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CLARITY VISION RESULTS

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MONEYSAVER

Canada Deposit Insurance Corporation

Be careful where and how you keep your savings. You may not be as protected as you think.

The Canada Deposit Insurance Corporation (CDIC) is a federal crown corporation established in 1967 for the purpose of protecting deposits held by member financial institutions in case the institution fails. The CDIC was set up two years after the Atlantic Acceptance Corporation Limited collapsed in a fraud that destroyed what the investigating Royal Commission estimated to be between $70 million and $75 million in depositors' savings. The purpose of the CDIC is to prevent a repetition of such losses. Between 1970 and 1996, 43 financial institutions have failed but depositors' funds were protected because all the institutions were members of CDIC. There have been no failures since 1996.

How Does it Work?

The insurance coverage is provided to depositors automatically by the member institution. There is no need to sign up or pay a premium. The member institutions pay to insure their own depositors against losses. Not all financial institutions are members of CDIC, however. Credit unions and the *caisses populaires* of Québec and New Brunswick are not members but, because they are provincially chartered, they are covered under provincial insurance plans. For a complete list of CDIC members, visit the CDIC website (www.cdic.ca) and click "Where Are My Savings Insured by CDIC." Only deposits at member institutions are insured.

What is Not Covered?

The purpose of the insurance is to insure deposits and *not* to insure assets held in the hope of gain and to which market or other risks are attached.

The following are **not** insured:

- Stocks, stock options and mutual funds because their values move with market forces;
- Government bonds, treasury bills and corporate bonds because their values move with interest rates;
- Foreign currency deposits because their values move with exchange rates;
- GICs and other term deposits with an original date to maturity of more than five years.

What is Covered?

CDIC insures from $1 to $100,000 of eligible deposits payable in Canada, in Canadian dollars.

The following **are** insured by CDIC:

- savings and chequing accounts, including:
  - personal or business accounts held in one name,
  - joint accounts;
- GICs and other term deposits with original terms to maturity of five years or less;
- money orders, certified cheques, travellers' cheques and bank drafts issued by CDIC member institutions;
- accounts that hold realty taxes on mortgaged properties;
- debentures issued by CDIC members.

The $100,000 limit applies to each member institution.

Amounts to be paid out in the event the financial institution fails are calculated based on the amount in the deposit. For example, suppose you have $700 in a personal account in your own name and $130,000 in a business account held jointly with a business partner. If the financial institution fails, you will receive $700 from the CDIC for your personal account but you and your business partner together will receive only $100,000.

If you are a sole proprietor, however, you do not benefit from separate deposit protection since the business is not a separate entity from the sole proprietor. As a result, the sole proprietor's business and personal accounts will be added together to determine any recoverable amount.

The $100,000 limit applies to each member institution. Deposits held in the same person's name at multiple branches of the same member institution would be combined. So, if you have two GICs of $100,000 and $50,000 held in two separate branches of the same bank and that bank failed, you would receive only $100,000 from the CDIC.

RRSPs and RRIFs

The only parts of RRSPs and RRIFs insured by the CDIC are savings deposits, GICs and term deposits with maturities of five years or less, and debentures issued by CDIC members. Stocks, mutual funds, corporate or government bonds are not insured. For example, if you held $5,000 in a savings account and $65,000 in eligible GICs under the umbrella of the RRSP or RRIF, you would receive $70,000 from CDIC if the savings institution failed. If, however, you had $12,000 in the savings account and $95,000 in eligible GICs, you would receive only $100,000 and not $107,000. If you also had $5,000 in a savings account and $30,000 in eligible GICs *outside* the RRSP or RRIF, that $35,000 would be insured separately. In other words, you would recover both the $35,000 held outside *and* $100,000 of the $107,000 held inside the RRSP or RRIF.

Trust Accounts

Accounts held in trust are insured for up to $100,000 for each beneficiary named in the trust. The financial institution must have each beneficiary's name and address. Thus, if $350,000 is held in trust for three individuals, each person will be insured for $100,000. The balance of $50,000 will be lost. The funds deposited into the trust are insured separately from the other funds of the person creating the trust (the settlor). Thus the settlor can hold deposits, eligible GICs and other insurable financial products in personal accounts, while each beneficiary's portions of the trust is also insured for up to $100,000.

