

Business Advisory Letter

Editorial

Two Things are Certain

Death and taxes. Whether you are nearing retirement or prudently investing for that seemingly far-off future, you may be accumulating a substantial portfolio for your retirement years. This may include contributions to an RRSP, a private pension plan and perhaps investments in mutual funds, shares, stocks and bonds, a cottage or rental property. If you are an entrepreneur, you may also have a successful company that you may plan to sell or pass on to family members when you retire. But what happens when you die?

In tax law, a person is deemed to dispose of all property at fair market value immediately before death. As the income from that property will be taxed as part of the deceased's estate, the taxes will ultimately affect the size of the estate that you pass onto your beneficiaries. Unless you have made appropriate plans, this accumulated wealth may be subject to substantial income taxes as well as probate fees/taxes.

Of course, the tax liability of the deceased's estate will depend upon a number of variables, such as a surviving spouse or partner, bequests willed to charities, the amount of tax already paid at source and income earned from investments.

When Should You Start Your Estate Planning?

Many taxpayers may feel that tax planning for the event of their death is not an urgent matter.

However, estate planning is an essential part of your personal financial planning, regardless of your age or the size of your portfolio. As such, it is something you should be doing now, not some time in the future.

Prepare a Will

The most basic estate planning strategy is making sure you have a will. Anyone who owns assets should have a will to simplify matters upon death and to ensure that all property is distributed according to his or her wishes.

When drawing up your will, it is important to get professional advice on ways you can:

- Minimize or defer taxes upon death.
- Provide a means of funding taxes upon death.

What are the Tax Implications?

Discussing the tax implications of your estate planning with your chartered accountant will give you the opportunity to find ways to minimize or defer taxes on your estate.

Get Professional Advice

Estate planning is a complicated area of tax law. Simple solutions do not exist as each individual has particular circumstances, holdings, expectations and financial requirements. Your chartered accountant can help you carry out a preliminary analysis of:

- Cash flow;
- Estimated tax liability at death;
- Disability insurance needs;
- Life insurance needs;
- Estimated probate fees/taxes; and
- Calculation of estate needs after death.

With this analysis, your chartered accountant can then help you address the ways you can achieve your estate planning goals and minimize the impact of taxes upon your death.

Estate planning also involves consulting your lawyer and, depending on your particular circumstances, other professionals such as your banker, trust officer, insurance agent, investment advisor, financial planner and a valuator or real estate appraiser.

An Estate Plan is Dynamic

Be sure to review your estate plan periodically. Circumstances change. Tax laws and other laws change. As these changes can have an impact on your estate planning strategies, adjustments may be necessary.

You cannot cheat the inevitability of death, but can achieve the satisfaction of knowing you beat the taxman.♦

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Congratulations to

Carol Stogrin-Voisine, Team Leader in our Ingersoll office, who celebrates her 5th year anniversary with VMSW.

Shaun Swanton, who recently graduated from the University of Waterloo with a Masters of Accounting degree. Shaun received the Waterloo Accounting Alumni Association's Honour Roll Award for Distinguished Accomplishment in the Masters of Accounting program. Immediately upon graduation Shaun wrote the Canadian Institute of Chartered Accountants' Uniform Final Examinations, and then assumed his full time position as a Client Accountant in our Woodstock office. A successful result on the UFE's (results due December 3rd) will qualify Shaun as a Chartered Accountant in the fall of 2005 when he completes his articling requirements.

A Growing Team

We continue to add quality people to our VMSW team.

Norwich clients may remember Deb Lemon, CMA as a Team Leader in our Norwich office in the early 1990's. She left to raise a family and to help manage Hammond Air Conditioning, the family business. After teaching at Fanshawe College, and authoring a Payroll instructional book, Deb has rejoined VMSW as a Client Accountant in our Woodstock office. Welcome back.

We welcome Paul Butlin and Tracey Rennie to our Ingersoll office. Paul is a Client Accountant with the Ingersoll team while Tracey takes the roll of Client Service Coordinator.

Craig Cunningham returns for his second cooperative education term from Brock University. Craig is in his 3rd year of the Honours Bachelor of Accounting program. His goal is to become a Chartered Accountant.

The icon shows three computer monitors connected by arrows, representing a network or management system.

Management Spam You're History

While the Internet has brought many advantages to businesses around the world, it is increasingly impossible to log on to your e-mail these days without finding your in-box inundated with spam.

