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# Business Matters

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## TECHNOLOGY

### Is Cloud Computing Pie in the Sky?

**Computing may be moving off premises and becoming a utility.**

Cloud computing is not quite here yet but its simplicity from the user's point of view makes it very attractive. Nevertheless, there are significant legal and technical problems primarily of security and privacy that need to be resolved before cloud computing can come into universal use.



#### What Exactly is Cloud Computing?

The central idea behind cloud computing is that data will no longer be stored on the hard drives of the office servers, desktop computers or laptops but offsite on a network of servers accessed through the Internet for a fee. (The word "cloud" comes from the use in the IT industry of the simple image of a cloud to represent complex telephone networks or the Internet itself.)

#### Types of Service

The cloud model could offer several types of service. For example, Software as a Service (SaaS) would let you load a single application onto your home or office computer that would allow you to log into a web-based server hosting the programs you need such as word processing, accounting, data base,

storage, games, etc. Platform as a Service (PaaS) would let you design your own application which would run on the service provider's infrastructure and be delivered to users via the Internet. There would be many other services available to manage security, spam, email, and so on.

### **Pay Per Use**

As currently conceived, the comparable business model of cloud computing is that of the utility industry. Instead of having a generator in your basement producing power for all the needs of your home or business, you access the energy grid and draw off the amount of energy you need on a pay-for-use basis.

### **Middleware**

Through a process called server virtualization, a special kind of software known as middleware would maximize server capacity utilization. Middleware can divide the capacity of individual servers into virtual environments so that each physical server functions as multiple servers. The result is greater server efficiency because less capacity is wasted, as happens now. The dedicated servers making up the cloud computing system would have all the applications society would need for work or play.

The host system would be owned by a company that would charge you some type of fee for providing your customized service.

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***Programs formerly run in-house will be  
on external network servers.***

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### **Benefits**

The primary benefit is that your infrastructure, training and licensing costs will be substantially reduced or even eliminated. Hardware costs would be reduced because there would be no need to buy and house increasingly powerful computers as your business grows. The programs formerly run by your in-house IT system would now be on the cloud network servers. The space currently occupied by servers and storage devices would now be freed up for more productive uses. If you are currently renting space to house your servers, that expense would be gone. Increased capacity would also be available on the host's servers as needed. Server virtualization on the cloud system would ensure you are not paying for overcapacity as you might be doing now with your in-house system. All you need is a basic computer, cloud-enabled appliance (e.g., television), mobile phone or tablet device capable of running the external server's interface software which might be as simple as a web browser.

### **Server Security**

Time-consuming decisions about buying and complying with expensive software licences will be a thing of the past. You will no longer have to worry about who is and who is not covered by your existing software user licences. With cloud computing, you will no longer require licences; the company will have access to the programs it needs on a fee-for-service model.

### **Easy Access**

The cloud servers would be accessible from anywhere on the planet through the Internet. But you will not have to worry that sensitive company information might be compromised if a USB or laptop is lost by an employee on a business trip; all the information would be on the server and not on the hard drive of the laptop.

### **Reduced IT Staff**

With software managed by the offsite server company and only basic computers required onsite, the expense of in-house IT personnel will be substantially reduced. Fewer IT personnel will be required by your business and those who will be needed will cost less because they will not need the training now required to run complex in-house systems. The good IT jobs will be with the server companies.

### **Concerns**

Cloud computing could, in effect, double your security risk: once in-house and once at the remote servers. When servers are located in-house as they are now, you know where the data is stored and can access it and maintain it physically. You can design an authentication system of user names and passwords to control access to your own servers. This can be supplemented with an authorization system which allows users to access only the applications and data needed for their particular job.

In the cloud system, on the other hand, you as the client do not know where the vendor's servers are physically located and who has access to them. They may even be located in a jurisdiction outside Canada where privacy and security laws are not as tight as they are here. You also do not know the effectiveness of the vendor's security system. In other words, you do not have complete control over the storage and use of your own data, yet current privacy legislation makes you responsible for the security of your clients' personal information.

The best that can be said at this time is that you will still need in-house security at your end but the server companies will need to develop a level of security that will give their clients confidence that they are not in violation of Canadian law. It is obviously in the server companies' best interests to do so since they depend on the trust of their clients to keep themselves in business.

### **Where Are We Going?**

Computer systems are becoming so complex that new ways of organizing the relationship between system and user is inevitable. The number of computing devices in use and the complexity of each new device are both increasing rapidly and putting pressure on the architecture of existing systems. Cloud computing as a utility is not yet a sure thing but it is looming larger and larger as a potential solution.

