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TAXATION

Epass

Over the last few years, electronic filing (e-filing) has been well received by those who use this secure and fast online processing service at various government websites, including EFILE for submitting tax returns online.

More recently, epass services provide even more features and enhanced security for accessing online Government services. If you haven't yet opened your epass Canada account, perhaps you should consider it.

Epass Canada

The epass electronic "signature" service has been set up by the Government of Canada to allow individuals online access to personalized government services. You can use your epass to access a growing list of services, such as applying for a passport online or accessing your tax information from the Canada Revenue Agency (CRA), including details of the last three tax returns you filed and other account information. This article discusses the CRA's epass enabled services.

The CRA's My Account for Individuals

The CRA's My Account allows you to access and manage information about your tax returns, benefit payments, financial information and RRSPs, including:

- A brief summary of the results of the assessment of your last seven years returns and the details of your last three returns;
- Details of your Canada Child Tax Benefit (CCTB), Universal Child Care Benefit and GST/HST credit payments;
- The amount of your account balance (including amounts under appeal) and a detailed statement of your account;
- The instalment payments you are required to make, the payments you made and copies of the instalment notices that were sent to you;
- The direct deposit information you have set up for your tax refund, GST/HST credit and Canada Child Tax Benefit payments;
- Your RRSP limit, unused contributions, contribution history and the year-by-year calculations; and
- Details of your Home Buyers' Plan and Lifelong Learning Plan.

You can also manage your personal income tax and benefit account online by:

- Changing your return;
- Changing your address or telephone numbers;
- Authorizing your representative; or
- Registering your formal dispute.

One of the key benefits of My Account is that it is possible to see information before you receive the official document or documents from the CRA. For example, if your return is reassessed, you may see details of the reassessment on My Account before you receive your Notice of Reassessment in the mail. This happens because the most up-to-date information is displayed immediately on My Account, while the notice goes through several manual processes before you receive it by mail.

To familiarize users with the epass services for individuals, the CRA has provided an online "My Account" tutorial that uses fictional client information to walk you through what you can see and do with an epass.

Authorized Representatives

As many individuals use tax preparers, the CRA has extended My Account features to tax representatives. The Represent a Client service will give an authorized third party the ability to access your tax information online.

You may wish to authorize your chartered accountant as your representative to deal with the CRA on your behalf through this online service. As in the past, your only other option to authorize a representative is to complete and paper-file a Form T1013, Authorizing or Cancelling a Representative, which sometimes takes up to four weeks for the CRA to process.

There are two levels of authorization available. The first level essentially allows the CRA to disclose certain tax information to your representative. The second level goes a step further and allows both the disclosure of certain information and allows your representative to request certain changes.

Registering for the CRA's Epass Services

Before you can access the services under My Account for the first time, you must first register for a Government of Canada epass. If you already have an epass with another department or agency, you can log in using your Government of Canada epass user ID and password, but you must then enroll at the My Account website.

Registering for the CRA's epass can be done in three simple steps on the website. Within five business days, an activation code is mailed to you. It lets you complete the registration process. For more information, visit the My Account website at: www.cra.gc.ca/myaccount.

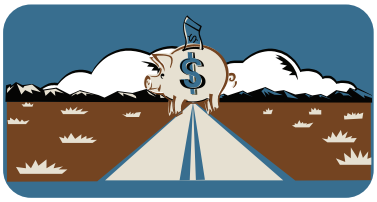
Fast and Easy Access

CRA's My Account and Represent a Client services give both you and your chartered accountant a fast and easy way to access the information required to complete your tax return as well as an online avenue for managing your personal tax and benefit account.

The next time you visit with your chartered accountant, you may wish to register her/him as your epass representative to deal with the CRA on your behalf. ■

Financial Planning

Managing Your Wealth



To make the most of your financial assets and secure the future for you and your family, you may need to adjust the way you view your financial situation.

It is not possible to correct your financial situation overnight. There are no quick fixes. To get out of debt or to accumulate savings requires long-term planning and consistent effort.

Set a Goal

If your goal is to take a holiday in the sun, you must first determine when you can take vacation time and whether you can afford the cost of the trip. It is the same with financial goals, whether they are short-term – to take a holiday – or long-term – to pay off the mortgage or accumulate sufficient savings to provide for a comfortable retirement.

