T**o sleep, perchance to hibernate... the standby and hibernation options let your computer take a rest and reduce power consumption when the computer is inactive.

The advantage of the standby and hibernation modes found in Windows operating systems is that when you return to your computer, you can quickly resume your work on the programs and documents that were open on your desktop when you left it.

It is important to know the differences between these two modes. With standby, your work remains in memory and the computer "sleeps" in a low-power state until you "wake it up."

If there is an interruption in power, unsaved information in memory is lost. With hibernation, your computer stores whatever it has in memory (RAM) on your hard disk and then shuts down so your data is protected from loss in the event of a power interruption. However, you must have free hard drive space equal to your computer's memory.

## Standby or Sleep Mode

When a computer goes into standby mode, the computer processes are suspended and not terminated. While the monitor turns off, the computer still runs, but in a low-power state to maintain power to your computer's memory so you do not lose your work.

When you are away from your computer for a short time, you can set your computer to automatically go on standby and power down after ten minutes or whatever period of time you specify. When you "wake up" your computer by either moving the mouse or touching the keyboard, all the programs and documents that you were using are still open and appear on the desktop exactly as you had left them.

Generally, you should use the standby feature to conserve power when you are going to be away from your computer for a short period of time. It is particularly useful if you are using battery power on a laptop. Just remember to always save your work in case of a power interruption or failure. In addition, you can set the computer to prompt for a password after a specified

period of time in standby to prevent others from accessing your data when you are away from your computer.

## Hibernation Mode

If your PC is designed to go into hibernation mode, there is probably little reason to turn it off when it is not in use. Hibernation differs from standby or sleep mode because the operating system saves everything in memory to the hard disk, turns off your monitor and hard disk and then turns off your computer. In this way, you are protected from data loss in case of a power failure. When you turn on the power, the computer starts more quickly than it does from a normal system restart and the desktop appears exactly as you left it with the files and programs open.

You can put your computer into hibernation mode manually or you can set your computer to do this automatically after a specified period of time. The hibernation mode is handy when you are going to be away from your computer for an extended period of time and want to retain your desktop settings and work-in-progress. If your

computer access is password-protected, it will also prompt for a password when you start up from the hibernation mode.

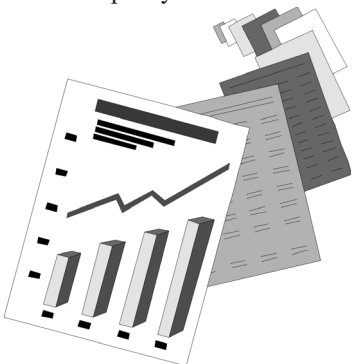
As these options may vary on different systems, use the Start button and Help option to find the instructions for setting up and using standby and hibernation on your computer. Use the Power option in Control Panel to actually set these options. If your computer is connected to a network, these may have to be set up by the administrator.

Note that to use standby and hibernation, you must have a computer that is set up by the manufacturer to support these options. If you have an older computer, these features may not work properly or may be disabled.

## MONEYSAVER

# Taking Stock

**D**ecember is a good time to reflect on the company's operating costs for the past year.



Although your company year-end may not coincide with the calendar year-end, comparing your financial results to date with budget estimates at this time of the year can help you determine if business expenses are in line as well as highlight areas that need attention. Doing this review now may help you find incentives for making cost-saving changes for the new year.

## Communications

While communications are the backbone of business, the costs can creep higher and higher as technology provides more and more options. Perhaps it is time to take a serious look at the actual services and time used for

your Internet, cell phone, and landline communications. Is usage greater than anticipated when you signed up? Is the business paying for blocks of time that are not being used? If you purchase blocks of time, would it be more cost-effective to pay-as-you-go? Alternatively, would blocks of time be a better deal? If your cell phone usage seems high, have you considered pagers? If your costs for any of these communications have increased, is there a package deal that would better meet the needs of your business?

## Interest

Look at the company's interest costs. When these costs are appropriately allocated in your financial reporting system, you can determine the sources and make adjustments. If, for example, most of the interest expense comes from carrying balances on credit cards, are the cards being used to finance operations? Consider using a line of credit, which can be obtained at a lower interest rate, and pay the credit card balances in full each month.

## Vehicles

Review the owned or leased company vehicles. Are there vehicle leases to be renewed? Should you buy-out the lease, renegotiate, or change leasing companies? If the company uses luxury cars, would more economical models serve just as well? Are some leased vehicles no longer needed? This review can help you revisit your vehicles usage. Reducing the fleet or stepping down a model or two will also reduce your car insurance premiums.

## Travel

Review travel expenses in view of the amount of business the travel brought in. If travel expenses are creeping up, it may be time to adjust, or set out, caps for accommodation and meals or to contact hotel and motel chains to find better corporate rates. Consider incentives to reduce expenses, such as

avoiding higher-priced departure dates for air travel. The airline's discount for a weekend stay can be significantly more than the costs of staying an additional day or two. Are travel itineraries planned well in advance so that regional customers can be visited in the same swing to reduce travel time and costs?

