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THE Quarterly Dividend

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Your guide to income tax & financial planning

FAST TRACK

Business Advisors

The popular media often depict men as seemingly reluctant to ask for directions when travelling in a car along a secluded stretch of highway. They are pictured as wanting to overcome the problem of being "lost" on their own and not wanting to listen to the "advice" of others who would rather stop the car and ask for directions from the local residents as to how to get to the nearest town before spending more time and aggravation.

Although it may seem

In this Issue:

Lessons I've Learned

Much have I learned from my teachers and colleagues, but more have I learned from my clients than anyone else. Here are just a few of the lessons that I have gleaned along the way:

(a) there is always a tomorrow (part one). Businesses have their ups and downs with good years and not-so-good years. You can be on top of the world today with everything running smoothly. More than likely this will not last forever. You will inevitably hit some bump in the road and when that times comes you must be prepared to make adjustments;

(b) there is always a tomorrow (part two). Starting a business from the bottom up means that it may take some time before it "catches on" and you will be able to earn a living. There is a fine line between perseverance and stubbornness. It's great to have a dream, but there comes a time when you have to face reality. You have to know when it's time to "check your ego at the door", give up and go on to something else;

(c) a little bit of luck never hurts. You can call it luck or just good timing. Athletes will tell you that "you make your own breaks". To some extent this is true. If you can see the potential in an area and the it appears to be right for you, go ahead and give it a shot;

(d) what goes around comes around. It's nice to have a customer or client, but if you see that he treats his customers in a manner in which you do not approve, it will not be too long before he will be treating you in much the same way. Explain his shortcomings to him so that he might "improve". If he persists, get ready to head toward the door;

(e) the other man's grass is always greener. The old saw says "you should not judge a person until you have walked a mile in his shoes". Makes sense. Everyone has problems. You have yours, he has his. You'll never really know his situation, and maybe that's a good thing. Just be happy with what you have;

(f) some people are doers and others like to watch from the sidelines. For some people their jobs are an important as they provide a livelihood. They go to work, put in their time and go home. For others it is all-encompassing. It is the one area where they can make a difference. It's not a job but a career, a vocation, a calling. That's fine, but do not let it overtake your life and isolate you from everything else that is going on around you, particularly your family;

(g) no client stays forever (part one). Their needs change as their businesses go through varying stages of growth. They will require differing sets of skills as they reach one level and then move on to the next. You may be able to satisfy their needs today but not necessarily tomorrow. Accept the fact that they may outgrow you and move on to someone new who they perceive will suit them into the future. Knowing this is inevitable will make it easier to part company when that day arrives;

(h) no client stays forever (part two). Clients talk among themselves and one of their favourite topics of conversation is you. It is only natural that they compare notes about the services they receive, the advice they are offered and success they have encountered in dealing with you. The best way to grow your business is through word of mouth. If a client speaks highly of you and recommends you to their friends, that's great. But be sure his business associates are doing the same. Even

Compliments of

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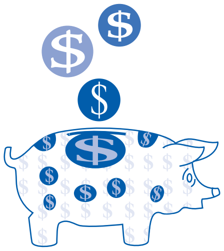


"romantic" when you tell your grandchildren how you grew your business on your own terms from scratch to its position of prominence today, there is overwhelming evidence that today's owner/manager will be better served if he recognizes the desirability of the formation of a group of advisors to whom he can turn to assist him in differing matters that arise from time to time.

The group of advisors should have varying backgrounds and as a minimum should include the entrepreneur's lawyer, accountant, and insurance agent. Others who may be consulted would include trusted business associates within the industry with whom he does not compete directly, the company's banker and any other independent voice whom the entrepreneur feels comfortable approaching with his concerns.

The group need not be formal and the existence of an informal relationship with its members will guarantee that each can be consulted quickly as situations come up.

There are four distinct advisor personalities: (a) those who consider strictly pragmatic issues. They are the people to whom you turn for "operating" issues that relate to the day-to-day problems of running your business. These include financing accounts

long-term customers can be swayed by what they hear;

(i) you must stay "current". Clients will notice if you are not up-to-date with the latest trends in your industry. Even when they are satisfied with your services, they are not immune to shopping around to see what others have to offer. This is particularly true when it comes to the latest in technology and the ways things are being done today. You must be "up to date" in all phases of your business. There is plenty of competition "out there" and if you are not current you run the risk of losing customers who perceive that you have fallen behind; and

(j) do not be afraid to say "I don't know the answer" . Rephrase it to say "I'll look into it and get back to you". You cannot be an expert on everything, no matter how long you have been in business or how many customers you may have. Clients can teach you a lot. They sometimes come up with new ways of looking at old situations and give them a different twist. Encourage them to feel free to approach you with ideas and questions. You can learn a lot from them.

