

Business Matters

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INCORPORATION

Let's Incorporate



The incorporation process is relatively simple whether you incorporate provincially or federally.

As a sole proprietor, you may be looking back at last year's results and ahead to the time you have to pay your taxes, and wondering whether you might not be better off incorporating to control the income tax expense on earned income. In Canada, a company may be incorporated provincially or federally. Federal incorporation has some advantages:

- You can carry on business in any provincial jurisdiction using the federally approved name.
- The head office can be in any province.
- Books and records can be maintained in any province.
- Annual meetings can be held in any province or territory.
- If you are incorporated provincially and wish, for example, to move your business from Alberta to Manitoba, it would be necessary to dissolve the Alberta corporation and reregister in Manitoba or apply for a discontinuance in Alberta and apply for a continuance in Manitoba. If your business is incorporated federally, you need only file Articles of Amendment indicating the head office is moving and register an extra-provincial corporation in its new home province.

Whether you are thinking of incorporating provincially or federally, the following are a few areas to consider:

Naming the Company

The corporation can have a name company or a number. If you incorporate using a number, you may also use a name (i.e., 1234567 Ontario Ltd. could also register itself as "Able's Horse Stable".) This name becomes "attached" to the registered number.

When conducting business using the trade name, you must still identify the company by its registered name. For instance, sales invoices could show "Able's Horse Stable" but should indicate that the actual incorporation name is 1234567 Ontario Ltd.

The name chosen cannot be either identical or deceptively similar to existing registrants in the province. The name or number must be identified as a corporation by using the French or English forms of "limited" or "incorporated".

Location

The head office of a provincially incorporated company must be located in the province of incorporation. The head office is usually at the same location as the operations but, if there is more than one operating location, a choice can be made.

Ownership and control are determined by the number of shares held.

Ownership

Shares must be issued in order for the company to be owned. The owners must decide among themselves the minimum number of shares that will be owned by each shareholder. The shares provide the owners with voting rights. Whether the corporation issues 10,000 or only 50 common shares with voting rights, the degree of ownership and control are determined by the proportion held by each individual. The value of each share is decided at the time of issue. If share value was set at \$10 per share, then the holder of, say, 5,000 shares would have to remit \$50,000 to the corporation to purchase ownership.

Private corporations may not have more than 50 shareholders. The residential addresses of all shareholder(s) must be provided for notification purposes.

Directors

All corporations must appoint at least one Canadian resident as a director. If four or more directors are appointed, 25% must be Canadian residents. The residential address of the directors must be provided along with the residency status.

Officers

In owner-managed businesses, it is not unusual for the shareholder(s), director(s) and officer(s) to be one and the same. It is not a requirement for officers to own shares or be directors of the corporation. However, in that officers manage the operations of the company, they are held to a high standard of stewardship and thus the appointments should not be taken lightly. The residential addresses of the officers must be provided.

Year-End Date

You will have to determine a fiscal year-end date for the corporation. Depending upon the date of incorporation and the business cycle, you may choose a year end other than the calendar year end. It is advisable to speak to your CPA about the best month end for your type of business and to maximize tax-deferral possibilities.

Auditor or Accountant?

Provincial acts of incorporation may require audits of financial statements. This requirement can be waived for non-publicly traded companies as long as all of the shareholders agree to waive the audit provision. Consent to waive an audit is required each year. Most business owners, their banks and creditors do not require audited financial statements; waiving audit provisions in favour of reports provided by a CPA is an acceptable alternative.

Even though the appointment of an auditor may not be required, it is wise to consider appointing a CPA as part of the incorporation process to assist in setting up the required books and records, tax accounts, business number, WSIB, employee payroll remittance accounts, HST or PST accounts and all the other regulatory registrations that may be specific to your business.

Seek Professional Advice

Incorporation requirements vary from province to province. The guidelines above are provided as general consideration as to what is normally required. Entrepreneurs considering incorporation should seek professional assistance in their jurisdiction to ensure the appropriate steps and documentation meet the requirements under their provincial incorporation act.

Crowdfunding



Crowdfunding is a new way to raise money; however, be careful of the tax implications.