Property Taxes

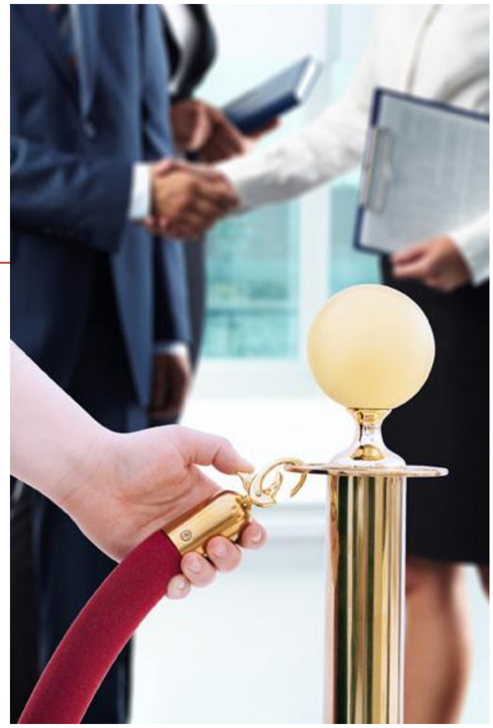
Money held in a mortgage tax account to pay the monthly municipal property tax bill is also insured up to $100,000. Suppose you have two properties such as your home and your cottage, on both of which you have to pay property taxes and you have a mortgage tax account for each. If you had $600 in one and $500 in the other, you would recover the $1,100 total if the financial institution failed.

Tax Free Savings Accounts

The introduction of the TFSA in 2009 has created an attractive new savings vehicle that is also eligible for partial coverage by the CDIC. As with the RRSPs and RRIFs, the TFSA can contain a wide range of assets, not all of which are eligible for CDIC protection. Only the portion of the TFSA in savings accounts, GICs or other term deposits with original maturities of five years or less, and debentures issued by CDIC member institutions, is insured. Savings accounts and other eligible investments held outside the TFSA are insured separately.

Be Careful

Give some thought to how you do your banking. Are your savings and chequing accounts at insured financial institutions? If your accounts are large, are they at different CDIC institutions? How is your money allocated? Do you have insurable funds both inside and outside RRSPs, RRIFs and TFSAs? You should ask your investment advisor to provide specifics of what accounts are covered to the maximum $100,000 and the extent of your coverage within that financial institution. Armed with this information the well-informed investor should then speak to a CDIC representative and confirm that the information provided is correct. Then and only then, can you be satisfied that all the necessary steps have been taken to secure your savings and your future.



TAXATION

A GST/HST Exemption

If you expand your business through an acquisition, you do not pay any GST/HST.

To facilitate the growth and expansion of business in Canada, the federal government permits the sale of a business without the purchaser having to pay the GST/HST. This exemption is of enormous importance to small or medium-sized businesses since a requirement to pay GST/HST at the time of purchase or shortly thereafter could have such an enormous impact on operating cash flows that it might impair current activity or put undue pressure on the company's line of credit.

What is a Business?

This exemption is permitted under Subsection 167 (1) of the *Excise Tax Act*, which allows the sale of a business or part of it without the sale being subject to GST/HST. Business is broadly defined in Subsection 123 (1) of the *Act* to include "a profession, calling, trade, manufacture or undertaking of any kind whatever, whether the activity or undertaking is engaged in for profit, and any activity engaged in on a regular or continuous basis that involves the supply of property by way of lease, licence or similar arrangement, but does not include an office or employment". The business must have been either established or acquired by the seller.

To be eligible for the exemption, the purchaser must acquire "ownership, possession or use of all or substantially all the property that can reasonably be regarded as being necessary for the recipient to be capable of carrying on the business or part of a business". The Canada Revenue Agency (CRA) interprets "all or substantially all" as 90% or more.[1] The effect of this interpretation is to prevent assets being sold off piecemeal without the payment of GST/HST.

[1] Canada Revenue Agency GST/HST Memorandum 14.4, "Sale of a Business or Part of a Business", December 2010, p. 2.

What is Property?

The definition of property is very comprehensive and includes both real and personal property, movable and immovable, tangible and intangible. It also includes rights and interests of any kind as well as shares. It does not, however, include money.

