WILLIAMS & PARTNERS
CHARTERED ACCOUNTANTS LLP

The Quarterly

Summer 2002 issue

Are you safe?

Risk management is a term that does not particularly inspire us until a disaster occurs. We all know someone who has experienced one of the following: a small fire breaks out in the warehouse causing loss of inventory or smoke damage, a pipe bursts in the ceiling causing water damage to office equipment and furniture, or a thief breaks into a place of business and causes damage.

You may think your insurance is in place to cover such disasters, but will it really?

What if the power goes out due to an electrical storm and you lose the entire day's worth of data? Do you have a comprehensive back up system in place for your computer data?

Williams & Partners has designed an introductory Risk Management Program that can help you assess some common business risks and assist you in implementing a plan that will help keep your company safe. Our program consists of assessing, with your assistance, the common risk areas that we see in many companies.

These areas include:
- insurance coverages (assessed in conjunction with your insurance broker);
- computer systems and computer data;
- confidential information; and
- other common business risks.

If you are not sure if you are covered, we can help. For more information contact your engagement partner at Williams & Partners.

Meal & Entertainment Expenses By Mike Capello, BAcc

When calculating income, a taxpayer may normally deduct reasonable amounts paid or payable for food, beverages or entertainment if those amounts are incurred for the purpose of earning income from a business or property or, in certain circumstances, from an office or employment. This would include expenses of commissioned sales persons and employees ordinarily required to work away from an employer's place of business.

Under the Income Tax Act:
- the deduction is generally limited to 50%;
- entertainment expenses include tickets and entrance fees to an entertainment or sporting event, gratuities, cover charges, and room rentals such as for hospitality suites;
- golf and other club dues and fees, excluding business-purpose meals consumed on the premises of a recreational facility, are non-deductible; and
- if a reasonable part of the fee for attendance at a conference, convention, seminar or similar event entitles a participant to food, beverages or entertainment (apart from incidental beverages and refreshments such as coffee, juice, donuts and muffins) and is not allocated or identified by the organizer of the event, then an amount of $50 is deemed to be paid or payable from the fee for each day that they are provided.

There are exceptions to these limits if:
- your regular business is to provide food, beverages, or entertainment to customers for compensation (for example, a restaurant, hotel or motel);
- you bill your client or customer for the meal and entertainment costs, and you show these costs on the bill;
- you incur meal and entertainment expenses to provide a Christmas party or similar event, and you invite all of your employees from a particular location (you are

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limited to 6 of these special events each year);
- you include the amount of the meal and entertainment expenses in an employee's income;
- the meals expensed are in respect of an employee working at a remote or special work location (the special work location must be at least 30km from the closest urban centre that has a population of 40,000 people);
- the cost of food and beverages is included in the ticket price for travel on an airplane, train, or bus; or
- the meal and entertainment expenses you incur are for a fund-raising event that was mainly for the benefit of a registered charity.

Finally, the GST follows the same rules. That is 50% of the meal and entertainment expenses are not eligible for an input tax credit or rebate where the expense is subject to the 50% add-back for income tax purposes, and no credit or rebate may be claimed where the amount is 100% non-deductible.

Data Backup — Basics (Part 1). by Radek Sarnicki, CA

Backing up personal or corporate data has become a religious duty to many people, especially after experiencing a hard drive crash where information and files are wiped out, corrupted or become inaccessible. It happened to me quite recently, where a week's worth of work disappeared due to a computer crash. Sixteen non-chargeable hours later, the file was restored to its original state.

Lost productivity, lost time, extreme frustration and stress. Many of us are all too familiar with this scenario, yet as time passes we seem to forget the experience.

Since my last crash I tend to be extremely cautious — while working at a client's site, backing up my work data before shutting down my laptop is a regular, never to be omitted step. How many of us do it on a regular basis? It is estimated that less than ten percent of all users back up their crucial data. On the other hand, current technologies allow for rather fast and relatively painless procedures.

What to backup?

The first action item on the list of backup needs assessment is to ascertain what data you are planning to back up. Depending on what you want to back up — operating system, applications, personal data and/or the entire hard disk, will determine how much backup room you'll need. Ideally, you'll want to back up to a location with twice as much space as you currently need, giving you room to grow without having to change your backup strategy.

