

FAST TRACK



Family Feud

When outlining some of the significant provisions of Budget 2019 at the beginning of this issue it was noted that the government is re-considering bringing back the favourable income tax treatment of "intergenerational transfers of shares".

Of course they are referring to probably allowing some sort of income tax deferral on the capital gains that would arise when a father sells the shares in his busi-

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We live in a world of numbers from those that appear on Highway signs to "push button" numbers on an elevator panel and everything in between.

As accountants, numbers are our lives and we treat them seriously. In the preparation of financial statements and income tax returns we strive for them to be as accurate as possible because of what they represent. They are not just numerical digits but tell a story to those who read them.

So, how important are numbers? Let me tell you!!

At the very beginning of his career, Walter Cronkite, the "most trusted man in America" and broadcast journalist for CBS in the United States during the 1960's and 70's, worked as a newspaper editor. He was responsible (among other things) for two lines that appeared daily on the front page of each issue. Entitled "bank clearings", the figure reported in dollar value, the total of all bank transactions from the previous day.

One day, the reported amount was recorded as \$3726359.27 when it should have read as \$3726359.17 (a difference of ten cents in \$ three billion plus worth of transactions).

How Important Are Numbers?

When this error was discovered, the managers of the newspapers were distraught. Cronkite himself acknowledged the mistake but could not fathom how such a small error could get him into so much trouble. Maybe he was not cut out for this kind of work.

His co-workers understood the severity of the problem and suggested (only partially in jest) that Cronkite arrange for body-guards to accompany him on his way home.

You see, the magnitude of the bank clearings each day was not really of any great importance to most people... except for those who depended on the last five digits to run a "numbers racket". These individuals had to "pay off" based on the wrong number and "the mob don't like paying off on a bad number"!!

For the next few weeks, Cronkite lived in fear of his seemingly insignificant ten cent error.

From this we learn that numbers no matter how irrelevant they may seem are never meaningless.



Budget 2019

(A) THOSE UNDERTAKING JOB RETRAINING

Budget 2019 introduces a Canada Training Credit whereby students between the ages of twenty-five and sixty-five enrolled in qualifying educational institutions will be allowed a refundable tax

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ness to his son/daughter or grandchild.

Taking this one step further, it brings up one of the most heart-breaking business stories of the past few years. This is the "family feud" between Frank Stronach, the rags to riches founder of auto parts manufacturer, Magna International Inc. and his daughter Belinda Stronach.

Facts: (a) Frank started Magna from his garage in 1957 and built it into a worldwide corporation; (b) Frank sold his shares in the company for more than \$850 million in 2010; (c) in 2011 Frank and Belinda started The Stronach Group (TSG); (d) the company's business was investing in horse racing parks and the breeding of horses, entertainment and pari-mutual betting technology; (e) Frank always considered himself to be a "family man" and accordingly he set up the "447 Trust" for Belinda and her two children, Belinda's brother Andrew and his daughter, and Frank's wife and mother of his children, Elfriede, with himself as the "super trustee"; (f) in

credit equal to fifty percent of eligible tuition and associated fees paid in the year up to \$250 per year and \$5000 "lifetime".

To qualify, the student must have a minimum income of \$10000 in the year of the claim and further his education in Canada. Educational institutions outside the country will not qualify.

(B) FIRST-TIME HOME BUYERS

Home Buyers Plans have been around for awhile whereby individuals are permitted to withdraw funds from their RRSP's on a tax-free basis to purchase their first homes. Such funds must be repaid within a specified period of time, usually fifteen years. The amounts available for withdrawal have changed over the years and Budget 2019 proposes to increase the amount to \$35000, effective immediately.

Another Budget provision will allow individuals who experience breakdowns in their marriages or common-law partnerships to enrol in a HBP when they might not have previously qualified.

(C) RETIREES

Under current legislation funds held in a Registered Retirement Savings Plan must be transferred out in the year when the plan holder turns seventy-one years of age into another investment vehicle from which he will draw annual taxable payments. The most common transfers are to Registered Retirement Income Funds or Life Annuities which until now were set up using the full amount that had been accumulated in the RRSP.

