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Business Matters

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TECHNOLOGY

Epost

Canada Post can now put all your ebills into one mailbox.

Use the term snail-mail and almost everyone in Canada will know that you are referring to sending a letter or paying your bills by Canada Post. Whether this is a deserving moniker or not depends upon the experiences your company has had in the past. Regardless of the past, however, Canada Post is making amends with a service they offer called epost.

What is Epost?

Epost is a Web-based ebilling system that allows individuals and companies to receive, pay and monitor bills in one virtual mailbox. Rather than having to open numerous emails and websites for each supplier, epost gathers emailings from the suppliers you register for and displays them in a single mailbox.

Canada Post has made arrangements with major suppliers of goods and services and financial institutions to enable them to send invoices and other mailings such as employee pay statements to your electronic epost mailbox rather than a physical one. Bills can then be paid directly from the epost system. These suppliers, called "mailers", include familiar national companies like Bell, Rogers, TELUS, The Co-operators, Canadian Tire, Ultramar and HBC. Provincial mailers include regional services, such as SaskTel, Toronto Hydro and the City of Vancouver property tax and utilities.

How Does Epost Work

The first step is to register with Canada Post. Users will be asked to provide their name, address, contact person, telephone number, email address and, of course, a strong password. As an additional security measure, users must provide a secret question and answer; in the event of a forgotten password, the answer to the secret question will be needed.

Once registered, it will be necessary to add mailers to your account. Have supplier statements or invoices on hand, as you will need to enter your account number for each mailer. Some mailers may also request confirmation of the email address. Once the mailer has been registered online, invoices and statements will be sent directly to your epost mailbox rather than to your physical address.

To make payment of the invoices or statements it will be necessary to connect to the financial institution where you pay your bills and register for ebills. Once your mailer list and financial institution are linked to your epost account, you can access and pay the recurring invoices directly from epost.

There is no cost associated with receiving ebills.

How Much Does it Cost?

Just as with traditional postal service, there is no cost associated with receiving ebills. The mailers pay the "epostage" cost for sending the statements to the epost network. Users are, however, still responsible for any bank fees or charges levied for paying the invoices. Canada Post also advises that paying invoices via epost does not speed up the payment process used by financial institutions. Transfer times to the supplier's accounts will continue to be dictated by the speed of the bank clearing system, not Canada Post.

Advantages

- There is no cost to register and receive invoices or statements via epost.
- The majority of suppliers registered with epost are suppliers that most companies use on a regular basis; thus, once registered the user can access one website with one password to review the invoices or statements for payment.
- Detailed electronic documentation is recorded on one site showing the mailer, the due date, the amount due and the date the invoice was received.
- The system allows payment by electronic funds transfer or credit card at any time from any location connected to the Internet.
- Payments and payment history are recorded.
- The system is capable of providing reminders of when to pay either with an email reminder or with a text message.
- All payments can be recorded in folders under the supplier's name.
- Details of transactions are maintained for seven years.
- The cost of cheques, envelopes, and stamps are eliminated.
- Environmental impact is reduced as fewer resources are used to produce the paper products required to produce invoices, statements or cheques. In the big picture, fewer physical deliveries by postal employees reduce vehicle emissions.

Disadvantages

- Generally, only larger suppliers are available as mailers. The system does not provide the ability to pay smaller suppliers not registered with epost. Additionally, not all suppliers are on board as mailers. Businesses will still have to check the mail or the email for invoices and still use cheques or electronic transfers to satisfy suppliers outside of the epost ecosystem.
- Epost has yet to establish and entrench itself as a viable alternative to the existing email billing and online banking payment methods currently used by many businesses. As such, potential users may feel reticent to invest in adopting a new payable and payment system without having confidence in its future.

