

Business Matters

JOSEPH A. TRUSCOTT Chartered Accountant & Management Consultants A PROFESSIONAL CORPORATION

812 King Street East • Hamilton, Ontario • L8M 1A9 • (905) 528-0234 • Fax: (905) 528-5722
Email: joetruscott@josephtruscott.com • Web: www.josephtruscott.com

VOLUME XII, ISSUE 3
December 2008

INDEX

MANAGEMENT

New Year's Resolutions for Business Owners and Managers

MANAGEMENT

What Did You Say?

TECHNOLOGY

Talking on a Cloud

TAXATION

10 Costly Omissions in Income Tax Filings

MANAGEMENT

New Year's Resolutions for Business Owners and Managers

No doubt about it: 2008 turned out to be a really tough year! With 2009 fast approaching, this may be the time to make New Year's resolutions that will help you plan to enter the inevitable upturn stronger than ever.

In periods of economic stress, any weaknesses in your business will start to show up in ways that can no longer be neglected. So, as an owner/manager, why not take the time to look more closely at your business practices, correct any problems, and implement those things you need but have deferred because of the pressures of time and circumstance.

Take a Closer Look

Here are a few areas worth reviewing:

Employees

1. Initiate training programs to upgrade skills.
2. Provide first aid, health and safety training. Make employees aware that physical well being is important for morale and productivity.
3. Introduce profit sharing as an incentive to improve productivity.
4. Schedule regular employee meetings to discuss work issues.



5. Establish formal performance, wage and salary reviews.
6. Examine the 2008 absenteeism rate for any issues such as stress, physically unpleasant work conditions, personality conflicts, toxic middle managers or other issues that affect the willingness of employees to come to work and perform.
7. Consider incentives for employees such as enhanced medical coverage, employee savings plans, retirement plans or performance incentives.
8. Review employee contracts to ensure they are up to date in such areas as substance abuse, hiring and dismissal procedures, confidentiality, fraud, theft, misrepresentation, as well as discriminatory or harassment areas.
9. Establish shutdown schedules, ask employees to provide preferred vacation schedules, and give early feedback and final timetables to all employees.
10. Review travel costs and meal and vehicle allowances to determine whether adjustments are required and whether payments meet the requirements of the Income Tax Act.
11. Review contract- and part-time-employee arrangements to ensure the necessary contracts and confidentiality agreements are in order.
12. Ensure that contract and part-time employees fall within the guidelines of part time or contract employees as established by the Canada Revenue Agency, the provincial Workplace Safety and Insurance Board, or health insurance regulatory authorities.



In-house Review

1. Conduct a safety audit and make necessary improvements.
2. Examine your records management practices. Make sure records are retained onsite, shipped offsite, and destroyed according to legal requirements. Secure customer and employee personal information in compliance with federal and provincial privacy legislation. Use a cross-cut shredder to destroy any sensitive material that could be used against your business, customers, or suppliers if it fell into criminal hands. Be aware of the potential misuse of personal information by identity thieves. Do not throw unshredded sensitive material out with the trash.
3. Meet with your insurance representative to review your auto, product liability, lost productivity, disaster recovery and any other type of insurance that affects your business.
4. Ensure that any changes in processing or other technologies are compliant with employment, environmental, municipal and safety laws.
5. Review inventory to determine whether the inventory account on the balance sheet needs to be restated. Be ruthless. Obsolete is obsolete. Period.

Information Management

1. Review your business plan and make the appropriate adjustments.
2. Formalize a plan to upgrade software, plant equipment, or production processes.
3. Network your computers to permit easier integration of data and reduce costs for peripherals such as photocopiers or printers.
4. Include corporate financial data in your weekly work schedule to maintain financial control on accounts receivable, accounts payable, payroll, and earnings.
5. Establish an annual cash flow budget for 2009 based on prior years' experiences to fine tune your cash requirements to the seasonal fluctuations in your cash receipts and costs.
6. Establish a capital budget for the next five years then break it down by year to fit with your annual cash budgets.
7. Establish profit and loss projections for the next five years to understand where the company's sales and expenses will be concentrated.