The first step is to determine your "investment horizon". For example, how long must the proceeds of your retirement savings last? Of course, no one can determine how long their future will be. However, you can determine the age at which you plan to retire, your general state of health, your lifestyle now and your hoped-for lifestyle after retirement.

How much time do you have before you retire? If you can project the amount of capital you need to accumulate for your retirement, you can then determine the cash flow and investment strategies needed to achieve your goal.

Assess Your Financial Picture

To plan for your future, you need meaningful and honest financial information about the present. This requires carefully reviewing your current income, lifestyle, expenditures, debts, assets, and personal goals and then setting out a realistic plan for achieving your goals for the future.

Your financial plan should:

- Cover all the financial bases – accumulating wealth, protecting wealth and distributing wealth;
- Create a financial system that includes appropriate investments to optimize growth while being risk appropriate;
- Include appropriate mechanisms to ensure tax efficiency and legal strategies that protect your investments and your estate and insurance plans; and
- Evolve as your circumstances change.

Revisit your Plan Periodically

Over time, your personal circumstances, goals and priorities will likely change. So, too, should the corresponding aspects of your financial planning. On a regular basis, compare the results your plan has achieved to the goals you have established. When your goals have changed, you will need to fine tune your strategies within the plan and make any necessary adjustments.

In keeping your financial plan current, consider:

- Are the investments in your portfolio achieving the results you expected?
- Is the risk of your portfolio appropriate to your investment horizons?
- Have your personal circumstances changed to the degree that you need to revise your investment horizon, estate plan or insurance plan?
- Are your advisors providing the advice and information you need to make decisions?

Get Professional Advice

Sometimes individuals procrastinate about their financial planning because they are unfamiliar with tax planning, RRSPs, investment strategies, risk, rates of return or insurance issues. While the same people may know little about car parts, they would not hesitate to have a mechanic to help them stay on the road. Similarly, it makes good sense to have a financial professional help you reach your destination.

You may have been working with a financial advisor for years or you may have only recently decided that you need assistance to help you achieve your financial goals. While you can try it on your own, you increase the likelihood of actually reaching your financial destination when you partner with a specialist who has the skills and experience to get you where you want to go.

Don't sacrifice the present to enjoy the future and don't suffer the future to enjoy the present. As you are developing or updating your financial plan, keep in mind that your chartered accountant can provide valuable support in helping you analyze your financial situation and the tax-related issues in both your financial and estate planning. ■

MONEYSAVER

Protecting Assets

Good supervisory controls, including an awareness of the possibility of fraud, are vital for preventing fraud losses. Strong supervision is particularly important in small businesses where the segregation of duties may be difficult to achieve.

Owner/managers busy with prospecting new clients, chasing down problems and dealing with employees may be eager to delegate responsibility to employees. Delegation is essential in any business but with it comes the risk of internal fraud. This is especially true within an environment where one person is responsible for several accounting functions. Not only is cash susceptible to manipulation but also accounts payable, accounts receivable and inventory.

Fraud is motivated by opportunity, ability and need. Fraudulent activity is not always embezzlement or theft of physical goods. For instance, if your company offers a $5,000 bonus to sales staff for exceeding a sales quota, a financially overburdened employee may be motivated to ensure that his or her sales exceed that amount because of the *need* for $5,000.

The perpetrator may see an *opportunity* to increase sales by:

- Selling to bad risk clients;
- Overselling a product but promising to take the goods back in the coming months;
- Creating fictitious sales to phantom customers;
- Providing unapproved discounts or longer term payments to customers; or
- Providing personal cash incentive to the customer to purchase the product.

The *ability* to complete these fraudulent transactions is provided by improper internal controls.

Of the two ways to combat fraud – prevention and detection – an effective prevention strategy is obviously the preferred approach. Generally, fraud prevention techniques involve two main elements: understanding the risks and guarding against them.

Limit Banking Authority

Since suppliers and employees have to be paid even if the boss is away, owner/managers often delegate signing authority to an employee. This places any business at risk if the employee has signing authority on a major operating account. A devious employee monitoring the cash flow of a business can, with a simple signature, remove cash when it is at its peak and disappear. The company may have recourse through the courts but this will mean little if the loss of operating capital causes the business to fail.