You can provide the best service to your client or customer and believe in your own mind that you have met all the demands they say they want. But the choice is ultimately theirs whether they want to continue with you or move on. There will be times when they just will not see things "your way" and reject all that you have to offer. It is only natural to be disappointed. However, remember that it is their business and they have the right to do things their way and follow their chosen course of action even if it does not include you.

Transferring Credits between Family Members

One of the new provisions of the Income Tax Act that came into effect at the beginning of the 2012 taxation year was an enhanced "non-refundable tax credit" for taxpayers who claim dependents with mental or physical infirmities. The "extra" amount is $2000.

In family situations, members of the family unit who are related by "blood, marriage or adoption" may choose to have their personal amounts and/or other non-refundable tax credits to which they are entitled transferred to another member of the family under certain circumstances. This typically occurs when one member does not "need" his full entitlement and would lose a portion of it were the "excess" not allocated to someone else.

Family members are defined in the Act. Those related by "blood" include your father, mother, son, daughter, brother, sister, grandfather, grandmother, grandson, granddaughter and great-grandson and great-granddaughter.

Those related by "marriage" include family members in the above "categories" pertaining to your spouse or common-law partner, and those related by "adoption" include your adopted father, mother, son, daughter, brother or sister.

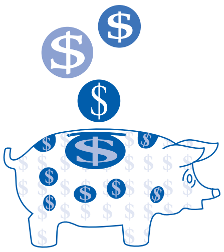
The Income Tax Act entitles each taxpayer in Canada to a certain amount of income before they are taxed. This is termed the "Basic Personal Amount" and allows any individual to have income up to approximately $10800 before they will be taxed at the Federal level. The provinces have varying thresholds of their own that vary from this $10800 figure. So in situations where one spouse cannot "use" his full amount, the unused portion can be transferred to his spouse on a dollar for dollar basis.

Claims for children, under 18 years of age, are set at a specific amount and are adjusted only if the child suffers from a mental or physical disability. Claims will not be adjusted even if the child has income in his own right.

Claims for parents and grandparents are termed "Caregiver Amounts". The conditions that pertain to this credit parallel those for dependent children but are adjusted to reflect their incomes for the year.

The Act is generous in allowing the transfer of Non-refundable tax credits between spouses. Eligible credits include those pertaining to age, the receipt of pension income, certain tuition tax credits and the disability amount to name a few. It only allows the transfer of the disability amount and certain tuition tax credits to other family members.

Sometimes a situation occurs where a taxpayer has a family member from whom he may be eligible to claim more than one transfer of credits. In these



receivable, situations that develop with employees or acquisition of capital assets; (b) those to whom you can turn for "strategic" issues that are more long-term and focus on corporate viability today and tomorrow. These include possible plans for expansion or downsizing or changes in corporate ownership or structure or preparing an "exit strategy"; (c) advisors who are "book smart" and possess all the necessary technical knowledge with which to approach a problem; and (d) those are able to go beyond the facts of the situation at hand and put themselves in the shoes of the one seeking advice and internalize what is really going on. They provide a different kind of advice. One that is not so much concerned with the nuts and bolts as with the overall picture, as it stands now and how it might look in the future. They seem to focus more on the individual who is seeking the advice as a "person" not as someone with whom they can relate because they took a similar "case study" in school many years ago. They appear to really want to help and perhaps will be there for the long haul.

Which advisor personality is right for you? The answer will vary upon the need of the one seeking advice at that particular moment and the formation of a group of advisors will allow you to benefit from access to the four different personalities. There are

cases the Income Tax Act will allow the taxpayer claiming the dependent the maximum amount he would be allowed under either of the two provisions his dependent may fall. But to do so, it is will be necessary to know the dependent's income before being able to make your choice.

As an example, suppose Betty has a parent, dependent upon her due to infirmity, living with her in her home during the year. The mother has an income of $7300. There are no other family members making a claim for the dependency of the mother and Betty has no other dependents of her own.

The Act would entitle Mary to claim a non-refundable tax credit for her mother under two provisions.

(a) Mary's mother is entitled to a basic claim of approximately $10800 and she has income of her own of $7300. So Mary should expect to claim at least $3500 for her support ($10800 – 7300). This is the "eligible dependent amount", but because Mary's mother is infirm, the claim would be "enhanced" to $5500.

(b) Alternatively, since Mary may claim for her mother as her "caregiver", Mary's non-refundable tax credit should be $4402. With the $2000 enhancement it jumps to $6402.

