



WINTER 2012 NEWSLETTER

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Financing your Expanding Business

Melissa Brunner, CA, KNV Chartered Accountants LLP

When your business reaches a point where outside financing is needed there are several issues to consider. A fundamental consideration is whether to lease or buy new equipment and / or property.

When determining whether to lease or buy you may want to consider the following:

- The useful life of the asset
- Impact on cashflows
- The potential re-sale value of the asset
- Any available government grants
- Possible dealer incentives
- Financing rates
- Bank financing vs. private financing
- State of the economy

In the current depressed economy there may be an opportunity to purchase equipment at bargain prices and many equipment dealers are offering sales incentives and low finance rates which can make expansion favourable. There are also several government programs available to assist expanding businesses including environmental rebates, low interest loans and tax credits. Ultimately, the decision to lease or buy will be determined by the business' distinct needs and a calculation of the net present value of each opportunity.

Of course with expansion, whether it be through bank debt, private debt, leasing or other means, comes increased business risk and that will also have its own considerations. There may be additional reporting requirements along with the acquisition of financing: for example, if your expansion is financed by a bank you may need to provide a review engagement or interim statements. If your expansion

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is financed by a lease additional accounting and/or tax work may be required. One final consideration is the uncertainty surrounding the HST; currently if an asset is purchased a full credit will be available for the HST paid. On the other hand, if the asset is leased the HST input tax credits may not be fully available if the tax is subsequently abolished.

As noted there are many considerations to make when deciding whether to lease or buy new equipment and we at KNV would be happy to meet with you to discuss what may be your best option.

Currency Risk in a Volatile Market

Chris Shaufele, CA, KNV Chartered Accountants LLP

As has been readily apparent in recent time, the Canadian dollar has been very volatile as compared to its American counterpart, with exchange rates fluctuating in excess of ten percent over the last twelve months. This volatility, largely tied in recent weeks and months to the news coming out of Europe related to the debt crisis, has caused profitability of companies transacting in Canada and the US to become equally as unpredictable. It has seemed lately that every time good economic news is released by the European Central Bank, the dollar has climbed higher; whereas bad news is matched with a similar decline in the dollar.

As a result of this volatility, a number of Canadian companies have begun to consider managing their foreign currency risk, a practice that may be surprisingly simple, but also surprisingly uncommon in many small companies. The following are a series of examples of how Canadian companies could effectively eliminate, if not significantly reduce their exposure to foreign exchange risk.

NATURAL HEDGING

The purpose of a natural hedge is to reduce the spread between receipts and payments in a foreign currency. Without a natural hedge, a company may make a \$100 USD sale on day one when the exchange rate is 1.01, a Canadian equivalent of \$101. However, 30 days later, at collection, if the exchange rate has dropped to 0.95, the \$100 USD collected is only worth \$95 Canadian, a loss of \$6. To counteract this, a company may consider opening a line of credit ("LOC"), denominated in US funds. The objective of this strategy would be at all times to maintain the LOC balance at the same amount of the foreign accounts receivable balance. The result of this strategy is that sales are immediately converted to Canadian funds as they are recorded, and subsequent collections are offset to the LOC in US currency. The ultimate cost of this strategy is only the interest paid on the LOC, and most if not all foreign currency risk is mitigated.

CASH FLOW MANAGEMENT

Another way to mitigate exposure to foreign currency risk is to manage cash flows tightly. Ultimately, the goal of this strategy is to collect on sales or make payments on purchases as quickly as possible. Collecting and making payments promptly will greatly reduce the Company's exposure to foreign currency risk, as the likelihood of exchange rates fluctuating significantly within a very short period is

usually relatively low. That being said, the company would by no means be fully hedged under such a strategy.

FORWARD CONTRACTS

Forward contracts allow a company to “lock in” the exchange rate at which it will buy and sell foreign currency into the future. This can be particularly useful if the company wishes to match future transaction exposure, usually up to one year into the future. Forward contracts are typically easy to enter into and have no purchase price; however, they do obligate the company to buy or sell foreign currency in a fixed quantity on a future date. Contracts can typically be terminated, but doing so will carry a cost to the company.

CURRENCY OPTIONS

Options are another popular tool for companies to lock in future exchange rates. They differ from forward contracts in that they give the company an option, but not an obligation to buy or sell currency at a future date at a set price. Because of this option, these tools typically carry an upfront cost to the company. Options can be particularly useful to companies bidding on foreign contracts, where ultimate payment or collection of foreign funds is not assured.

If you feel that one or some of these examples may be applicable to you and your business operations please contact us and we can formulate a plan to best reduce your exposure to foreign exchange risk.

Gifts of Stock

Tanya Milojkovic, CA, KNV Chartered Accountants LLP

Gifts of stock to a Canadian registered charity or other qualified donee not only benefit the charitable organization, but can also be advantageous from a tax perspective for the donor.

