



*where people matter ...*  
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Summer 2004

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**From The Inner Office**  
 - by Lowell

The Sun has already started its journey back to the Tropic of Capricorn as I write this. It seems to take forever to get here, and then leaves us as soon as it arrives. We can look forward to a wonderful summer before it dips below the equator however and possibly do all or some of the following.

**Gail** will be away with her son's and husband whenever the sun is shining, it's warm, and reasonably dry. She does have the one week of tax study to complete the "In Depth Tax Course" she has been working on for the past 2 years. She will soon be an even greater professional to have on your tax team.

**Mario** almost jumped out of his skin yesterday when the Portuguese team defeated the Brits. So much for bending Becker. He is meeting more and more of you with each passing month and getting very entrenched in the community. Mario is the Treasurer of the Delta Chamber of Commerce.

**Barb** is almost completely over the break in her hip caused by the Ice Skating camel she was attempting. What a trooper. She gritted her teeth, propped her leg up on a stool and kept right on working all through tax season.

**Peter** is still tripping back and forth to Switzerland several times each year. His competency in US tax work is growing tremendously under the ever watchful eye of Gail. There is not a single time I have a cheese fondue that I don't think of Peter.

**Shirley** is looking forward to spending some extra quality time with her children and grandchildren this summer. She will take some computer courses to make her fall and winter a little easier and of more assistance to you our clients.

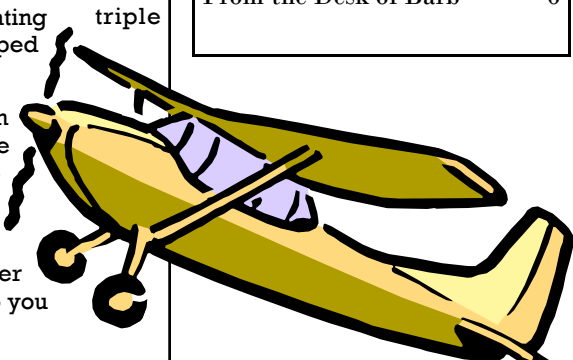
**Sherry** is already enjoying some extra time off with her boys. She really deserves it as she is the professional we keep in the back room hidden under a mountain of work. It's nice to get out from under once in a while isn't it?

**Doris** has moved her house and family to another Tsawwassen location. She is a further member of our professional team with a back room job. We count on the output of these hard working people to ensure our clients financial statements are completed in a timely manner.

**Sydney** our very own CBV is more often found out fishing at this time of year. He is still available if you need a price put on your business.

**Lowell** keeps threatening to take the Commercial Flight Test. One of these days he will. The problem is that work keeps interfering with flying. He does however feel that your business needs come before his drilling holes in the sky. Keep watching here for the news to come.

**Laura** is our hard working student filer. We will miss her as she leaves to pursue higher education. I didn't count the number of times her name was in the paper as an award winner in her graduation year, but it was there often. Congratulations Laura and all the best in your future.



<i>Inside this issue</i>	
From the Inner Office	1
Withholding Taxes	2
Budget Highlights	2
Summer Employees	3
One Way to Remember Names	4
Employee or Independent	5
From the Desk of Barb	6

**Aviation is proof that given the will, we have the capacity to achieve the impossible.**

Edward V. Rickenbacker  
 (1890-1973) Aviator

## Withholding Tax Rates - by Gail

The withholding tax rates when drawing funds out of an RRSP or RRIF are

< \$5,000 = 10%

\$5,000 - \$15,000 = 20%

> \$15,000 = 30%

Therefore, if you withdraw \$30,000 from your RSP, you would be subject to \$9,000 in withholding tax or 30%. If you took 3 payments of \$10,000 each, than you would be subject to withholding tax of \$2,000 or 20% on each payment (\$6,000 in total). If you took 6 payments of \$5,000, then you would have withheld 6 x \$500 or \$3,000. Sounds Good!!

**HOWEVER**, when you file your personal tax return you have to add all RSP withdrawals to your regular income and pay tax at your marginal rate. .... people who withdraw in \$5,000 amounts will likely OWE, but you will have had the use of this money in the intervening period without interest.



Don't forget—ALL WORK AND NO PLAY, MAKES FOR A BORING LIFE!! Life's too short! Get out there and seize the day! Play with your kids, your wife/significant other, friends (we're all kids inside). Participate in all the great outdoor activities there are to offer - cycling, boating, camping, golfing, sunset walks, neighbourhood BBQ's, and , yes, even flying, if that is your bent!



