PELORUS

WWW.THINKPELORUS.CA

301-3700 Steeles Ave W, Vaughan ON L4L 8K8
Tel. 905 850 3330 Fax. 905 850 3329

CLARITY VISION RESULTS

TECHNOLOGY	TAXATION	MANAGEMENT	MONEYSAVER
Apps	Deductions 2012	That is Interesting	Someone Stole My...

Business Matters

VOLUME 27 | ISSUE 1 | FEBRUARY 2013

TECHNOLOGY

Apps

Apps can be very useful but be careful when you buy.

Whether you use an iOS, Android, BlackBerry or Windows-based device, the proliferation of applications or apps, for short, (i.e., software designed and optimized for use on mobile devices) can provide significant opportunities to enhance your work and personal life by improving organization and productivity.

There are, in fact, well over one million apps available, spread across the various mobile platforms. While the larger platforms like iOS and Android each have over half a million apps, BlackBerry and Windows Phone still offer plenty of choice with more than 100,000 apps each.

While not all apps are practical or appropriate for personal or business use, there are many that may be very useful. The following categories are but a few you may want to consider as tools to be loaded onto your smartphone. Naturally, you won't need all of them all of the time, but when you do, they sure are handy.

Business Cards and Contact Management

With hundreds of contacts providing business cards, it's easy for the cards soon to get misfiled. With a business card scanner app, you simple take a picture of the card and the app puts it into a business-card file. In today's digital world, not everyone uses or even wants paper business cards anymore; an app that lets you create a digital contact card that can be traded wirelessly is invaluable. Simply tap your phones together to exchange your contact information. (Examples include: Bump for iOS, Android.)

Productivity Suite

If you work on the go, you might want to consider getting a productivity suite that allows you not only to view, but also to edit documents, presentations and spreadsheets. Some productivity apps allow you to sync your documents across multiple devices, including your phone, tablet and main computer. While best for simpler tasks, it might be enough to let you leave your bulky laptop back on your desk! (These apps vary by platform. Examples include: Pages, Numbers and Keynote for iOS.)

Some file management apps can share data among several of your electronic devices.

File Management

Every platform treats stored data a little bit differently. However, there are many apps available that can help manage the data files your receive from different platforms. This is particularly important on iOS, because files cannot be stored outside an app. A file management app can store almost any kind of file, even if you don't have an app that can read it on your mobile device (Example: Filer for iOS). Some file management apps also include the ability to sync data to your computer or other devices or share with others. Imagine being able to create a file on your desktop, pull it up later on your tablet to make revisions, then share it with a colleague or client who can make their own changes, regardless of where they are. (Examples include: Dropbox for iOS, Android, BlackBerry, Kindle Fire, PC and Mac.)

Translation

Translating different languages into or from English previously required the services of a professional translator. Translation apps can accept the input of text in one language and output it into another language. While machine translation is not perfect, it can at least quickly convey the concepts and intended meaning when accessing content or communicating with someone in a language different from your own. Some apps may also help you learn basic foreign-language phrases by producing a vocalization of the text. (Examples include: Google Translate.)

Data Usage

Unlike your voice allowance, which is usually measured in minutes, the amount of data included in your plan and the amount of work it can do (i.e., the number of emails, photos, documents, etc. that can be uploaded or downloaded) are much more abstract and can be harder to track. Many wireless carriers offer an app that includes a usage tracker. Third-party apps (i.e., apps offered by companies other than those that make the platforms) may also offer greater customizability and features, including real-time tracking, configurable alerts and even an app-by-app analysis to see which ones are the worst culprits. You may find, for instance, that some apps continuously check for updates in the background. Even if a single update is relatively small, collectively they can quickly add up! Once you get a clear picture of your data usage, you can adjust settings, as needed, to reduce it. (Examples include: My Data Manager, for iOS and Android.)

Weather

Most people will find weather apps a must. While a basic app is often preloaded onto the device, third-party apps may provide more detailed forecasts, links to related news, videos or radar images. If your business involves construction or delivery, for example, knowing the weather hour by hour as well as next week's forecast for the area where you're working can save countless dollars by allowing advance planning regarding workload, scheduling, routing of vehicles, supplies required or manpower. (Examples include: WeatherEye [by The Weather Network] for iOS, Android, BlackBerry and Windows Phone.)