As preventive steps:

- Contract an outside payroll service or set up a separate payroll bank account and transfer payroll amounts to it;
- Set up automated payments for monthly overheads such as vehicle leases, mortgage payments and utility bills;
- Establish a secondary operations account. Transfer sufficient amounts to this account each month to allow an employee as signing officer to pay the bills;
- Ensure all cash sales deposits and payments for accounts receivable are deposited in the main operating account;
- Do not allow any employee access to the corporate bank card or the security code. Change your personal security code regularly. Keep the maximum daily withdrawal amount at a low dollar amount to prevent large cash withdrawals;
- Notify all financial institutions when a signing officer leaves your employ. This will prevent dismissed officers from trading on familiarity with banking staff to transfer funds or cash cheques.

Accounts Payable

The perpetrator of accounts payable fraud will often establish bogus suppliers. Once these are in place, fraudulent invoices are issued to the company for products or services. The busy owner/manager assumes that service contracts, computer repairs, courier services or new parts are just the cost of doing business.

As preventive steps:

- Approve new suppliers;
- Review accounts payable listings;
- Visit new suppliers to determine their authenticity;
- Cross reference addresses to Web maps or telephone numbers;
- Establish an upper dollar amount that requires management approval before the order can be placed;
- Require that all cheques for signature be supported by documentation;
- Follow up on credits or returns to suppliers to ensure that any refunds or credits were received by the business;
- Maintain low credit limits with all suppliers to prevent employees from maximizing company credit by purchasing goods that they subsequently sell.

Accounts Receivable

Physical theft of funds is a concern but so is collusion between staff and an outside party. For example, an employee introduces a new customer into the system. Product sales are made and the amounts are paid (either by the bogus client or through lapping). Product sales become larger and thus credit limits are extended. Payments stop. Requests for payment are met with minimal payments or ignored. A visit to the customer's business address reveals that the business is gone or the address was non-existent.

What happened? The customer took the product, sold it at a huge discount, paid some of what was owed to deceive the owner/manager into providing more product, which they sold at a discount and then disappeared.

Receivables can also be manipulated through a process called lapping. Lapping is the fraudster's version of "robbing Peter to pay Paul". For example, the fraudster steals the payment intended for customer A's account. When a payment is received from customer B, the thief credits it to A's account. And when customer C pays, that money is credited to B. If enquiries are made by the customers, they are usually told that an error occurred, the payment was not received until after the month end, or a credit is being allocated to the account through internal journal entry. In most circumstances, this type of theft can go on for an extended period of time with bad debt write-offs, credit notes or other

deposit manipulation. Most lapping occurs because of inadequate control over incoming payments.

As preventative steps:
- Approve all new customers and establish credit limits;
- Meet the customer and visit their premises or work site;
- Issue monthly statements to clients;
- Follow up on all complaints, enquiries or credits issued;
- Review bank statements for unusual deposits.

Inventory
Among the many methods used to steal inventory, the most common include delivering orders to addresses other than the warehouse, over ordering for job sites and removing the unneeded material, or not unloading the entire shipment when it is delivered to the warehouse.

As preventive steps:
- Maintain perpetual inventory for high-end items;
- Conduct regular inventory counts and tie in with perpetual records;
- Make your presence known by walking the warehouse or inspecting the locked areas on a regular basis;
- Examine purchase orders and related invoices, the tie-in with sales of that product or item and the reasonableness of remaining inventory quantities;
- Install surveillance equipment in shipping and receiving and review the tapes;
- Approve all write-offs or transfer of goods; and
- Attend job sites and account for inventory used.

Exception-based Review
Management's involvement in the day-to-day operations of a business must also involve establishing a system of exception-based review. Take full advantage of data-based software programs and regularly review financial output to be familiar with the usual transactions and note any exceptions. Usually further investigation will be required to determine the reasons for any discrepancies, one of which may be fraud.

As preventive steps:
- Open the mail to ensure you are familiar with suppliers, complaints, returns, etc.;
- Review bank statements and reconciliations for unusual deposits and withdrawals;
- Examine the payroll to ensure that individuals on the payroll work for you, are paid for hours worked and at the correct rate;
- Approve all major changes;
- Examine the accounts receivable listing;
- Monitor bad debts, unusual growth clients or changes in the collection cycle;
- Review accounts payable listings for new or unusual suppliers, unpaid amounts or high growth suppliers, credits issued;
- Check perpetual inventory records to understand inventory;
- Follow up on all differences or irregularities.

