

THE Quarterly Dividend

Vol. 24 No. 1 Your guide to income tax & financial planning

FAST TRACK



Foreign Exchange Basics

Every morning on the 8:00 news the radio announcer says something like the following: "the Canadian dollar is trading at 88.56 cents US ". What is she telling us and how will it effect our lives?

The answer is that on that particular day the Canadian dollar was "worth" roughly 7/8 of the Ameri-

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Notices of Assessment (NOA's)

It's tax time once again and all Canadian taxpayers are required by law to file an income tax return with the Department of Finance. A few weeks after doing so they will receive a Notice of Assessment indicating their concurrence or disagreement with the return as originally filed. Here is what to expect when you receive your NOA:

(a) certain housekeeping information including your name, social insurance number, the taxation year related to the NOA, the taxation office that issued it and the date it came out. All of these are important, of course, but the dating is particularly so as it is when the clock starts ticking as to the time period for which an objection can be sought. You have ninety days from this date to initiate the appeal process on any aspect of this assessment;

(b) warning that this NOA is not necessarily the last word on your taxes for the year: The Agency reserves the right to "verify reported income and/or deductions claimed" at some unspecified later date. The time frame allowed for this audit is six years but typically they do not go back more than two or three years unless they suspect "problems";

(c) explanation of changes: Usually the Agency accepts the return as filed by the taxpayer. However sometimes they advise of certain changes they have made to the information that was originally provided to them. This can be favourable or unfavourable!! This is the most important part of the NOA as it indicates if they have unilaterally adjusted the return for any reason and why. These changes may go on for a couple of pages. They will form the basis of any appeal should one be warranted;

(d) sections containing specific information applicable to you alone: (i) the amount you will be allowed to contribute to a RRSP in the next taxation year, (ii) any RRSP overcontributions that can be applied to the following year, (iii) where you "stand" regarding the repayment of any Home Buyers' Plan or Lifetime Learning Plan balances, and (iv) any balances of net capital losses or tuition credits that are available for future taxation years;

(e) a reminder about certain administrative issues including online access to your CRA account, a telephone number for any enquiries and the Tax Free Savings Account;

(f) a quick summary of the assessed income tax return. Note that although these captions appear to have "everyday" connotations, they have specific meanings according to the Income Tax Act. So terms such as total, net, and taxable income are as they are determined per the Act. Similarly federal and provincial "non-refundable" credits and the final calculation of income tax payable are determined by statute;

(g) finally a reconciliation between how much the Agency has determined you owe and the amounts you have paid is presented. The amount owing is as per the above. The amounts you have paid may have been through employment or other withholdings or instalments paid throughout the year. In addition, any Canada Pension Plan or Employment Income overcontributions will be applied against your outstanding income tax balance. The resulting number will reflect whether you owe them or they owe you.



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can dollar and while that may be important for those in the import/export trade, how does it effect the regular guy listening to the radio?

Economists will tell you that the value of the Canadian dollar affects the prices of the goods you buy at your local stores. If the dollar is "low" the prices of all imported goods become relatively "high" and you can expect to pay more for those items that have been manufactured abroad.

The reverse is also true so when the dollar is high, imports become that much cheaper to bring into the country.

It also comes into play in two other situations. The first is when you are holding Canadian dollars (such as in your personal bank account) and you are contemplating travelling abroad. You have to figure out how many Canadian dollars you will need to buy your desired amount of foreign currency.

For example, if the Canadian dollar is trading

Arbitrary Assessments

Here is a common situation:

Judy is a commission salesperson responsible for collecting HST on her business revenues and filing an HST return by June 15 of the following year.

Life is hectic for Judy and she forgets to file the return on time.

By July, the Canada Revenue Agency begins to wonder where Judy's return might be and sends her a letter to remind her to file. She complies and sends in the form via Canada Post.

By August, the now submitted return is in the hands of the CRA but has yet to be processed. As far as they are concerned, it is still outstanding because it has not entered the "system" as yet.

The Agency then decides to send out a Notice of Assessment on their own initiative. They inform Judy what they feel she owes them based upon some estimated amount that they have conjured up. This is termed an Arbitrary Assessment, usually demanding an amount greatly in excess of the amount that Judy would ever be likely to owe, but sent to get her attention and "encourage" her to remit the outstanding return.

In this case, Judy has nothing to worry about, as she has previously responded to the first reminder letter she received in July. But had she not, this "wake--up call" would not be wise to ignore as it will persist as a growing receivable

in the eyes of the CRA until the return is filed with the correct amounts to be assessed. Only then will it be removed from the system and the taxpayer will have complied with her responsibilities.