QR Code and Barcode Scanners

Barcode and Quick Response (QR) code scanners can be extremely valuable for both personal and business use. Some apps may only support a particular form of code, while others may support a variety; however, the premise is the same, regardless. The camera on the device scans the code, which is then interpreted by the app. A scanned barcode may return search results, such as product details or competitive pricing, while a QR code may provide data or send you directly to a website. QR codes are becoming popular on business cards as a way of quickly importing details from the contact's website without having to key in anything. No more searching the Internet to find out about the product, the company or the contact information.

Flashlight

It's so simple, yet so very useful. Every platform has a wide range of flashlight or torch apps that allow convenient control of the screen brightness and/or camera flash. If you've ever dropped something under your desk and had to go groping around for it, you'll wish you had a flashlight app.

Notes and Sketches

Our phones and tablets have in many ways replaced the venerable notepad. You'll likely find that an app for taking and managing notes will help you keep organized, by assigning things like dates and categories. Similarly, an app that supports at least simple sketches will definitely be useful. Forget the back of the napkin; draw that sketch right on your phone and email it following the meeting.

Automation Apps

In the same way as you may use macros to automate tasks in a spreadsheet, apps are available (particularly for Android) that can customize your settings based on criteria such as time of day, or where you are. Imagine, you leave home in the morning with the WiFi radio automatically turned off to save your battery. If your hands-free device is also off, calls could go to voicemail when you are driving over a certain speed. When you arrive at the office, the WiFi re-enables to reduce your mobile data usage. If you have an offsite meeting during the workday, an autoreply is enabled to let your colleagues and customers know you might not be able to get back to them right away.

Be Careful When You Buy an App

It is advisable to purchase apps directly from the store for your platform, such as the iOS App Store, Android Google Play, BlackBerry App World and Windows Phone Store. Apps in these stores have generally been tested prior to being certified for sale. Third-party app stores have also become popular. However, the apps in these stores may not have been tested and could present a security concern. Only buy apps you find useful. Certainly it is fair to download "free apps", but many free apps do not incorporate the full range of features found in the purchased version and may include advertising. It is worth the price to have applications that are updated as needed to ensure maximum efficiency.

It's Worth the Effort

To fully appreciate the applications available for your smartphone requires an investment of time browsing through the thousands of applications that are offered. Fortunately, the applications are categorized by topics to eliminate the games, gadgets and links that proliferate on all the sites. Locating an app and discovering that it performs as advertised and provides you, the user, with useful information or practical application is certainly worth the effort.

TAXATION

Deductions 2012

Knowing your eligible deductions and tax credits can keep you from overpaying your income taxes.

It is no secret that the best way to keep your income taxes to a minimum is to know which tax deductions and tax credits are available to you. It's up to you to know this. **Canada Revenue Agency is under no obligation to inform you of any eligible deductions or credits you may have overlooked in your filing.** Unfortunately, determining what deductions and credits you can use and their amounts is often a matter of interpretation. So, the period between now and the April 30 filing date for personal income taxes is an opportunity to talk with your accountant about what benefits are available for tax year 2012 and what you can do to set yourself up to benefit from deductions and credits in the future.

CRA has no obligation to identify eligible deductions or credits overlooked in your filing.

Definitions: Tax Deductions and Tax Credits

A tax deduction is an amount that can be subtracted from gross income to give you the taxable income that determines your tax rate. A tax credit, on the other hand, is an amount subtracted from the dollar amount of tax calculated by applying your tax rate to your taxable income. A tax credit is actually more valuable than a deduction because it reduces the tax payable dollar for dollar. A deduction only reduces the percentage tax rate applicable to your taxable income.

Union Dues

Many individuals forget to provide their tax advisor with receipts for union dues paid. Union dues can add up to large amounts, especially if an employee has belonged to a number of unions over the same year.