Eligibility Tests for Exemption

There are two tests to determine whether the subject of the transaction is a business within the meaning of the *Act*. The first test is to determine whether the business includes activities that fall within the definition of a business under Subsection 123 (1) referred to above. Assets of such businesses generally include real property, equipment, inventory and intangibles such as goodwill. The second test is to establish whether the purchaser is acquiring from the vendor at least 90% of the property required to carry on the business. For example, office furniture that is old and worn might not be wanted by the buyer and be excluded from the purchase since the purchaser may already own sufficient office furniture or can easily purchase new furniture from a supplier. Provided the purchaser is buying 90% of the assets reasonably required to carry on the business, the transaction has passed the second test.

Buyer and seller must both complete GST44.

Who Can Apply for Exemption?

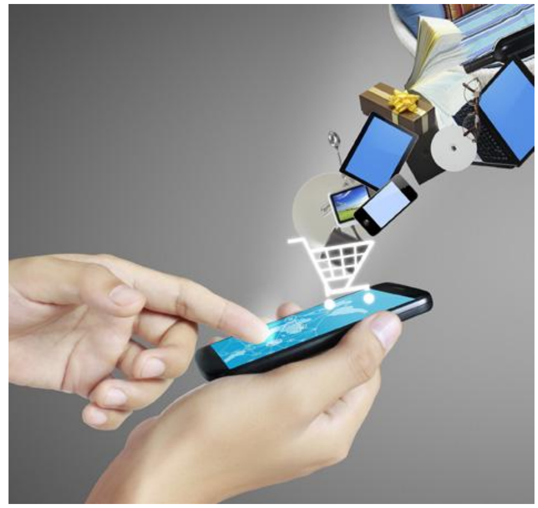
Once eligibility has been established, it is necessary for the buyer and seller to jointly complete form GST44, "Election Concerning The Acquisition Of A Business Or Part Of A Business" (the "Election"). If this form is filed, the vendor does not need to pay and the purchaser does not need to collect any GST/HST on the transaction. The exemption may apply where the purchaser and vendor are both registrants for GST/HST or where both the purchaser and vendor are not registrants. The election does not apply, for example, where the vendor *is* a registrant but the purchaser *is not* a registrant. A non-registrant is anyone not currently registered whose revenues from taxable sales or services did not exceed $30,000 in the four calendar quarters preceding the transaction quarter ($50,000 in the case of public service bodies).

The Form

Both purchaser and vendor complete the Election indicating the names and business numbers of the purchaser as well as the vendor along with address, telephone number and the names of the contact persons for both the buyer and the seller. A description of the purchased property is required. Since the transaction value is treated as nil for tax purposes, the Election form does not ask for the fair market value.

Submitting the Election

Form GST44 must be filed by the purchaser (if a registrant) on or before the date to file a return for the first reporting period in which GST/HST is normally payable following the purchase. Businesses that file GST/HST electronically should send form GST44 to their designated business tax centre. Before forwarding the form both buyer and seller should maintain copies of the form. It may be advisable for both purchaser and seller to sign four "originals" to allow both buyer and seller to maintain signed copies while sending "originals" to the CRA. Where both the purchaser and vendor are not registrants and are only engaged in exempt activities, the GST 44 Election form does not need to be filed with the CRA but should be completed and kept on file in case of an audit.



Exceptions

As noted above, the Election does not apply to the sale of individual assets from the vendor to a purchaser. These transactions would attract the normal payment/collection of GST/HST. The Election only applies in those situations where the part of a business's assets that are sold could be considered functionally and physically separate from the whole business. For instance, a company is engaged in landscaping during the summer and snow removal during the winter. Management decides to get out of the snow-removal part of the business and sell the snow-removal equipment and all other assets required to carry on the snow-removal business. If the equipment were sold as a package, the sale should qualify for the Election since the equipment would be considered essential for carrying on the snow-removal business and not just machinery for sale piecemeal to anyone for any purpose.

Seek Professional Advice

Since these transactions are complex, anyone contemplating buying another business should get advice from their lawyer as well as their chartered accountant to ensure the documentation supports the intent of both parties and satisfies the requirements for GST/HST filing and business tax filing at the end of the fiscal year.

