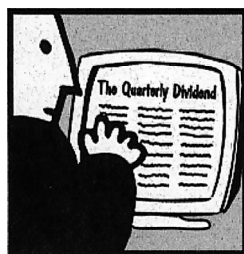


# THE Quarterly Dividend

Vol. 29 No. 4

Your guide to income tax &amp; financial planning

## FAST TRACK



### RRSP Pension Adjustments

The amount you can contribute to your 2021 Registered Retirement Savings Plan for the 2020 taxation year will be governed by how much "contribution room" you have available. This is determined by four factors: (a) have you put in the maximum amount allowable each year in the past so that there is no carry-forward room to which you

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## Context and Content

To really understand any business you need a "handle" on the commercial environment in which it operates and a grasp of its ongoing transactions over time.

The former is called the business "context" while the latter is its business "content".

Investors and bankers know that "you can't have one without the other", and enter into business relationships with their eyes open. CRA auditors, on the other hand, concentrate exclusively on business transactions. If there is no supporting documentation, the transaction must never have occurred. Its impact on any subsequent transactions is thereby ignored and its impact on future events discounted.

That is part of what makes "dealing" with the CRA and its auditors so challenging (and frustrating).

Consider the following scenario:

### Part One - A Description of Jack's Business (Context)

Jack is in the business of repairing and maintaining electrical appliances, typically stoves and refrigerators located in apartment buildings in Toronto.

He is contracted by the owners of these buildings to attend to tenants' problems that they are experiencing with their appliances. The normal sequence of events is: (a) the tenant reports a problem with an electrical appliance to his building super; (b) the super contacts Jack to attend to the tenant's

unit to assess the problem; (c) once Jack has identified the problem and comes up with a suggested solution, he reports his findings to the super and obtains approval to do the repair; (d) if Jack has the necessary parts in his truck or in the building's electrical room he has rented for "storage", he solves the tenant's problem on the spot; (e) if he does not have the necessary parts, he must source them from his "supplier".

The electrical appliances in the tenants' apartments are of various ages, makes and models. Each appliance requires specialized parts that only "fit" in that particular appliance. And Jack cannot possibly have all the necessary parts for each potential job "on hand".

To secure the parts he needs, Jack works with "scrap appliance collectors" located at the entrances to many scrap metal yards. These individuals have trucks carrying various used stoves and refrigerators that they sell to the scrap yards based upon their weight.

However, they can make additional money by selling individual parts from the appliances they are about to scrap. It is not uncommon for repairmen to mount the collectors' trucks and physically remove the specialized parts they require. After that, the collectors can still sell the "rest" of the appliance at the going rate per kilogram.

(f) after procuring the necessary parts, Jack returns to the tenant's apartment to complete the repair; and (g) renders his invoice

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can avail yourself; (b) 18% of 2019's "earned income" likely included on your 2019 Notice of Assessment but limited to a dollar amount of \$26500; and (c) any "pension adjustment that will apply to you specifically.

The Pension Adjustment represents the value of pension benefits that have accrued to you as an employee of the company at which you work. Consequently, if you are contributing to your company's Registered Pension Plan, the CRA wants to put you on an equal footing with other taxpayers who do not belong to private pension plans.

The way they do this is by reducing the amount you can contribute to your RRSP by a calculation known as the Pension Adjustment. The rules are set out by the CRA and determined on an employee by employee basis by your Pension Plan administrator just in time to be included on your annual T4 slip.

The minimum pension adjustment is \$600 but depending on the number of years you have belonged to your plan and the basis on which your pension plan

(including HST) to the super to await payment.

## Part Two - Jack's Business Model (Content)

The success of the business depends upon doing many small jobs. Jack can charge only "so much" per "visit". He must "get in, do the work, and get out" as quickly as possible. And then on to the next job.

This means finding an on-going supply of customers who need his services.

He could find repair jobs on his own, one by one. do the work and invoice the customer for work performed all the while procuring parts from electrical parts wholesalers who provide receipts for the items they provide.

The work will come in, but it will take time to build up a client base. It is also risky.

You might call this way of doing business as "by the book".