For example, if a taxpayer has saved \$600000 in his RRSP through December 31 of the year he becomes seventy-one years of age, he would most likely re-invest these funds into a RRIF and be "forced" to withdraw at least a specified "minimum amount" each year calculated with reference to the \$600000 he had saved up.

Budget 2019 proposes a refinement to the Life Annuities option whereby up to twenty-five percent of the funds in the plan, to a dollar limit of \$150000, can be "set aside" until the holder becomes eighty five years old. These will be known as "advanced life

deferred annuities" or ALDA's.

This will allow our taxpayer, in the above example, to set aside \$150000 of his RRSP and purchase an ALDA. His specified minimum annual withdrawals will be based on \$450000 and not \$600000 until he reaches the age of 85. The \$150000 will continue to grow on a "tax free" basis and the lesser withdrawals will allow for the amount in his RRIF to remain "in tact" longer.

(D) KINSHIP CARE PROVIDERS

Certain provinces and territories subsidize individuals who take care of related children who require temporary out-of-home care as an alternative to foster care. These are termed "kinship care" programs. Budget 2019 proposes to allow these payments to be non-taxable, retroactive to January 2009.

(E) INTERGENERATIONAL BUSINESS TRANSFERS

Many years ago the government of the day scrapped the income tax deferral on capital gains that arise when a business owner transfers shares of his company to a child or grand-child. Farmers and fishers were never affected by this change.

Budget 2019 proposes to re-visit this provision and consult business groups on how it might be implemented in the future. The government wants to "protect the integrity and fairness" of the tax system.

(F) TAX FREE SAVINGS ACCOUNTS

The Canada Revenue Agency, in its continuing monitoring of TFSA's, has been vigilant in making sure that they hold only "qualified investments" in their portfolio. Failure to follow the rules has meant that the financial institutions where the accounts were being held were responsible for any abuses that might be taking place. Budget 2019 recognizes that the TFSA holder is more than likely the best person to know "what's going on". From now on, both the individual and the financial institution will be responsible for monitoring the accounts. So be sure to expect your financial institution to request "tax



2013 Frank resigned his position with the trust in favour of Belinda when he decided to return to his native Austria and run for election in their parliament; (g) Frank appointed Belinda to be the President of TSG as well as Trustee of the 447 Trust; (h) in his mind, Frank and Belinda had an "understanding" that Frank would be able to come back to the Trust and TSG whenever he wished and Belinda would relinquish her "temporary" role; (i) Frank resigned from the Austrian parliament in 2014 and returned to Canada; (j) upon his return Belinda was unwilling to give up either of her positions and has effectively banished her father from the company he founded and the "family trust" that he created.

He said: I groomed my daughter to take over the family business and arranged with her to take care of things for a short time while I was away in Austria. She was to relinquish control when I returned and she did not.

She said: My father effectively left me in charge with the family business when

"clearances" whenever your account is being wound up or large withdrawals are contemplated. This means that access to your money will still be available, but it will take longer to realize it. Also, as anticipated in a previous issue, the government will no longer permit the operation of a business through a TSIA. This is aimed at "day-traders" who have been using their accounts to realize gains and losses.

(G) DISABILITY SAVINGS PLANS

Currently, contributors to DSP's must be eligible for the Disability Tax Credit to be able to participate in the plan and take advantage of government grants or bonds that supplement personal contributions. If the taxpayer becomes ineligible for the DTC, he has one year to collapse the plan.

Budget 2019 proposes to allow taxpayers who no longer qualify for the DTC to keep their DSP's open without any time limitation.

(H) SUPPORT FOR CANADIAN JOURNALISM

Here's something different!! Budget 2019 proposes a \$500 non-refundable credit for

individual taxpayers who sign up for "eligible digital news subscriptions" through 2025. The provider must be a Canadian "qualifying journalism organization producing original news", such news to be of "general interest and reports of current affairs events but not primarily focused on a particular topic (eg. industry-specific news, sports, recreation, arts, lifestyle or institutions)".

(I) ZERO-EMISSION VEHICLES

In anticipation of the October Federal election and the government's campaign promises about the environment, Budget 2019 proposes that businesses purchasing zero-emission vehicles will be allowed a one-hundred percent "write off" in the year of purchase through the end of 2023.