Financial Data
Financial software provides the means for both monitoring the operational health of the business and safeguarding its assets. Understanding how to use the software to access the financial data will reduce the possibilities of misappropriation or theft, advance your understanding of business operations and improve the bottom line.

Your chartered accountant can provide knowledgeable advice on your company's reporting systems and what you can do to strengthen your internal controls to reduce the risk of business loss. ■

Taxation

RRSP Quick Tips

Ask yourself the following three questions about your RRSP strategy and you may be able to shave a few dollars off your 2006 tax liability.

Have you maximized your RRSP contribution?
It makes good sense to top up your RRSP contribution to take full advantage of the ability to accrue tax-deferred earnings in your RRSP investments.

Generally, you can deduct RRSP contributions equal to 18% of your previous year's earned income to a maximum of $18,000 plus any unused RRSP contribution room that you have carried forward. If you are a member of a Registered Pension Plan (RPP) or Deferred Profit Sharing Plan (DPSP), your contribution

limit will be reduced by an amount called the pension adjustment (PA), as indicated on your T4. The $18,000 amount has increased from the 2005 maximum of $16,500 and will increase again in 2007 to $19,000.

Earned income generally includes employment earnings, business earnings, rental income and taxable support payments and is reduced by business losses, rental losses, and deductible alimony/maintenance paid. Retiring allowances, investment income, capital gains, pension income and business income earned as a limited partner are not classified as earned income.

To find out the maximum amount that you can contribute this year, check the "2006 RRSP Deduction Limit Statement" that was included in the Notice of Assessment you received after filing your 2005 tax return. If you cannot find your notice, contact your chartered accountant or a CRA tax office.

Have you considered contributing to a spousal RRSP?

A spousal RRSP is advantageous if you are likely to have the higher income at retirement. For purposes of the *Income Tax Act*, common-law spouses and same-sex partners are treated the same as spouses.

A spousal RRSP contribution is deductible to you in the year you make the contribution and taxable to your spouse at the time of withdrawal. The amount of the spousal RRSP contribution is determined based on your RRSP contribution limit for the year minus amounts that you have contributed to your RRSP. A major advantage of this RRSP strategy is that when the plan matures and your spouse withdraws funds from the RRSP, the funds are taxed in his or her hands, thereby creating an income-splitting benefit at retirement. This may also reduce your exposure to the Old Age Security clawback. Even though the government has proposed pension splitting commencing in 2007, using a spousal RRSP to equalize retirement income will often produce a better result.

It is important to note that your spouse cannot make withdrawals from any spousal RRSP in the same year you make a contribution to any spousal plan or in the preceding two years — otherwise you will have to include the withdrawn amounts in your income and be liable for the income tax. There is an exception for amounts your spouse must withdraw in his or her retirement years.

Can you still contribute to your RRSP if you are 70 and still working?

There is an age limit. You can continue to contribute to your RRSP until December 31 of the year in which you turn 69 at which time the plan "matures". When it matures, the funds must be withdrawn, transferred to a RRIF or used to purchase an annuity.

However, it may be possible to continue to contribute to your spouse's RRSP. If your spouse is younger than you, you can make contributions until the end of the year in which he or she turns 69. If your spouse also has earned income, he or she is eligible to make an RRSP contribution in addition to the "spousal RRSP" contributions.

Contribution Deadline is March 1, 2007

You have until March 1, 2007, to contribute to an RRSP for 2006.

Typically at this time of year, hundreds of articles tout the tax and investment advantages of contributing to an RRSP. Yet statistics based on income tax returns filed in the spring of 2006 show that relatively few taxpayers are using this investment vehicle. Of the almost 86% of taxpayers that were eligible to contribute last year, about 31% actually made contributions. Notably, their RRSP contributions represented only about 7% of the total room they had available.

Don't procrastinate. Talk to your chartered accountant about how you can maximize this opportunity to build up capital for your retirement while reducing your income taxes for 2006. ■

BUSINESS MATTERS deals with a number of complex issues in a concise manner; it is recommended that accounting, legal or other appropriate professional advice should be sought before acting upon any of the information contained therein.

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