

MONEYSAVER.....1
What If You Can't Be There?

MANAGEMENT.....3
Banking for Your Future

TAXATION.....5
PRPPs

TECHNOLOGY.....7
Three, Two, One

Business Matters

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MONEYSAVER

What If You Can't Be There?

Choosing someone capable of running your business in an emergency should be part of your business plan.

We all like to think we are invincible masters of the universe. Unfortunately, since the reality is that our fate can hinge on something as trivial as a slip on the ice, have you considered all the urgent issues that would come up if you were suddenly incapacitated?

Someone to Take Over

Every business should have a second in command. You, as an owner-manager, should ask yourself: "Who has the capacity to run the business if I am absent for a prolonged period?" If no one comes instantly to mind, you should think of either training or hiring someone with this ability. If you think there is someone who could do the job with a little training, start mentoring



them and have them shadow your everyday activities. Your staff, as well as your clients and suppliers, should be familiar with this person and know of the trust you place in them by ensuring their attendance at contract meetings, conferences or seminars. Your clients need to feel as comfortable with that person as you do and they should see that this person has your confidence.

This designated person must be able to:

1. sign on behalf of the company at the bank
2. access the in-house safe, locked cabinets in your office and the safety deposit box at the bank
3. access master passwords for the computer, online mailboxes, bank accounts, CRA for payroll, HST and other online portals
4. access insurance policies for vehicles, equipment, building and contents and key person policy in case you die
5. access any licences for vehicles or heavy equipment or intellectual property
6. bind the company to contracts in your absence
7. take over your role in dealing with existing projects and with your major clients, suppliers and the right people at the bank
8. be in charge of cash management, review receivables, ordering and do the analysis necessary to ensure a continued cash flow
9. be in charge of payroll, approve hours worked and oversee transfers from operations to payroll accounts
10. contact the company accountant, lawyer and insurance broker
11. access the corporate financial statements and tax returns for the previous three years

A review of these everyday operational issues will help determine how vulnerable your business might be in the event you are taken out of circulation for more than a couple of days.

Your replacement should be able to access all the computer codes needed to run your business.

Codes and Keys

Control of computer access by your second in command is necessary, not only to ensure business activity continues uninterrupted while you are away, but also to ensure that key employees do not mismanage assets in your absence. Your substitute must have the ability to review all data at any time. In the event an employee must be dismissed, your deputy must be able to change passwords in order to protect company data.

Information

If you do not have a replacement knowledgeable about the details of contracts, the company's finan-

cial position, loan agreements, etc., your business risks being temporarily crippled while company personnel try to get company data from suppliers, clients and financial institutions. Make sure all pertinent documentation is available and that your replacement knows what is required.

Key Contacts

Contact between your designated replacement and key individuals such as accountants, lawyers, bankers and insurance agents is essential in the event there are emergencies that require their input. You should introduce your potential replacement to these key people and provide written permission to them by means of a letter for their files stating that you have authorized this person to act on your behalf in any corporate matter in the event you are unavailable.

Business Acumen

When you have chosen your replacement, groom them for their management potential. Provide training in business management and have them work with you when you analyze cash flow needs, establish project costs, etc. so they can supplement theory with experience of how you actually work. It is important that your replacement feels comfortable in your shoes.

Field Experience

Ensure your replacement is not office sheltered. They should get into the field and become familiar with the faces, names, tasks and responsibilities of all employees. Familiarization prevents any buildup of contempt that some employees may feel for someone taken from the ranks and groomed for the top job. The breadth of experience that comes with field work enables your replacement to understand how the company's projects are progressing, know who is working where and with what responsibilities. Field experience also gives the new leader an opportunity to learn how costs are controlled in the company.

Start Planning Today

Contingency planning for the possibility that you suddenly may be unable to take an active role in running the business should be a part of normal long-term planning for anyone who runs their own business. Knowing that your business will continue until you are back on your feet is, in itself, just good business.

MANAGEMENT

Banking for Your Future

When starting your own business, set up the right financing arrangements at the beginning.

Starting your own business can be the beginning of one of life's great adventures. You have the core idea and the confidence, but what about the money? Certainly, it would be great to have sufficient personal funds for the initial investment, but for many people starting out in business, that may not be a reality. It is also understandable that you are reticent to ask friends or family for a loan or an equity investment in the event that the business goes south.

Find the Best Source for Your Financing

"A bank is a place that will lend you money if you can prove you don't need it." So said Bob Hope, a last-generation stand-up comedian.

An astute cash flow manager needs to consider the range of loan services offered by financial institutions to assist a start-up business and ensure a continued flow of working capital as the business grows. Experienced entrepreneurs will tell you that the best time to build your credit sources is when you don't need the money.