Annual dues that should be claimed include:

- dues for membership in a trade union;
- dues for membership in an association of public servants;
- professional board dues required under provincial or territorial law;
- malpractice liability insurance premiums or professional membership dues required to maintain the taxpayer's professional status;
- parity or advisory committee dues required under provincial or territorial law.

Public Transit

Canada Revenue Agency allows employees who commute to and from work a deductible expense for passes allowing unlimited travel within Canada on "local" buses, streetcars, subways, commuter trains or buses, and local ferries. One-way tickets are not considered deductible as they do not provide unlimited travel. However, deductions are available for travel passes of at least five days' duration if the taxpayer purchases passes for at least 20 days in a 28 day period. An electronic payment card that provides a receipt creates an allowable deduction if at least 32 one-way trips are made within a continuous 31-day period.

Children's Arts and Fitness Amounts

Two areas frequently misunderstood by many taxpayers are the Children's Arts Amount and the Children's Fitness Amount. Each program allows a claim of up to $500 per child under age 16 (under 18 if the child is eligible for the disability amount) for fees paid in the calendar year. Many taxpayers believe the $500 is a direct deduction from earned income, which is not true. These fees are tax credits. Both the fitness and the arts amounts are subjected to a federal tax credit of 15%; therefore, the actual reduction against income tax is $75 (i.e., 15% of $500). Depending on the province of residence, additional provincial deductions may be available.

There are situations in which the fitness/arts amount may be commingled with child care cost. If it is not possible to differentiate between the two, the child care amount must be claimed first. Residual amounts up to $500 are then claimed as a fitness or arts amount.

Children's Arts and Fitness Amounts are tax credits, not deductions.

Moving Expenses

The costs of moving is an area often overlooked by taxpayers. Deductions for eligible moving expenses are incurred when a taxpayer moves and establishes a new home at least 40 kilometres closer to the place of new employment, business or educational institution.

Deductible expenses include:

- transportation and storage costs (such as packing, hauling, moving, in-transit storage, and insurance) for household effects, including items such as boats and trailers;
- travel expenses such as vehicle expenses, meals, and accommodation incurred to move to the new residence;
- living expenses for up to a maximum of 15 days for meals and temporary accommodation near the old and the new residence for the taxpayer and members of their household;
- lease cancellation costs for the former residence;
- other costs such as change of address, change of address on legal documents; replacement of drivers licences, utility disconnect and hookup costs and the cost of maintaining the old residence to a maximum of $5,000 for interest, property taxes, insurance, as well as heat and other utility expenses. (If you were renting the previous residence, these costs cannot be deducted.);
- costs associated with selling the old residence. Advertising, legal fees, real estate commissions and early mortgage payout are the major expenditures allowed. Legal fees, transfer fees, or the registration cost for the new residence are also deductible.

The cost of moving is expensive so be sure to save all the receipts and maintain adequate documentation to establish the distance moved, the dates of the move and all other details concerning the purchase and sale of the old and new residences. This is a tax deduction worth using.

Carrying Charges and Interest Expenses

Those who earn income from investments are entitled to deduct carrying charges and interest paid to earn income from investments such as the following:

- management fees (RRSP/RRIF administration fees are not allowed);
- safety deposit box cost;

- interest paid on money borrowed for investment purposes as long as the investment is for the purpose of earning investment income in the form of interest or dividends. If the interest cost is incurred to create capital gains, the interest is not a deductible expense;
- if interest was paid on an insurance policy to earn income, the interest is deductible as long as the insurer completes, before the tax return is due, form T2210 Verification of Policy Loan Interest by the Insurer;
- interest charged for investments within a Tax Free Savings Account (TFSA) or a Registered Disability Savings Plan is not deductible.

Always Use a Qualified Tax Preparer

Please note that this article highlights only a few of the many, many tax deductions and credits available to taxpayers. It is always prudent to have a qualified tax preparer complete your return. Using a qualified tax preparer allows for a full review of your current financial circumstances and the possibility of discovering deductions or credits for which you did not know you were eligible.

MANAGEMENT

That is Interesting

A rise in interest rates can significantly affect the corporate and personal income of owner-managers.

Canada's present economic situation is rather good compared to that of many other countries, but our finance minister keeps reminding Canadians about the high amount of household debt Canadians carry.