## Year-End Tax Issues

### **Check your portfolio; you may not have to pay as much capital gains tax as you thought.**

As the year end approaches owner-managers can find themselves faced with difficult choices in order to keep the tax liabilities of their businesses, themselves and their families to a minimum. Three important areas are capital losses, pre-tax remuneration vs. dividends and RRSP contributions.

### **Capital Losses**

If you have an investment portfolio outside your TFSA, RRSP or RRIF, you should review it with your investment advisor to see whether you could reduce your capital gains by taking some capital losses before the end of the year. Since capital losses can be carried forward from prior years to offset gains in the current year, review your last tax return with your Chartered Accountant to see whether any capital losses are available. Keep in mind that any sales to create capital losses must be made at least three trading days before the final settlement date of December 31 in any given year.

For 2011, because of the way the holidays fall, the last day to sell a stock may be December 23. Check with your broker to make sure. Further, if you sell the losing stock to get the benefit of the capital loss but would like to repurchase it to retain a position in the company, you must wait 30 days or you will not be able to claim the capital loss (the superficial loss rule). The capital loss would also be denied if your spouse were to acquire the stock either from you or on the market within that 30-day period and continue to hold it at the end of that period.



### **Next Year's Capital Losses**

Investors who realize capital gains (net of capital losses) in 2011 but have no losses carried forward will pay tax on the capital gains. However, because capital losses can be carried back three years, capital losses generated in 2012, 2013 and 2014 can be used to recover taxes paid on the capital gains incurred in 2011. Just in case you are thinking of selling a security at a loss in order to create a usable capital loss then repurchasing under your RRSP umbrella, remember the superficial loss rule will still apply.

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***Paying out taxable profits can reduce the corporate tax rate to zero.***

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### **Pre-Tax Remuneration vs. Dividends**

Salaries and bonuses to owner-managers or family-member employees should be considered as a way of reducing corporate taxes. Your Chartered Accountant can determine how additional remuneration to family members will impact the collective tax liability of the family. Your Chartered Accountant may also be able to time the payment of remuneration to reduce the corporate taxes paid while deferring the personal income tax liability to the following year.

Payment of cash dividends is another option. Cash dividends are paid out of retained earnings, i.e., after the corporate income tax has been paid, and attract a lower income tax rate than remuneration, which is deducted in computing corporate income and therefore before the calculation of the corporate tax liability.

The choice between cash dividends or remuneration can become contentious where tax rates vary among family members and where not all family members are shareholders. Taking dividends rather than salary, for example, will impact CPP and future RRSP contributions. Thus, it is advisable to be aware of the impact on each family member and to obtain shareholder consensus on the preferred means of remuneration.

Although dividends may be declared any time in the year, they are not taxable until they are actually paid. Any plan to defer payment to a later calendar year should be discussed with your Chartered Accountant as it impacts the corporation as well as the individuals receiving the dividends.

### **RRSP Contributions**

Owner-managers who decide to give themselves or family members a raise to reduce corporate taxes, may put themselves in a higher income tax bracket. Then, the only means of reducing personal taxable income may be to contribute to an RRSP. For 2011, the RRSP limit is \$22,450.

Keep in mind that, if you have not yet made the maximum contribution (the lesser of \$22,450 or 18% of 2010 earned income minus any pension adjustment) for the 2011 calendar year, you have until March 1, 2012, to do so. The cash realized from a dividend or salary deferral from 2011 received in 2012 can therefore be used to top up your 2011 contribution.

### **The On-Time Payment Rules for Taxes**

There is some confusion as to what constitutes paying on time. Some payments are considered to have been made only when received by the CRA; other payments are considered to have been made when mailed.

For clarification, section 248(7) of the *Income Tax Act* reads:

*For the purposes of this Act,*

*(a) anything (other than a remittance or payment described in paragraph 248 (7) (b)) sent by first class mail or its equivalent shall be deemed to have been received by the person to whom it was sent on the day it was mailed; and*

*(b) the remittance or payment of an amount*

*(i) deducted or withheld, or*

*(ii) payable by a corporation,*

*as required by this Act or a regulation shall be deemed to have been made on the day on which it is received by the Receiver General.*

## **Payments at Financial Institutions**

Payments for HST, income or withholding taxes made at any financial institution belonging to the Canadian Payments Association will be accepted on the day they are processed. A payment made at an Automated Teller Machine (ATM) must be processed the same day to be considered paid on the payment date. Payments will be late if they are made after public banking hours since many financial institutions do not process the data until the following day. Payments made Friday after closing are usually not processed until the following Monday.

If, however, the due date falls on a Saturday, Sunday or public holiday, the payment will be considered “on-time” if the funds are processed by the financial institution or received by CRA on the next business day. For example, if the deadline is Saturday, April 30, and the return is mailed on April 30 but not received by CRA until Monday, May 2, it is considered to have been received on time. If, however, a payment required by Tuesday, April 30, is mailed on April 30 and not received until Wednesday, May 1, it is considered late.

