

Business Advisory Letter

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Editorial

Family Business and Business Families

For nearly twenty years VMSW has specialized in providing professional accounting and taxation services to small and medium sized enterprises. The majority of our clients, especially in the agricultural sector, are family owned and operated. In Canada, family businesses make up 70% of the Canadian economy, with sales of over \$1.3 trillion.

Family owned businesses are very unique. While they have the normal challenges inherent in operating any business, they must also conquer all of the emotional dynamics of the family unit. How does a family make the tough decisions of business and still foster the loving and nurturing environment necessary for their personal well-being? Do family businesses strengthen the family unit, or do they erode the very foundation of human society in favour of the immediacy of business?

Many family businesses were founded by rugged individuals who were internally driven to build and succeed. The skills required to forge a business are, however, not necessarily those that sustain and grow an enterprise over the long term. Control and command are replaced by teamwork and empowerment. Communication becomes the fuel of the business as the next generation seeks to put their mark on the list of family accomplishments. While history tells us that the families of business owners suffer their hereditary fates, the owners also suffer as they struggle to adapt to their changing roles in the business and the family.

There are some very startling statistics for the longevity of family businesses. 30% of family businesses make it to the second generation. 15% make it to the third generation while only 5% make it to the fourth. 78% of family businesses face a transition of ownership within the next 15 years, yet 70% have done no succession planning. Over 80% of family

business failures can be attributed to the inability of business families to address family dynamics.

It has often been said that families can only survive in business by separating the family from the business. The two roles should not be played at the same time. While this may sound well and good, in reality the roles do co-exist. It is not possible to compartmentalize the emotional warehouse. Successful business families learn to deal with emotional issues so they can maintain an atmosphere of trust. Trust is the glue that holds a family together, and it is the foundation for a successful business. A low trust environment creates conflict, uncertainty and self-interest. A high trust environment creates optimism, motivation and loyalty. Business families who cultivate trust in their family and business relationships will succeed in both arenas.

I recently took part in a two day Family Business Advisor certification workshop conducted by Dr. John Fast of the Center for Family Business. Dr. Fast is a recognized expert in family business dynamics and teaches professionals in the facilitation of family business solutions. There are methods for assisting business families to create the bonds of trust. There are techniques to develop open, safe communication amongst business family members. The solution begins with a shared vision of the family and the business, and an expression of individual goals. The results can be business success and, more importantly, a strong family based on trust and open communication. What better legacy is there? ♦

Brent VanParys

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April 30 is always a special day for VMSW. The end of personal income tax season is celebrated with our annual trip to one of our favorite taverns. Here we discuss the trials and tribulations of the past few months while the innkeeper administers his remedies. The offices of VMSW were closed May 1 for a well-deserved break,. Our staff is now re-energized and it is business as usual.

VMSW Sponsorships!

VMSW has been active in sponsoring various community events and projects. We were once again the Large Industry Award Sponsor for the Woodstock Chamber of Commerce Business Awards of Excellence. The Business Awards of Excellence is the premier event held by the Chamber and attracts the areas most successful businesses and other organizations.

The Norwich District Chamber of Commerce conducted their annual Family Farm Awards with VMSW among the sponsors. The Chamber recognizes prominent farm families from the Norwich district as well as individual citizens who have made significant community contributions over the course of their lives.

VMSW was also a primary sponsor for a Junior Achievement business project. Several youths from Woodstock and Norwich developed and launched a cookbook business. They administered all aspects of the business including product development, production, finance and marketing. A very worthwhile project.

VMSW skill development!

Jessica Losier, our Marketing Coordinator, is now a member of the Canadian Marketing Association. CMA is a one-stop source for new strategies, technologies and educational materials that integrate a spectrum of marketing disciplines. CMA is one the best business networking opportunities with over 750 of Canada's leading marketers and suppliers as members.

Brent VanParys attended a two day workshop to obtain a Family Business Advisor certificate from the Centre for Family Business. The CFFB is an association of business families affiliated with the University of Waterloo. It provides educational, interactive programs to help strengthen families and build high-performance businesses.