One of the latest means of raising money to start a new business, raise operating funds, or tackle costly research and development projects is to make a broad-based appeal for funds with crowdfunding. Crowdfunding is not new; it was used in the nineteenth century, especially in small communities, to fund local projects through subscription. For example, the monumental base for the Statue of Liberty was financed by a New York newspaper that gathered small donations from 160,000 donors. More recently, it has been used to fund tours of rock bands, and to produce movies, video games and inventions.

Social media have expanded the use of crowdfunding. Social media make it possible to reach a large audience that might be willing to make personal contributions for families with unmanageable medical bills, or to help needy individuals recover from catastrophic personal financial loss.

Why crowdfunding is so beguiling is anyone's guess, but its success cannot be understated. In 2013, an estimated \$51 billion was provided to crowdfunding appeals around the globe.

Crowdfunding and Business

Business entrepreneurs have also discovered crowdfunding as a new means of raising funds because it creates an alternative to traditional financial institutions. Further, the receipt of funds from complete strangers through crowdfunding removes the need for a business to provide the donor with shares, a promissory note, or to pay interest or dividends. At first blush, the recipient might think crowdfunding income meets all of the criteria of a windfall.

Crowdfunding is treated as income and therefore is subject to tax.

Not a Windfall

Because funds raised through crowdfunding are not a windfall or gift, they are treated as income and thus, are subject to income tax.

According to a Dec. 9, 2014 *Income Tax Folio S3-F9-C1, Lottery Winnings, Miscellaneous Receipts, and Income (and Losses) from Crime*, the CRA states that crowdfunding is a taxable benefit. As a starting point, the income tax folio states:

1.5 However, sometimes individuals receive a voluntary payment or other valuable transfer or benefit by virtue of an office or employment from an employer, or from some other person. In such cases, the amount of the payment or the value of the transfer or benefit is generally included in employment income pursuant to subsection 5(1) or paragraph 6(1) (a). (See also Guide T4130, Employers' Guide — Taxable Benefits and Allowances.) Similarly, voluntary payments (or other transfers or benefits) received by virtue of a profession or in the course of carrying on a business are taxable receipts.

The *Folio* continues with an example specific to crowdfunding:

Assume a business uses crowdfunding as a method of raising funds for the development of a new product and the contributors do not receive any form of equity. The amounts received by the business would be included in its income pursuant to subsection 9(1).

Subject to Tax

Whether the business organizational structure is a proprietorship, a partnership or a corporation, funds received from crowdfunding are subject to tax. If, as part of the crowdfunding activity, consideration is provided in the form of thank-you plaques, pens, T-shirts, etc., then these costs are deductible expenses. In addition, many campaigns raise money for a particular purpose. If spent for that purpose, little or no taxable income may result. If one also considers that financing costs are minimized along with the need for debt repayment and perhaps personal guarantees for the borrowed money, the income tax cost, if any, may not be onerous.

Selling Ownership

Some entrepreneurs want to use crowdfunding to raise equity capital. Securities regulators of British Columbia, Saskatchewan, Manitoba, Québec, New Brunswick and Nova Scotia have implemented or expect to implement registration and prospectus exemptions that will enable start-ups and early-stage companies to do just that. Companies will be allowed to raise up to \$500,000 in a year through approved Internet funding sites. No more than \$250,000 of this can be raised in one offering, however. No individual can invest more than \$1,500 per distribution. People will have the right to withdraw their money within 48 hours. Ontario has decided to develop separate standards. As would be expected, funds raised through an equity issue are not taxable to the recipient company, but any dividends or capital gains received by the contributors will be subject to income tax.

Be Aware of the Tax Implications

Raising money through crowdfunding, whether for operational, developmental or equity issue, is a relatively new means of raising funds and many budding entrepreneurs may not realize the tax implication of receiving crowdfunding money. For businesses or corporate entities considering using crowdfunding as a means of generating operating capital, it would be wise to consult your chartered professional accountant to determine the amount of tax for which they may be liable.

MANAGEMENT

I Hear You



Effective communication is the key to effective management.

The new technologies may enable us to send and receive messages at the speed of light, but the understanding and interpretation of those messages still depends on the clarity of the message itself. A meeting or set of instructions is worthless if its message is ambiguous.

Hearing is something we do all the time. Listening, on the other hand, is the process of decoding, understanding, and retaining what we have heard. As a result, management and staff have a vested interest in ensuring that the message presented is the message received, and that what is said is what is heard.