## **Seek Advice from Your CA**

Addressing capital-gains-and-loss issues, salaries, pre-tax remuneration or dividends, and RRSP contributions with your Chartered Accountant before year end should be foremost on the minds of owner-managers at this time of year. Some ways of reducing tax liability may be time sensitive and require a review of available options with shareholders and family members.

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**MONEYSAVER**

# **A Guide for Start-Ups**

## **When starting your own business, be cautious.**

The last 30 years have seen some tough times: 20% interest rates in the early 80s, recession in the early 90s, and a near collapse of the financial system in 2008. Those who survived financially will probably make it through the current economic struggle because they have learned how to keep going regardless of what the economy throws at them. Those dreaming about starting their own businesses should consider the following precautions.



### **Temper Your Expectations**

Start-up businesses have high expectations that can sometimes outstrip reality. Customers and clients need time to find you and get to know your business. New businesses may have a “grand opening” to create public awareness. Sometimes, opening prices are below normalized mark-up prices and people flock to the location to take advantage of savings. Start-up entrepreneurs should not hinge their expectations on crowds of “cherry pickers” who take the best you have to offer and then do not return when your prices go back to normal.

### **Do Not Over-Extend Yourself**

Start-ups often overestimate their ability to produce or deliver products. It is better to be up front with your clients that you cannot meet their deadline and negotiate a mutually satisfactory timeline, rather than disappoint when you fail to meet expectations. Keep in mind that when you set a deadline your clients will be making their plans according to your promise.

### **Arrange Advance Financing**

Many start-ups underestimate the working capital required to get the business off the ground. Creating sales can require unexpectedly high amounts of working capital. Unfortunately, it is all too easy to overestimate sales and the speed with which receivables will become cash. This miscalculation leads to underestimating the time required for a business to generate sufficient funds to be self-financing.

In today’s economic environment it is hard to tell when a small business may become profitable. Some small online-business bloggers boast of being profitable almost immediately because of the low cost of getting into an online business. More conventional businesses with bricks-and-mortar locations and the associated costs may take a year or even two just to break even. Thus the entrepreneur should project operating cash needs for HST remittance, loan repayment, rent, inventory, utilities, wages, and vehicles and, of course, personal income needs for at least a year. The entrepreneur must also recognize that in addition to everyday working capital needs there will be capital expenditures for computers, cash registers, equipment, leasehold improvements, and vehicles, of which will drain working capital. Most financial institutions will assist you with capital loans, revolving lines of credit and credit cards.

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***A client’s deposit can be used to pay the HST.***

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## **Obtain a Deposit**

Collecting funds after the job is completed can be tough. Clients may not want to pay or may delay payment for two or three months. These delays may cause problems with HST remittance. HST is recorded when the sale is booked and must be remitted regardless of whether the funds have been collected.

Requesting a deposit before a job begins has several advantages. First, a deposit indicates the client is committed. Second, a deposit is not considered to be a sale and therefore remittance of HST is not required. Finally, if the client delays payment after the sale the deposit should be sufficient to cover the HST and provide some working capital.

## **Control Expenditures**

Good cash management requires that you should anticipate the best and worst circumstances that are likely to occur over the next fiscal year. As owner-manager you know you must pay rent, utilities, suppliers and employees each month. Rent and utilities are essential to staying in business. Staff, vehicle expenses and inventory are major costs over which you have some control and can be projected with some accuracy. It is important to isolate those areas where cash flow needs are variable. Your findings may indicate that you should lay off staff and do the work yourself, drive your own delivery vehicle rather than use a courier or arrange for on-time delivery of inventory rather than stock the shelves.

## **Project Your Needs**

Optimism is what buoys entrepreneurs but reality can sink them. Start-ups often purchase goods or hire employees in excess of requirements. Consider inventory and staffing an essential part of your projections. Better to have shelves that need replenishing and a skeleton staff that is always busy than shelves full of unsold products and excess staff that drain cash reserves.

## **Stay the Course**

When business is slow self-doubt will creep into any owner-manager. The temptation will then arise to branch out into areas only marginally related to the core business or areas of expertise identified in your original business plan. Such acts of desperation confuse clients and damage your brand. Energy squandered on these distractions is energy taken away from maintaining the quality of your product or service which now risks becoming substandard. If your business plan was sound in the first place and you have rational belief in your ability to succeed, maintain focus on your strengths. This does not mean you should not look into branching out into other areas but always ensure that the new area does not take away from your strengths.