Personal files are usually a priority and should include important documents, e-mails, address books, web favourites, and anything else that you've added to or changed on your system.

Registry backup is another issue requiring attention. Frequently backing up the Registry can save you a lot of headaches if your system crashes. With Windows 98 and ME, use RegEdit to create a backup copy of the Registry. With Windows 2000, you can use the Backup utility to save the Registry. While with Windows XP, use the export option in the Registry Editor.

You also have to choose what kind of backup to perform: partial or comprehensive. Partial targets, mostly personal files, require much less space yet need more time to prepare. A comprehensive covers the whole system requiring a very specific medium to be able to fit in all contents of your hard drive.

Daily, weekly or...

You can set your own schedule depending on how often your data changes. For the average user, as per most educated techies, backups performed on a weekly basis should be enough, unless critical data changes significantly during the week. Quite often, daily or more precisely nightly backups do the trick. The question to be answered remains the same: how much data can you afford to lose? But whatever schedule you choose, follow it religiously. You want it to become your second nature, no matter how much in a hurry you are.

Backup hardware

How often you perform backups and how big they are will determine what hardware you will be using. Most newer computers already have a CD-RW drive, which is enough to backup approximately 650MB of data. If the space required for your backup is constrained by the CD-RW's capacity, then a DVD-Rewritable would provide a solution, even though it is still much pricier than a CD-RW. While they are not as common as they used to be, tape backup drives still handle large amounts of data in a cost-effective manner. If you are working 24/7 with your laptop, and cannot afford to carry around anything bigger than a key chain, USB flash drives offer a comprehensive solution to backing up important data on an ongoing basis.

These are some of the basics dealing with data backup. In my next report I will cover more advanced issues in this area.

TAX TIP "Reasonable Expectation of Profit ("REOP") and Restructuring Debt"

It appears that the Canada Customs and Revenue Agency has now lost a significant weapon from its arsenal used in challenging taxpayers on the deductibility of expenses (and the creation of losses) due to the lack of REOP. In two recent Supreme Court of Canada decisions, the Court found that the REOP argument should not be used unless there is a personal element to the business and, only then if it is not clearly a commercial enterprise.

Prior jurisprudence has confirmed that a taxpayer may organize and structure his/her affairs to be as tax efficient as possible (within the law). Where there is a personal element to a business and REOP may be of issue or under CCRA review, the removal of debt connected to this business should be considered. For example, if other investment assets are held debt free, the sale of these investments followed by a repayment of the debt due with respect to the business and a reborrowing of funds to repurchase the investments will leave the taxpayer with deductible interest expense and less exposure to REOP challenge.

TAX TIP deals with a wide variety of issues and the information is general in nature. As each person's circumstances are unique, 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.

Corporate Relocation and the role of the Project Manager

An Insurance Policy for Changing Times By Gregory I. Parker

Changing your corporate environment - whether through renovation, relocation or restructuring, is a major undertaking. Many organizations underestimate the volume of work and complexity that corporate change requires. Be aware that your relocation or renovation is the final step in a complex process and it touches more people directly, including your staff and your clients, than any other part of the process. In order for your project to be recognized as a success, the process must be expertly managed. Managing such change drains scarce corporate time and resources, and it can force staff into managing an unfamiliar process.

Most companies do not have personnel with the necessary skills and experience to deal with all the suppliers, the design consultant, construction manager and trades, other consultants, and internal personnel such as finance, HR, and IT responsible for the communications infrastructure.

This is where your insurance comes in: in the form of an experienced relocation project management firm. The project manager's expertise is in the coordination of all these service and product suppliers. The project manager [PM] is an independent consultant who should have experience in all sizes and types of relocations, knows what is required and when, and be well versed in the minute details that collectively make up the overall relocation or renovation process. Remember: your new location is where you'll be doing business for the next ten to twenty years and your facility will certainly impact the way in which you operate. So it is critical to recognize that you'll only have one opportunity to "Get It Right The First Time". Getting it wrong can, at best, be unnecessarily time consuming and expensive and at worst, it may jeopardize your company's future.

