PRENTICE YATES & CLARK
CHARTERED PROFESSIONAL ACCOUNTANTS

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In This Issue

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the newsletter of Prentice Yates & Clark

We Owe How Much? ... OUCH!

Manage cash flow better by projecting future tax liabilities.

Unforeseen circumstances often leave owner-managers short of the cash needed to pay federal and provincial taxes. Unfortunately, many owner-managers consider unpaid tax bills to be the same as unpaid trade credit. They are not. Unpaid taxes can cause a lot of problems. Ensuring funds are available to pay obligations to the Canada Revenue Agency (CRA) should be a top priority for any business, whether incorporated or a sole proprietorship.

Withholding Taxes

Every self-employed business owner or owner-manager is obligated to collect HST as well as deductions for employment insurance, Canada Pension Plan, and income taxes. These amounts are collected "in trust" from the employee or client on the understanding that the funds will be remitted to the CRA on their behalf. In theory, the business should just collect the money and set it aside in a separate account until the required filing date. However, it is often all too tempting to use the "in trust" funds as working capital and assume sufficient cash flow will be generated when accounts receivable are collected or additional cash sales occur. This may be fine in theory, but in practice the necessary funds are rarely available. For a corporation, it is particularly important to note that directors could be held personally liable for the unpaid "in trust" taxes.

Income Tax Payable

Income tax payable at the end of the year, whether for corporate tax or income tax owing on self-employed earnings, is another area that is problematic for many. The major issue for most businesses is that they are unable to project the amount of taxable income that will be earned by year end and thus cannot anticipate the amount of income tax owed. As a result, when taxes are due, there may be insufficient funds available to make the payment.

To make matters worse, many corporations are required to pay the taxes owing within two or three months of the corporate year end. Owner-managed businesses may have difficulty finalizing their year ends and providing such information to their CPA in a timely manner. Thus, year-end taxes and the instalment could be owing at practically the same time. This creates incredible cash flow issues for corporations that have a large corporate tax liability at the end of the fiscal year and then have to make a large instalment payment.

The reverse can also occur. A taxpayer remits large amounts in instalment payments throughout the year based on the prior year's tax liability only to discover at the end of the current fiscal year that the corporation made little profit or suffered a loss and therefore owed much less than the sum of the instalment payments already made. In such instances, the CRA may owe the business thousands of dollars that could have been used within the business but is not refunded until the actual filing of the tax returns.

The CRA Holds All the Cards

The CRA determines when taxes should be paid. If instalment payments are not paid, the business must endure non-deductible interest for late payment. On the other hand, if the instalment payments are made and the business does not have a tax liability, the CRA has held onto funds that could have alleviated cash flow. The CRA pays interest on overpayments, but only on the amount of tax owing at the time of filing, not on the entire amount of the overpayments. Also, the CRA charges the taxpayers arrears interest at 6% while the interest rate on taxpayer overpayments are only calculated at 2%.

We are moving effective **September 1, 2019**. Phone and fax numbers will remain the same. Please update your records with our new address: **110 Sheppard Avenue East, Suite 800, Toronto, ON M2N 6Y8**

We Owe How Much? ...Ouch - continued

Business owners need money on hand to pay tax instalments.

Take Charge

Business owners need to have sufficient funds on hand to make payments when due. To minimize the risk of insufficient funds, management must take into account not only the withholding tax requirement but also the need to minimize instalment payments and/or interest charges on the funds needed to make the corporate tax instalments.

The following procedures provide a way to anticipate future obligations:

1. After your CPA has provided the corporate income tax return for the last fiscal year, ask them to provide and review a printout of the required instalment payment amounts and due dates. If your profits are expected to be about the same in the coming year, those amounts will approximate the instalment amounts required.
2. Project the anticipated monthly or quarterly profits from the first of the new fiscal year. Since most administrative costs are usually constant from year to year, the task is reduced to projecting sales, estimating the cost of goods sold, and determining the gross margin at the monthly or quarterly interval. Once the estimated gross margin is known, simply deducting the administration cost should provide a reasonable estimated profit before income taxes.
3. Review these projections with your CPA. Input regarding potential bonuses and capital cost allowances combined with knowledge of corporate tax rates will provide better insight into the probable tax liability for the end of the fiscal year. By default, this information will determine the instalment amounts required.