Alternatively, Jack might choose a more "practical" way of doing business. It will not provide the documentation that businesses need when approached by the CRA to "show receipts" but if an auditor can be made to understand the context of his operations, then he should be "all right".

Jack understands that he cannot and will not receive receipts for many of the costs he incurs. He is unable to get a "receipt" from the super whom he "tips" to encourage his being hired to do the tenants' repairs. It is an unspoken rule that should he ask for one, the super will surely find another repairman who is willing to work with "no questions asked".

He feels it is better to establish an ongoing business relationship with supers of several buildings who immediately think of him when a tenant calls needing an appliance repair. If the buildings are large enough (and he doesn't need more than just a few) the work will be steady.

He will at least invoice for the work he does.

The storage "rental" is also on a cash basis. But if the more common parts can be stored in an area that is conveniently located "downstairs", it is much better than renting a locker somewhere and having to go fetch the required part every time it is needed. Jack does not know what specific part he will need until he gets to the job, so he cannot go to the locker in advance of going to the tenant's apartment. And making several trips back and forth to the locker takes time for which he cannot always bill.

Ditto the scrap appliance collectors. They are unwilling to supply "proof" of payment for the parts they provide. If Jack wants a particular part he must play by the collector's rules which means "cash only".

Dealing with these suppliers allows Jack to quickly source the exact parts he needs. He has a good idea of the part's availability before attending the scrap yard and how much the part is likely to cost. If it is unavailable, he can still order it from a wholesaler for pick-up or delivery in a day or two.

## Part Three - Summary

Every business has its context. It sets it apart from other companies, even in the same industry. Successful owner/managers instinctively know how to navigate within it.

Business content flows "out of the context" and must be treated as if unique to the enterprise itself. Successful owner/managers cannot navigate it instinctively. They must learn the ropes themselves or hire someone to look after it for them.

When the owner/manager pays at least as much attention to the company's content as he does its context, he will have a recipe for success. When he does not, success might still be achieved but will take longer and likely come at a higher cost.





contributions are calculated, the amount of the PA can be very much larger. In some cases it is even higher than the employee's 18% limit referred to in (b) above.

From time to time pension plan administrators review their calculations, particularly when changes to the plan's "definitions" and "policies" change. When this happens it is common for plan members to be issued pension plan adjustments that go either way. Sometimes they will be like the annual pension adjustment and bite into future RRSP contributions, but at other times they will be "pension adjustment reversals" that go the other way and permit an increase in contribution room and afford you the opportunity to put more money away for retirement.

Sometimes (and more often than you would think), plan administrators "change" your contribution room to be less than what you had been previously informed by CRA to be available. This results in your having put more money into your RRSP than you were permitted. This "overcontribution" can sometimes (and more often than you would think) result

## Whistleblowing

Earlier this year, at the height of the COVID-19 pandemic, the Federal Government provided financial relief to individuals and businesses facing hardship. The CERB (Canada Emergency Response Benefit) was set up to support employed and self-employed Canadians directly affected by the virus. The Canada Emergency Student Benefit (CESB) was initiated to assist high school and post-secondary students and recent graduates who were unable to find work. And the Canada Emergency Wage Subsidy (CEWS) encouraged employers to keep their workforce in place and reduce layoffs.

To administer these programs, the government initiated various pre-payment verifications and post-payment reviews intended to assure that only those who qualified for assistance received benefits.

They also let it be known that the "National Leads Centre" would accept "tips" from Canadians willing to tell them about neighbours and associates whom they believed were unduly "taking advantage" of the government's largesse in these uncertain times.

Whistleblowing is the term that is used when an individual or group discloses acts of significant wrongdoing to the "authorities" or to the public. The wrongdoing may relate to the violation of the law, unethical activities, health and safety violations or other matters that pose a risk or danger to public health, safety or interests, whether intentional or not. Whistleblowing means reporting concerns to people or entities who are believed to be in a position to take action. They are different from mere "complaints" and cannot be about personal matters no matter how legitimate they may appear to be.

In the context of our income tax regime the CRA is interested in many types of cheating. These include taxpayers: (a) not

declaring all of their sources of income; (b) creating false or deceptive records; (c) accepting "cash" transactions; (d) not filing tax returns when required; and (e) setting up a "shell company" to claim losses and deductions.