(J) ADMINISTRATIVE MATTERS

To "improve tax compliance" and "combat tax evasion and aggressive tax avoidance" Budget 2019 pledges the government to hire additional auditors!! Only those individuals with "technical expertise who understand the ongoing changes to our digital economy" need apply.



Cyber Security

If you are like most owner/managed companies today, the internet is an indispensable tool for success in today's digital economy. Going online allows you to communicate with current customers and reach out to new ones to grow your business. Being online requires being safe and secure. You owe it to your customers, suppliers and employees. But most of all you owe it to yourself. The cost in terms of both time and money can result in destroying in a few minutes all that you have created and worked to build up over many years.

Cyber security is about protecting your information, which is often the most valuable asset a business will own. It has three fundamental goals: (a) confidentiality - any important data you have should only be accessible to people or by systems to whom you have given permission; (b) integrity - the assets themselves and information they con-

tain must continue to be complete, intact and uncorrupted; and (c) availability - all systems, services and information must be accessible when required by the business or its clients.

To achieve and maintain these goals, good cyber security requires (i) determining those assets that are so important to the business that they need to be kept secure at all times; (ii) identifying the threats and risks that could affect those assets; (iii) identifying the safeguards that should be put into place to deal with these threats and risks; (iv) monitoring the safeguards and assets to manage security breaches; (v) responding to cyber security issues as they occur; and (vi) updating and adjusting safeguards in response to changes in assets, threats and risks.

How do you determine which are your most important assets when they are all called upon in the course of a day or a week to



he went off to Europe. He did not tell the family for how long he was going to be away and so I made some changes to the company that I thought would benefit everyone for the future. Now he wants to come back and put aside all of the improvements I made while he was gone.

What lies ahead: Cooler heads will prevail and the two sides will work out a compromise. Parent/child relationships run deep (and father/daughter relationships probably deepest of all) and this is no exception. Just as long as each party tones down the rhetoric and refrains from arguing with each other in the press, the lawyers will work out a way for both parties to save face and the whole dispute can be put to rest.

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perform functions upon which you depend? Every business will answer this question in their own way, but any analysis must include those assets without which the business could not operate if they are down for any extended period of time.

The term "threat" refers to any potential danger to the business, its assets or employees. Some of these threats can come via nature. A fire or flood are typical examples. But threats can also originate from individuals inside or outside the corporate organization. In fact, human threats are probably becoming more common and require a lot of attention to stay ahead of.

Safeguards are anything you can use to counter threats and reduce risk. They can be either software or hardware but most importantly they are management policies and specific procedures for everyone in the organization to follow, including clients.

A big part of cyber security involves being alert to things that seem to be "out of the ordinary". Employees must always feel that they can report security concerns, observations or questions to someone in authority who will listen to what they have to say, document what has occurred and take appropriate action.



Reading Behind the Numbers

Readers of financial statements should always be wary about the results of reported transactions in the information that is presented to them. It's not that the company and its accountants are not trustworthy people, it's just the realization that every financial statement conveys a message to the reader that paints a picture in a particular way. If the inventory figure is relatively "high" there is a good chance that the reported income will be high. The same goes for accounts receivable.

The opposite effect is found with accounts payable. If they are "high" it is a good bet that income will have dropped from the previous year and may be "understated".

What is not so obvious are transactions reported in the financials between (a) the company and its shareholders or (b) this corporation and other companies that may be influenced by the owners of the company at hand.

At first glance, a corporation is simply a name or a number. It is not readily apparent who the individual shareholders might be. So when two or more corporations transact, it is important to learn the identities of the "players" behind the individual

corporate veils and determine if there are any direct relationships between them.

In accounting parlance these are called "related party transactions" and readers of financial statements must be made aware of their existence and how they might affect the reported operations of the company. If the revenues shown on the income statement are \$1000000 and eighty percent of them originate from one source who just happens to be controlled by the shareholder of the "selling" company, it is valuable information you might want to know if you are contemplating doing business with them.

If you are a "third party" customer, will this company fill your orders quickly or will you have to wait while the other company gets priority?

If you are a "third party" supplier, will this company pay your invoices quickly or will you have to wait while the other company gets priority?

Take time to look behind the numbers and try to discover exactly what is going on. Figure out the story they are telling and ask questions while you follow your hunches. Do not take anything at "face value".



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