The PM's involvement begins with a rapid familiarization process including team selection and facility site reviews. The PM's first major deliverable is a team established Master Project Schedule. The team reviews the schedule on an on-going basis to maintain discipline and to ensure a common focus and understanding throughout the project.

The hundreds of details are vitally important and must be addressed in a timely manner. Tasks such as assessing those assets you wish to retain and where they are to be located; specialty requirements such as file rooms or heavy items; assessment of existing furniture and it's allocation on floor plans; managing the procurement of new product, planning the transfer of your communications infrastructure, etc. Then there is the supplier selection process for a wide variety of products and services, to ensure you save money while avoiding future claims or extra billings:, designers, construction manager and trades, commercial and specialty movers, furniture dealers and installers, telecom consultants and suppliers, landlord representatives, and many other suppliers.

Your PM will establish detailed hour-by-hour move schedules, a comprehensive communications package including move bulletins, staff orientation sessions, move preparation guidelines, meeting minutes, and other publications, labeling schemes and detailed to-do checklists. The PM provides a hands on role with the goal of ensuring your staff and clients experience a seamless transition with minimal disruption. And at the conclusion of the project your PM will coordinate the final details, rectify

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deficiencies and reconcile supplier billings.

We all buy insurance for various eventualities that we hope will never occur. When relocating or renovating your office, plant, warehouse or facility, consider the project manager as a risk reducing insurance policy. Don't put your critical transition in the hands of inexperienced personnel. Hire a Project Manager and "Get It Right - The First Time".

Gregory I. Parker is the president of Parker Project Management Group Inc., a Toronto based project and relocation services consulting firm. He can be reached at gregp@ppmginc.com or by calling 416-977-7722 ext 28.

TAX TIP "Loan To Shareholder's Child to Finance Post Secondary Education"

Where a corporation lends funds to a shareholder and the loan is not repaid within one year after the end of the taxation year in which the loan is made, the amount of the loan must be included in the shareholder's income.

Where a corporation lends funds to the child of a shareholder, the amount is included in the child's income in the year received unless repaid within the time period discussed above. If any part of the loan is repaid, the recipient is allowed a deduction from income for that amount in the year repaid.

This presents a favourable tax planning opportunity.

Where a child is attending post secondary education and presumably earning little or no income, a loan from a corporation in which the child's parent is a shareholder will be included in the child's income but taxed at the lower marginal tax rates (provided the child is at least 18). However, a deduction will be allowed when any part of the loan is repaid (presumably when the child's education is complete and is into his/her higher income earning years) thereby offsetting income now taxed at the higher marginal tax rates.

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Independent Contractor vs. an Employee

Determining a worker's status can have significant legal, income and other tax implications to both a corporation and the individual.

Significant changes in workplace hirings, have forced corporations to hire select individuals under independent contract basis in an effort to minimize their payroll costs while trying to accommodate the individual. Corporations continue to engage professionals, trades people and executives with a view that the relationship is in the nature of an independent contractor. However, the Canada Customs and Revenue Agency ("CCRA") continues to challenge this position, wherein it is their view that an employment relationship exists.

The benefits of being considered an independent contractor, as opposed to an employee, include the possibility of deducting expenses reasonably incurred to earn income from the independent contactor business. In addition, the payer corporation will not be required to make any employer related withholdings or remittances.

If an employment relationship is determined, the corporation will be required to withhold income tax, Canada Pension Plan and Employment Insurance premiums from any payments made to the individual. In addition, the corporation may be required to make Employer Health Tax and Workplace Safety Insurance Board premiums in respect of the individual's compensation. To the extent that this is not done, the corporation may be subject to interest and penalties associated with not making the aforementioned payments. Further, directors could be held liable for the failure of paying these taxes.

While there is no set formula for determining whether a relationship is in the nature of employment or independent contract, the CCRA has looked to the courts for guidance. To this end, the following tests have evolved:

Control Test

If an employer/employee relationship exists, then the employer would normally have control over the day to day activities of the individual (i.e. hours of work, timing of breaks, holidays, supervision, etc.) On the other hand, if the individual has substantially all of the control associated with the work, including how and what is to be done, this would indicate the existence of an independent contractor.

