



WILLIAMS & PARTNERS
CHARTERED ACCOUNTANTS LLP

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Williams & Partners is winner of the Two Year Co-op Partner Award

The Two Year Co-op Award, presented by the University of Toronto at Scarborough's Co-op Department, is granted to companies in appreciation for hiring a minimum of one co-op student in each four month term for two years. Accepting this award on behalf of the firm at the Management and Economics Student Association's (MESA) annual banquet were

Geoff Bustin, CA and John Trimble, CA. Williams & Partners is known for encouraging and welcoming co-op students to return for all three of their co-op work terms, as well as hiring these students full time after graduation. The firm's friendly and respectful environment enables co-op students to learn more about public accounting and its practices while working towards their CA designation. Congratulations!

Entering the U.S. Market by Enzo Morini, CA

The close proximity, vast size and a favorable trade agreement have made the United States the expansion market of choice for many Canadian businesses. Expansion may contemplate the solicitation of products or services, acquiring a competitor, hiring an employee or setting up an office.

Foreign tax policies and aggressive state collection practices may lead to hidden traps for the unwary. Careful income tax planning must first be considered.

Canadian Taxation

A corporation resident of Canada is taxed on its worldwide income. Accordingly, a Canadian corporation with export sales is taxable in

Canada on all such sales. The Canadian corporation may also be subject to tax in the foreign jurisdiction.

In many cases, however, if the foreign country has entered into an income tax treaty with Canada, such as the U.S., and the Canadian corporation does not have a permanent establishment in the foreign country, it would not be taxable in the foreign jurisdiction on its related business profits. If treaty protection is not available, the Canadian corporation may qualify for relief from additional taxes through our foreign tax credit system.

Use of a U.S. Subsidiary

Operating in the U.S. through a U.S. subsidiary company would result in the subsidiary's worldwide income being subject to U.S. federal and state corporate income tax. The corporate federal rates of income tax in the U.S. range from 15% to 39%. The U.S. state income tax rates vary from 0% to 12% and are deductible for the purposes of calculating U.S. federal taxable income.

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A Friendly Reminder

With a sigh of relief we can now say that personal tax season is over. A reminder to all our clients who are sole proprietors, the deadline for filing your personal income tax returns is June 15th.

The Notices of Assessment for your 2002 personal tax returns should be arriving in the mail soon. If you have not already done so, please

provide us with a copy of those notices so that we can ensure your 2002 returns and any prior years' adjustments have been properly assessed.

As you may be aware, the Notices of Assessment provide you with your Registered Retirement Savings Plan (RRSP) contribution room. Now is a good time to be discussing RRSP contributions with us.

The U.S. subsidiary will not be subject to Canadian income tax unless it has Canadian source income earned through a permanent establishment in Canada.

The combined Canadian and U.S. (federal and state) income tax rates with respect to income earned in the U.S. and ultimately paid out to a Canadian resident individual will be approximately 60%. This is approximately 12% more expensive than earning income through a Canadian entity.

Overview of U.S. Rules

A Canadian company selling into the United States will want to ensure that it is not subject to U.S. income tax. This can be achieved by ensuring that it does not have effectively connected income with a U.S. trade or business or that its sales into the U.S. are subject to treaty protection.

The Internal Revenue Service's Code defines "effectively connected income" by reference to the sources of income. The source rules generally provide that if title to the goods sold by a company passes outside the United States, the income earned is not regarded as U.S. source income. However, the income may still be considered to be effectively connected income if the non U.S. corporation has an office or a fixed place of business in the United States to which that income is attributable.

An office in the United States or fixed place of business of a foreign corporation includes a fixed facility. However, the Code provides that a U.S. office or fixed place of business of a foreign corporation does not include an office or other fixed place of business of a foreign corporation's dependent agent, where the agent does not have the authority to negotiate and conclude contracts in the foreign corporation's name, or the agent does not stock merchandise owned by the foreign corporation from which orders are regularly filled on behalf of the foreign corporation.

A foreign corporation's independent agent, notwithstanding that the independent agent may have authority to negotiate and conclude contracts, is not considered a U.S. office or fixed place of business of that foreign corporation.

Treaty Protection

Article VII of the Treaty provides that a foreign corporation is not taxable in the U.S. unless it has a permanent establishment in the U.S. The standard for determining what constitutes a permanent establishment is generally much higher than the standard for determining what

constitutes effectively connected income with a U.S. trade or business.

A corporation relying on the Treaty to reduce or eliminate U.S. tax liabilities that would have been otherwise payable in the absence of the Treaty is required to file a U.S. income tax return. Failure to comply with these provisions may result in all deductions being denied.