## **Adopt a Mentor**

We all need someone to guide us in making business choices. Start-up entrepreneurs should not be hesitant to approach experienced owner-managers in their community. Not only do these individuals



possess knowledge and experience that takes years to acquire but they may also connect to networks of people who may be able to offer guidance. Joining a local business association may also be helpful.

### **Statistics Tell the Story**

Ninety-eight per cent of businesses in Canada have fewer than 100 employees but employ 48% of the private-sector labour force and create just over 30% of Canada's GDP. About 21 per cent of small businesses produce goods and 79 per cent produce services. Chances are self-employment will be in the future for many. Cautious optimism is the essential ingredient of survival.

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## **MANAGEMENT**

# **The Show Must Go On**

### **When travelling, keep your presentation material with you at all times.**

Travelling to meet a client, set up a training course or establish a new business presents the risk of lost luggage and equipment at any time of year. But the greater volume of travellers and longer wait times during the winter holiday season increase the possibility of loss and the embarrassment of not having what you need when you have to make your presentation to your client.



### **Develop a Habit**

Be proactive. Making a list prevents you from leaving things on your desk or kitchen table. Put items in the same place in your briefcase every time you travel. When finished with an item, return it immediately to its usual place. This applies whether you are reviewing material on the plane, in a taxi or at your hotel.

Good use-and-return habits will reduce the possibility of items being misplaced. Work with only one item at a time. Using your laptop while talking on your cell

phone only increases the likelihood that something will go amiss.

### **Always in Your Possession**

Course material or presentation material should never be checked in as luggage.

Never leave any luggage at the bar or on a seat to go for coffee or to the washroom. Asking a stranger to “watch this for a moment” is a leap of faith as that person may be waiting for the very opportunity you have just provided.

When the cab driver grabs your luggage do not give him your laptop or anything else important. Carry them with you in the cab. Before you pay the driver, check for your wallet, handbag, cell phone, laptop, briefcase and, of course, your suitcase.

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*Hotel rooms are not as secure as you might think.*

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## **Victims of Theft are Victims of Trust**

**Hotel Bellhop:** Don't let the bellhop carry course material or your laptop.

**Hotel Room Security:** Any time the room is empty there is a chance something could be stolen. Cleaning staff often prop open the door while changing linen and have no way of knowing whether a person entering the room is you. Leaving your laptop or smart phone unattended can be risky. Check valuable items at the front desk.

**Hotel Room Safe:** Your room safe may seem secure but often is not. Hotel security needs a master password to open all safes in case of emergency. They often use the manufacturer's original password. An easy-to-remember number such as "0000" is a common manufacturer's set-up password.

**Airport Security:** The airport security process momentarily separates you from your carry-on luggage, wallet, keys, handbag, camera and other small but valuable items. A conveyor belt moves your luggage, etc., through an X-ray scanner while you walk through the metal detector. As you are being delayed at the metal detector, it is easy to lose sight of your luggage sitting for a few moments at the end of the conveyor belt. A thief could easily pick up your things and be quickly lost in the crowd. In a large terminal the possibility of finding the thief is remote. It pays to observe the individuals in front of you and what they place onto the conveyor belt. Always be aware of where your belongings are. As you pick them up review what you placed in the basket on the other side of the scanner.

**Convention Meeting Room:** Meeting rooms in hotels or convention centres offer little security. Computers and other presentation devices can be easily stolen because participants do not know each other and simply assume the perpetrator is there for the event. Those producing the show should have security personnel in the room during breaks and mealtimes.

## **Take a Minute to Review**

Regardless of precautions, needed material can still disappear. The following checklist may help ensure that your presentation is successful.

1. If the material is in digital format, carry backup on a memory device. Keep one on your person and place another in your carry-on luggage. If the data is sensitive, install password protection.
2. Develop your material with commonly used software. If there is a malfunction, you can probably revive the data on your host computer. Know your host operating system. If your host is an older version of Excel, for instance, and your data is produced on the latest version, it is possible the host system will not accept conversion.
3. Install communication software that can access your office computer in case your laptop malfunctions or is stolen.

4. Carry the communication CD in your personal luggage. You can load it onto another computer and access data.
5. Store passwords on your PDA and on paper. Just carry them separately!
6. If hardcopy is required, plan to have it sent a week before the event. Make arrangements with the recipient to contact you when the material has arrived. If revisions are necessary, they can be added after you arrive. Participants will accept two or three pages of revisions but will not be so forgiving if none of the material is available.

### **Murphy's Law**

It would be nice to disprove Murphy's Law, "If anything can go wrong, it will". You can reduce the chances of Murphy's Law derailing your presentation by adhering to good planning habits and ensuring that appropriate contingency plans are in place.

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