

Business Advisory Letter

Editorial Drop the Puck!

VMSW is a Canadian firm, with Canadian people, that love Canadian things. We do what Canadians do.

The trouble is, right now we can't do what many Canadians like to do.....watch Hockey Night in Canada. And it appears we won't be doing that anytime soon.

From a fan's point of view this is inconceivable. To a child it is beyond understanding. For a recreational hockey player it is treason. To a minor league hopeful, another barrier has been erected. The entire lockout/walkout defies any type of explanation acceptable to the people who ultimately pay the bills. Why would they do this to our national sport?!

Let's see if we can understand this from a business perspective.

On one side there are the players. They are the suppliers of a service to an intermediary; the owners. By simple economics they should be entitled to receive a price for their services reflective of the demand in the marketplace. They are undisputedly the best in the world at their craft. Without them there is no product for the intermediaries to exploit. If the intermediaries are willing to pay higher and higher prices for the favour of their service, then why should they be prevented from accepting? Compare them to movie stars or corporate leaders. The best in the world always get paid very, very well.

On the other side are the owners. They purchase inputs, process the inputs into a marketable form, and then sell the product to the end consumer; the fans. To make a profit, one that is commensurate with their level of effort, investment and risk, the owners must purchase their inputs at the lowest available cost and sell at the highest possible price. The demand for their product is elastic so they must be wary of the price they charge to their customers. At a certain price demand falls and there is no profit. To be successful, however, the owners must

seek out the finest inputs in a marketplace that is very finite. It is a sellers market.

What we see here is not that unusual. It exists in any business environment. Why is there a problem? Who is at fault?

Is it the players? They are paid millions of dollars for playing a game that many would play for free. They are worshipped as idols, the temptations of the world strewn at their feet. They appear greedy, impetuous, pompous and spoiled. They are traitors to every child who has dreamt of wearing the jersey. Surely they will surrender a few measly million to keep the hope alive. If not, curse them and may they rot in Sweden forever. They exist only by our whim. We will cheer them never again.

Could it be the owners? They have made hundreds of millions on the backs of the pre NHLPA players. They have exploited a patriotic passion for the fastest game in the world by selling bangles and bobbles for larcenous sums. In their quest for personal glory they have bid the price of the players to a level that defies any sort of business explanation. By their wiles they have created the wax wings that will melt and send them spiraling to their deaths. And now, when the cost of their toys has exceeded their allowance, they whine like spoiled brats that they have been treated unfairly.

As you can see, each side has some semblance of a defensible position. Each side is also as contemptible as the other. If it were only business there would eventually be a solution, for the pursuit of profit generally wins out.

But this is hockey. And this is Canada. Drop the puck and let's play.♦

Brent VanParys

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Our team grows again as we welcome four new people to our Woodstock Office.

Lee Littlejohns recently graduated from Brock University with an Honours Bachelor of Accounting, and plans to attempt the Canadian Institute of Chartered Accountants' Uniform Final Examination this fall. With a promising career in public accounting Lee looks forward to marrying his fiancé, Nicole Payne, in the summer of 2006.

Megan Hiepleh recently graduated from Wilfrid Laurier University with an Honours Bachelor of Business Administration. She also plans to write the Canadian Institute of Chartered Accountants' Uniform Final Examination in September 2005 as she pursues the Chartered Accountant designation. Megan says she is "very pleased to join the VMSW team and is enjoying working with all the wonderful people here."

Erin Creighton joins us for a 4 month cooperative education term from Brock University. Erin is enrolled in the 2nd year of the Bachelor of Accounting Co-op Program and is working towards her Chartered Accountant designation.

Denver Nicklas also joins us for a 4 month cooperative education term from Conestoga College. Denver is enrolled in the 2nd year of the Business Administration Accounting Co-op Program and is working towards his Certified General Accountant designation.

The staff at VMSW continue to improve their skills with ongoing training and development programs.



Taxation **U.S. Properties Owned by Canadians**

A number of years ago the United States, to feed its ever burgeoning deficit, established legislation to tax US residents as well as non-residents owning US property upon their death. One tactic for a Canadian to avoid this estate tax was to own US property in a Canadian corporation. Corporations do not die and are, therefore, not subject to estate tax. The Canadian government would generally allow this arrangement without assessing shareholder taxable benefits provided the sole purpose of the company was to own the US property. Such companies are referred to as "Single Purpose Corporations".

On June 23, 2004 the Canada Revenue Agency rescinded their administrative position on Single Purpose Corporations. Such arrangements will now result in

Mary McMurchy is sharpening her business skills by attending bookkeeping and accounting classes at Mohawk College.

Karen Raymond recently attended a training seminar in Pensacola, Florida where she learned more about our client management software. The latest version of this database allows us to keep better track of projects and helps us provide even better service to our clients.

Jean Shippey, vice-president of the Woodstock Chamber of Commerce, will assume her new role as president in June 2005.

Our very caring staff

Ingamo Family Homes is a non-profit agency providing refuge to women and children in need. This year over Christmas there were 10 women and 45 children taking shelter at Ingamo.

Woodstock Rotary provides Christmas gifts for the women and children each year, but this year there was more people than gifts. Rotarian (and VMSW principal) Garry Honcoop asked the VMSW staff if they might have a solution. Already aware of the situation, our people stepped up with 45 Teddy bears for the Ingamo children, and then eagerly put together enough gifts to ensure all of the mothers had something under the tree.

We are privileged to work with a very exceptional group of people who truly care about their community. ♦

taxable benefits being assessed to the shareholders of the company. Single Purpose Corporations established before June 23, 2004 are grandfathered from this new position.