## Proposed Tax Changes - by Gail

Proposed acceleration of the increase in the small business deduction limit from \$250,000 in 2004 to \$300,000 in 2005 instead of 2006 as originally announced. This means that the first \$250,000 (2005 = \$300,000) of net active business income earned within a Canadian controlled private corporation will be taxed at the low rate of 17.6%.

Increased capital cost allowance rates (from 30% to 45%) on computer equipment acquired after March 22, 2004 subject to the half-year rule.

Increased capital cost allowance rates (from 20% to 30%) on broadband Internet and other data network infrastructure equipment acquired after March 22, 2004 subject to the half-year rule.

Extended carry forward period for non-capital losses from 7 years to 10 years for tax years ending after March 22, 2004.

Proposed denial of the deductibility of any fine or penalty imposed by law (including federal and municipal laws) after March 22, 2004.

Proposed increase of Canada Education Savings Grants (CESGS) for families that invest in Registered Education Savings Plans (RESP) from the current 20% of \$2,000 to 40% of \$2,000 for families with income under \$35,000 and to 30% of \$2,000 for families with income between \$35,000 to \$70,000.

Proposed extension of eligibility for the education tax credits to students who in 2004 or later, pursue post secondary education related to their current employment (if not reimbursed by their employer).

Proposed changes to allow tax payers paying medical expenses on behalf of dependent relatives, to claim those expenses in excess of 3% of the dependents net income or \$1,813. This would be limited to a maximum claim of \$5, 000 (other than for minor children).

## Summer Employees

- by Gail (taken from *Business Matters VOLUME 18, ISSUE 3, JUNE, 2004*)

While hiring students for the summer months helps your company's staffing during vacation times and often provides much needed resources for summer projects, many of the points within this article can be used for year round hiring.

If you are currently recruiting students for summer employment or have some already on board, make sure they have the information they need to make a smooth transition from school into the workplace. As with any new employees, a well-planned orientation program will help avoid miscommunication and ensure the students adapt to the job and workplace faster.

While the orientation for seasonal employees will not be as extensive as the one you may provide to full-time employees, it is important to introduce employees to the company and the job to ensure a positive attitude right from the start. The key areas include:

- \* Meet the company.
- \* Meet the team.
- \* Here is how you fit in.
- \* These are the company's safety policies and procedures.

### The Week Before

- \* Call or e-mail the new recruit to confirm the time they are to arrive the first day and other important details that they may have forgotten in the hiring process.
- \* Ask if they have any questions or concerns.
- \* Send the new recruit any materials you may have that describe your company and its products/services (e.g., a company brochure).
- \* Prepare a folder for each with the employment forms and documents that need to be signed on the first day.
- \* Ensure the employee's work area is set up and supplies and/or safety equipment are ready and in place.

### The First Day

- \* Plan your orientation carefully so you do not overload the new employee with information on the first day. Focus on what they need to know in order to do their job well.
- \* Take them on a tour of the office, plant or job site and introduce them to people and processes.
- \* Introduce them to their supervisor and explain the reporting responsibilities.
- \* Explain the job and their specific duties. Provide a written job description and outline the expectations for performance.
- \* Set up a buddy system and match each new recruit with an experienced employee to ensure the training continues on the job. This person should be the new employee's first resource for questions and concerns.
- \* Even if the job tasks are simple and straightforward, the work should be interesting and appropriately challenging right from the start to give the new employee a feeling of accomplishment. If possible, find opportunities for the new team member to observe client and staff meetings or watch work processes in other areas or departments.

### Safety First

Statistically, new recruits are involved in more accidents than experienced workers. For this reason, safety is a critical aspect of the orientation program. The assigned employee-buddy should be responsible for helping the new employee learn the job as well as demonstrating and monitoring proper safety procedures.

- \* When you take the new recruits on their orientation tour of the office, plant or job site, take time to point out on-site hazards and the protective measures in effect.

(cont'd on page 4)

## One Way to Remember Names

- by Lowell

If you are like me, you can think of times when you meet someone on the street who you are certain you should know, but just could not give them a name. The harder you try to recall what it is, the more it escapes. Then, just as they leave, and your wife asks why you didn't introduce them, the name comes to you. Sound familiar?

The next time you have a group meeting or a party made up of people who do not know each other, here are some ideas on how to learn their names and perhaps recall them when you meet them on the street.