***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.*

Envision the Future

1. Work with sales and marketing to develop sales projections and marketing plans for the next five years. Keep your production people in the loop so they will understand what they might have to do to produce the volumes and control costs required to achieve the marketing objectives.
2. Schedule planning meetings with plant supervisors and logistic personnel to develop ways to improve productivity and product handling not only for the foreseeable future but over the longer term.
3. Review the sales to each client, calculate their total sales as a percentage of company annual sales, look at the collection period for each account, note the current outstanding amounts, and categorize the clients as A (most sales), B, C or D clients. Using this rating, develop sales, billing, and credit strategies for the coming year.
4. Review every purchase from each supplier. Calculate each purchase as a percentage of total purchases and categorize suppliers as A, B, C, or D, as you did with your customers. Analyze costs, credit terms, and the discount structure to see whether you should try to negotiate better terms.
5. Hire a consultant to review your energy consumption and provide a five-year plan to reduce, recycle and reuse.

Financing

1. Look for ways to generate more capital internally. See whether you can reduce the collection period for your accounts receivable. Sell old, used, or unneeded equipment. Review your cash management policy for places to save. Always remember that in periods of expansion receivables grow as do associated operating costs. The income statement may look good but working capital problems may impair your ability to stay in business.
2. Review your current borrowing costs. Do not be shy about approaching your financing sources to see whether you can negotiate lower costs.
3. Take a look at your ratios. Ratio analysis can indicate trouble spots and force you to ask yourself the hard questions. Have you got too much debt? Can you continue to cover your fixed costs if sales revenues turn down? How fast are you turning your inventory into saleable product?
4. Review the last five years' summary financial data and note any trends that look worrisome.
5. Reduce your liabilities as much as possible.
6. Continue to cultivate good relationships with your financing sources.

Corporate

1. Finalize that shareholders' agreement.
2. Ensure that corporate records, resolutions for loans, asset purchases, as well as director, and shareholders meetings are current.
3. Purchase key-man insurance.
4. Consider income splitting with family members.
5. Consider restructuring corporate ownership to protect existing assets or reduce or defer the tax cost of income distribution to existing shareholders.
6. Ensure the wills, insurance, and company agreements for all key executives are up to date.

Financial Reporting

1. Meet with your accountant to discuss the business's overall financial position.
2. Make sure the company reporting system can supply the information required by regulatory, bank, and taxation authorities.
3. Review all agreements with lenders etc. to ensure the financial data provided meets the requirements for the calculations of bonuses, commissions, royalties, leases or debt covenants.

Taxation

1. Review corporate income tax calculations for capital and non-capital losses, and small business rates to determine your ability to pay bonuses, dividends and corporate taxes at the end of the fiscal year.
2. Review total remunerations packages to determine the potential additional cost in health insurance should payroll costs exceed provincial thresholds.

Keep on Planning

Planning for 2009 by combining the expertise of employees, professional accountants and lawyers with the experience and goals of management will ensure your company is on its way to the best New Year possible! ■

~ After 30 Years ~

**WE REMAIN A GROWING FIRM
AND WELCOME YOUR REFERRALS.**

What Did You Say?

Noise is everywhere, from that booming of the stereo in the vehicle next to you at the stoplight to the banging from the tube bender on the shop room floor. We accept it as the consequence of living in a modern urban society but studies now suggest workplace noise should be monitored and reduced because it may be affecting employee performance.

What is sound? What is noise?

Simply stated, sound is everything we hear; noise is unwanted sound. Both sound and noise are created by some vibration that generates variations in air pressure that move through the air and finally reach our ears. The person who hears the sound interprets it as wanted or unwanted. For instance, the sound of a jet engine may be music to the ears of a pilot, but a disruptive noise to owners of residential property on the flight path.

Whether we call these variations in air pressure sound or noise, we will undoubtedly pay a high cost if we do not reduce the sources of noise and protect ourselves from its slow degenerative effect on our hearing.

Types of Noise

A *continuous noise* is constant and stable, such as the endless hum of fluorescent lights or a diesel generator. *Variable noise* is any noise that changes pitch and volume such as a siren. *Intermittent noise* is a burst of sound, such as an electric saw being used for a minute or two every 10 minutes or so at a construction site. *Impulsive noise* comes in short bursts of less than one second such as a hammer hitting a nail or the sound of a starter's pistol at a track meet.

The Impact of Noise

The main impact of continuous exposure to noise is either total or partial hearing loss. Noise also interferes with speech communication and leads to misunderstanding of instructions, distracts the mind from work requiring concentration, and causes stress that, in turn, causes employee inefficiency. Research indicates that continuous exposure to noise may lead to hypertension, changes in blood pressure, heart beat, breathing and sleeping problems, and in some instances a dete-



rioration of mental health. When a person is startled by a loud noise, the breathing pattern changes and muscles tense.