- Epost could be viewed as just another website to visit with additional passwords, user requirements and training needs. Even though Canada Post has undoubtedly established a secure database, there may be some concerns over the security of seven years of data maintained by Canada Post.
- Although a remote possibility, Internet or server problems by mailers or the epost system could potentially prevent access to the website thereby delaying receipt of invoices and the resulting payment.
- The physical receipt of an invoice in the mail creates a need to take action. Users may take some time to adapt to the requirement that they must initiate the action to ensure bills are paid on time.

Final Words

Epost offers the convenience of receiving invoices from and making payment to major suppliers from a single website, thereby reducing the time of sorting through the mail or emails to determine which bills need to be paid. While epost may not be a magic solution to all your postal needs, it does provide an easy-to-use consolidated option for at least a few of the larger companies you deal with regularly. If you haven't yet, it might be time to give epost a try.

TAXATION

Vehicles and Loans

Keeping up to date on tax rules can help employers increase deductible expenses and keep their employees compliant with new obligations arising from taxable benefits.

Tax rules and regulations are always changing. To ensure your business takes advantage of tax changes and to make certain your employees are aware of changes that apply to the 2012 calendar year, take a moment to review the following.

Vehicles

The CRA has different rules affecting the deductibility of vehicle expenses depending on whether the company owns the vehicle or the employee owns or leases it.

Company-Owned Vehicles

The maximum cost of a company-owned passenger vehicle to which the capital cost allowance can be applied is $30,000 plus federal and provincial sales taxes. The CRA also limits the amount of interest deductible for any car loan. The limit is either the lower of the total amount of interest paid or $10 x the number of days for which interest is paid. The limit is $3,650 ($10 x 365 days) or $304 per month if interest is paid for the entire year.

Employees might consider paying back all or a portion of the benefit.

Personal Operating Expenses

An employee who is provided with a company-owned vehicle must include in income an operating cost benefit based on the number of personal kilometres driven. If this additional income moves the

employee's overall income into a higher tax category, the employee might consider paying back all or a portion of the benefit if the reduction would create tax savings. If the amount is repaid to the company within 45 days of the calendar year-end, the amount is not considered taxable in the previous calendar year. This year the personal benefit has increased by two cents to 26 cents per personal kilometre driven. For those employees who primarily sell or lease automobiles, the benefit has increased two cents to 23 cents per personal kilometre driven.

Standby Charges

A standby charge is the benefit an employee receives when a company car is available for personal use. Employees who use company vehicles and do *not* reimburse the company for this benefit may be subject to a standby charge (the rates for standby charges have not changed from 2011). The standby charge is based on 2% of the original cost of the vehicle plus applicable GST or PST and considers such factors as the kilometres driven, the percentages of time used for business and personal and any reimbursement by the employee. The standby charge needs to be included in the employee's income for each month the employee uses the vehicle. If the vehicle cost $60,000 and the employee used the vehicle for the full 12 months, the standby charge would be 24% of the vehicle cost or $14,400 minus any reimbursements. There is some relief in a reduced stand-by charge if the employee's personal use does not exceed 1,667 kilometres per month and the employment use exceeds the personal use.

Company-Leased Vehicles

If the employer leases a car for an employee, the standby charge to be included in the employee's income would be two-thirds of the quotient of the lease cost including the GST and PST, divided by the number of months the employee had use of the vehicle.

Employee-Owned Vehicles

Servicing and Driving

The cost of servicing and driving company vehicles is a major expense for most small businesses. For businesses with employees who need a car for work, the tax-deductible automobile allowance paid to the employee for the use of the employee's own car is an attractive alternative to the cost of a company-owned vehicle. The Canada Revenue Agency (CRA) recognizes that gasoline and repair expenses have increased, and as a result, has raised the deductible amount for the employer to 53 cents per kilometre for 2012 from 52 cents for the first 5,000 kilometres driven and to 47 cents from 46 cents for kilometres driven above the 5,000 kilometre base amount.

For those in the Northwest Territories, Nunavut and the Yukon, allowances have been increased to 57 cents for the first 5,000 kilometres and 51 cents for each kilometre driven over 5,000.

