

SPRING 2016

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the newsletter of Prentice Yates & Clark

Crowdfunding

Crowdfunding is a new way to raise money; however, be careful of the tax implications.

One of the latest means of raising money to start a new business, raise operating funds, or tackle costly research and development projects is to make a broad-based appeal for funds with crowdfunding. Crowdfunding is not new; it was used in the nineteenth century, especially in small communities, to fund local projects through subscription. For example, the monumental base for the Statue of Liberty was financed by a New York newspaper that gathered small donations from 160,000 donors. More recently, it has been used to fund tours of rock bands, and to produce movies, video games and inventions.

Social media have expanded the use of crowdfunding. Social media make it possible to reach a large audience that might be willing to make personal contributions for families with unmanageable medical bills, or to help needy individuals recover from catastrophic personal financial loss.

Why crowdfunding is so beguiling is anyone's guess, but its success cannot be understated. In 2013, an estimated \$51 billion was provided to crowdfunding appeals around the globe.

Crowdfunding and Business

Business entrepreneurs have also discovered crowdfunding as a new means of raising funds because it creates an alternative to traditional financial institutions. Further, the receipt of funds from complete strangers through crowdfunding removes the need for a business to provide the donor with shares, a promissory note, or to pay interest or dividends. At first blush, the recipient might think crowdfunding income meets all of the criteria of a windfall.



Crowdfunding is treated as income and therefore is subject to tax.

Not a Windfall

Because funds raised through crowdfunding are not a windfall or gift, they are treated as income and thus, are subject to income tax.

According to a Dec. 9, 2014 *Income Tax Folio S3-F9-C1, Lottery Winnings, Miscellaneous Receipts, and Income (and Losses) from Crime*, the CRA states that crowdfunding is a taxable benefit. As a starting point, the income tax folio states:

1.5 However, sometimes individuals receive a voluntary payment or other valuable transfer or benefit by virtue of an office or employment from an employer, or from some other person. In such cases, the amount of the payment or the value of the transfer or benefit is generally included in employment income pursuant to subsection 5(1) or paragraph 6(1) (a). (See also Guide T4130, *Employers' Guide — Taxable Benefits and Allowances*.) Similarly, voluntary payments (or other transfers or benefits) received by virtue of a profession or in the course of carrying on a business are taxable receipts.

The *Folio* continues with an example specific to crowdfunding:

Assume a business uses crowdfunding as a method of raising funds for the development of a new product and the contributors do not receive any form of equity. The amounts received by the business would be included in its income pursuant to subsection 9(1).

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Crowdfunding - continued

Subject to Tax

Whether the business organizational structure is a proprietorship, a partnership or a corporation, funds received from crowdfunding are subject to tax. If, as part of the crowdfunding activity, consideration is provided in the form of thank-you plaques, pens, T-shirts, etc., then these costs are deductible expenses. In addition, many campaigns raise money for a particular purpose. If spent for that purpose, little or no taxable income may result. If one also considers that financing costs are minimized along with the need for debt repayment and perhaps personal guarantees for the borrowed money, the income tax cost, if any, may not be onerous.

Selling Ownership

Some entrepreneurs want to use crowdfunding to raise equity capital. Securities regulators of British Columbia, Saskatchewan, Manitoba, Québec, New Brunswick and Nova Scotia have implemented or expect to implement registration and prospectus exemptions that will enable start-ups and early-stage companies to do just that. Companies will be allowed to raise up to \$500,000 in a year through approved Internet funding sites. No more than \$250,000 of this can be raised in one offering, however. No individual can invest more than \$1,500 per distribution. People will have the right to withdraw their money within 48 hours. Ontario has decided to develop separate standards. As would be expected, funds raised through an equity issue are not taxable to the recipient company, but any dividends or capital gains received by the contributors will be subject to income tax.

Be Aware of the Tax Implications

Raising money through crowdfunding, whether for operational, developmental or equity issue, is a relatively new means of raising funds and many budding entrepreneurs may not realize the tax implication of receiving crowdfunding money. For businesses or corporate entities considering using crowdfunding as a means of generating operating capital, it would be wise to consult your chartered professional accountant to determine the amount of tax for which they may be liable. ♦

Inside PYC

The annual conference of the Co-operative Housing Federation of Canada will be held in Hamilton, ON from June 8 to 11 with J.J. Pauze and Charlie Petralito attending. Please come and visit them at the PYC booth on Friday, June 10th.