Lack of Understanding

To be heard, your voice must be louder than the background noise. In most social situations individuals address each other at a distance of 2 to 4 meters at a 55-60 decibel (db) level. Thus, to hear a person speaking the background noise level reaching the listener's ear should not exceed 50 db.

Communication is possible for a short time if the noise exceeds 78 db; prolonged communication, however, becomes stressful if the background noise exceeds 78 db.

Measurement of workplace noise compared to quiet life situations shows the day-to-day dangers of hearing loss for employees:

1. A hand-held circular saw at a 1 meter distance generates 115 decibels.
2. A diesel truck, 85 kilometers per hour at 20 meters generates 85 decibels.
3. A gasoline lawnmower at 1 meter generates 95 decibels.
4. An air compressor at 3 meters generates 120 decibels.
5. A normal conversation at 2 to 4 meters generates 55 decibels.
6. A typical office environment without canned music generates approximately 40 decibels.

Determining what is "too loud" may seem at first blush somewhat subjective, but a few tell-tale signs that your workplace may have noise issues include:

- Do staff members constantly have to raise their voices to be heard?
- Have any employees complained about a "ringing in their ears" after a long day?
- Do employees raise their voices excessively when on the telephone?

If the noise level seems to be a problem, find the source and duration of the noise, measure its level in decibels, identify the individual(s) exposed, and, of course, find the steps needed to be taken to reduce noise.

Hire a Consultant

Many new techniques, materials and devices are available to reduce noise at the source and protect the ears. A noise abatement consultant can give your workplace a noise abatement analysis. The consultant may suggest making changes to wall configurations and other internal structures, setting up sound barriers, or purchasing new equipment with a lower decibel rating. Unfortunately, carrying out such suggestions may require a major capital injection into the business. Over the long haul, however, it is in management's best interest to reduce overall noise at its source and protect not only the workers but also ensure that neighbours are not disturbed by high or rising noise levels.

Regardless of when and what structural changes are made, most job sites will still expose workers to noise. Workers should be educated about the long-term hearing loss that will inevitably come if they don't protect their hearing at all times. As an absolute minimum workers exposed to continuous or sharp intermittent noise should be provided with hearing protection.

Hearing Protection

There are three types of hearing protectors on the market today.

Ear plugs that can be inserted to block the ear canal. They may be preformed or foam ear plugs and are sold as disposable or reusable. Custom molded plugs are also available.

Semi-insert ear plugs are held over the ends of the ear canal by a thin rigid headband.

Ear plugs provide less protection than some ear muffs, and should not be used in areas having noise levels over 105 db. Since they are not as visible as muffs it may be more difficult for supervisors to ensure they are being worn. However, after wearing them on a few jobs, astute workers will soon understand the benefits of a worksite policy requiring hearing protection as they will feel less fatigued and irritable after a day of noise exposure. Naturally plugs must be inserted properly to provide protection.

To fit the ear plug the ear should be pulled outward and upward with the opposite hand to enlarge and straighten the ear canal. Clean your hands before inserting ear plugs and wash or replace them on a daily basis to avoid ear infections.

Ear muffs are made of sound-attenuating material formed into soft ear-cushions in a hard outer cup. A thick slightly flexible head band holds each cup in a tight seal over the ear. Quality ear muffs will provide greater protection than earplugs.

When purchasing ear muffs look for a dome deep enough to cover your ears. The deeper and heavier the dome, the greater the low-frequency attenuation. Although awkward to wear in some situations, they are generally easier to fit and last longer than plugs. They are, however more expensive and, in hot work areas can be less comfortable than simple plugs.

In areas where the noise level is high, ear plugs and earmuffs may be worn together.

Wear Them on the Job...Always

Hearing protection, whether plugs or muffs must be worn at all times to avoid hearing deterioration over the long term. Studies have shown that during an eight-hour shift if an individual removes hearing protection for 40 minutes, rather than receiving the equivalent of protection equal to 30 decibels, the protection equivalent drops to 10 decibels.

Senior management, Human Resources and line managers should work together to reduce the long-term impact of noise on employees' hearing. Management should contact the agency responsible for occupation health and safety within their province to ensure workplace standards are up to date and get educational literature to provide to employees. ■

Can We Be Of Service To Someone You Know?

