

Business Advisory Letter

Editorial

The Dollar Also Rises

Well...this has certainly been a challenging year for Canada. It seems as though we have been hit with one major catastrophe after another. First SARS swept through, exacting its toll in human lives and tourist dollars. Then an angry cow in Alberta devastated the cattle industry, and continues to wreak economic havoc over the entire agriculture sector. The lights went out in Ontario. Who's in charge of that? A large chunk of British Columbia burned to cinders, while another large chunk was given the mother of all baths. The east coast was battered by Juan, and the prairies were sun dried in the extreme. It has been a character building year for Canadians.

With all of this baggage you might tend to wonder why our dollar would be rising against some of the world's major currencies. The loonie has risen against the U.S dollar from \$.64 in January to a recent crescendo of well over \$.76, an increase of 22.6%. It has gained 6.5% against the Euro, 9.8% against the Yen and 12% against the British Pound. In spite of our disease and disaster, the world is lusting after our currency. Is it a good thing? Is it our fault?

Canada is a net exporter of goods. While we have been maligned for our lagging competitiveness, the prices of our goods on the international market have been very attractive over the past several years. Say thank you to our previously flagging dollar.

Canada must have a strong export market. Our population is not large enough to sustain our economy on the basis of domestic consumption alone. A low dollar stimulates exports. Our alleged competitive failings have been mitigated by that beautiful low dollar. Yes, even though the annual trip to Florida left a deeper hole in the line of credit, the low dollar was a good thing.

The dollar is now rising at an unheard of pace. What have we done to deserve such a fate? It may not be our fault.

The United States has long been concerned about its trade deficit. Unlike Canada, the U.S. imports more than it exports. Its economic strength lies in the consumptive capabilities of its massive, affluent population. It has always driven, built, ate, listened, watched and wore its way to economic utopia.

As the stock markets crashed and money became a little tight in the land of the free, the economy faltered. Domestic consumption waned, causing a stir in the Bush camp. This is not the stuff of which second terms are made. 'How can we stimulate this economy? Let's try war. Ooops, no good. OK, let's try good old fashioned monetary policy. If we lower interest rates and let our dollar slide we will surely stimulate international demand for our products. Also, our citizens will no longer be able to afford the goods of other countries, so they will be forced to buy local. The low dollar is good.'

So as the Whitehouse pursues its low dollar strategy, the other currencies of the world experience an unexpected, and unwanted, boost.

OK, there are many reasons for the gain in the Canadian dollar (increase in value of primary resources, neutrality position on the geopolitical stage, strong economic fundamentals, impending leadership change) but the fact of the matter is, it is not really our fault. While we have done a few things right, we are not at the helm. All we can do is adjust the sails to make the best use of the southerly gale. ♦

Brent VanParys

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VMSW in London

Often the best way to grow a business is to join with another. With that said we are pleased to welcome the clients and staff of Mikitish, Hesketh & Company Inc. to our firm. John Hesketh, Brent Mikitish, Cathy Kernohan and Christinne Labelle have made the transition to VMSW as team members and will help us to provide excellent service to our new clients.

Our Staff is Growing

We also welcome Deborah Gavin to our firm. Deborah is a Chartered Accountant with a strong background in service to small and medium sized business. She has assumed her position as a Client Accountant and will operate from the Woodstock office.

Staff Updates

We have had three significant anniversaries at VMSW. Katie Poort has been welcoming our clients for 20 years in the Receptionist position. Karen Raymond, our Administration Manager, and Linda Prout, a client bookkeeper have each passed the 15 year mark with VMSW. We offer our heartfelt gratitude to these fine individuals for their many years of loyal service.



Management
Building Customer Relationships

Building relationships with your customers is the cornerstone of all businesses. Successful owner/managers know that beyond getting the right job or producing the right product, value-added customer service is the means to developing a loyal customer base.

Long after the initial sale, a company should continue to build trust and maintain a customer service relationship. While special promotions, newsletters, direct mail and other marketing methods are all excellent ways to maintain communication with customers, do not forget the importance of one-on-one contact by phone and in person.

Here are some tips for providing the value-added customer contact that can improve customer retention and increase your company's revenue.

Show Your Company Cares

Customers appreciate suppliers who show they understand and care about their business and can anticipate their needs. A telephone call to discuss a new product or service that would benefit their business or to inform them about special discounts lets them know that

Shaun Swanton has returned to the University of Waterloo to complete his Bachelor of Arts Degree and the Masters of Accounting program, graduating in August 2004. Shaun will attempt the Uniform Final Examinations in the fall of 2004 to become a Chartered Accountant. He will return to VMSW in October, 2004. Good luck Shaun!

Jean Shippey has been re-elected to the Board of Directors of the Woodstock District Chamber of Commerce. She has also been re-appointed to the Executive Committee for a two year term serving as the Chamber's Treasurer.

Upcoming Agriculture Workshop

Do you have a written business plan to guide your farming operation? Research shows that very few producers have developed a formal plan, even though this plays a key role in financial success. On December 3rd, 2003 VMSW, along with Farm Credit Corporation and the Canadian Farm Business Management Council, will be presenting a one-day AgriSuccess workshop entitled: "Building Your Business Plan". We invite you and your family to spend a day with workshop presenters and facilitators, who specialize in business and management planning. For more information please call Jessica at (519) 539-6109. Enrolment is limited, so register early.♦

you are interested in helping them make their business succeed.

Do some preliminary work and be prepared to ask questions to find out more about the customer's situation. While you know that your company's products or services can add value, you need to convince your customers that your company's offerings can make a difference. Of course, you and your representatives must be able to demonstrate a solid knowledge of the products or services you offer as well as demonstrate your knowledge of your customer's business.

