

Autumn 2001 issue

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NEWSFLASH

We are always looking at ways to make doing business with us easier. One of the things our clients want is to be able to pay their bills with VISA and at the same time earn valuable points from VISA. So, effective immediately, we will be accepting VISA for all invoices. Hopefully, this takes away a little of the pain associated with paying taxes.

Crystallizing Your Capital Gains Exemption ("CGE")

Canadian tax legislation currently allows for generous tax treatment on the disposition of certain types of shares typically held by the owner/managers of private Canadian corporations. Essentially, the CGE provisions allow for a tax-free gain of up to \$500,000 on the disposition of eligible shares.

The crystallization of your CGE is a common and effective tax planning technique used to take advantage of this legislation. When the value of your company has increased significantly above the original cost of your common shares, crystallization of your CGE may be an appropriate strategy for you.

The criteria for determining the types of shares that are eligible for the CGE are stringent, complex and dependent, in part, on the composition of assets within the company. Therefore, it makes sense to consider this transaction now while your company still qualifies or take the steps necessary to "purify" your company to ensure your shares will qualify. Furthermore, it is unclear how long the legislation will continue to allow the CGE. Crystallizing your CGE now will eliminate the concerns of maintaining eligibility and any possible repeal of the legislation.

A capital gain is the realized increase in value of capital property (e.g. common shares held in a business) over its original cost, on disposition. Currently 50% of a capital gain is included in the taxable income of an individual.

The CGE is a favorable tax incentive program, whereby up to \$500,000 of the capital gain realized on the disposition of shares in a Qualified Small Business Corporation ("QSBC") is tax-free. The \$500,000 limit is the lifetime amount per individual and may be

reduced by prior tax events (i.e. allowable business investment losses, cumulative net investment losses, prior year capital gains deductions). Therefore, verification of an individual's available exemption limit must be made before pursuing this transaction.

You crystallize your CGE by exchanging your existing common shares for preferred shares with the same FMV. However, for tax purposes, you elect that the common shares are deemed sold for an amount equal to your original cost plus your remaining CGE room. On the exchange, the original cost base of the common shares transfers to the preferred shares and is increased by the amount of your available CGE limit. Therefore, when the preferred shares are eventually sold to a third party, the capital gain will be reduced by the same amount, thus reducing the taxes payable on the disposition.

New common shares are then subscribed for by the owner/manager at a nominal amount. All the future growth in the value of the company will attribute to these new common shares.

There are other benefits. The crystallization of your CGE combined with an estate freeze can provide for a tax effective transition of future growth to other family members. In this case, the participating family members subscribe for the new common shares while the owner/manager retains only the preferred shares. Special rights may be attached to the preferred shares to ensure that control of the company is retained by the owner/manager. As the business continues to grow, the successors may also be able to take advantage of their own CGEs.

There is a caveat, however. This transaction is extremely complex and the description in this article has been simplified. In addition, it may not be appropriate for everyone. Please call the Tax Group at Williams & Partners to discuss whether this is appropriate for your business.

Risk Management

Have you ever read your commercial property policy and wondered what the statement "a clause in this policy may limit the amount payable" meant? It may mean that you don't have enough insurance in the event your business suffers a loss.

This is what is known as a coinsurance clause. Coinsurance represents the portion of your company's risk for which you are a co-insured. An example of how this clause can affect your company in the event of claim is as follows:

You have assets insured for \$1,000,000. Your business has a fire and \$750,000 of assets are destroyed. This may be an extreme case, but it proves a point. Through the claims process, which often takes a long time, it is determined that your total insurable assets are worth \$1,500,000. This is because you have added some assets over the years when you built more offices and purchased new machinery and equipment. And you didn't tell your broker upon your policy renewal.

A common statement after such an event is "good thing we didn't lose it all or we would have been out \$500,000." The fact is you are out money. The coinsurance clause in your commercial property clause protects the insurance company from writing risks that they are unaware of. In other words, since the insurance company didn't know about the additional assets, there was no way they could write a policy insuring them.

You can calculate the insured loss as follows:

$$\frac{\text{INSURANCE IN FORCE}}{\text{REQUIRED INSURANCE}} \times \text{THE AMOUNT OF THE LOSS} = \text{INSURED LOSS}$$

This is also known as:

$$\frac{\text{DID}}{\text{SHOULD}} \times \text{LOSS}$$

FRIENDLY REMINDER

By now, you should have received your Notice of Assessment for your 2000 personal tax return. If you haven't mailed or faxed it to us already, please send it to us as soon as you can so that we can be sure that you were assessed as filed. This is also a great time of year to start planning for this year's taxes. Please give us a call soon to arrange an appointment to discuss your 2001 personal income taxes.

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In this case

$$\frac{1,000,000}{1,500,000} \times 750,000 = 500,000$$

The insured loss from this example is \$500,000. Since you lost \$750,000 in assets, you will have to pay \$250,000 to fully recover the assets that have been lost.