This story has two morals: (a) with the increasing ease of electronic filing, Judy should send her HST return (on time, if possible) via the internet. This allows "instantaneous" receipt of the return by the CRA and eliminates the sending of the Arbitrary Assessment. If Judy owes a balance to the government, she can pay the amount due at the bank; and (b) the CRA is not above "shooting first and asking questions later". The whole Arbitrary Assessment routine is time consuming and unnecessary. By issuing the Assessment in the first place, it creates a fictitious receivable on the books of the Agency. They likely know that the amount "assessed" is greatly inflated but they will continue to send out "past due" notices demanding payment of this amount until the taxpayer finally sends in the late return. A better way would be to continue to send reminder notices similar to the one sent in July. Taxpayers are typically responsible individuals, but oversights occur from time to time. The CRA does not need to "hit them over the head" when they honestly forget to file a form on time. It is "overkill" and they can achieve the results they want by treating taxpayers with respect and not with contempt.



Penalty Tax on RRSP Overcontributions

RRSP overcontribution rules apply when contributors put more money into their plans than they are allowed. It arises when your undeducted contributions at the end of a month exceed the amounts you are carrying forward from prior years plus your current year's contribution limit. Since the latter is based for the most part on your prior year's "earned income" and "pension adjustment" it is usually easy to stay onside.

The "penalty tax" is calculated at the rate of 1% per month on the excess amount in the plan on the last day of the month and due ninety days after the end of the year.

Sometimes it is beneficial to pay the tax. If John is turning 71 in 2015 and has flexibility in determining his earned income in his last year before retirement, he will be able to calculate his "contribution room" as at December 31, 2015. If that amount is say, \$100000, he can contribute an extra \$18000 into his plan before he is forced to close it out on that last day.

He will incur the penalty tax of 1% of \$18000 minus \$2000 or \$160 but will have enhanced his income tax-deferred savings by \$18000.





Keys to Negotiating Successfully

Whether you realize it or not, you negotiate and participate in negotiations everyday of your life. You negotiate with your spouse about where to go for dinner and with your children about when it will be time to go to sleep. You discuss a raise with your boss, you try to agree with a stranger on the price of a new car and haggle with the telecommunications company about the terms surrounding your cell phone.

Negotiation is a basic means of getting what you want from others. It's back and forth communications designed to reach an agreement when you and the other side have some interests in common and others that are opposed. Every negotiation is unique but the elements that make them up are consistent.

Before the Negotiations Begin: (a) understand the issues and the sub-text related to the dispute. The discussions may appear to be centering on one thing when they are really about something else, the "elephant in the room" that is there but nobody wants to identify by name; (b) determine what you hope to achieve in the negotiations and whether it is possible to obtain the same outcome without them. If you can arrive at the same result on your own, but at a higher "cost", you'll be able to gauge how much "give and take" you have in your negotiating position. If the best deal that

can be made with the other party is inferior to the course of action you can take independently, walk away.

When Negotiating: (a) ensure that the ultimate decision makers for all parties are present at the table. There is nothing worse than leaving the negotiations thinking you have a "deal" and the other party informing you that they have to take it to someone else for approval; (b) acknowledge the other party's position by listening carefully and respectfully to what they have to say, and repeating it back to them, if necessary, to make sure that you have understood it correctly; (c) acknowledge that the other party has issues that are important to them, and agree to address them one at a time. Sometimes it is good to compromise on some points right away to build "momentum". At other times it is best to set some issues aside for the moment and focus on others where there is common ground; (d) be creative. Facilitate the satisfaction of each party's interests. Brainstorming encourages a free flow of constructive options for consideration by all; (e) reach a deal that is in your perceived best interest, but (f) leave the door open to further discussions. You never know when you might have to negotiate with these same parties some time in the future.



at \$1 Canadian = \$.885695 US as it was on October 18, 2014 and you want to travel to New York with \$1000 in your pocket, you will pay (before fees charged by your financial institution) \$1000 / \$.885695 or \$1129.06 Canadian to "buy" the American funds.

The second is when you decide to travel on a budget of \$1000 Canadian. To determine how many \$ US you will have to spend when you get there and thereby figure out what hotel to stay at and how much you'll have for "spending money", you calculate as follows:

Since the Canadian dollar is trading at \$1 Canadian = \$.885695 US you can easily determine that your \$1000 will buy you \$885.70 American (before fees charged by your financial institution).