The process of deriving this information will be of value to your business by:

- ensuring a better understanding of your business cycle
- providing insight into periodic profits and losses and thus any potential income tax liability
- projecting the estimated HST/ITCs and withholding taxes that will be due
- providing indicators of when cash flow may be tight
- reducing the uncertainly as to the amount of income tax instalments and thereby providing a reasonable payment schedule for corporate income tax
- lessening the impact of non-deductible interest and/or penalties on amounts due but unpayable because of inadequate cash flow
- reducing the probability of scrutiny by the CRA because of late payments

The Present Guides the Future

If management makes reviewing financial statements an integral part of their work cycle, not only will they benefit the future by understanding the present, they will also be better able to sleep at night knowing their cash flow needs are under control.◆

Will I or Won't I?

You've met with your lawyer and drafted your last will and testament. Congratulations – you are doing better than half of your fellow Canadians! But drafting your will should never be a "one and done" exercise. It's generally best practice to review your will every three to five years, to make sure that it still does what you want it to do. Certain life events should also trigger a review of your will. What are some of those? Read on to learn more …

Changes in Your Relationships

Significant changes in your relationships or family situation should trigger a review. Examples of these changes include:

- One of your beneficiaries has passed away.
- You have had a falling out with a beneficiary, executor or guardian named in the will.
- Maybe you designated a portion of your estate to a favourite cause, but now you've identified a different charity that will be a better fit for your legacy.

Marriage

In most provinces, your current will is automatically revoked when you get married, but there are some exceptions to this general rule. For example, if the will contains an "in contemplation of marriage" clause that identifies your future spouse by name, that will would not automatically be revoked. If your will is revoked and you do not make a new one, when you die you will be considered to have died "intestate," and your estate will be distributed according to the succession laws in the province where you live.

It is worth noting that these laws vary widely between the provinces, including whether or not they cover common-law spouses. The provincial family law legislation may also interact with the succession laws to provide additional options for the surviving spouse – so reviewing your will when you get married is an absolute must!

Divorce

The impact of a divorce on your will also depends on your province of residence. In some jurisdictions, the entire will is revoked, while in others only those provisions relating to your former spouse are revoked. If you are legally married, separation from your spouse will generally not have an impact on your will. The impact of a separation for common-law spouses varies from province to province, so you should consider making a new will whenever a legal marriage or a common-law relationship ends.

Will I or Won't I?- continued

New additions to your family

The birth or adoption of a child is another event that should trigger an update of your will. In addition to selecting a guardian for your minor children, you may want to establish a trust to hold the property for those children until they reach a specific age. You should review these sections periodically to ensure, for example, that the person whom you have selected as the guardian still has the time, interest and ability to devote to looking after your children.

And, if your will was to establish a trust for your children until age 25, as you see your children grow is that still the right age? Or are they mature enough that they could handle their inheritance at, say, 18 – or maybe not until they are 30 years old? You should also consider whether your will should be updated when the youngest of the children reach maturity, finish post-secondary education, or get married or divorced as well.

Changes in Your Assets

In addition to major changes in your relationships, significant changes in your assets should also trigger a review of your will.

The need to review may arise through **changes in the relative value of your assets**. For example, if you plan to leave your home to one child, the family business to a second child and your investment portfolio to the third child, and the relative value of those assets has changed, you may want to change the terms of the will to be fair to all of your beneficiaries. Another factor that may affect the value of the assets could be changes to Canadian tax legislation, or international tax legislation if you own any foreign assets.

When you review your will after a significant life event or change in your assets, it is also important to **review the named beneficiaries** for your Registered Pension Plan, Registered Retirement Savings Plans, Tax -Free Savings Account and life insurance policies, to make sure that these reflect your current situation and wishes.

It's also a good time to review your **powers of attorney**, which name someone to act on your behalf if you are unable to. There are two kinds of power of attorney: one for property, naming the person who can make decisions about your financial affairs; and one for personal care, naming the person who can make decisions about your healthcare, housing and other aspects of your personal life.

Finally, as noted above, the laws governing family law, wills and estates are provincial, rather than federal, so **if you move between provinces** it's time to review your will and other related documents.