Most businesses don't insure 100% of their assets because they don't think that their assets will ever be totally destroyed. Therefore, they don't want to pay for the insurance coverage. The insurance company, on the other hand is saying, well, which part are you insuring and which part are we insuring if you choose not to insure 100% of your assets. They deal with this by invoking the coinsurance clauses.

There are three ways to ensure you have the right insurance.

- 1 Call your broker and ensure he knows every aspect of your business including the value of what you are insuring.
- 2 Insure to value so that in the event of a claim, there is no coinsurance penalty.
- 3 Purchase stated amount insurance that will get you out of the coinsurance clause.

One final point. If you over insure in any year, some policies allow for a premium refund. If you have any questions or concerns about your insurance coverage, please give us a call. We would be more than happy to advise you on what level of insurance is best for your business.

ONTARIO EMPLOYMENT STANDARDS ACT ("ESA")

Hours of Work and Overtime

New rules came into effect on September 4, 2001 regarding the number of hours an employee may work in one week. As before, the daily limit is eight hours of work a day, or the number of hours in a regular work-day established by the employer. The weekly limit is 48 hours. Under the ESA, employees can agree, in writing, to longer daily and weekly work (up to 60 hours a week) without the employer having to get approval from the ministry.

Eligible employees receive overtime pay after 44 hours of work each week at the rate 1 1/2 times the regular rate of pay. Employees have the option of taking time off at the rate of 1 1/2 hours for each hour of overtime worked, instead of overtime pay, if they and their employers agree in writing. If an employee and employer agree in writing, the employee's hours of work can be averaged over a period of time not to exceed four weeks for the purpose of determining whether overtime is due. The employer no longer needs a government permit to do this.

Don't Get Knocked Out of the Ring

In the current highly competitive business environment, low pricing is becoming less and less of a successful competitive strategy. However low you pitch your prices, someone will be clever (or stupid) enough to provide the product or service at an even lower cost. When that happens, you've got a fight on your hands to avoid going out of business with them! Instead, companies in every industry are now adding muscle to their competitive edge by stressing quality and value.

Adding value to your products or services is a way of pumping up your service offering without necessarily adding to your costs. It means that your customers are gaining some additional advantage that they would not get elsewhere (without having to pay for it or by paying very little compared to its perceived value).

It's the differences your potential customers perceive about your business that make them want to buy from you rather than somebody else. A Unique Core Differentiator is a critical tool to help your potential customers clearly understand the added value your business can provide—the things that really set you apart from your competition. Your Unique Core Differentiators can make the difference between being a contender and being a champ. In one statement it tells prospective customers exactly why they should buy from you and reminds current clients why they continue to deal with

your business. A well-formed differentiator targets the hot buttons, real buying concerns or key frustrations of your clients. Unique Core Differentiators give you a fighting chance.

How do you find out what those key issues are? Just ask! Talking to your customers in a structured way, on a frequent basis, with specific outcomes in mind lets you focus your energies on creating an experience that will keep them coming back to you instead of your competitors (as well as referring new business to you). We recommend you conduct frequent customer advisory boards to do this.

When people buy from you, they're actually buying the differences they perceive about your business. That means you must differentiate yourself (or at least give the perception that your business is different).

Those differences could be that your business actually does offer a better, more unique product or service, or that the specific way you deliver the product or service brings better results for your customers.

But perhaps you can't think of anything that really makes your business different. In this instance, it's important to review the way you do business and create some differentiation. We can help you with this. Contact us to assist you with some ideas and support in this area.

Co-op Students - Your Business Advantage

The reality of business today is that attracting and retaining quality team members is extremely important but also very difficult. One strategy to help with this problem is to become involved with co-op programs offered by universities. The co-op program offers employers the opportunity of hiring the brightest students before they graduate. Co-op students are specially selected through stringent admissions criteria. Most universities require an academic average of 85% or better as a part of their admission requirement, which places co-op students in the top third of their class. Furthermore, the student's academic progress is monitored throughout their course of study to ensure that they continually maintain high academic status.

The hiring of a co-op student is similar to normal hiring practices, except you have a defined target market. The employer must submit a job description to the co-op office by a pre-set date. The co-op coordinators will then post the job and receive resumes from any co-op students that are interested in the job. These resumes are then sent to the employer, who reviews the resumes. The potential employer informs the co-op office as to which candidates they want to interview. Interviews then take place and the employer's chosen candidate will be presented with an offer through the co-op office.

There are many benefits associated with hiring a co-op student.

From a student's point of view, co-op placements provide them with the opportunity to apply the skills learned in the classroom to real world scenarios in many different fields. From an employer's point of view, co-op programs provide their company with flexible year round availability of co-op students through a unique combination of alternating work and study periods. This can be especially beneficial to businesses that have peak seasons by allowing employers to hire more students in the periods of high work-load in order to satisfy their customers needs. It also provides an opportunity to "grow your own" team members. You can train them in your systems and teach them how your business works.