Employee-Leased Vehicles

If an employee leases a vehicle that is used for work, certain items are deductible as leasing expenses, and others are not. Insurance, maintenance and taxes are paid to operate the leased vehicle but are normally not part of the lease contract and must be deducted separately from the calculation for deductible lease expenses. These additional expenses are to be listed separately on CRA Form T777, Statement of Employment Expenses. The lease expense calculation includes the leasing charge, the number of days the vehicle is leased and the manufacturer's list price. It is advisable to have your chartered accountant assist with interpretation of this rather complicated area.

Loans

Loans to Employees

Employees who receive an interest-free or low-interest loan from their employers are required to add to their employment income interest calculated at the CRA-prescribed interest rate for each quarter the

loan is outstanding, less any interest paid that year or within 30 days of the end of the year. The prescribed interest rate for such loans for the second quarter of 2012 is 1%.

In the case of a home-purchase loan, the benefit is calculated using the prescribed interest rate at the time the loan was acquired. In other words, the benefit does not fluctuate with future changes in the prescribed rate. This rate applies for the first five years of the loan. If the prescribed interest rate increases, the original rate is locked in until the end of the five-year term; if the rate drops, however, the employee is entitled to use the lower interest rate. If the loan term extends beyond five years, the amount outstanding during the second and subsequent five-year periods is treated as a new loan and the benefit is equal to the prescribed rate applicable at that time. A deduction may be available for employees who move to a new work location.

CRA prescribed interest rates are also applicable to a variety of overdue remittances for taxes, duties and other charges. These rates are posted quarterly on the CRA website. For details of current and historical rates go to **http://www.cra-arc.gc.ca/tx/fq/ntrst_rts/menu-eng.html**.

Loans to Shareholders

Although shareholders may consider themselves employees and treat themselves as employees for remuneration purposes, tax rules and regulations regarding loans to shareholders or related parties have different reporting requirements from those for employees. Shareholders should speak to their chartered accountant before borrowing funds from the company.

Keep Employees Informed

Employers may find it advantageous to have their bookkeeper or accountant, whether in general operations or payroll, review the past few months of transactions and confirm that all books and records reflect the 2012 tax changes. It may be worthwhile to provide employees with a copy of this article to help them understand the reasons for additional income on their year-end T4 and assist them to prepare for their year-end liability.

Do You Take Cash? No!

Taking cash payments without reporting them as income can have long-term negative consequences.

One of the frequently asked questions of the self-employed (entrepreneurs) is “will you take cash” instead of a cheque or bank deposit? The premise of the question is two-fold: first, customers who pay cash will not have to pay HST because it is assumed that if the entrepreneur is willing to accept cash, there will be no money trail and thus, the income will not be reported to the Canada Revenue Agency (CRA). The second likelihood is: the contractor who accepts cash may be willing to do the work for a lower price because no income tax will be paid on the earnings.

Not Necessarily the Way it Appears

Many self-employed individuals are happy to take cash but the client should not necessarily infer that this income will not be reported. Indeed the self-employed business person may prefer cash because they can pay their own suppliers immediately and take advantage of any discounts for early payment.

The advantages of taking cash and not reporting it as income are grossly overrated. Self-employed individuals who do not report all income negatively impact their current and future lives to a great degree. Let us look at the reasons why self-employed Canadians should always opt for full disclosure of income.

Credit Rating

Financial institutions need to establish that a prospective borrower has the means to pay interest and repay principal. The institution’s decision about the loan applicant’s ability to pay is usually based on revenue, cash flow and profit. When an applicant cannot produce financial statements or tax returns that establish sufficient revenue to cover the loan interest costs by a wide margin, it is unlikely any funds will be advanced for either business or personal purposes. Simply stated: entrepreneurs who don’t declare all income are unlikely to qualify for a mortgage to buy a home or a loan to expand the business.