Please join us in welcoming the following additions to our professional staff as they become integral parts of our audit team:

Kousha Nejatpour
Devinder Singh

Congratulations to **Sviato Romaniuk** for completing all the CPA professional education program requirements. He will also be attempting the CFE in May.



Marshmallow, Anyone?

Security of the mobile devices used in your business should be a primary concern.

Because mobile devices are able to take on more and more tasks traditionally performed by desktop computers, work done in an office environment can increasingly be done almost anywhere. As a result, the security features of the mobile device and platform should be important considerations for your business.

Marshmallow Introduced

In October 2015, Google released Android 6.0 “Marshmallow”, the latest version of their mobile device operating system. Google has strengthened security in a move to attract the business consumer.

Should you consider an Android switch in your business? Are you already an Android-based business wondering if your security is up to snuff? Is Marshmallow secure enough for small business?

Encryption

Marshmallow devices ship with full-disk-device encryption enabled by default although some exceptions are permitted for lower-end models that do not have sufficient computing performance to encrypt on the fly. Encrypting the entire storage capacity means all data and apps stored on the device will be essentially unreadable without the cryptographic key. Google has also enhanced the Verified Boot function, which checks to see whether the operating system has been tampered with.

If you are concerned about encryption on your other computing devices, full device encryption is available on Windows and Mac computers and is already on by default for iOS devices.

Flex Storage

A number of Android devices over the years have included a Micro SD card slot, which allows you to add more storage capacity. Most current models no longer ship with this feature; however, that may change with Marshmallow. Google’s Flex Storage feature allows the expandable storage to be formatted, encrypted and integrated with the main memory. This offers a secure way to substantially increase the capacity of your device without having to micro-manage what gets stored where. The downside, however, is that the memory becomes more or less permanent: if you remove your Micro SD card, apps stored on it will stop working; since it’s encrypted, anything stored on the card will not be readable on another device. Currently, iOS devices do not offer expandable storage as a feature.

Marshmallow, Anyone? - continued

Apps in Marshmallow request access to functions the first time they need them.

App Permissions

One of the biggest new security features in Marshmallow is a substantial change to the way apps may be granted access to certain functions. Previously, an app would request access to all functions it supported at the time of installation from the Google Play store. Apps in Marshmallow now request access to functions the first time they need them, such as a camera app requesting permission to use the camera. If an app requests access to a function you don't think it should have, you can say no and the rest of the app should still work normally. Permissions can also be reviewed and individually revoked at any time from the Settings. In iOS, app permissions already have this level of granularity.

Auto Backup

Another security feature is the automatic backup to Google Drive. Google will back up your data as long as there is a WiFi connection. Thus, if your device is lost, stolen or broken or if all your data is wiped out, you can restore it onto a new Android device. The iCloud Backup feature on iOS provides similar backup and restore capabilities.

Fingerprints

Marshmallow includes support for fingerprint recognition as part of the operating system. This will allow other app creators to more easily make use of the fingerprint reader via an API (application programming interface). Google's own services will also support the fingerprint scanner for authentication, such as authorizing a purchase in the Google Play store. Apple's TouchID feature supports fingerprint authentication on devices with a fingerprint reader; all current iPhone models and most iPad models now include TouchID.

Other Features

In addition to security enhancements, Android 6.0 Marshmallow also includes a number of other features, such as Now on Tap, which integrates Google's search nearly everywhere on the device. Hardware support for the new USB 3.1 standard, with the Type-C connector (easily insertable on the first try since there is no correct "up" side), is also included.

Get the Right Features

The mobile platform you choose for your business will depend on a number of factors. Security is important, but you will likely also need to consider the app ecosystem, app availability and potentially cross-platform interoperability. If you need a specific app that is only available on one platform, you will need to consider that too. Likewise, many popular apps are available on both Android and iOS. You may also want to give consideration to employee preferences; some employees will not care, but some will have a strong leaning for one platform over another.