The Act recognizes that Mary should be allowed the higher of the two amounts. It therefore allows her to claim the $5500 above on one line of the return and an additional "top up" of $902 on another to reach the full $6402.

Finally, Mary is also allowed to transfer her mother's "disability amount" that she cannot use on her own as her income is relatively modest. This is an additional $7546 that Mary can claim on her income tax return.

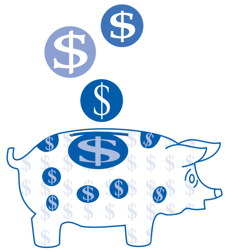
Mortgage Insurance

It has been said that your home is your largest asset. But it's not really yours until it has been paid for in full. We all look forward to the time when we will be "mortgage free" but sometimes things happen and it outlives you. To protect yourself and your family it is wise to purchase insurance "just in case". There are two types of insurance on the market. They are outlined and compared below:

MORTGAGE INSURANCE	INDIVIDUAL LIFE INSURANCE
(a) the bank or trust company is always the beneficiary	(a) you choose the beneficiary, usually a family member
(b) if a claim is necessary, the proceeds will satisfy the bank or trust company and no one else	(b) if a claim is necessary, the entire proceeds become available to the beneficiary to use as he chooses
(c) premiums are based on the philosophy that everyone who qualifies is considered to be an equal risk. You purchase sufficient insurance to cover your existing mortgage	(c) premiums are based upon your age and the amount of insurance you choose to purchase. There is no requirement to buy dollar for dollar to cover the mortgage
(d) your mortgage reduces over time but your premiums stay constant to re-qualify for new coverage	(d) your premiums are "fixed" but overage will not decrease unless you decide to change it.
(e) if you switch mortgage lenders you may be "asked" to re-qualify for new coverage	(e) your insurance coverage remains in place no matter which mortgage company you choose
(f) you lose all coverage if you default on the mortage	(f) as long as you pay your premiums you will maintain coverage even if you default on the mortgage

Mortgage insurance is a term life policy designed to cover your mortgage if you pass away before it has been paid off in full.

Individual life insurance allows more flexibility as it is not being purchased with one purpose in mind. To that extent it may be more preferable.



significant differences between advisors and the one with the appropriate skill set today may not be "right" tomorrow. In addition, some are good at ideas while others have expertise in planning and co-ordinating. There are others who specialize in analyzing the situation after the fact and telling you whether you succeeded in achieving what you set out in the first place.

You need advisors who possess a variety of attributes. Those who can see current reality and not necessarily accept that this is the way it has to be. They can see the big picture while not getting lost in the day-to-day.

In the end, after all the consultation, the ultimate decision is up to you. Choose individuals you trust who have differing personalities and strengths. And be sure to select those with whom you can work closely, for the future of your business may hang in the balance.

Thanks for Your Referrals

We very much appreciate your referrals. If you know of someone who can benefit from the services we provide or who would like to receive our publication, please let us know. We will send them a copy with your compliments.

How Do You Calculate HST?

Did you know there are two ways of calculating the 13% HST component of any item that you purchase?

This is important in determining the "input tax credit" that is applied against the HST collected to figure how much is required to be remitted to the Canada Revenue Agency on either a monthly, quarterly or annual basis for all businesses throughout the country.

There are two methods of calculating the amount of tax contained in each purchase. The first calculates the "true price of the item" and from there you work backwards to figure out the tax. The second calculates the correct tax imbedded in the amount being paid and from there you work backwards to figure out the true cost of the good or service.

It only makes sense that most of us use the first method because we are interested in the cost of the item "before tax". The CRA is typically only interested in tax collection and so they focus almost exclusively on the second method and this is the way they show the calculation in their literature.

Don't worry, in the final analysis they both yield the same results.

Example: If an item costs $100, how much HST is imbedded within the purchase price. First method: Just take the $100 purchase price and divide by 1.13 to reflect the amount the cost has been marked up. From there, the tax can be determined by working backwards.

Selling price of item: $100 Divide by 1.13

True cost of item is $100/1.13 or $88.50. The HST is determined by subtracting this figure from $100 to arrive at $11.50.

This can be verified by taking $88.50 and multiplying by 1.13. You will arrive at $100 if you do the math.

Canada Revenue Agency method:

Selling price of item: $100 Multiply by 13/113

The HST is determined in two steps:
(1) $100x 13= $1300 (2) $1300/113= $11.50

HST is calculated as $11.50. The cost "before tax" is determined by subtracting this figure from $100 to arrive at $88.50.

Which is easier? It depends on what you are used to. If you are interested in the cost of the good or service the first method makes sense. If you are interested in the tax component then use the CRA method. Just remember that they yield the same results either way.

Cartoon reprinted from the Globe and Mail