HST Issues

Where the self-employed person works as a subcontractor for other businesses that claim the HST paid out as an input tax credit (ITC) and the subcontractor charges the HST, the HST must be reported. If the invoice is paid with cash and the subcontractor pocketed it and did not remit the HST, difficulties might arise with the CRA since HST is collectible by the registrant in trust for the public purse. The probabilities of audit are fairly high as CRA not only compares the HST collected by a registrant with the registrant’s reported income, but also routinely reviews subcontractors paid by contractors and

collects data on the ITC claimed. Again, simply stated: entrepreneurs who collect HST and do not pay this money are committing fraud and may be subject to substantial CRA penalties and even criminal charges.

A Successful Venture

Assume for a moment a business is extremely successful and it is time to sell. Without adequate financial data to support sales, expenses and overall profitability, it may be difficult to sell the business or take on a partner. Skimming 20%-30% off the top by not reporting cash sales will skew gross margin calculations and other ratios and may create uncertainty as to the viability of the business. Historical data may not support the growth in the business sufficiently to ensure its sale at a true value.

Unrecorded earnings reduce your RRSP contribution levels.

Your Retirement Plan

RRSPs enable taxpayers to make yearly contributions, reduce taxable income, pay less income tax and provide the opportunity for tax-deferred growth. RRSP contributions are based on earned income. Reducing reported earned income reduces the contribution level the CRA calculates for every RRSP registrant annually. A reduced contribution level means less money can be saved within the RRSP for retirement. Less earned income also hampers the ability to make spousal contributions. Simply stated: self-employed individuals need their RRSPs to save for retirement more than employees with company pension plans. How will the self-employed ever retire without savings to provide income?

CPP

If earnings are not maximized, contributions to CPP are reduced. Reduced CPP contributions reduce the amount of CPP a person can collect when they retire. Furthermore, should you die, the funds available to your estate as well as the death benefit will be impacted by the lower contribution amounts.

Investments

Whether the investments you make are in real estate, interest-earning GICs or stocks, the initial investment must come from somewhere. Certainly cash can be used to invest but significant amounts of cash pose a problem for the financial institutions where the investments are purchased. First, cash deposits in excess of $10,000 must be reported to the federal authorities to aid in their fight against money laundering. Second, even if one invests the funds slowly over time, investment income, in the form of interest, dividends or capital gains, must eventually be reported as income. Even a random desk enquiry concerning T5 earnings or capital gains on the latest tax filing may create further enquiries as to the source of the original seed money, especially if the record of reported income cannot support the amount of investment income earned. Real estate investment creates even more opportunity for a CRA investigation if the property is rented. Tenants claim rent for personal tax purposes, and the landlord has a myriad of expenses claimable as deductions and the possibility of a capital gain upon sale.

A Secure Present and Future

Recording all cash transactions secures the reputation of the self-employed person and provides assurances as to the integrity of the business's financial history. Since self-employed individuals do not have the benefit of a subsidized pension plan, they need to report all income received to assure their future is financially secure.

MANAGEMENT

We Have an Emergency!

An emergency plan is an essential part of every business plan.

Natural disasters like the one that hit Goderich, Ontario, in August 2011 appear to be increasing in frequency but they are not the only disasters businesses should prepare for. Since the risk of employee injury, fire, sabotage or vandalism exists every day, a disaster plan should be put in place.

Contact Information

List the locations and contact numbers for hospitals and paramedics, police and fire department and, if your community has one, the location of the emergency response service. For businesses that work with hazardous or explosive materials these contacts are probably already well known. The list should be posted near all land phones and on all smartphones. Other important contacts include your electricity provider, natural or compressed gas providers, as well as the municipality in the event contamination of water or sewer lines is a possibility.

Staff Safety

Ensuring safety for all employees is imperative. List all personnel along with their location (e.g., physical work station), home address, telephone and cell number. The more contact points, the sooner all employees can be accounted for. If any employees have trouble understanding the operating language of your business, indicate the language spoken. Staff with special needs should be highlighted if special evacuation is required.