While less offensive and dangerous than the work of hackers, e-mail spamming is an annoying activity. Generally, spamming is the widespread distribution of unsolicited e-mails.

Spam means more downloading time for your e-mail. While it may take only a second or two with a high speed connection, it takes considerably more time with a dial-up service. This lost productivity is exacerbated when you must carefully review all e-mails before opening them to separate the valid ones from the suspicious ones that should go directly to the trash bin. Spam mail can also create traffic jams (also referred to DOS or denial of service) when spammers flood an Internet service provider (ISP) with messages to slow down or interrupt service.

Finding top quality people is a priority at VMSW. We are a growing, innovative firm with a focus on client care. We invest in our people to help them become the best they can be. We are seeking experienced, enthusiastic accountants to join our team and work along side some of the finest people in this profession.

Sharpening the skills

Our profession and its body of knowledge are constantly changing. Education and skill development is part of the job description of all of our people.

Jean Shippey and Mark Warnick attended an income tax update to keep abreast of the latest legislative changes and tax planning techniques. Garry Honcoop and Greg Bruce participated in the Canadian Tax Foundation round table, while Carol Stogrin-Voisine, Shaun Swanton, Denise McSwiggan and Lee-Ann Butler sharpened their tax knowledge with Canada Revenue Agency's Tax Consultation Group.

Kim Hough enhanced her Quickbooks consulting skills by participating in a consultant's training symposium sponsored by the software company.

Brent VanParys completed the Most Trusted Advisor program sponsored by SuccessCare. This is a training program for professionals engaged in family business succession planning. It provides skills and tools for helping business families communicate, resolve conflict and move together towards their common goals. Brent is also trained as a Family Council Facilitator with the Canadian Association of Family Enterprises (CAFÉ).

Dealing with Spam

As a first line of defense, do not open spam or suspicious e-mails. Delete them. While many of these e-mails are sent to advertise products and services, some may have a malicious intent such as spreading virus infections through attachments or collecting e-mail addresses that you have stored on your computer.

Managing Spam

How can you protect your system from spam and reduce the nuisance of this unwanted junk mail?

Your e-mail software can be configured to work with your virus scanner to protect your system from viruses as well as suppress spamming.

Your e-mail software can be set to automatically isolate and quarantine spam and other suspicious e-mails and e-mail attachments so that you can review them and decide which ones are legitimate

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Management Telephone Service with a Smile

Companies are increasingly communicating with their customers with e-mail from their palm pilots, notebooks, desktop and even their cell phones. While text messaging does offer many advantages, the telephone continues to play a key role in marketing, sales and customer satisfaction and loyalty.

Despite the many advances in communications technology, telephones are still a widely-used business tool in today's workplace. As a frontline customer contact, your employees' telephone skills and courtesy, or lack thereof, can make or break your business.

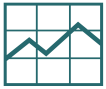
Call Us

Every company receives calls from its customers and potential customers. In addition to website and e-mail contact information, a company's advertising will often include messages that encourage callers to "call us direct" or "call our toll free hotline". Poor telephone responses to telephone inquiries create a bad impression... and lose business.

To ensure your callers know that you value their business, review the ways telephone calls are being handled in your company and make sure every employee has the skills and techniques to make the telephone an effective business tool.

Two Rings

Instruct staff to answer the telephone within the second ring. Nothing frustrates callers more than a telephone that rings incessantly without a response. Of course, sometimes



Taxation Employee or Independent Contractor?

Owner-managed businesses often hire contract workers for various economic and business reasons. While both the employer and contractor might consider the position to be self-employment, the Canada Revenue Agency (CRA) may view the contractor as an employee.

Both owner/managers and the contract worker must exercise care when establishing the working relationship that exists between them. Should the CRA determine that the independent contractor is in fact an employee, both the individual and the company will be obligated for payments of taxes and other levies.

Individuals cannot simply decide that they are self-employed for tax purposes. To be self-employed for tax purposes, they must meet a series of common law tests that are used to determine whether they are an employee or an independent contractor.

Using the common law tests, the CRA may ask:

- Whether the individual has the flexibility to determine his or her own work schedule.
- Whether there is a contract stating the individual is an independent contractor
- How much control the employer has over how the individual's work is done.
- Who supplies the tools the individual uses.
- Whether the individual invoices for the services rendered.

employees are on the line or away from their desks. Set up the voice mail system to answer immediately when employees are on the telephone and on the third ring if they are away from their desk. Make sure employees know the importance of both the message they leave to greet the caller and a prompt response. Some companies set a benchmark such as responding to every customer voice message within 24 hours.