Statistics Canada reports that in the third quarter of 2012 household debt was 164.6% of disposable income (i.e., the amount of money left for spending and saving after paying income taxes) compared with 163.3% in the second quarter. In other words, Canadian families now owe an average of over $1.64 for every dollar of disposable income. This is definitely a high number; however, owner-managers and self-employed individuals should not panic since, at the moment, the Bank of Canada does not seem to be moving toward higher interest rates.

"What If?"

Nevertheless, it may be time for owner-managers to take a closer look at not only their business debt but also their household debt and ask themselves a few "what if" questions as to what would happen to their financial situation if interest rates were to rise a quarter point, a half point, a full point or even more.

The fact that all entrepreneurs may be vulnerable to interest-rate increases can be demonstrated by the following scenario. For the sake of simplicity, we have assumed a December 31 year-end and that the owner does not have deductions.

Assume the following as the financial condition of a single (unattached) Ontario owner-manager (these numbers may vary according to the tax software used and/or rounding):

1. $300,000 mortgage at 3% per annum, a 25-year term and monthly principal and interest payments;
2. $250,000 business loan at 4% per annum, a 10-year term and monthly principal and interest payments;
3. $27,842 ($8,852 in interest and $18,990 in repaid principal) in the first year to service the $250,000 loan;

4. $31,930 ($15,570 in interest and $16,360 in repaid principal) in cash flow needed to service the loan after an increase to 7% from 3% in the interest rate;
5. $70,000 in pre-tax earned personal income;
6. $54,909 in disposable income after deducting $15,091 ($70,000-$15,091) in personal income taxes at source (with a contribution to the Canada Pension Plan);
7. $39,225 in discretionary income after deducting $15,684 in mortgage payments in the first year of the 3% mortgage; and
8. $31,556 in discretionary income after deducting $23,353 in mortgage payments made after an increase to 7% in the mortgage interest rate.

If Interest Rates Rise

An increase in the business loan rate to 7% from 4% would increase the first year's working capital needed to service the loan from $27,842 ($8,852 in interest and $18,990 in repaid principal) to $31,930 ($15,570 in interest and $16,360 in repaid principal), an increase of $4,088 or $340 per month. The jump to 7% from 4% would increase the amount of interest paid by 76% ($8,852 to $15,570) while the amount of principal repaid would actually decline by 14% ($18,990 to $16,360) [see items 3 and 4 above].

The three-percentage-point jump in mortgage interest rates would reduce the owner's discretionary income by $7,669 ($39,225 to $31,556) [see items 7 and 8 above] or 20%.

Inability to increase sales or cut costs will leave the owner-manager with less income when interest rates rise.

Impact of Higher Interest Rates

In isolation, the increases in interest rates do not appear significant, but there are other factors that come into play that owner-managers must also consider:

- If the taxpayer wishes to maintain a disposable income of $39,225, there will be a need to increase the remuneration paid by the corporation to the owner-manager. This, in turn, means the corporation must either cut back on other expenses to maintain the profit level experienced when interest rates were lower or increase sales to make up for the additional cost associated with interest rate increases.
- If the business cannot boost profit either through increased sales or lower operating and administration costs, the owner-manager will have to be satisfied with less disposable income after taxes and less discretionary income after mortgage payments.
- Increases in interest rates will bring changes in cash flow as well. If interest rates go up, more cash will be needed to service the loan. If the owner-manager needs more funds to sustain a standard of living, there will be an additional drain on cash as payroll amounts increase.
- Exacerbating the entire process will be clients and suppliers who will also find themselves squeezed by higher interest rates. Clients may delay payments by 30 days or more, and suppliers will be requesting prompt payment, reducing your credit limit or demanding cash on delivery. An even worse scenario would see some clients or suppliers declaring bankruptcy or simply going out of business.

Formulate a Plan

Owner-managers are especially vulnerable to changes in interest rates because changes impact both their business and lifestyle. Although it is unlikely the Bank of Canada will raise interest rates by 300 basis points (4% to 7%) overnight, owner-managers would do well to examine both business and personal debt to determine the impact any increase in interest rates could have on the future of their company and their personal lives. Once this information is distilled, consider formulating a plan with your chartered accountant to reduce debt to a level that will permit sufficient cash flow and pre-tax company profits, as well as a level of personal remuneration, sufficient to maintain your lifestyle.