If you have friends or business associates who you think would like to receive our newsletter, please give us their names. We would be happy to send the newsletter to them with your compliments.

Talking on a Cloud

Have you ever wondered how people can talk to friends and business associates around the world for long periods of time without paying long-distance?

This is possible through the magic of the Internet and something called Skype, an application-based service that uses a proprietary Internet telephony (voice over IP, or VoIP) network. What separates Skype from VoIP is that Skype operates on a peer-to-peer “cloud” architecture, rather than the traditional server-client model.

The Skype user directory is decentralized and distributed among the nodes within the network thereby reducing the need for a centralized infrastructure. Decentralization allows for network expansion and contraction while reducing the associated costs. It is presently estimated there are more than 240 million users worldwide. The application is currently available in 28 languages.

Skype or similar communication software is destined to become as much part of our everyday lexicon as Windows, Coke, Big Mac or WiFi. Why is Skype gaining in popularity?

What You Get

Take a look at the following features and see how many would be right for your business.

1. Downloading the Skype application software and registering for an account is absolutely free.
2. The software works on a wide variety of platforms. In addition to running on the big three operating systems: Windows, Mac OS, and Linux, it also runs on Windows Mobile devices, dedicated WiFi phones, some mobile and cordless phones, and other devices.
3. Communication requires a broadband Internet connection, microphone or headset and a web-cam if you wish to make video calls.
4. The software permits easy, wizard-guided import of all your contacts on Outlook or Entourage into the Skype directory.
5. Skype has a built in system for identifying all callers, blocking the unknowns and those you do not want to speak with, and has notification options to alert you to file receipt, messages left or contacts made. Skype acts somewhat like a receptionist, letting those who call know that you are offline, online, available for contact, away, not available, or do not wish to be disturbed.
6. Send files of any size. There are no restrictions on the size of the document, digital photo or video. That large spread sheet or lengthy proposal you need for a meeting can be sent while you are talking.
7. The ability to talk to your clients and suppliers “face to face” wherever they are in the world can not only help build better relationships but also will reduce travel expenses and environmental impact.
8. Replace traditional expensive video conferencing services and hardware. Skype works with equipment you already have and can be made available to all your employees rather than just a privileged few. You will be able to have a video conference with your remote offices without even leaving your desk.
9. Free conference calls with contacts and other offices whether the people are using landlines or cell phones. Urgent meetings can be called regardless of the location of your employees or offices and regardless of their communication devices.
10. A modestly priced assigned access number enables you to make unlimited landline and cell phone calls to the US and Canada - any time of the day, any day of the week.
11. A business version of Skype available for Windows allows IT departments to deploy the application easily to specific groups or across the organization.



Controlling Costs

Businesses wanting to use Skype as an internal communications network may find that establishing cost controls for long distance to countries outside the United States and Canada plus the cost of land-line or cellular telephones is an issue.

Skype provides the free web-based Business Control Panel to manage use within your organization. The manager or administrator of the cost centre can prepay for the use of Skype, assign control numbers to each participant, and allocate credits from the prepaid amount to various participants. Reports of usage can then be used by administrators to determine cost by department

or to control the expenditures. To ensure users do not run out of credits the system can be preset to assign more credits automatically to a user if they fall below a certain level.

Skype May Not be for Everyone

As your business extends the use of a proprietary system such as Skype there will be costs over and above the "free." However, for small businesses, consultants and other members of our business community who wish to stay in touch with employees, branches, clients and suppliers in a more personal and visible way, Skype may be a reasonably priced solution. ■

TAXATION

10 Costly Omissions in Income Tax Filings

As the end of December approaches, taxpayers reluctantly think about the inevitability of submitting their tax filings: by April 30 for most individuals; by June 15th for the self-employed.

Each year taxpayers pay money in taxes that would not have been paid if information had been available for inclusion in their T1. Most of us receive T4s and T5s from the source; however, we often overlook the multiplicity of transaction documents that impact our personal income taxes. Here are the more common omissions that your tax preparer encounters.

1. RRSP

RRSP deduction limits should be reviewed to minimize the possibility of overcontribution. It may be useful to review your bank statements, etc., to ensure that neither you nor your broker has forgotten RRSP contributions. Under normal circumstances, your broker will ensure that the RRSP receipts are sent, but it is not unusual for these receipts to arrive late or be misplaced.