Kim Hough has entered the final level in her quest for the Certified General Accountant's designation. Along with this Kim will acquire a Bachelor of Accounting Science through the University of Calgary.

VMSW in the community!

Brent VanParys has been selected as the Community Representative from Norwich District High School to sit on an Accommodation Study Committee established by the Thames Valley District Board of Education. The committee will evaluate the delivery of secondary school programs in the Southeast Oxford Region.♦



Marketing The Marketing Brand of Your Company

When customers hear your company name what do they think of? Do they think the way you want them to...*good service, quality, and professional?* Does your company logo and image convey the message you intend? Marketing and communications are about creating a business image or "brand" in your customer's mind set.

Let's consider cars and their brand image.

What do you think of when you hear "Honda"?

Reliable, good quality, good value

Now, what do you think of when you hear "Cadillac"?

High end, expensive, classy

How about "Mustang Convertible"?

Fun, sporty, fast

The logo, television advertising, brochures, and all of the marketing and communications for each of these cars are consistently designed to represent the image or branding that will appeal to their target market.

Now, think about your business again. What type of image do you portray? What type of brand do you want to

convey to your target customers? While you may not have the marketing and advertising budget of an automobile company, there are many opportunities to brand your company and form your image in your customer's minds.

Let's consider a few...

- Your logo, business cards, letterhead, envelopes
- Quotes and presentations
- Purchase orders, invoices, packing slips and packaging
- Newspaper Ads, Yellow Pages Ad, Recruitment Ads
- Trucks and other vehicles
- Website, e-mails and e-mail documents
- External and/or internal newsletters
- External signage outside your building
- Telephone and reception greetings
- Uniforms and clothing
- Promotional items or giveaways

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

Lisa Leitch, Promotional Connections.



Notice Inactive Corporations

At one time, corporations which did not file Ontario corporate income tax returns for a period of five years were automatically dissolved by the Ministry of Finance. This is no longer the case. Now, even if the corporation is inactive, an annual corporate tax return must be filed. Failure to file these tax returns can result in a Summons to Provincial Offenses Court and. *Fines of up to \$200 per day may be levied against the company's directors.*

We are recommending that clients with inactive companies have their corporate tax filings brought up to date. If the corporation is no longer required, it can then be dissolved by obtaining consent from the Ministry of Finance and filing Articles of Dissolution.

Please contact our office if you have any questions on this matter or if you require us to complete the necessary returns and dissolve the corporation. ♦



Taxation Retail Sales Tax

Accommodations and Admissions to Places of Amusement

A temporary exemption on accommodations and admission to places of amusement throughout Ontario has been passed. This exemption is in effect from April 30, 2003 to October 1, 2003. If the tax is charged, taxpayers are eligible to apply for a rebate.

Solar Energy Systems

A rebate may be claimed for the retail sales tax paid on the purchase of a new solar energy system installed into a residential premise. The rebate also covers any expansion or upgrade to an existing system. The system must be purchased and installed on or after November 26, 2002 and on or before November 25, 2007.

New Energy-Efficient Electrical Household Appliances

A rebate may be claimed for the purchase of major Energy Star qualified household appliances. The appliances usually bear an EnerGuide label along with the Energy Star mark.

The rebate is available for Energy Star qualified refrigerators, dishwashers, and clothes washers purchased during the period November 26, 2002 to November 25, 2003. It is also available on Energy Star qualified freezers purchased during the period January 1, 2003 to November 25, 2003. Delivery of all eligible appliances must take place on or before December 31, 2003. ♦

Cindy Bennett, VMSW



Taxation Indexing Changes

Each year, the federal personal income tax amounts are adjusted according to changes in the Consumer Price Index (CPI) to account for the effects of inflation.

Full indexation of the federal personal income tax system was re-introduced in the 2000 Federal Budget effective for the 2000 taxation year. The indexation factor is applied every year to tax bracket thresholds, certain non-refundable tax credit amounts and benefit amounts. For 2003, the indexation factor is 1.6%.