Recognize that you will need money not only for today's operations but for tomorrow, next week, next month, and for all the years your business is going to operate. As an entrepreneur, you should constantly review the current and future needs of the business to ensure you are aware of the various lending vehicles available. Don't forget that financial institutions are constantly trying to invent new financing instruments in order to do business with you by making financing possible for you and your evolving business and industry.

Federal Assistance

Canada Small Business Financing Program is a loan program sponsored by Industry Canada through Canadian financial institutions to provide financing to businesses with \$5 million or less in gross annual revenue. These loans normally finance the cost of purchasing or improving land and buildings for



commercial purposes, renovating existing premises occupied by tenants, or purchasing or improving new or used equipment. The maximum loan is \$500,000.

A Line of Credit Is Essential

Lines of credit are essential to most business. They are offered by every financial institution and may take various names and forms. Most businesses need a line of credit to buffer unseen cash flow shortfalls. By way of example, a business may have payroll on Friday but find that the deposits from sales or accounts receivable were not sufficient to cover the payroll. A line of credit large enough to cover this type of contingency ensures that staff is paid. Usually the line of credit is "linked" to the business operations account to provide funds as needed. Once sufficient funds from cash sales or the collection of receivables are in the operating account, the line of credit is paid down to zero. This reduces interest costs to the business and ensures that an adequate line of credit is always available.

Financial institutions may make business loans that are not "lines of credit." The loan could be for the

short-term needs of a customer. Once the principal amount is established, an amortization schedule indicates the fixed amount of interest and principal that must be repaid on a regular recurring basis over a predetermined time of completion. In most instances, the business assets as well as the personal guarantee of the owner(s) will be required.

Mortgage Loans

Business mortgage loans or commercial mortgages assist with the purchase of commercial property. The loan is typically secured by a mortgage registered on the building. The amount advanced depends on the valuation of the property. Be prepared for additional expenditures because the financial institution will want:

- a current appraisal from an AACI-qualified appraiser (Accredited Appraiser Canadian Institute, the designation of the Appraisal Institute of Canada) or a bank-approved appraiser
- an environmental report that could cover such issues as contamination, soil conditions or flooding
- a building examination to determine the condition of the building, sewage lines, whether the building meets current building and fire code standards

Financing Arrangements

Lenders normally provide fixed and variable rate options with a five-year term. Usually the principals of the business are personally liable for part of the loan in the event of default.

The Business Development Bank of Canada offers assistance with commercial real estate financing for the purchase of land and buildings, constructions of new premises and the expansion or renovation of existing premises.

The loan arrangements usually require the owners of the business to guarantee a percentage of the loan in the event that the loan is not repaid. This “guarantee” amount is normally insignificant when compared to the total liability for which the principals could be responsible if they were required to guarantee the entire loan personally.

Keep your business credit cards separate from your personal cards.

Credit Cards

Your credit card should be the last resort for borrowing, given the high interest rates and penalties for late payment. Since, however, credit cards are an essential component of day-to-day business operations, wise entrepreneurs should consider obtaining credit cards registered in the business name. These business cards should be used only for business purposes; you should have another card for personal expenditures. Balances should be paid off monthly, either from the operating account or by using the line of credit. Timely payment ensures a solid credit report.

Alternative Sources

Here are some other sources of funds available to select categories of entrepreneurs.

Community loan funds are for not-for-profit organizations unable to get loans from traditional sources. These loans are offered by communities and range from \$2,000 to \$150,000.

Aboriginal Business Canada provides non-repayable contributions to a maximum of \$99,999 for the eligible entrepreneur. The funds can be used by those with Aboriginal heritage to start a new business or expand an existing small business.

Angel investors are individuals or groups seeking a higher return than is usually available from conventional equity investment. Angels expect to be approached by entrepreneurs with an excellent product or idea and a good business plan that will reward them quickly and handsomely. Normally, angels will want to own part of your business to protect their investment. Many entrepreneurs may find this distasteful; however, considering that the angel is not only investing their own capital but also providing practical experience from their own success, sharing the management and control of your yet unproven business may be a good trade-off.

Finding an angel requires networking with local businesses and business clubs whose members may be able to steer you to the right person.

The Bank Account

Not so long ago, small businesses needed just a bank account, a cheque book and a deposit book; today, they must be able to integrate loans and repayment

schedules with operating accounts. In addition, a business model must be able to incorporate various means of payment and receipt simply to ensure the cash is in the bank as soon as the work is done and creditors are paid in a timely fashion. Thus, consider setting up banking services that will empower your business to deal with such items as:

- payroll distribution by direct deposit
- email transfers, payments and receipt
- telephone banking
- ATM business deposits and the ability to transfer between accounts
- foreign exchange deposits or payments
- company debit card payment
- credit card and debit card payments
- 24-hour deposit ability

- online banking to make utility, municipal, provincial and CRA tax payments
- online banking to ensure reconciliations, etc.
- tap and go
- mobile device payment and (we almost forgot)... cash

Plan for Tomorrow

Maintaining the cash flow requirements of a business is more than just being confident that today's expenses are covered by incoming cash. Wise business planning considers the needs of tomorrow's business while working with financial institutions to shape banking requirements that meet not only current but also future needs.