Analyze the Customer's Needs

Analyze your customer's needs so that you are able to provide a synopsis of the specific benefits of your products or services in terms of their needs. Remember that your customers know what they want to achieve, but they may not know how your company's products or services can help them realize these goals.

To continue this article, visit the Resources section of our website at www.vmswca.com.



Filing the company's monthly, quarterly or annual GST/HST return has become routine for most Canadian businesses. Calculate the GST on sales, break out the GST paid to suppliers, determine any adjustments, and file the return on time to avoid interest and penalties for late or insufficient instalments. If you owe money, you can submit it by cheque, debit transaction, GST/HST TELEFILE or GST/HST NETFILE. If your input tax credits (ITCs) exceed the GST collected from sales, you can claim a refund.

All registrants must file a GST/HST return even if there is no money to be remitted or refunded.

ITCs and the Supplier's GST/HST Number

As a GST/HST registrant, however, the onus is on you to ensure that the GST number provided on a supplier's invoice or receipt is valid and registered. If it is not, your ITC claim could be disallowed.

In a case last year, a company had claimed an ITC of approximately \$3,700 based on an invoice paid to its supplier. Unfortunately, it was later discovered that the supplier had cancelled its GST registration prior to issuing the invoice. The CCRA subsequently disallowed the ITC on the basis that the registration number was invalid.

The company appealed to the Tax Court of Canada but lost. The Court ruled that the legislation deemed it "mandatory" to have proper documentation to establish the validity of GST/HST numbers provided.

While there is conflicting case law on this point, this case nevertheless reinforces the importance of ensuring that your suppliers have provided their GST/HST numbers on their invoices or receipts and that these numbers are registered and valid. This is particularly important when your company makes large purchases and therefore will have large ITCs to claim.

Where you have long-term arrangements with suppliers, you may wish to consider including wording in the contract to the effect that the supplier's GST registration number is valid, and in the event that the number is subsequently deregistered or found invalid, that the supplier will reimburse the purchaser for all disallowed ITCs resulting from the erroneous or deregistered number. In Quebec City, refer to your local phone directory.

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If you are retired or approaching retirement, like most Canadians you are likely thinking about how you can maximize your disposable income. In addition to your retirement savings and any private pension plans you may have, you may receive two sources of income from the Government of Canada - the Old Age Security (OAS) and the Canada Pension Plan (CPP).

Understanding the applicable rules for the OAS and CPP/QPP benefits and the impact on your tax position for your coming or current retirement years can help you make the best planning decisions and maximize your tax savings.

Old Age Security

Financed from the Federal government general tax revenues, the OAS is a monthly benefit that is available to most Canadians 65 years of age or over. You must be a Canadian citizen or a legal resident of Canada to apply for this benefit.

Your employment history is not a factor in determining your eligibility but rather the amount of your pension relates to how long you have lived in Canada. If, after reaching the age of 18, you have lived in Canada for periods that total at least 40 years, you qualify for a full

OAS pension. You may also qualify for a full pension if you were born before July 1, 1952 and meet certain residency requirements.

If you do not meet these requirements for the full OAS, you may qualify for a partial pension. The partial pension is earned at the rate of 1/40th of the full monthly pension for each year you have lived in Canada after your 18th birthday.

Currently, the maximum monthly OAS is \$461.55. The amount is adjusted in January, April, July and October of each year when there are increases in the costs of living. Of course, the pension is subject to federal and provincial income tax. If your annual income is more than \$57,879, the OAS is subject to a clawback on an increasing scale. What this means is that pensioners with high incomes must repay part, or all, of their benefit through the tax system. At an annual income of \$94,530 the OAS is completely recovered.

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CCRA has set up a special program administered by their Investigation Division to identify people who support themselves through illegal activities. Illegal activities are taxable and so fall under the auspices of CCRA.

They have hired 150 investigators who co-ordinate with contacts in various police departments, governmental agencies as well as media and the general public.

Their interest lies in any one who deals in criminal activities such as drugs, narcotics, theft, fraud, prostitution, smuggling and loan sharking. Included in fraud are such things as EI fraud as well as welfare fraud.

In 2001-2002 566 of these special audits uncovered \$36,000,000 in unpaid tax in Canada.♦

Personal Income Tax - Marginal Rates in Ontario 2003

Taxable Income	From \$0 to \$7,756	From \$7,756 to \$32,183	From \$32,183 to \$57,110	From \$57,110 to \$64,368	From \$64,368 to \$67,290	From \$67,290 to \$104,648	Above \$104,648
Federal Taxes							
Basic Federal Individual Surtax (1)		16.00%	22.00%	22.00%	26.00% 0.00%	26.00% 0.00%	29.00% 0.00%
	\$0 to \$7,817	\$7,817 to \$32,435	\$32,435 to \$57,110	\$57,110 to \$64,871	\$64,871 to \$67,290	\$67,290 to \$104,648	\$104,648
Provincial Taxes							
Basic Provincial		6.05%	9.15%	9.15%	11.16%	11.16%	11.16%
Fair Share (1) 20%				1.83%	2.23%	2.23%	2.23%
Fair Share (2) 36%					4.02%	4.02%	4.02%
Marginal Rates	No tax	22.05%	31.15%	32.98%	39.39%	43.41%	46.41%

Sample Calculation

Taxable Income	<u>\$100,000</u>
	Tax
From 0 to \$7,756	\$0.00
From \$7,634 to \$32,183	5,396.15
From \$31, 677 to \$57,110	7,764.76
From \$51,074 to \$4,368	2,393.69
From \$ 61,599 to \$67,290	1,150.98
From \$63, 354 to \$104,648	14,199.41
\$103,000 and above	<u>0.00</u>
Total tax	<u>\$30,894.99</u>

“Strategy and Direction for Every Stage of Your Business”

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