Greetings

Employees should greet the caller by identifying themselves by name and company name. "Good morning, John speaking. You've reached ABC Company. How may I help you?" gives the caller the information they need to proceed. This also applies to answering calls that are transferred to another employee.

Hold Please

"May I put you on hold?" is a question that everyone has heard (and likely used). Of course, there may be a valid reason for putting a caller on hold; however, it is important that employees wait to hear the customer's response before pushing the hold button. The caller's permission should be acknowledged with a "Thank you. I'll be right back". If the caller cannot hold, they should take a few seconds to jot down the caller's name and number and call back as soon as possible.

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- Whether the individual has the chance of profit and the risk of loss.
- Whether the individual provides services to more than one client.
- Whether the individual is to work on a specific project or has been contracted for an indefinite period of time.

No one issue will determine whether the relationship is one of an independent contractor or an employee. Depending on the type of work the person does, some of these factors may be given more weight than others.

What's at Stake?

If the CRA does not view the arrangement as being one of self-employment, the worker will only be allowed the tax deductions available to an employee and not the additional deductions available to independent contractors, increasing his or her tax bill substantially.

Request for Ruling

The issue of employed versus self-employed is not always clear. Because this issue is important for both the employer and the contract worker, consider asking the CRA to determine if the relationship is one of an independent contractor or an employee. However, their bias is more than likely that the individual is an employee.

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Announcement Apprenticeship Training Tax Credit

As part of building a solid foundation to support a new generation of economic growth, the government proposes to introduce a new Apprenticeship Training Tax Credit (ATTC) to encourage the hiring of apprentices in certain skilled trades. The ATTC would complement other apprenticeship program measures that are being announced in this Budget to help increase the availability of skilled workers in key sectors of the economy.

Tax Incentive

Corporations and unincorporated businesses would be eligible for a 25 per cent refundable tax credit on eligible expenditures incurred with respect to eligible apprentices. For businesses with total payroll costs not exceeding \$400,000, the tax credit rate would be increased to 30 per cent.

An employer would be eligible for a tax credit of up to \$5,000 per year per eligible apprentice to a maximum of \$15,000 over the first 36 months of the apprenticeship. The maximum annual tax credit of \$5,000 would be pro-rated for the number of days the apprentice is employed with that employer during the year.

Eligible Apprentices

Eligible apprentices would be in their first 36 months of an apprenticeship training program in a qualifying skilled trade on or after May 19, 2004 and have commenced employment before January 1, 2008.

Eligible Expenditures

Eligible expenditures would be salaries and wages paid after May 18, 2004 and before January 1, 2011 to an eligible apprentice.

Qualifying Skilled Trades

Qualifying skilled trades would include designated construction, industrial and motive power trades, as well as the service trades eligible under the present apprenticeship component of the Co-operative Education Tax Credit.

Sunset Provision

Prior to December 31, 2007, the government would consult with stakeholders on the effectiveness of the ATTC. Stakeholders would be expected to provide evidence of the tax credit's effectiveness as a condition for continuing the incentive program.

Revising the Co-operative Education Tax Credit (CETC)

The CETC provides employers with a 10 per cent refundable tax credit (15 per cent for small businesses) on the salaries and wages paid to students or apprentices in qualifying work placements.

The following changes are proposed to the CETC:

- The CETC would continue to be available for qualifying co-op placements.
- Transitional rules are proposed for apprenticeships in their first 36 months that straddle May 18, 2004. Salaries and wages paid before May 19, 2004 would qualify for the CETC, and amounts paid after May 18, 2004 would qualify for the proposed ATTC.
- For apprenticeships not in their first 36 months and for work placements in approved fields of study other than co-operative education programs, no deduction may be claimed for salaries and wages paid after December 31, 2004. Since a minimum initial employment of 10 weeks is required for the CETC, employment commencing after October 25, 2004 would not qualify. These fields of study are listed in Appendix 2 of Tax Legislation Bulletin 96-2R2.

To find out which skilled trades qualify for the ATTC, visit our website at www.vmswca.com

For more information, you can visit the Ontario Ministry of Finance Website and use the keyword search "Apprentice".

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