Canadians with a world wide asset value of less than \$1,200,000 will generally be exempt from US estate tax. For those Canadians owning US property, whose world wide assets exceed \$1,200,000, US estate tax may apply. The good news is there are still structures that can avoid the IRS such as non-recourse mortgages, limited partnerships, trusts and joint ownerships.

If you are contemplating a US property purchase please call us. ♦

Owner/managers of incorporated businesses know that they own the company, but at times may not be as familiar with some of the concepts regarding shares.

Under the *Canada Business Corporations Act* (CBCA) a corporation will have shares. The corporation is not required to have common shares, special shares or preferred shares, but rather it is only required to maintain shares. Most of the provinces' provincial legislation regarding share capital is very similar to the CBCA; however, there are differences. It is important to ensure that the corporation properly complies with the laws of the jurisdiction under which it is incorporated.

In many private companies, the owner/manager controls the corporation and may be the only shareholder. However, as the corporation is considered to be an entity unto itself, the shareholder must not treat the business as if all the assets were the assets of the shareholder.

Generally there are two types of shares issued from a corporation, common shares and preferred or special shares.



Taxation Convention Expenses

Many owner/managers, employees and self-employed individuals are now planning their attendance at conventions throughout 2005.

If you are planning to attend a convention this year, be sure to consider the tax implications of the costs in view of the applicable taxation rules. Some convention expenses are deductible in whole and some in part. Other expenses may be considered personal and not eligible to be deducted as business expenses.

Under the *Income Tax Act*, reasonable expenses incurred for an individual's attendance at professional or business conventions and conferences are tax deductible for corporate businesses, self-employed individuals and partnerships if attendance is for a business purpose. However, some restrictions apply for meals and entertainment and the additional costs of your spouse or partner accompanying you. Employees who attend a conference for business purposes may or may not have a tax liability for convention expenses covered by their employer, depending on the circumstances.

Convention Fees

While generally you may deduct convention fees and all travel and accommodation costs in their entirety, you may

Only deduct the costs of two conventions in any one year. A corporation is generally subject to the same two conventions per year in connection with its business but it may send more than one representative to each convention.

Common Shares

Where a corporation maintains only one class of shares, these shares must be entitled to vote at meetings of shareholders and must be entitled to the residual value of the corporation on liquidation. These shares are common shares. If there is more than one class of shares, it is possible to separate these attributes.

Common shares represent the residual capital in the assets and earnings of a business. Traditionally each common share has one vote. In most owner-managed businesses, the original common shares issued would have nominal value, say \$1 per share.

Common shareholders have the final say in the operations of a company. Normally a 51% majority is required to approve major events in a company, such as electing directors, liquidating the company or selling major assets.

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However, the CRA's administrative position is that the limit is applied to each business interest of the corporation. For example, the limit of two conventions for a large corporation would apply to its various business interests of personnel, accounting, production, etc.

For tax purposes, the conventions must:

- Relate to your business or professional activity; and
- Be held by a business or professional organization within the geographical limits of where the sponsor of the convention usually carries on business.

This second limit means that a convention sponsored by a Canadian business or professional organization must be held in Canada where the organization is national in character or in the particular province, municipality or area if the organization's activities are limited to such an area.

Expenses incurred attending a convention held outside the geographical limits of the Canadian organization will normally not be an allowable deduction. However, under the Canada-United States Tax Convention, expenses incurred by a Canadian resident or citizen attending a convention sponsored by a Canadian organization and held in the U.S. are treated as if the convention were held in Canada if the convention is held by a national organization. A provincial organization holding a convention in the U.S. would be outside of the territorial limits of the organization and the expenses therefore would not be deductible.

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Taxation Employee/Shareholder Loans

Employees and owner/managers often receive loans from their employers or companies or otherwise become indebted to them. While most times these loans can be very beneficial, other times they may inadvertently trigger adverse income tax consequences. To avoid tax surprises for your 2004 filing, make sure your loan is properly structured.

Employee Loans

If you receive a no-interest, low-interest or any other loan from the company that employs you, you are deemed to have received a taxable benefit for that year. The benefit is added to your taxable income based on the Canada Revenue Agency's (CRA) prescribed interest for the period the loan was outstanding, less any interest paid by you before 30 days after the end of the year, i.e., by January 30th of the following year.

If the company provides a home purchase loan or a home relocation loan, the amount of the benefit is the lesser of the prescribed interest rate for the current period and the prescribed interest rate at the time the loan was made. In this case, the loan is considered a new loan after five years. In addition, the benefit on the first \$25,000 of a home relocation loan is deductible in arriving at taxable income for up to five years if you moved at least 40 kilometres closer to your new work location and the loan was used to purchase a house.

Shareholder Loans

If you are also a shareholder of the company, you must consider the tax implications of the shareholder loan rules in the *Income Tax Act* in addition to the taxable benefit for low-interest loans discussed above.

The purpose of the shareholder loan rules is to prevent shareholders from continuously advancing funds to themselves in the form of loans with no intention of repaying them. If these rules were not in place, the loans would, in effect, be tax-free and a means to eliminate the shareholder's personal tax liability on salary or dividend payments.

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Taxation A Look Back Into History

The Income Tax System was *temporarily* enacted in 1917 as part of the War Measures Act. In 1917 there was no tax on incomes less than \$1500, the married exemption was \$2000, and the top marginal rate was 25% on incomes in excess of \$100,000.

In terms of today's dollars indexed from 1917, under the War Measures Act a single person earning less than \$25,980 would pay no tax.

This is an excerpt from an article in the Bottom Line wherein Jack Mintz, Chief Executive of the Howe Institute and professor of taxation at the Joseph L. Rotman School of Management in Toronto, referred to today's taxation system as a regime that is unfair, discriminatory, punitive, and counter productive. ♦

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