Integration or Organization Test

This test examines to whether the services provided by an individual form an integral part of the business.

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Where these services are determined to be critical to the business, as opposed to being ancillary, an employer/employee relationship exists.

Economic Reality or Entrepreneur Test

This test looks to whether the person providing the services has the opportunity for profit or the risk of loss from providing that particular service. If the individual bears this risk, such risk tends to indicate that he/she is a self-employed person. On the other hand, if the individual is insulated from all economic risks, this will tend to indicate an employer/employee relationship.

Specific Results Test

Where a corporation agrees that certain specified work will be done for the other, it may be inferred that a self-employed relationship exists. On the other hand, an employee/employer relationship usually contemplates the employee putting his/her personal services at the disposal of the employer during a given period of time without reference to a specific result.

Generally, no single test is decisive or universally correct.

Assuming the individual meets all the requirements described above and qualifies as an independent contractor/self-employed person, he/she will be eligible to deduct business expenses with certain limits and exceptions. However, in certain circumstances, based on an employee's work contract, it is also possible to deduct a limited amount of employment expenses against employment income.

Self-employed individuals may also consider the option of incorporating their business. However, whether businesses incorporate or not, assuming an independent contractor relationship exists, it is still possible to deduct certain expenses. The benefits of incorporating may include the reduction and deferral of income tax and creditor proofing. The merits of incorporating will be discussed in more detail in a separate issue.

To learn more about planning for workplace hirings and contracts while avoiding exposure to adverse income and other taxes, contact Enzo Morini, CA of the Williams & Partners Tax Group.

CLIENT'S CORNER

Menardi Iron Design Inc. is a manufacturer of high quality wrought iron furniture. Combining four generations of craftsmanship and modern technology with the "new look steel", they have developed an industry leading in-house design and manufacturing team. Since their inception in 1988 they have enjoyed success in a niche market directed at residential and contract designers as well as the hospitality industry in North America.

After signing on with Williams & Partners in 1998, Menardi started to focus on reducing debt, expanding revenues and becoming a stronger force in the hospitality and retail industries. They have achieved an average 17% sales growth in each year since 1998.

The year 2002 has proven to be one of major changes. Their move to a new 36,000 sq. ft. location in Brampton has proven to be quite an undertaking. As you enter the showroom, the designs that Menardi are best known for, such as wrought iron tables, chairs, beds, etageres and mirrors, are tastefully displayed. The wrought iron is designed and built on the premises. Leather sofas and chairs and imported Italian wood seating complete the look. This showroom is directed to the design industry clientele, but as a manufacturer's showroom, is also open to others.

The Menardi team is looking forward to working with Nick Angellotti to begin to realize how to measurably increase the company's value through focus and goal setting.

Menardi will celebrate it's 15th anniversary in the year 2003. They are looking optimistically towards the future.

W&P NEWS BITS

Our Parking Woes

As some of our clients are already aware, finding a parking space when you come visit your favourite accountants has been more difficult in recent months.

In May 2002, major construction began on our building's underground parking facility. The construction also includes major work above ground, closing off sections of the parking area.

Our landlord advises us that this construction will continue until November 2002, weather permitting.

When visiting our building over the next few months, you will encounter signs throughout the parking area advising which sections are available to you. Overflow parking is also available directly beside our building at 625 Cochrane Drive (at the Scotia Bank building).

We apologize for any inconvenience this may cause and thank you for your patience and understanding.

New Team Members

Williams & Partners Inc. Forensic and Investigative Accountants, is pleased to announce a new addition to our team. Jeanette Ciccone joined us on June 10, 2002 as a Forensic Accountant. Jeanette is a C.A. with over 7 years experience at various public accounting firms. We are very excited that Jeanette has joined us and welcome her to the firm!

Williams & Partners, Chartered Accountants LLP is pleased to announce that Jubby Jaffer has joined our team in the position of Administrative Assistant. Jubby is a Caseware expert and comes to us from another public accounting firm.

Welcome Jeanette and Jubby.

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