TECHNOLOGY

Credit Card Payment by Smartphone

Turn your smartphone or tablet into a powerful, slick, mobile point-of-sale device.

Soon, probably within the next 10 years, payment for services for many owner-managed businesses will be collected using mobile devices instead of traditional payment methods like cash, cheques and dedicated point-of-sale terminals such as the old-fashioned cash register. Instead businesses will use smartphone or tablet devices with attachable hardware that can read a credit card. With the right app installed, the device is ready to act as a handheld point-of-sale terminal.

Amazing Convenience

Although not fully mainstream yet, there is a tide of mobile credit-card readers and software entering the market that will make scanning credit cards on smartphones and tablets much more common. Imagine the convenience of finishing a job, producing the invoice on-site electronically and immediately receiving payment. Older devices may not all work with these apps or hardware add-ons; however, recent devices on the major mobile platforms already support mobile-payment processing.

To accept a payment, a compatible app is required that can handle the financial transaction. Some apps will allow the card number to be keyed in. This is, however, time consuming, subject to error, and may appear to be less professional. To overcome this, the business should acquire a physical card-reader attachment that plugs directly into the device. These readers have a very small footprint, are easy to use and portable.

Compatibility is an Issue

Naturally, as smartphones evolve, more and more manufacturers will offer this capability, but for now the developers have ensured that most recent Apple iOS devices are supported. However, support for Android and BlackBerry devices is also available and growing, depending on the app vendor.

The smartphone market is quite diverse and developers of these apps and attachments stress that compatibility be confirmed before purchasing a new smartphone. Indeed, some developers have listed not only the compatible smartphones but also the devices where known difficulties have been encountered. Naturally, as the smartphone market matures, mobile payment transactions will be more widely supported. Hardware requirements for mobile payment apps vary. GPS and a mid- to large-sized touchscreen for viewing and digital signature capture are, however, common.

Imagine the convenience.

What Will it Cost?

You will want to check the fee structure in place for the mobile payment processor you select. Some will offer a standard percentage fee for any transaction regardless of the amount. Other providers vary the fees per transaction based on the credit card brand being used; the higher transaction fees of some cards are passed on to the merchant. When the card will not swipe some, but not all, providers add an additional percentage fee on top of the transaction fee for entering the card information manually. An additional percentage fee is also common on international credit cards issued outside Canada.

Clearing

There will, of course, be some timing issues that those accepting payment this way will have to consider. The funds will not necessarily be deposited directly into your bank account because they may have to go through a clearing process (two-to-three days for some). The good news is that, depending on the provider and their application, it will be possible to speed up the process with a link that will process the payment directly to your bank account. There are a number of security and personal data issues that have to be met before this can happen so be prepared to spend the time and effort required to establish the link. It would also be astute to avoid surprises by determining those additional charges the financial institution may impose for this service. It is important to understand the "all in" fees that will be charged for the various supporting processes to mobile transactions (setup fees, monthly fees, per-transaction fees, hardware costs, financial institution fees and other costs) before setting up your business for mobile payment.

Printing a Receipt

It is also possible to generate either a printed or email receipt. Further, depending on the software, it is possible to print or export a transaction history. Undoubtedly it will not be long before a seamless download to your accounting software will be possible.

Certainly the dollar value of the transaction will impact the decision whether to accept all payments using this technology. Businesses may be willing to accept a charge of approximately 2%-3% on a $200 invoice simply because of the difficulty in collecting unpaid amounts and the cost associated with sending out reminders. On larger invoices the same percentage cost of an instant collection may be too heavy a price to pay. At a hypothetical 3% fee, for example, a $5,000 invoice would cost $150. Management may have to develop dollar guidelines for making payments.

Final Words

The ability to collect payments using a mobile device is not some futurist's dream; it is a reality now. At present, the constraints may be availability, device and platform compatibility and potentially higher collection costs. The benefit of reducing or eliminating the cost involved with paper invoices and the hassle of handling physical cash or cheques, in addition to the convenience both for you and your customers may make the investment worthwhile.

MANAGEMENT

Stability Through Change

Slow, steady change is better for morale and the bottom line.