And they have set up a system whereby individuals can "report" such perceived activities directly to the Agency for investigation. The informant is assured of complete anonymity and the information provided is kept confidential. In fact, once the process is initiated, the informant is no longer privy to what resulted from his contact with the government.

Leads that provide as much detail as possible allow the Agency to determine who the suspected cheater might be and how he may have been scamming the system over time.

Leads lacking concrete information run the risk of not being taken seriously as investigators will not have enough information to "go on".

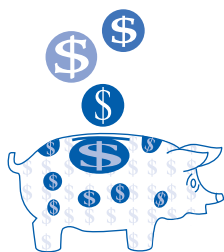
For its part, the Agency will attempt to verify the identity of the suspected cheater, review the lead to determine if it has substance, and take appropriate legal action where warranted.

There is no compensation to the informant for domestic whistleblowing. However if the informant is privy to "international tax non-compliance", he may qualify for a taxable "finder's fee" of up to fifteen percent of the money recovered (not including interest and penalties) if it exceeds \$100,000.

Canadians want every taxpayer to pay "his fair share" of tax. Those who cheat undermine the integrity of the system and make it more difficult for law-abiding citizens to "cover" the services we have come to expect from our government.

It is never the time to turn a "blind eye" to cheaters who you may come across in your





in "negative contribution room" which means that you cannot make future RRSP contributions until you return to "positive contribution room".

It also means that you will be subject to a penalty tax of 1% per month on the amount that your "negative" room exceeds \$2000. It then becomes important to take out the overcontribution from your plan. This can be done by filing a form with the CRA telling them that you are aware of the overcontribution and that you would like to make a "tax free" withdrawal from your plan. Once the CRA "agrees", they sign back the form so that when your RRSP funds are returned to you they will not be taxed on your personal income tax return in the year that these transactions have taken place.

#### 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.*

daily routine. They deserve to be at least admonished privately for the illegal acts they are committing and given the opportunity to change their ways. But threatening to "tattle tell" may get you into more "hot water" than you have bargained for. At a minimum, you should not patronize their illegal activities. You may not want to "get involved" any more than that. But if you choose to do so, at least it can be done without the cheater knowing who it was

who "blew the whistle" on his activities.

Any taxpayer, once reminded of the illegality of the ways he has been carrying on business should be reminded of the "voluntary disclosure" provisions of the Income Tax Act that will allow him to "come clean" in private without anyone else coming to know about it. But it must be done before the CRA commences any investigation into his "case".



## Can You Speak Like a Fortune 500 CEO?

There is no doubt that the effects of the COVID-19 virus on the world's economy have been disastrous. Business after business has reported second quarter "earnings" frightfully lower than those recorded in the same period one year ago.

However, almost to a fault, you can hear the CEO's of these companies parroting the same mantra over and over again.

Bell Canada, for example, saw its profit drop 70% in Q2 from what they experienced in 2019. The effect of the pandemic on economic activity and customer demand paralleled other companies in the telecom industry and so many others.

However, to hear its CEO, Mirko Bibic describe the situation, you might wonder what he is talking about (in plain English)? He told analysts: (a) even though the company experienced such a large drop in income, Bell has generated "substantial cash flow with no near-term debt payments" thereby allowing it to maintain its dividend and capital spending; (b) do not expect Bell to return to pre-COVID operating perform-

ance in the near term, but the next quarter should show a "marked improvement"; (c) he has confidence in Bell's "underlying long-term fundamentals"; (d) the company, even in these tough times, has made "meaningful progress in the advancement of its strategic priorities" so as to "generate continuing operating momentum in the near-term" and to ultimately "emerge from the crisis in an even stronger competitive position".

When interpreted, he is telling us that although Bell took a "hit" in the last quarter, shareholders will continue to receive their quarterly dividend(s) just as they always have, and under his stewardship, can expect this to be the case well into the future.

He could have said exactly the same thing, showing confidence for the future and leadership in times of crisis, in words that all of us understand. By using a vocabulary that only analysts can decipher, he gives the impression that captains of industry live in a world where the rest of us would definitely feel out of place.



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