When stocks are gifted to a charitable organization, a disposition of those stocks occurs for the donor. Generally, a disposition of stock would result in a capital gain or capital loss, at which 50% is included in income. However, the Canadian government has made donating listed securities an attractive option for taxpayers. Since 2006, the inclusion rate on capital gains triggered from a qualified donation of listed securities is zero (down from an inclusion rate of 25% prior to 2006). This means that where a disposition of stock would normally result in capital gains tax on 50% of the gain, a donation of stock does not result in any capital gains tax.

Gifting securities can be advantageous where an individual is planning to sell the securities at a gain and to donate to a charitable organization within a short period of time. By donating securities directly to the organization, the capital gains tax is avoided.

For example:

	Sell Shares & Donate Cash	Donate Shares
Current fair market value	\$5,000	\$5,000
Adjusted cost base	\$1,000	\$1,000
Taxable capital gain	\$2,000	\$0
Tax on capital gain (43.7%)	\$875	\$0
Value of donation tax credit (43.7%)	\$2,185	\$2,185
Net tax savings after donation	\$1,310	\$2,185

It is important to note this tax treatment only qualifies for gifts of listed securities, which are shares, debt obligations, or stock options listed on a designated stock exchange, mutual fund stocks or units, and debt obligations such as government savings bonds.

If the gifting of your stock interests you, please contact us and we can discuss what the appropriate steps to take would be.

Importance of Exceptional Customer Service in a Tough Economy

Sarena Hansel, KNV Chartered Accountants LLP

Every night watching the news we're reminded of the tough economic times we live in – blue-chip corporations are struggling to stay afloat, even entire countries are hovering on the brink of bankruptcy. In this perilous economic environment consumers are quick to jump ship at the lure of a better deal. How can your company reassure its customers that they are getting the best value for their money? Implementing exceptional customer service is a sure-fire, low-cost strategy to stay ahead of the pack and retain a loyal clientele.

A BOON FOR BUSINESS

By its definition customer service is a service that businesses provide their clients. What's not implied in the name is that customer service can be just as much a boon for business. Providing exceptional customer service will show your customers that they are important to you. Why would they look elsewhere if you have met their individual needs and have proven to them that they are valued and understood?

Having established a positive working relationship customers may turn to you for other products and services. Or they might visit more often, increasing the potential for sales.

A satisfied customer is likely to become an advocate for your business. Your company's care and commitment will spread by word of mouth, attracting new customers. Your customer base will

strengthen and grow - without a single dollar spent on advertising!

Happy customers also make for happy staff. Your employees will feel greater pride in the work they do, in turn spurring themselves on to do even better and less time will be spent dealing with irate customers.

IT'S ALL ABOUT THE ATTITUDE

So how can your company reap these rewards? The foundation of exceptional customer service is attitude. If you view each customer as an integral part of your business then your actions will reflect that attitude. Recognizing and valuing each customer – individually – will allow you to serve their specific needs and ensure that any issues that may arise are resolved to their satisfaction.

Business owners are often distracted by the bottom line; employees are often distracted by the clock – be sure to remind yourself daily that each customer is vital to your business and you will reap the rewards of exceptional customer service – a satisfied, loyal and growing customer base and engaged employees.

Converting an RRSP to a RRIF early

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Canadian income tax rules dictate that a Registered Retirement Savings Plan (RRSP) must be converted into a Registered Retirement Income Fund (RRIF) by December 31 of the year in which the taxpayer turns 71. Failing to do so will result in the entire balance in a given RRSP becoming taxable on that year's tax return.


A RRIF requires that an individual withdraw a minimum annual amount, calculated by a formula based upon both current age and the funds available in the RRIF. These annual withdrawals are considered eligible pension income for the purposes of determining an individual's eligibility for the \$2,000 pension credit.

For individuals between the ages of 65 and 71, consideration should be given to converting a portion of the RRSPs into a RRIF. This option becomes a viable one provided there is no other eligible pension income available during that period of time. Converting a portion of the RRSPs into a RRIF will allow the taxpayer to begin generating eligible pension income earlier than the otherwise pre-determined age of 71, and in doing so qualify for the \$2,000 pension credit as early as the age of 65. In addition, if the taxpayer is married or common-law, the pension can be split between spouses resulting in each being able to claim pension tax credits of \$2,000. Additionally, if the spouse is taxed at lower rates, pension splitting will also reduce income taxes by shifting up to half of the pension income to the lower income spouse.

It should be noted that no actual funds are transferred between individuals during the act of pension splitting between spouses. The pension income on the taxpayer's tax return is reduced through the act of allocating a portion of it to the spouse. Tax rules mandate that this type of transfer must be formally agreed to by both spouses. Agreement is shown by filling out and signing what is known as a Joint

Election for Pension Splitting form. Completed forms are submitted to the Canada Revenue Agency each year that spouses split the pension income reported on their tax returns.

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