2. Loan Interest

Loan interest incurred when borrowing for investment purposes is tax deductible. Documentation outlining the date of the loan, the principal and interest, and the term should be available to allow preparation of an amortization table.



Many financial institutes provide summaries of interest on loans or lines of credit. Providing this documentation along with an explanation of the reason for the loan or line of credit will allow your tax advisor to determine whether the interest is tax deductible.

3. Investments

Information on carrying costs, such as brokerage, administration fees, and capital gains and losses in your portfolio is definitely necessary for tax preparation. The original cost of investments purchased many years ago may be difficult to determine. Where possible, find the original purchase details; but, if this is not possible, determine an approximate purchase time to allow research into the cost at that time.

4. Moving Expenses

Expenses associated with a move to a new residence at least 40 kilometers closer to a new work location may be deductible. Such expenses include, but are not limited to, travel costs, moving costs, and real estate fees. If in doubt about the deductibility of moving expenses, provide all of them to your tax advisor. The inclusion of receipts allows your advisor to determine not only those expenses that are deductible but also will provide a starting point for questions about possible additional deductions.

5. Rental Property

Individual taxpayers who own rental property should summarize income from tenants as well as all associated expenses. Reviewing last year's tax return will remind you of necessary information. Be sure to provide your tax advisor with high-dollar-value receipts that detail just what was purchased. Your tax advisor can then provide guidance as to which expenditures were capital in nature and which may be perceived as personal. This step could prevent future tax squabbles with the Canada Revenue Agency.

6. Students

Receipts for tuition fees may be deductible and, therefore should be retained because they provide the required information that forms the basis for the education and textbook amount. If the student's income is insufficient to make use of all the available deductions, the unused portion up to \$5,000 may be transferred to a parent, grandparent or spouse (or the parent or grandparent of the student's spouse or common-law partner).

Full-time students who must move to attend an educational facility should keep a record of all moving expenses. Deductions are available for moving expenses incurred at the beginning of each academic period provided the move is more than 40 kilometres closer to the post-secondary institution. The costs of moving back after the summer break might be deducted as well.

7. Installment Payments

Tax installment receipts should be kept available. If paid at a financial institution give them to your tax advisor. Providing proof of payment to your advisor will reduce the chances of overpayment and the subsequent difficulty of obtaining a refund of the overpayment. The CRA may inadvertently apply overpayments to the GST account of self-employed individuals thus adding to the refund confusion.

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.

8. Medical Expenses

Retain receipts for all medical expenses. Low income individuals who require attendant care in a private facility may be able to deduct some of these costs. If you are self-employed and purchased a private health services plan from a third party, the premium is deductible as long as equivalent coverage is available to permanent full-time and arm's-length employees. Self-employed individuals and their spouses can each deduct up to \$1,500 plus \$750 for each child. Should this option be used, however, the business cannot deduct medical premium costs. Out-of-country medical expenses are deductible as well as premiums paid to private insurers within the United States for medical and health care coverage.

9. Charitable Donations

To be deductible against taxable income, donation claims must be supported by receipts from a registered charity. You may carry forward and claim for up to five years any donations not claimed in a previous year.

Taxpayers can expand their donations beyond the accepted religious organizations and local charities to include registered Canadian amateur athletic associations; prescribed universities outside Canada; certain tax-free housing organizations in Canada; Canadian municipalities; the United Nations (or its agencies); or charities outside Canada to which the Government of Canada has made a donation.

Generally you may claim donations to US charitable organizations as long as they do not exceed 75% of your US income.

10. Income and Eligible Deductions

It is the taxpayer's responsibility to report income from all sources and provide documentation supporting claims for deductible expenses. Most taxpayers rely on employers to provide the appropriate T4s or T4As for employment information, financial institutions for T3s and T5s, unions to send the appropriate slips and various other third parties, such as child care facilities, to send detailed or summary statements. Taxpayers should maintain all documents pertaining to employment and investments received during the year; during January and February they should take time not only to ensure the aggregate of detail agrees with the summaries received but also to determine whether all information is complete.

Ensuring that taxes are minimized is every taxpayer's right and responsibility. Why not use the 10 areas mentioned above as a starting point to review any 2008 financial transactions that may impact your tax filing? If you realize that you missed deductions in earlier years, you can ask the CRA to adjust returns filed for the 10 preceding years.

An early review may save you hundreds, if not thousands of dollars.