Your CPA Can Help

In addition to consulting with your lawyer, reviewing your estate plan with your CPA will help give you peace of mind that your estate will be distributed in the most efficient and effective way possible, in accordance with your wishes.◆

Performing Transactions Online: Know What's Happening to Your Data

Online purchasing transaction security is not absolute. There are not really "safe" and "unsafe" options anymore, meaning only alternatives remain that have varying degrees of security. However, understanding how your data is stored and used is an important first step.

What are the risks of purchasing online?

The risks of conducting transactions online are real and require constant vigilance. Online transactions are open to "normal" procurement risks, but also have a unique set of other hazards. Beyond being exposed to such things as fake websites, inflated user reviews, or the possibility of never actually receiving what was bought, purchasers can be exposed to much more sinister dangers. Credit card fraud and identity theft are real possibilities. It is not all doom and gloom though. The key is understanding these risks and what is being done to protect you and your personal data.

Inside PYC

We would like to welcome **Alexander Joseph** and **Aidan McGivney** as new members of our professional staff.

Congratulations to **Leslie Langton, Board Member,** Frank **McLoughlin Co-operative Homes Inc.** Leslie won the raffle courtesy of Prentice Yates & Clark at the recent CHF Conference and Trade Show in London.

Performing Transactions Online: Know What's Happening to Your Data - continued

What information can online retailers store?

The storing of personal data is controlled more by the industry than by federal or provincial laws. The *Payment Card Industry Data Security Standard* (PCI DSS) was implemented by the major credit card companies as a means of ensuring compliance amongst the retailers, online or otherwise. Deviation from compliance is met with stiff fines. Per PCI DSS direction, brick and mortar stores are required to keep customer data only until they have been successfully authenticated. Online retailers face similar restrictions. However, when it comes to saving data for repeat transactions, customer data can be saved if it is properly encrypted and guarded. Due to the complex nature of storing and managing customer data in this manner, this function is often off-loaded to third-party providers.

The actual **data that is stored** by online retailers, per the PCI DSS, is the customer's:

- name
- account details
- credit card number (a.k.a. Primary Account Number or PAN)
- the expiration date

***Not* to be stored** are the customer's:

- PIN number
- the security code (CVV).

Further, access to the stored data is to be restricted, and the full PAN must be concealed. Policies must also be in place to destroy the customer's data once it is no longer required.

Where is personal information stored?

To understand how your online personal data is stored, it is important to understand that there are two different areas in which your data is stored. First, many people store personal details within their internet browsers (Google Chrome, Firefox etc.). This allows for increased convenience – you don't have to enter addresses, credit card numbers and other details each time you want to shop online.

Websites can store these details in the form of cookies, or as part of the autofill functionality. Cookies are stored on your computer and accessed by the website when you navigate there, and can store account numbers, even credit card numbers. Recently, browsers have significantly expanded their use of autofill functionality. A large amount of personal data is stored within the browser setting files, and can be accessed to speed up the process for people filling out online forms.

Secondly, retail partners themselves maintain personal data in the form of customer accounts, complete with address, credit card, buying patterns and many other sensitive details. We have all signed up for customer accounts to take advantage of promotions, newsletters, points, or just to speed the checkout process. Online transactions are usually brokered by a Payment Service Provider (PSP). These PSPs tokenize the consumer's payment details and are usually certified by the relevant agencies. The certification details are often available on the seller's website. Tokenization means that the data is encrypted as randomized characters and transmitted as such. Interception of this data is meaningless, as the credit card numbers, addresses and other details have been scrambled.

How do you secure your information?

If we think about the two different places where customer data is stored, it makes sense that we will have two different approaches to securing our personal data.

First, make a habit of reviewing and deleting the cookies saved on your computer, especially if other people use your computer. To stop new cookies from being created with your data, simply use the "Guest" option on websites as much as possible. This is usually available on most websites and refers to the option of entering only the personal data needed to conduct the immediate transaction. Much less data is stored for future recovery, or misuse. If you choose to save some of your data, use the autofill functions. This not only speeds up data entry later, but also stores it more securely than with cookies.

Finally, in terms of data stored by online retailers, staying informed and proactive on what data you have out there is important. Take a minute to read the retailer's security policy and understand their policies in terms of customer data retention, and if they use professional third-party partners to guard your data. Consider whether you really need to create an account with the retailer to speed future transactions. Maybe you will prefer to manage this data yourself. ◆

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