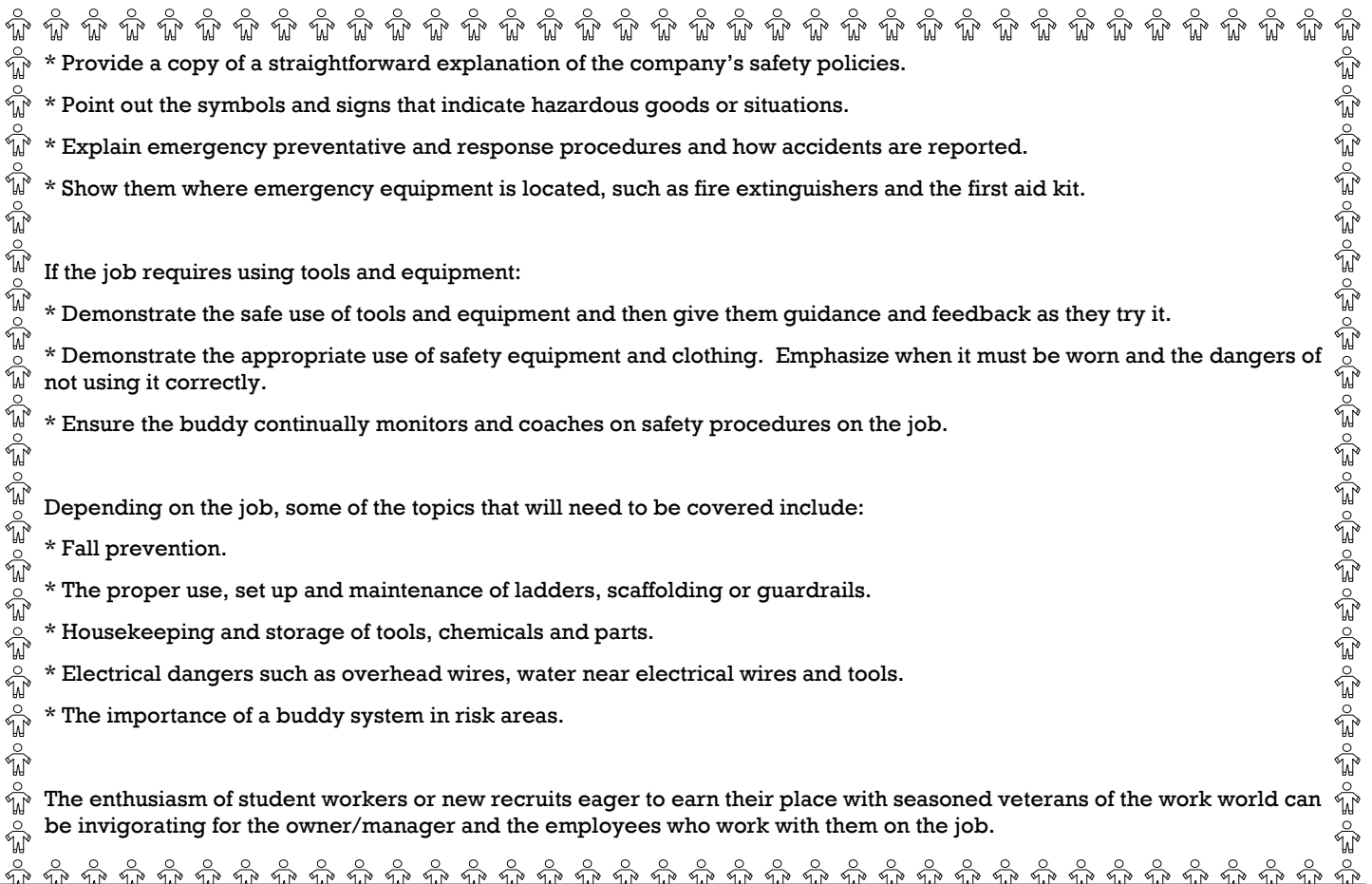
Give each person a regular sized name tag. You write their name on it, attach it to them and have them circulate. After everyone has arrived, ask the group to learn as many names as possible by moving around the room introducing themselves, or simply by reading everyone's name tag. Give them 10 minutes or so, this will depend on the size of the group. Tell everyone in advance there will be a memory test and a prize.

When the time is up, have everyone remove their tags. Challenge each individual to look around and identify as many people as possible. This has 2 benefits, one being the verbalization of the names by the person guessing, and the other benefit being that each person in the room hears the names called out over and over with the individuals being identified.

In a short period of time, it's possible to quickly learn the names of 20 to 30 people. By having a goofy prize, it adds fun to the meeting or the evening. This process will make it much easier to remember their names later. By the way, this doesn't help just you; it helps everyone in the room.

## Summer Employees (cont'd)

- by Gail (taken from *Business Matters VOLUME 18, ISSUE 3, June, 2004*)



- \* Provide a copy of a straightforward explanation of the company's safety policies.
- \* Point out the symbols and signs that indicate hazardous goods or situations.
- \* Explain emergency preventative and response procedures and how accidents are reported.
- \* Show them where emergency equipment is located, such as fire extinguishers and the first aid kit.