Indexation increases the income tax ceilings thereby allowing taxpayers to make additional income within a tax bracket before having to pay a higher tax rate.

Indexing of Tax Rates for 2003

For the 2003 taxation year, the Federal portion of the tax brackets and income ceilings are as follows:

The upper level of taxable income for the lowest tax rate of 16% increases from the 2002 amount of \$31,677 to \$32,183.

The upper level of the second tax bracket (22%) increases from \$63,354 to \$64,368.

The upper level of the third tax bracket (26%) increases from \$103,000 to \$104,648.

Taxable income over \$104,648 is taxed at 29%.

Indexing also affects many non-refundable personal tax credits, including increases to the basic personal amount, age amount and spouse/common-law partner amount as well as the child tax credit and the GST tax credit. For 2003, the basic personal amount increases \$122 from \$7,634 in 2002 to \$7,756.

Many provinces also adjust their personal tax amounts on an annual basis. Some adjust the amounts using the same indexing factor as the federal government while others use an adjustment that is specific to that province.

Tax Instalments

If you pay your personal income taxes in instalments, keep these changes in mind when determining your best instalment payment option.

Personal Income Tax Planning

As part of your annual tax planning, consult with your chartered accountant to determine the impact these federal and provincial changes will have on your personal tax situation. ♦



Taxation Tax Planning Tips

Here are some important tax tips that may affect your tax planning for the 2003 taxation year.

Taxable Benefit for Automobile Use

Prior to 2002, the taxable benefit for the use of a corporate-owned or corporate-leased vehicle could be reduced if the automobile was used all or substantially all (generally 90% or more) for employment purposes and personal use was less than 1,000 kilometres per month (12,000 kilometres per year).

Effective for 2003 and subsequent taxation years, the reduced standby charge is available where the automobile is used primarily (generally greater than 50%) for employment purposes and personal use is less than 1,667 kilometres per month (20,004 kilometres per year). This will mean lower taxable benefits for many employees with employer-provided vehicles.

Small Business Deduction

The business limit for the federal small business deduction increases \$100,000 over the next four years, which is good news for Canadian-controlled private corporations (CCPCs). In 2003, the lower corporate tax rates apply to the first \$225,000 of taxable income for a CCPC with a December 31, 2003 taxation year. The limits increase to \$250,000 in 2004, and \$275,000 in 2005. For 2006 and subsequent years, the limit is \$300,000. These limits are pro-rated for non-calendar year-ends.

For taxation years commencing before 2004, eligible CCPCs will continue to benefit from the reduced corporate income tax rate that applies to active business income up to 150% of their business limit. Commencing in 2004, the reduced general corporate rate will apply to all active business income.

The higher small business deduction will provide opportunities to invest profits back

into a small business through capital expenditures, market expansion or research and development. Under the old \$200,000 limit, entrepreneurs sometimes drew taxable bonuses to reduce their active business income. With the increased limits for 2003 and beyond, there will be more incentive for owner/managers to take smaller bonuses.

RRSP Contributions

The February Budget had good news for those with spare cash or a good line of credit. The RRSP contribution levels are increased starting in the 2003 calendar year. The new limits are \$14,500 for 2003, \$15,500 for 2004, \$16,500 for 2005 and \$18,000 for 2006. Plan to take advantage of the increased contribution limit in 2003 to reduce your personal tax liability and increase your deferral of taxes.

RRSP contributions are limited to 18% of earned income based on the taxpayer's earned income for the preceding tax year and subject to the maximum RRSP contribution limit for that year. If you accrue benefits from a Registered Pension Plan (RPP) or Deferred Profit Sharing Plan (DPSP), that amount will reduce your deductible amount. Since the 18% of earned income remains in place, the amount of earned income required to make maximum RRSP contributions will increase from \$75,000 to \$100,000. Owner/managers wishing to use the new limits should keep them in mind when determining the optimum mix of salary and dividends they receive from their companies. ♦

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