A major lament of staff and management is that the work environment is constantly changing. Although change is necessary in every facet of a business from the repair shop to the accounting department, it is often felt to be destabilizing, is stressful for the vast majority of employees and may lead to worker fatigue and increased turnover.

Change in a business environment must be orderly and based on policies, procedures and practices.

Consistency Implies Control

Practices must be consistent for the entire workplace. For example, the way expense reports are completed or parts ordered must be standardized throughout the company. This removes the impression that some departments are privileged and simplifies the accounting process. The accounting department becomes more efficient because of the standardized forms and can be confident it is invoicing an approved list of suppliers. Consistency provides employees with a set of known management expectations.

Happier Employees

Consistency within a workplace creates a comfort level for staff, management and clients that is just not there in an environment that is constantly changing its methods or organization. Consider the frustration of dealing with constantly changing hours of operation or shift schedules. The absence of stability means the loss of predictability that enables employees to feel more in control of their surroundings and creates the anxiety that accompanies uncertainty.

Increase Productivity

Productivity increases when processes are consistent. If employees are allowed to purchase or download any software application they want or order machinery of their choice, the ability for other employees to interpret information or operate specific machinery might be severely compromised and the company put at risk. The company will not know that employees may need training or licences to work with the new programs or operate the new tools or equipment. Warranties might be violated, training may be missed, essential contracts might be lacking with the result of potential worker injury or lawsuits. Inconsistency in areas such as these creates additional training costs, overlooks the need for backup to take over jobs and could potentially shut down an entire operation if one person quits and no one knows how to complete the task. Consistency, on the other hand, provides staff with the knowledge of the processes, tools and equipment needed to complete the job. Employees can use known tools and methods rather than forcing the company to spend its resources on retraining.

Employees expect and want consistency.

Increased Employee Understanding

Regardless of an employee's position within a company, there is always a need to update. Management needs to keep current on external factors such as industry trends, changes in legislation, the activities of competitors, economic conditions in the company's markets, as well as internal factors such as sales numbers, cash flow, staffing and a hundred other issues. Employees at lower levels need to be aware of technology changes, new HR policies, training opportunities to learn higher-level skills, and many other factors that affect their ability to do their jobs and advance their careers. The stress of learning new software procedures, new regulations and new technologies can be both mentally and physically demanding.

Thus, if a company minimizes the number of changes in company policies and procedures or introduces them gradually, employees are more likely to stay focused on their jobs at normal and acceptable stress levels and not become diverted and anxious about their ability to do the re-engineered job and stay employed. Slow and consistent introduction of new policies and procedures allows employees to acclimatize to the new demands and understand management's expectations. Rather than wrestling with constant in-house changes they fear may affect their performance evaluations, employees can concentrate on productivity, which leads to an enhanced bottom line for the business.

Management's Role

It may surprise management to know that employees expect and want consistency. Employees need to know their bosses are in the office, stay up to date and show up for work to fulfill their responsibilities. Employees want to feel empowered and not micromanaged through meddling by executives. Management certainly does not want to be seen as constantly interfering in the process but staff does expect management to lead by example, especially when asking workers to be reliable and accountable. Much like an army, a business must be led from "in front".

Workers expect management to be on top of what is going on, and prepared and available if needed. Management should be there not only in tough situations but also for the good times to celebrate the completion of contracts or congratulate deserving employees for jobs well done. If management shows contempt for the workplace by not showing up, employees will lose energy and be diverted.

Consistency in the standards of a workplace leader is essential. Knowing what the work ethics and value system of the business's leaders are means that employees know the expectations they have to meet. If for example, management consistently uses only grade A material, the sudden substitution of inferior material may cause employees to worry about the company's financial stability, and therefore whether their jobs are in jeopardy. Such changes are the kind of thing everybody notices but does not necessarily discuss. Fears become internalized and result in undue stress and loss of efficiency through a deterioration in morale. Management's consistent concern for quality, on the other hand, could save a company from the erosion of competitive advantage as customers also begin to notice the change.

Consistency is Best

Management should not initiate change for the sake of change but bring on change in a consistent manner for the company's advantage. Ensuring consistency will provide a more productive workplace, which in turn will reduce employee turnover, increase productivity, establish a happier workplace environment, cut costs and improve the bottom line.

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