MONEYSAVER

Someone Stole My…

Careless personal habits can cause costly losses of information.

As new electronic devices are developed and our ability to send so many types of information increases, security becomes increasingly important. The need for owner-managers to be constantly on the move, however, can lead to casual and careless handling of electronic devices, such as smartphones, that carry important business information. Mobility plus familiar habits can lead to the following mistakes:

- leaving a purse or briefcase unattended just for a moment at a restaurant or retail store;
- forgetting a jacket or purse on the door of a bathroom stall or placing items on the floor of a stall in which the walls do not extend to the floor;
- hanging a jacket with a wallet or leaving a purse on the back of an office door and leaving the office to go down the hall;
- placing briefcases, purses, or computers in the back seat of a vehicle and forgetting about them;
- leaving the vehicle unlocked;
- keeping a paper record of your security access codes in your wallet or briefcase;
- failing to place briefcases or other office documents in the trunk of a vehicle;
- leaving a briefcase or purse on the top of the vehicle while loading the trunk with purchases;
- leaving vehicle keys easily accessible whether at the local restaurant or at the office. With today's smart keys it takes just a moment for a thief to go to the parking lot and find your vehicle;
- leaving purses, briefcases, or wallets easily accessible at workstations;
- propping doors open to avoid having to use pass cards or enter passwords;
- signing blank cheques for employees when they need supplies;
- hesitating to question "visitors" who show up at reception unannounced to visit "X". Thieves can take "X's" name from the company website or even a parking-spot name plate and use it to gain access to the office and pilfer laptops or other valuables;
- failing to lock up or secure laptops to the desk when leaving the office for lunch or at the end of the work day;
- failure to properly shield the keypad when keying in an access code at an ATM or when making a debit or credit card purchase. Thieves have been known to memorize the debit card numbers while shoppers made their purchases. The thief follows the mark and if the opportunity presents itself, lifts the wallet from the victim's purse or jacket. Once the pickpocket has the card, it is simply a matter of using it at a few stores or at the nearest bank machine;
- failing to adequately protect wallets from bump-and-grab techniques. The professional pickpocket chooses a target who has accidently shown cash or valuables stored in easily accessible back pockets, purses or

backpacks. A partner distracts the target by spilling mustard or ketchup on them or colliding with them while the pickpocket lifts the item and the two of them disappear — all in a few seconds;

- carrying valuables in fanny packs or waist packs. In a crowded subway or store it takes but a second to cut through the belt of a distracted individual and make off with the item. (There are products in the marketplace that have incorporated ultra-thin stainless steel wires that run through the belt portion of these packs that will make it almost impossible to cut through the belt.);

New smart cards and inexpensive readers present new security problems.

- exposing new credit cards and even an enhanced driver's licence or passport can put you at risk of a new type of identity theft. Newer credit cards are now using Radio Frequency Identification (RFID) chips. These "smart cards" simply need to be waved in front of a reader. Most of us are, by now, familiar with the tap-and-go app that allows you to pay for purchases by waving a smartphone in front of a reader. You can tell if any of your credit or debit cards have this feature. Visa has a)))) wave imprinted on its cards, MasterCard has a "payWave" icon and American Express has an "expresspay" icon. An inexpensive smart card reader purchased online can steal your credit card information if the thief can get close enough to your purse or wallet. Under normal circumstances the possibility of "stealing" the information is slim because extremely close contact is required; however, if the card is exposed, there is a possibility that your data could be compromised. If you want to be on the safe side, purchase a RFID blocking sleeve.

Reduce Opportunities for Loss

The probability of personal items being stolen increases when opportunity avails itself. Taking the time to review your personal habits to reduce the risk will reduce the number of opportunities thieves try to exploit, reduce the probability of loss and thereby reduce the worry and stress that comes with losing pertinent personal or business information.

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

Richard Fulcher, CA – Author; Patricia Adamson, M.A., M.I.St. – CICA Editor.