Note: Although the equation of \$1 Canadian = \$.885695 US is typically referred to as the "exchange rate" it can just as easily be referred to in its opposite form. That is \$1 US = \$1.129057

GST/HST Terminology

CATEGORY	HOW TAX IS APPLIED	EXAMPLES
TAXABLE GOODS/SERVICES	Charged on goods and services provided in Canada at rate applicable in province transaction occurs. Registrants can claim "input tax credits" for allowable costs incurred	sale, transfer, exchange, barter, rental, lease and gift of property, provision of a service
ZERO-RATED GOODS/SERVICES	Tax rate is termed to be 0% as provider does not charge tax but can claim input tax credits on expenses incurred	groceries prescription drugs medical devices exports
EXEMPT GOODS/SERVICES	No HST/GST applies as provider does not charge tax and cannot claim input tax credits on expenses incurred	financial services provided by banks, insurance companies, medical and dental services, child care services, residential rent



Foreign Currency Transactions for Business

The accompanying Fast Track article outlines how the most common foreign currency transactions affect an individual. The accompanying figure shows how foreign currency transactions affect a business.

The most important area is on the balance sheet. This is because it is logical to expect that revenue and expense transactions that occur during the year are constantly taking place at the foreign exchange rate prevailing at that time. So exchange gains and losses are occurring every time a revenue item is sold and an expense item purchased.

However, since the items on the balance sheet must reflect \$Canadian rates at the balance sheet date, any items carried at a foreign exchange rate must be "translated" into Canadian funds as at that date.

Below you will find the balance sheet of Sample Corporation as at October 18, 2014 where the effect of converting items listed in American dollars into Canadian dollars yields a gain or loss, depending on the item and the whether the \$Canadian is above or below its foreign counterpart. The Fast Track article outlines how \$US dollars were converted to \$Can and vice versa.

Canadian which is how you will convert your "left over" money that you did not spend in New York. If you come back with \$50 US you will "sell it" back to the financial institution and receive \$56.45 (less fees charged by the financial institution).

The 8:00 news will give you a rough idea of foreign exchange rates but they fluctuate continuously throughout the day. The best way to find out what you will have to pay when you are ready to buy or sell foreign currency is to check with your financial institution or on the internet at websites run by private companies specializing in trading currencies.

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.

SAMPLE CORPORATION INC.				
BALANCE SHEET				
OCTOBER 18, 2014				
ASSETS	Trial Bal \$	Exchange gain(loss)	Adjusted T/B \$	
Current Assets				
(a) Cash \$Can Acct	18,000		18,000	
(b) Cash \$US Acct	18,000	2,323	20,323	
(c) Accounts receivable	120,000	11,615	131,615	
(a) Inventory, at cost	18,000		18,000	
(a) Prepaid expenses	3,000		3,000	
	<u>177,000</u>		<u>190,938</u>	
Property, Plant & Equipment				
(d) Machinery & equipment	98,000		98,000	
(e) Less: Accumulated amortization	46,000		46,000	
	<u>52,000</u>		<u>52,000</u>	
	<u>229,000</u>		<u>242,938</u>	
LIABILITIES				
Current Liabilities				
(a) Bank loan	30,000		30,000	
(f) Accounts payable	140,000	(9,034)	149,034	
(a) Income taxes payable	6,000		6,000	
	<u>176,000</u>		<u>185,034</u>	
(a) Advances from Shareholders	22,000		22,000	
	<u>198,000</u>		<u>207,034</u>	
SHAREHOLDERS' EQUITY				
Stated Capital				
(e) 100 common shares	5,000		5,000	
(g) Retained Earnings	26,000	4,904	30,904	
	<u>31,000</u>		<u>35,904</u>	
	<u>229,000</u>		<u>242,938</u>	

- (a) already shown in \$Can so no adjustment req'd
 (b) convert to \$Can at exchange rate of Oct 18/14 \$1 US = \$1.129057 Can if company cashes all its \$US to \$Can it will get 2323 more dollars so this is an exchange gain
 (c) 75% of the A/R is in \$US and 25% in \$Can (\$180000 x 75%) x 1.129057 plus \$45000 since company will receive 11615 more dollars than amount booked this is an exchange gain

- (d) shown at cost when purchased
 (e) not applicable
 (f) 50% of the A/P is in \$US and 50% in \$Can (\$140000 x 50%) x 1.129057 plus \$70000 if company paid all its payables today it will cost them 9034 more dollars so this is an exchange loss
 (g) exchange gain of (\$2323 + 11615 - 9034) or \$4904 is added to income for period



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