Management must be sure the message is clear and concise and that the listeners have the skills to understand the information as presented. Having listening skills is essential to absorbing and comprehending the message.

To improve your listening skills, consider the following.

- Turn off your smartphone.
- Pay absolute attention to the presenter. Listen not only to the words but also to intonations of the voice and observe the body language. These markers communicate as much as the actual words because they provide indications of the importance attached to specific subject matter.
- If you are listening to a formal presentation, save your questions until the end. Everyone will benefit from hearing the uninterrupted flow of the speaker's argument. This allows the presenter to complete the line of argument and perhaps actually answer your question before you even ask.
- Phrase your question carefully. You must be specific in your question to receive a specific answer. Do not ask open-ended questions. A well-structured question relates directly to what has been presented and simplifies the work of the presenter.
- Do not interrupt the speaker's answer to your question. Interruption redirects the presenter's thinking and, as a result, the response may not be as in-depth as it should be.
- Always acknowledge the answer to provide closure to the presenter and other participants.
- There is a difference between not understanding a topic and not understanding what a presenter has said. Often a presenter's syntax may leave you wondering just what was meant. If that is the case, seek clarification by raising the issue and presenting the thought in your own words. For instance, if the presenter were to say: "Well, that is water under the bridge" and you did not quite understand the idiom, you might ask: "Did that last comment mean the issue is behind us?"
- Leave your personal biases and opinions at the door. We all have an opinion on how the system should operate but clinging to one idea closes the mind and does not allow for understanding of the other point of view, nor does it encourage the creation of a dialogue or the possibility of creating an entirely new process.
- Presentations are built from the ground up and contain snippets of information that may seem off topic to the listener but are part of the larger message. If you are unsure about the relevance of the specific item, make a note. When it is time for discussion, ask a question to get clarification as to how the point ties into the overall project.
- When colleagues ask for clarification, let the presenter handle the question. Do not distort the question by interrupting or adding your opinion unless asked by the presenter to do so.
- As well as listening to what is being said, it is important to listen for what was not said to determine whether there is a subtle message not being brought to the forefront. (By way of explanation: If a presenter indicates that 30 new staff will be hired, is the hidden message that people may be let go?)

Keep Their Attention

The presenter's role is to get and keep the listeners' attention. An attentive and involved audience is more likely to retain more information. Researchers have discovered that those who attend a 10-minute presentation retain only 50% of the topic presented. To involve participants in listening, the presenter should keep the following in mind:

- Know your audience. Know what they need to know and do not talk over their heads or treat them like simpletons. For example, an engineer would present the same information one way when talking to fellow engineers and in a different way when addressing salespeople to upgrade their product knowledge.
- Make sure you have the central point of your presentation clear in your own mind.
- Be enthusiastic and entertaining. No one benefits from a dull, monotonous, fact-filled presentation.
- Indicate the length of the meeting, its purpose and the topics to be covered. Explain what attendees are expected to know at the end of the presentation.
- Ask for the participants' attention. Request that all smart phones be turned off.
- Keep the meeting short and on topic.

- Be prepared. Know your topic better than the participants. Anticipate any questions they may have.
- Do not wander off topic with anecdotes but use plenty of simple illustrations.
- When participants raise enquiries outside of the agenda, indicate that the issue is outside the scope of the discussion and ask them to talk with you about the issue after the presentation.

Check your equipment before starting the presentation.

- Make sure beforehand that all your equipment is working. Check and double check that your projector, computer and software are working. Always have backup available.
- If the Internet is necessary, be sure it is on line and working.
- Toward the end, summarize the main topics and line of argument.
- Close by restating the purpose of the meeting and how the subject matter achieved this purpose.
- Reiterate the goals and ask individuals if the presentation, in their opinion, met specific goals that you had hoped would be obtained.
- Provide a hardcopy summary of the presentation at the meeting or later on the corporation's website.
- Stay within the time allowed.

Responsibilities

Employees and employers have a responsibility to ensure that what is communicated is understood by the one receiving the communication. Good listening skills enhance efficiency, effectiveness and harmony within the work place.

TECHNOLOGY

Dashcams



Dashcams can provide the key evidence in a vehicle accident or fraud claim.