TAXATION

Pooled Registered Pension Plans (PRPPs)

Small-business owners and the self-employed now have a new pension plan alternative.

How the PRPP Works

Federal Pooled Registered Pension Plan legislation came into force in 2012. It is designed to provide a retirement savings option for the self-employed and businesses that do not have an employee pension plan. It is attractive for those companies that cannot afford the cost of administering an employer-sponsored plan or a company RRSP, and do not want the fiduciary liability that may accompany such a plan.

The contributed funds will be placed with a financial institution such as a bank or insurance company that will pool the small contribution amounts to be invested more efficiently and cheaper and obtain a better return on investment. This federal plan covers only employees in federally regulated industries, federal government employees and employees in the territories of Nunavut, Northwest Territories or the Yukon. Each province has the opportunity to pass its own "mirror" PRPP legislation or opt out.



Canada's Pension Plan Crisis

This legislation is one more step on the road to solving Canada's pension plan crisis. At present, too few Canadians are covered by corporate pension plans and too few are contributing enough to their RRSPs to provide adequate retirement income. In addition, companies that have been sponsoring defined-benefit plans have found them too expensive to continue to support.

Part of the solution to the crisis seems to be to provide opportunities for the self-employed and employ-

ees to save enough for their own retirement through regular workplace contributions. The implicit idea of the PRPP is that it is easier for working Canadians to benefit from the “pay yourself first” model by making a PRPP contribution out of gross earned income before it is received, and then budgeting day-to-day living expenses from net income.

Many employees find it easier (and less painful) to have money deducted at source than setting savings aside later in an RRSP. The PRPP gives the self-employed and employees who do not have employer pension plans the opportunity to save for their retirement in the same way participants in employer-sponsored pension plans are already doing.

Setting up a PRPP

The first step in setting up a PRPP is to choose a licensed third-party administrator for the plan. The use of a third-party administrator is especially advantageous if the employer is a small or medium enterprise (SME) because the administrator will take on most of the responsibilities that now fall to the employer under employer-sponsored plans. Employers are not liable for acts or omissions of the administrator. The employer can choose to participate in a PRPP or not. If so, the employer is responsible for collecting and remitting all contributions to the administrator. If not, the employee can participate alone through a PRPP administrator. The account is registered and each member is identified by their individual Social Insurance Number.

Contribution Amounts

The maximum contribution is the eligible RRSP contribution amount allowed to each eligible working Canadian based on their earned income. (This amount is indicated on the previous year’s Notice of Assessment.) The employer may pay a portion of this amount if it chooses to do so. Suppose, for example, the employer agrees to match the employee’s contributions dollar for dollar. If the employee has an annual contribution limit of \$10,000, the employee can contribute \$5,000 and the employer can contribute \$5,000. However, the employee can deduct only \$5,000 on line 208 of the income tax form. The matching \$5,000 put into the PRPP by the employer is tax deductible to the employer, but is not included in the employee’s total income for the year. This employer contribution is not subject to CPP/QPP or EI withholding taxes.

PRPPs are eligible for the pension tax credit and may be considered in the pension income splitting calculation. The contributions made to a PRPP do not impact the Pension Adjustment and thus, unlike a Registered Pension Plan, do not have to be reported on a T4 at the end of the calendar year.

*The PRPP goes with employees
wherever they work.*

Portability

Since the plan is attached to the employee through their Social Insurance Number, the plan goes with the employee if they are terminated or leave the company. The employee’s PRPP account can be set up again with a new employer to receive that employer’s contributions, if any.

Contribution Deadlines

Individuals may make contributions to their PRPP between January 1 in a calendar year and for the first 60 days of the following year. Contributions can be made until the end of the year in which the individual celebrates their 71st birthday.

Employees

The deadline for making contributions to a PRPP by a member is the same as for the RRSP. Contributions must be made within 60 days after the calendar year end. In the event the 60 days falls on a weekend or when leap year comes around, the contribution date is adjusted accordingly.

Employers

Employers are not obligated to make contributions to an employee’s plan. Any employer contribution must be made within 120 days of the calendar year end.

Withdrawal/Transfer

If one withdraws funds from a PRPP they are subjected to income tax. PRPP funds may be transferred between RPPs, RRSPs and RRIFFs. Because there are restrictions on the movement of funds, it is important to seek guidance from your financial advisor or CPA before acting.