U.S. State Income Taxes

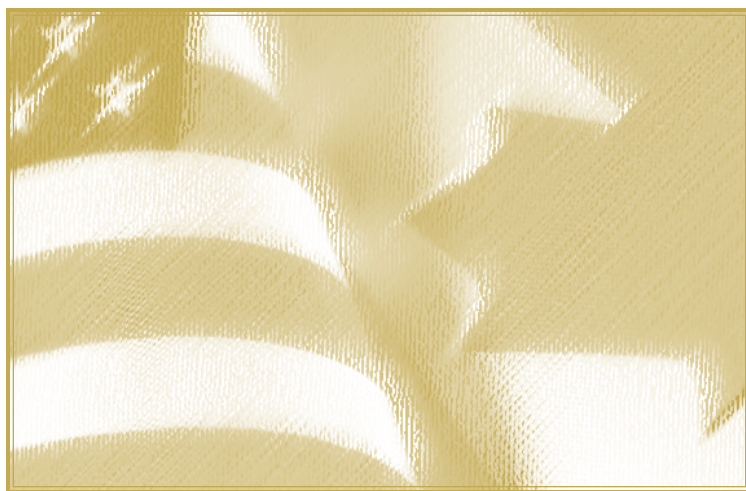
U.S. states do not recognize the permanent establishment exemption under the Treaty. Accordingly, although a corporation may not be subject to U.S. federal tax, it may still be subject to state tax under the U.S. states' more stringent "nexus" rules. These rules vary by state.

Avoiding Taxation in the U.S.

In order to ensure that selling into the United States is not subject to U.S. taxation, a Canadian corporation should consider the following:

- ensure that the title to goods sold passes outside the United States;
- sell through an independent U.S. distributor; and
- file a nil U.S. income tax return.

To learn more about the income tax planning required before expanding into foreign markets, contact Enzo Morini of the Williams & Partners tax group



HR TIPS

- ✂ The quality and style of your leadership will be key to the motivation levels of your team members and to the success of any action you take to enhance their motivation.
- ✂ Your arrival in the office and the first moments you spend with team members each day have an immeasurable impact on their motivation and morale, so start the day right. Share the goals and expectations for the day. Let your team know that today is going to be a great day – you can make their day.

NOTICE

Williams & Partners distributes tax tips on a regular basis via email to our clients. If you wish to be on our email distribution list for tax tips, please contact Wendy Pettey at (416) 969-8166, ext. 229, or by email to wendy.pettey@williamsandpartners.com.

COMPUTER DATA BACK-UP (conclusion)

by Radek Costa-Sarnicki, CA, MAcc

Operating System Backup Alternatives

The Backup tool under Windows 98 lets you perform partial or comprehensive backups on your system. You'll find it in Accessories, System Tools and it works well for average backups. It doesn't integrate with any backup hardware other than a tape drive, but you can create a backup set on your hard drive and then transfer it to CD-R or RW yourself.

The Windows 2000 version of Backup includes a built-in scheduler, letting you backup to another PC on a network or to your media automatically.

The Home and Professional versions of Windows XP (as well as Windows ME) System Restore module takes periodic snapshots of your system and lets you easily switch back to one of them. Since System Restore doesn't change any user-created data, all of your documents, e-mails, and other files should be safe during the rollback process.

“There are two types of computer users: those who have lost data and those who will lose data.”

Here are some general rules and tips that apply to any method of data saving:

Test your backup.

It doesn't matter how well implemented your backup system is – you have to be sure that it will work properly when needed. So run the restore functions through its paces and ensure that everything gets back into its rightful place without error. Try it on another system if you have one available. Even if you're using manual means, such as writing to CD-RW, and don't have restore tools built in, be sure that you're able to manually transfer your files back to your system.

Adhere to a schedule.

Ideally, you can use a backup strategy that automates the process so that

periodically, whether you remember or not, your data gets safely squirreled away. Some users may require daily backups, and some may require backups more frequently. If your backup option doesn't feature its own scheduler, make the backups a part of your routine that you won't forget. And don't forget.

Keep a copy off-site.

Whether it's online backups, tapes in a safety deposit box, or simply dropping a CD-RW off at a friend's house, keep a copy of your backup away from your PC's environment. The likelihood of a fire or burglary may already be slim, but by keeping a backup off-site you can dramatically reduce the chance of data loss.

Perform incremental backups.

Even if you perform complete backups at the end of each week, moving any new documents, e-mails, or other files to your storage media, you can still save along the way. You can save files every 20-30 minutes to hard disk, and then store the files to an alternative media like floppy, Zip, external hard drive, USB drive etc. at the end of the day. Alternatively, if files are not too big, you can email yourself, attaching the file – it will serve as a temporary backup facility.

Rotate your backup media.