Businesses involved in the co-op program are eligible for the co-op tax credit in their corporation tax return. The provincial government provides a tax credit of up to \$1,000 for each co-op student hired during the year. This serves as a mechanism to encourage the hiring of co-op students as the tax credit will reduce taxes and increase the value of the business. For more information regarding the co-op tax credit, please call the Tax Group at Williams & Partners.

It is highly advantageous for both employers and students to take part in co-op programs. More information regarding co-op programs can be obtained by calling the University of Toronto at 416-287-7361, the University of Waterloo at 519-888-4026 or Wilfrid Laurier University at 519-884-0710 ext. 4484 or call Williams & Partners directly.

CLIENTS IN THE NEWS

Congratulations to Pancap Inc. A specialty pharmaceutical manufacturer and a client of Williams & Partners, the

Markham Board of Trade has awarded Pancap the Business Excellence Award for Innovation.

W&P News Bits

NEW, RETURNING AND MOVING TEAM MEMBERS

Bigger and better! Williams & Partners would like to welcome our new TEAM members.

Our Forensic and Investigative Accounting Division has been growing at a fast pace. To keep up with this growth we have hired three team members. We are delighted to welcome Max Patel, CA, April Cugalj, CA and Miki Wu. Max began his career with a national accounting firm and then went on to private industry in Controller positions, most recently with QSP Inc. April comes to us from another accounting firm where she acted as consultant on business interruption and income loss insurance. Miki is now working part-time to provide administrative support. We would also like to welcome Linda Merk and Janine Campbell who have joined the firm in administrative support positions. Linda has held various administrative positions, most recently in a national accounting firm, and in various companies in the financial sector. Janine comes to us from a local accounting firm in London, Ont. She will be working with the Tax Group.

Two new co-op students have joined us for the September to December term. They are Ian Pinto and Fiona Leung. We appreciate the opportunity to participate in the development of the next generation of accountants.

Welcome to the firm.

Minna Kuo has returned to the firm after taking maternity leave to be with her baby Matthew. Jackie Pincente has moved into the Insurance and Forensic Accounting Division as full-time administrative coordinator.

BIRTHS

Laura Yule had a bouncing baby boy on August 28, 2001. Evan Lachlan Stuart was delivered at home and weighed 8 lbs 13 oz. Congratulations to Laura, her husband Michael and big brother Ben.

ABOVE AND BEYOND...

In recognition of his hard work and positive contribution to the firm, Robert Pellegrini has been made Vice-President of the Forensic and Investigative Accounting Division of Williams & Partners Inc. Congratulations, Rob!

NEW EMAIL ADDRESSES

As we told you in the summer edition of The Quarterly, we have recently updated our email system. We have now adopted new email addresses in order to make them more 'user friendly'

for our clients. Our new format is:

firstname.lastname@williamsandpartners.com

For example:

wendy.pettey@williamsandpartners.com

This new naming system came into effect on June 1, 2001. Our previous email addresses will still be valid but we hope that this format will be easier for you to remember.

CHARITY INITIATIVES

The Williams & Partners team, in our effort to contribute to the community, has adopted the Markham Stouffville Hospital as our charity. We will be planning fundraising events throughout the year that the entire team can participate in.

CLIENT'S CORNER

ALPHA WASTE & RECYCLING SYSTEMS INC.

Alpha Waste & Recycling Systems Inc. began business in 1999 because the owners saw an opportunity to exploit the tremendous growth in York Region. Alpha Waste is a family owned Canadian enterprise providing collection, recycling and disposal services to the construction industry in York Region.

Despite the opportunities that were available to Alpha Waste, they knew that they needed a solid business foundation in order to manage their growth and be a successful business. They needed a sound financial plan right from the beginning that would give them something to aim for. They came to Williams & Partners to see Joe Pirrello. Joe highly recommended that they prepare a business plan including a financial forecast. They sat down together to discuss what kind of business they wanted Alpha Waste to be. Based on their knowledge of the market, they forecasted what their potential sales would be for the first twelve months of operation. They had also done research into what their costs were going to be. After forecasting sales they could determine capital equipment requirements and staffing needs.

The business plan went beyond just numbers though. Once the management of Alpha Waste had determined their goals, they had something to aim for - but they needed to know how they were going to get there. Joe helped them to determine not only their financial needs, but also their operational and marketing needs.

Now, more than two years after starting Alpha Waste, the company has exceeded all expectations and experienced tremendous growth. They know opportunities exist to continue with this growth. And they have been able to manage this growth because they started with a solid plan and defined goals, which gave them something to aim for.

CONTACT US You can reach us by phone at 416-969-8166, e-mail at team@williamsandpartners.com, or on-line at www.williamsandpartners.com.