Funds can be transferred to an individual’s PRPP account from the same plan belonging to a spouse or common-law partner if these transfers are required

because of a breakdown of the marriage or common-law partnership, or death.

Investment Restriction

PRPP investments do not necessarily need to conform to the qualified investment rules that are established for RRSPs. However PRPP investments should not include investments in which a member has a significant interest (i.e., more than 10% of a class of shares).

Further, the investment portfolio should not hold more than 10% of any one business or non-arm's-length group.

Age and Death

Contributions are not allowed by either the employee or the employer after the year in which the member turns 71. The PRPP can be:

1. paid out as a singular payment (with tax consequences)
2. used to purchase a life annuity
3. paid out in a fashion similar to a RRIF

When a member dies, the fair market value of the PRPP is included in the member's income in the year of death unless the member has directed that the funds be transferred to a surviving spouse or common-law partner. (There are provisions for financially dependent children or grandchildren and those who are dependent as a result of disabilities.)

Win/Win

The PRPP model has many advantages for both employer and employee. The employer incurs minimal costs and no fiduciary responsibility while offering a systematic but voluntary savings plan to employees. If the employer has some kind of contribution-matching arrangement, employees may feel greater loyalty to the company. Such a matching arrangement is tax deductible to the employer without increasing the taxable income of the employee. These are all compelling reasons why owner-managers may wish to investigate the PRPP as a possibility for their business if permitted under their provincial legislation.

TECHNOLOGY

Three, Two, One

Backing up your files is a good habit to get into.

We have been inundated in the last decade with a plethora of devices to back up data. Most owner-managed businesses will have some form of relatively recent hardware for backups, whether it is burnable DVDs, ultra-portable USB flash drives or high-capacity hard drives (e.g., redundant, external, or network drives). Most recently, off-site backup services have become increasingly available via "The Cloud," with convenience extolled as a key selling feature.

So, what is the best backup solution for your business? The answer depends largely on the size of your business and the number of computers you need to back up. Regardless of how many employees or computers you have, one maxim holds true: at least three backups are required to protect business data. In addition, multiple physical locations should be used to store backup data.



The Cloud for Storage

Cloud data storage solutions have some inherent and appealing advantages, such as the ability to provide simultaneous access from multiple locations by multiple devices. Depending upon the service, backups may even happen in near-real time (i.e., after saving a file it may get immediately uploaded to the Cloud). There are also some services that assure the client has communication security and that the provider

has redundancy and backups of their own in place. Provided the service is legitimate and reliable, a cloud server may be able to meet all the requisites for protecting your data.

Cloud backup and data storage can be expensive.

While cloud-based backup and data storage solutions may provide you and your business with many or all of your backup needs, there are some potential drawbacks worth considering. Online backup services operate over the Internet, which will tax your bandwidth and count towards your monthly data cap; if you have a lot of data to back up, this could be an issue. Additionally, while you will avoid the initial upfront capital cost of a physical backup and a data storage device, such as a hard drive, backup services generally require a monthly or annual fee, which can add up over time. Many services start at around \$5-\$10 per month per computer, although some companies charge based on data usage or data transmission. Internet-based services may also be susceptible to various outages and issues that can occur anywhere between (and including) your computer and the provider's servers, including all of the routers and servers along the way from your office and Internet provider.

Multiple Storage Locations

Why do you need more than one backup medium and multiple locations?

Consider that the following could occur at any time:

1. Computer components, such as the hard drive, can fail.
2. Power surges can fry your computer. (A good surge protector or UPS could prevent this.)
3. Your power can falter, or fail, for an unpredictable length of time.

4. Your Internet can also fail during an outage, after exceeding your bandwidth cap or for other reasons.
5. Computers and/or external storage drives can be stolen.
6. Physical damage can occur to the laptop, desktop or server.
7. Your computer can be infected by a virus or Trojan.
8. Your backup device could fail, leaving your data unrecoverable.
9. Critical data can be erased or overwritten, either maliciously or in error.
10. Your Cloud provider could have an outage.

The Three-Two-One Rule

If you're backing something up, you should have:

3. at least three copies,
2. in two different formats,
1. with one of those copies off-site.

Murphy Said It Best

Murphy's law states: "If anything can go wrong, it will." Keep in mind that at any moment, any of the 10 items listed above could stop your business cold. Your very ability to keep your business running could depend on having multiple copies of your data in a number of secure locations. Whether you choose to have multiple computers backing each other up, external physical drives, or a Cloud-based solution, the most important thing is to keep your data safe and secure.

Consider backup a part of your regular routine. When disaster strikes, your ability to recover quickly will make you smile with the knowledge that in the face of diversity you came through unscathed. There is wisdom in not putting all of your eggs in one basket.

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