According to Transport Canada, automobile collisions in 2013 resulted in 165,306 personal injuries, of which 10,315 were serious and 1,923 were fatal. These statistics do not take into account the thousands of fender-benders that are not included in Transport Canada's data. According to the Allstate 2015 Safe Driving Study, rear end collisions accounted for 25% of all accidents while turning at intersections was a close second at nearly 24%. Interestingly, almost 14% of reported accidents involved a parked vehicle.

Owner-managers have need to be concerned about accidents in company-driven vehicles. It may be worth considering outfitting your company-owned vehicles with an onboard camera, better known as simply a dashcam. Typically, a dashcam is used to continuously record video through the windshield. Having a dashboard camera in your vehicles could provide evidence regarding an accident which may help to mitigate legal or settlement costs, as well as to provide detail to establish the driver's responsibility.

Must-Have Features

Get the best **video resolution** you can afford; for better results consider models that record in at least 1080p High Definition (1920 x 1080 pixels); additionally, quality **night recording** capability is a must.

The **viewing angle** (i.e., how much of the world the camera can see) is an important consideration. A wide-angle lens such as 160-degrees may capture more in the frame but may produce a more distorted image; narrower lenses are more likely to pick up sharper details.

Loop recording automatically overwrites the oldest footage.

Almost all dashcams *should* have loop recording that automatically overwrites the oldest recording when the storage card becomes full. Choose a dashcam with a **G-sensor**. The G-sensor automatically indicates when the vehicle is involved in a collision or if there is a need for emergency braking. This specific footage will not be deleted by the loop recording. Given the number of claims involving a parked vehicle, a **motion detector** feature may prove handy. Upper-tier dashcams should incorporate a buffered parking mode that continuously records what is happening while the vehicle is parked but does not record to memory unless stimulated by the G-force sensor or by the visual motion detector program.

Auto start should be standard. Every time the vehicle is started the dashcam should start recording automatically so that the driver does not have to remember to turn the device on. On the flip side is the need for automatic shut off to avoid draining the vehicle's battery.

Battery drain is a problem with some dashcam models because they run off the vehicle's power. Consider models that either contain their own battery for when the car is off, or can automatically shut off when they detect the vehicle's battery is getting too low to start the engine.

You may wish to consider a unit with a **GPS option**. Having GPS support most likely does not include any navigation assistance, but it can record the exact speed and position of the vehicle. Some units have the GPS built in and others can connect to an existing GPS device to receive that data.

Date and time stamp are a must. That said make sure the date and time are set up properly. Check the settings occasionally and recalibrate as necessary.

Forward-looking cameras are great, except that when one considers that 25% of accidents happen from behind, it makes sense to consider a **Dual Channel** model: in addition to the forward-facing camera, some units include a second camera that can be used to look through the rear-view mirror or be mounted in the rear-window.

In that dashcams are mounted at the top and near the centre of the windshield ensure that the power cord is long enough to permit concealment in the vehicle's window seals whether or not the device is plugged into the dash power source or directly mounted to the vehicle power source.

Memory is extremely important. The more memory available, the longer the camera can run without having to over-write older video. Some units may include a smaller memory card than the maximum they can support. Because memory cards are relatively inexpensive, you may wish to consider maxing out the memory. Do not settle for less than a 64 GB SD card; 128 GB would be even better.

WiFi ranges from a useful feature to an absolute must, depending on the model. Some models include a built-in LCD screen to view and replay recordings right on the device. However, for models that do not include a screen, you may be able to view and download videos from the dashcam to a smartphone or tablet using a WiFi connection. WiFi also allows an easy way to retrieve videos from the dashcam without having to remove the physical memory card.

Check Provincial Regulations

It should be noted that at least one manufacturer combines a radar-detector product with dashcams, which can help users share information on radar and red light cameras, as well as other traffic issues. Before purchasing these devices, check with your province as to whether the units are legal. Further, if vehicles will cross provincial boundaries it would be prudent to determine which provinces discourage or have outlawed radar detectors; the penalties may range from confiscation of the device to stiff fines.

Expensive But Worth It

Inexpensive dashcams can be found for under \$100; however, feature-rich models will likely cost about \$400-500 per vehicle. Having a recording from a high-end dashcam can go a long way to providing evidence in the event of an accident or a fraudulent insurance claim. As well, they will provide information to monitor employees' driving habits and check the routes being driven.

Can your business afford to be without a dashcam?

Disclaimer:

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