Keep three or four backup sets in rotation. That way it's easier to keep a copy off-site. And then if something goes wrong with the most current set, you'll at least have an older set or two to fall back on. Also make sure you have extra blank disks or tapes on hand.

Label your backups clearly.

Don't count on your memory when it comes to backups. Write down the contents of the backup media and the date of the backup.

On this note – happy and safe computing!

TAX TIP “Interest Deductibility”

Interest on borrowed money used to earn income from a business or property is deductible for income tax purposes. However, interest on borrowed funds used to purchase personal assets, such as a home or auto, is not deductible.

Several planning techniques are available to convert a non-deductible debt to a tax deductible loan. For example, a debt-free investment asset (i.e. securities) may be sold for proceeds which are used to retire a personal debt (i.e. mortgage). The home will now be re-mortgaged and the funds will be used to repurchase the investment assets. The interest now becomes tax deductible.

The above strategy and similar plans have been validated by the Supreme Court of Canada in recent decisions, much to the chagrin of the Canada Customs and Revenue Agency.

In the recent Federal Budget, the Department of Finance voiced their displeasure with the recent Supreme Court decisions and proposes to introduce legislation restricting interest deductibility.

Taxpayers should review their debt positions and consider restructuring their borrowings prior to the introduction of these proposals.

TAX TIP deals with a wide variety of issues. Readers are urged to consult W&P prior to acting on the basis of material in this Tax Tip. If you have any questions regarding the content of this or any other Tax Tips, please contact the W&P Tax Group.

W & P NEWS BITS

Welcome!

Fiona Waite, CA

Fiona Waite joined the firm in February 2003 as a member of our audit team. Fiona is an experienced Chartered Accountant who began her career with an international accounting firm and then went on to gain several years of experience at various public accounting firms in both Canada and England.

Welcome, Fiona!

Brenda Weiman

Brenda Weiman joined the Williams & Partners' team in January 2003. An experienced Administrative Assistance, Brenda spent time in accounting and administrative positions with various companies. She joins our Administrative group, and has assumed the role of assistant to Carlo De Pellegrin, CA.

Welcome to the firm, Brenda!

On the move....

Wendy Chan, CA,

formerly a member of the public accounting team at Williams & Partners, has made the move to our Forensic and Investigative Accounting division. Wendy has filled the position of Forensic Accountant in the rapidly growing division.

Good luck, Wendy!

Geoffrey Ng, CA,

who formerly worked in assurance services at Williams & Partners, has now joined the tax team. Geoff is excited about the opportunity to work with our clients in this new role.

Good luck, Geoff!

Returning....

Suzi Monastero

We are pleased to announce that Suzi Monastero, after spending the last year at home enjoying time with her new baby daughter, Jessica, returned to the firm in April 2003.

We missed you Suzi, welcome back!

CLIENT'S CORNER



Sardo Foods

About 30 years ago Mario Sardo began importing specialty foods from Europe. These foods were specifically targeted to the Italian consumer and included pastas, olive oil, tomato paste, specialty cakes and pastries and bottled mineral water. He recalls how grocer's initially balked at the thought of consumers wanting to pay for bottled water. Now bottled water is a household staple in Canada and around the world.

It is this type of insight and forward thinking that has launched Sardo Foods into the forefront of the specialty foods industry. Over the years, the Sardo line has expanded to include prepared antipastos, salads, spreads, a wide variety of olives and olive oils as well as other fine food products. Sardo Foods now produces the majority of its products at its plant in Brampton and continues to be a market leader in European deli type olives, salads, antipastos and other specialty foods. The company is the industry leader in private label olives of all types. The Sardo reputation of uncompromising quality, freshness and value continues to attract the most discriminating of consumers.

The Sardo line of products can be found in the deli section of all major grocery chains.

Over the past 20 years, Joe Pirrello, a Partner at Williams & Partners, has established a wonderful relationship with the Sardo family and looks forward to continuing to assist them in their future quest for excellence.

Contest Winners!

We are pleased to announce the winners of our T1 early bird draw for the 2002 year. The winners were picked at random out of approximately 800 returns received before March 31st, 2003.

Grand Prize Mel Dancy

- Toshiba Digital Camera

2nd Prize George Albino

- JVC DVD Player

3rd Prize Anna Colasante

- Gift certificate for \$100 at any SIR Corp restaurant

4th Prize Susan Armstrong

- Gift certificate for \$100 at any SIR Corp restaurant

5th Prize Michele Cadieux

- Gift certificate for \$100 at any SIR Corp restaurant

6th Prize Jane McCullough

- Gift certificate for \$100 at any SIR Corp restaurant

7th Prize Georgina Brown

- Gift certificate for \$100 at any SIR Corp restaurant

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.

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