## Labour

Are employees cross-trained to ensure you have back-up staffing when you need to cover absences for illness or holidays and ensure continuity when an employee leaves? Review your past expenses for temporary and seasonal staffing in view of your staffing requirements for the coming year. Will any employees be retiring in the coming year? Will those positions be replaced or can the functions be assigned to other employees? Can annual vacations be co-ordinated early in the new year so that you can better determine staffing needs for the coming months?

## Contracts

Review contracts with specialists, contract workers, commission sales representatives, maintenance services and transportation companies before renewing them. Look at the original terms of reference, duration and other clauses in view of the company's needs today. It may be time to cancel or

renegotiate, to look for a new provider or to bring a full-time employee on board.

## Office

Office expenses can get out of hand if no one takes the time to review recurring costs such as subscriptions or software updates in view of the company's changing needs. If you are leasing equipment, determine if it would now be more cost-effective to purchase new or used equipment.

Be sure to review your computer system security and disaster recovery plan. These should be updated to reflect any changes in processes and program versions. Have there been any incidents where employees have not adhered to the company's policies for backing up critical data and programs? Do these policies need to be reviewed and updated to protect the company from data and financial losses? Are there new programs or technologies available that could help streamline processes, automate functions or improve security?

## Track and Control

Taking the time to review your operating costs now will alert you to potential problem areas that need to be addressed. Your chartered accountant can help you track, control and more effectively manage your expenses so you can improve the bottom line.

## TAXATION

# Keeping Track of Vehicle Expenses

**I**f you use your own or a company vehicle for business or employment purposes, it is important to keep careful track of the related expenses that you may claim for income tax purposes.

Last winter, the 2003 Budget introduced new rules relating to automobile benefits. As a result, many individuals who are provided with a vehicle by their employer may benefit if more than 50% of the usage is business-related and they travel less than 20,000 kilometres in a year for personal purposes. However, to benefit from this change, the CCRA will require documentation of personal

versus business use of automobiles. One of the best ways to keep complete and proper records is through the use of an automobile log that you can keep in the glove compartment of your car.

A recent court case underscores how using an automobile log can minimize your potential tax liability and help you avoid unnecessary assessments. Because the taxpayer could not provide any demonstrable evidence relating to

his actual usage of the company-owned vehicle, the CCRA assessor made an estimate based upon assumptions that resulted in a very unfavourable assessment to the taxpayer.

While the taxpayer was ultimately successful in overturning this assessment, the judge commented:

*"It is unfortunate that [the taxpayer] did not keep a log recording his personal use of the truck in the years under appeal, as that would have negated the need for this litigation."*

### The Automobile Log

When you use your employer's car, you will need a record of the kilometres driven for business purposes. If you use your car for business, you will also need a record of your expenses. You

should keep an automobile log in which you record:

the total kilometres that you drove records of any business trips, including date, destination, purpose and total kilometres the odometer reading of your car at the beginning and end of every tax year. If you change vehicles during the year, be sure to record the odometer readings at that point as well, and receipts for fuel, lubricants, car washes, motor oil and other car-related expenses, which are deductible in proportion to the use of the car for business purposes.

Whether you lease or own your vehicle, be sure to keep daily records of your usage. In particular, note the details of each trip, including such information as the name of the person you saw and the purpose of your visit; for example, "to

customer/supplier [name] for a business visit" and "to/from the cottage" for personal use of your automobile. Write down amounts paid for parking and keep the receipts.

### A Fresh Start

If, like many, you jot down your automobile expenses in your day planner and throw receipts into your glove compartment, you likely find yourself scrambling at the end of each year to pull together the documentation of the automobile expenses that you can claim. Maybe it's time to try a different strategy.

The new year is an opportune time to start keeping these records in an automobile log so that your chartered accountant can help you maximize the allowable deductions for the business use of your vehicle.

## New Web Site

Here is a "snap shot" of our home page and our new web site.

**"Over 25 Years Of Business Experience."**

**Joseph Truscott, Chartered Accountant & Management Consultants**

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**Welcome**



*Joseph A. Truscott, and his team outside our offices.*

Welcome to our web site. This site is intended to be full of helpful ideas and information that could help you build a better business, reduce your taxes and plan for the future. As a result it is continuously being developed, so bookmark us now and come back often to benefit from the free information available to you.

Our firm has been built on the assumption that clients don't really need or want an accountant - ***if you're just looking for a 'bean-counter' then my firm may not be for you.***

During the last 27 years in the accounting profession, the one thing that I have come to realize - if nothing else - is that ***business people don't really want an Accountant.***

***What they really want*** is someone who is going to take a real interest in their business.

***Someone who understands the problems*** you will face, and ***guide you through the maze to the solution.***



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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