A word of advice: do not go low end for your business. A high-end or mid-range device is more likely to include newer capabilities, which are not always easily dismissed as "bells and whistles"; good security features like full disk encryption and fingerprint scanners require better hardware. You only get what you pay for. ♦



I Am So Tired

Lack of sleep can reduce productivity, increase absenteeism and add to the risk of accidents and errors on the job.

Changing Times

More and more we are increasing the number of hours we work. In a 2012 study, Human Resources and Social Development Canada found that we now devote 10% of each 24-hour day to paid work compared with 8.7% in 1976, an increase of 14.9%. We also spend a lot of time getting to and from work. According to Statistics Canada's National Household Survey for 2011, 15.4 million people commuted to work and 1.1 million worked from home most of the time. The average time to get to work was 25.4 minutes but many people in Toronto, Montreal, the Abbotsford-Mission area of British Columbia and their surrounding communities spent an hour or more getting to work. A similar amount of time was spent getting home.

Dr. Meir Kryger, MD, a former professor of medicine at the University of Manitoba says people who do not sleep well are more apt to show the following symptoms:

- frequent sleepiness
- nodding off
- difficulty with concentration
- memory lapses
- poor performance
- mood changes

Lack of sleep upsets natural body rhythms.

Working outside the normal daylight hours of 7 a.m. to 6 p.m. upsets the physical, psychological and behavioural changes in our bodies known as circadian rhythms. Although we are hardwired to sleep at night and be active during the day, people often work outside this range. The longer time spent working and commuting means personal chores must be done outside the 7-to-6 norm thereby frustrating the body's need for sleep.

I Am So Tired - continued

Potential Catastrophic Consequences

Sleep deprivation is often portrayed as an achievement. A co-worker brags about working until 11 p.m. at night or a student pulls an "all-nighter". In most situations, lack of sleep does not end with tragedy; however, investigators determined that in the following three instances, lack of sleep contributed to a catastrophe:

- Exxon Valdez oil spill off the coast of Alaska in 1989
- Three Mile Island, Pennsylvania, nuclear meltdown of 1979
- NASA's Challenger disaster of 1986

Impact on Workers

Long hours and shift work may lead to depression, occupational injury and poorer overall health. Unfortunately for the employer, they can reduce productivity, increase absenteeism, and potentially add to compensation costs. The result is often higher attrition by employees who can no longer tolerate the stress.

Shared Responsibility

Employee and employer are both responsible for maintaining job performance and safety. Employees are responsible for getting sufficient sleep and for recognizing that lack of sleep will affect performance.

Unfortunately for employers, the ultimate responsibility for errors or accidents rests with the employer through the legal principle of vicarious liability. When comedian Tracy Morgan sued Walmart after a Walmart truck struck his limousine, Morgan's lawyers alleged the Walmart driver had gone without sleep for 24 hours. Walmart, not the driver, settled for an undisclosed amount.

Is There a Solution?

Most provinces legislate the maximum number of hours a driver can operate a vehicle. But beyond these limits, there are few guidelines.



Owner-managers should, in co-operation with employees, establish guidelines to ensure that a responsible program is in place to reduce the risk to employees and third parties. Consider the following:

- Break every one or two hours if the task is demanding.
- Schedule eight-hour shifts five times a week or 10-hour shifts four days a week, especially for night shifts.
- Avoid 12-hour shifts for physically or mentally challenging tasks.
- Schedule two full days of rest for employees who work five consecutive days of eight-to-10 hour shifts.
- Schedule two full days of rest for employees who work three 12-hour shifts.
- Educate employees and management as to the impact of shift work and lack of sleep on their personal and working lives.
- Teach employees how to identify indicators of sleep deprivation.
- Ensure employees that, if they feel the work schedule is impacting performance or safety, they can speak up and management will offer assistance without retribution.
- Determine whether an incident has occurred as a result of fatigue. By formalizing incident reports, employees and employers may discover that the timetable contributes to errors or accidents.

Lack of Sleep Affects Everything

Productivity, performance, employee job satisfaction and customer relations can all be negatively impacted by a desire to put in longer hours at the expense of much-needed sleep. Working together with employees and establishing work patterns that allow sufficient time for rest will cut employee absenteeism, reduce the chance of on-the-job accidents or errors, minimize the cost of WSIB or related claims and consequently improve the bottom line. ♦



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