Consider providing all employees with first aid training. Organizations such as St. John's Ambulance will instruct staff in first aid and procedures for emergencies. Although not a substitute for care provided by paramedics or others with specialty training, first response to stop bleeding or provide resuscitation has saved lives.

Delegation of Responsibility

Who takes charge in an emergency? Members of the Health and Safety Committee are obvious initial choices since they will have knowledge of the company's disaster risks. At least one person and an alternate should be well trained in the kind of emergency measures likely to be required at your place of

business. These people will function as leaders in training others and will lead in the actual disaster. Owner-managers must also be an integral part of the team to provide both physical and moral support to all staff.

Disasters don't just happen during the 9-to-5 work day. Crisis leaders must understand that disaster management is a 24-hour on-call responsibility. Furthermore, one person cannot know or respond to all situations; specific tasks should be delegated to a particular person or group. Cross training is essential in case those with the primary responsibility are unable to perform their duties.

Redundancy in planning for disaster cannot be overstated. At least two individuals should have knowledge of procedures and protocol. Accordingly, care should be taken to ensure that key personnel are not out of the office or on vacation at the same time.

The Plan

Formalize your disaster plan and have it printed along with all the contacts and emergency numbers in pocket manuals to be provided to all employees. Manuals should be used during training; downloadable versions with updates should be available online.

The Manual

All new personnel should be provided with the step-by-step disaster plan manual. An individual responsible for emergency procedures should review the manual with all employees and provide employees with a walkthrough of the evacuation route and protocols.

For those who believe a paper manual is redundant, keep in mind that disaster often means communities go without power and communications for days. When your smartphone dies with its power source you'll be glad you had a paper memory.

The Training

Training should include exposure to outside experts who can go over possible scenarios and procedures. Staff may be surprised that the procedures required during a flood are not the same as those for a tornado.

Any changes to procedures, emergency numbers and personnel contact information should be updated on a regular basis and provided to staff. During a disaster not everyone will know that Frank had the day off and isn't in the building.

Evacuation Protocol

Create an evacuation plan. For instance, if there is a fire in the plant, who takes responsibility for ensuring the fire alarm is sounded, that all staff are evacuated, that they meet at a prearranged location and a roll call is taken to ensure no one is missing?

1. Who calls 911 and notifies management?
2. Has an escape route been planned and is it clearly marked?
3. Is the escape route plausible? If there was an explosion would the escape route be blocked by fire, inventory or debris?
4. Is the emergency exit always unlocked and not blocked at any time?

Practice evacuation just as you did with school fire drills. Evaluate the results and determine how procedures or escape routes need to be changed to ensure safety. Make certain that staff takes the drills seriously; one day their own lives and the lives of their colleagues may depend upon it.

Disaster planning may be one of your best investments.

Business Impact

From a business point of view, disaster planning may be one of your best investments. Should a disaster occur and your business execute an effective emergency plan, the risk of a lawsuit for gross negligence will be greatly reduced.

Review of Insurance Policies

Development of the plan will call for the examination of insurance policies. Property insurance will not necessarily provide coverage for the specialized areas included in disaster policies. Insurance coverage for disasters is not all inclusive; it may cover floods from ruptured water mains but not floods from that near-by creek that overflows as a result of a freak torrential downpour.

Meet with your insurance agent to determine whether your current policy covers existing plant, inventory, equipment and third-party liabilities. *Find out what it does not cover.* Owner-managers must understand what is excluded from the policy. If wind damage or flooding are not specifically covered, get a quote on the cost of riders that could be added to the policy.

But if it Does

"It won't happen to us" is the wrong attitude. Even if the odds of a disaster occurring in your business seem remote, nevertheless, if the unthinkable does happen, you and your employees will know that everything possible has been done to be prepared.

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