If the job requires using tools and equipment:

- \* Demonstrate the safe use of tools and equipment and then give them guidance and feedback as they try it.
- \* Demonstrate the appropriate use of safety equipment and clothing. Emphasize when it must be worn and the dangers of not using it correctly.
- \* Ensure the buddy continually monitors and coaches on safety procedures on the job.

Depending on the job, some of the topics that will need to be covered include:

- \* Fall prevention.
- \* The proper use, set up and maintenance of ladders, scaffolding or guardrails.
- \* Housekeeping and storage of tools, chemicals and parts.
- \* Electrical dangers such as overhead wires, water near electrical wires and tools.
- \* The importance of a buddy system in risk areas.

The enthusiasm of student workers or new recruits eager to earn their place with seasoned veterans of the work world can be invigorating for the owner/manager and the employees who work with them on the job.

## Employee or Independent Contractor

- by Gail (taken from *Business Matters VOLUME 18, ISSUE 3, JUNE, 2004*)

Owner-managed businesses often hire contract workers for various economic and business reasons. While both the employer and contractor might consider the position to be self-employment, the Canada Revenue Agency (CRA) may view the contractor as an employee.

Both owner/manager and the contract worker must exercise care when establishing the working relationship that exists between them. Should the CRA determine that the independent contractor is in fact an employee, both the individual and the company will be obligated for payments of taxes and other levies.

Individuals cannot simply decide that they are self-employed for tax purposes. To be self-employed for tax purposes, they must meet a series of common law tests that are used to determine whether they are an employee or an independent contractor.

Using the common law tests, the CRA may ask:

- Whether the individual has the flexibility to determine his or her own work schedule.
- Whether there is a contract stating the individual is an independent contractor.
- How much control the employer has over how the individual's work is done.
- Who supplies the tools the individual uses.
- Whether the individual invoices for the services rendered.
- Whether the individual has the chance of profit and the risk of loss.
- Whether the individual provides services to more than one client.
- Whether the individual is to work on a specific project or has been contracted for an indefinite period of time.

No one issue will determine whether the relationship is one of an independent contractor or an employee. Depending on the type of work the person does, some of these factors may be given more weight than others.

### What's at Stake?

If the CRA does not view the arrangement as being one of self-employment, the worker will only be allowed the tax deductions available to an employee and not the additional deductions available to independent contractors, increasing his or her tax bill substantially.

The organization will also have a lot at stake. If the company treats a contract employee as self-employed but they are found to be an employee, the company will be responsible for paying EI premiums, CPP contributions, workers' compensation and other payroll taxes. The employer will be obligated to pay these contributions and interest on the late payments and will also be subject to penalties based on the amount owing.

### Request for Ruling

The issue of employed versus self-employed is not always clear. Because this issue is important for both the employer and the contract worker, consider asking the CRA to determine if the relationship is one of an independent contractor or an employee. However, their bias is more than likely that the individual is an employee.

### Independent Contractors Get All Those Deductions

Self-employed individuals certainly do have tax advantages in their ability to deduct reasonable expenses that they incur to earn their business income, unless the expense is specifically denied in tax law. Deductions could include meals and entertainment, promotion, automobile expenses, home office expenses and capital cost allowance on assets used in the business. They can also deduct the accounting and legal fees necessary to run their business, including the cost of having their chartered accountant prepare their personal income tax return. Personal expenses, of course, are not allowable deductions.

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## From the Desk of Barb

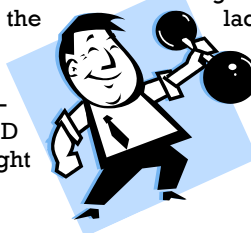


In reading the past news letters you'll remember my articles as the ones giving advice on (or harping on) stress and health issues. I've tried hard to practice what I preached so to speak, getting lots of sleep, drinking plenty of water, eating well and exercise of course. This past few months I have found out the hard way, that having been "Good" in these areas, you can still encounter health problems.



It started with my fall during my ice dance session and the breaking of my hip, which prompted my doctor to have a bone density test done. Surprise, the result was I have Osteoporosis! I may not have found out quite so early if not for the fall, so my level is low on their scale and I'm already on my way back to making strong bones. The other plus to looking after oneself is that your recovery time can be shorter, as it has been in my case.

SO... I am still advocating that we do need to be looking after ourselves as it does pay off. Just a note on the stats for osteoporosis, testing should be a consideration to discuss at your next doctors appointment and the numbers are 1 in 4 for ladies up to the age of 50 and it rises considerably after that age. Men can also be candidates for this disease and shouldn't rule it out as something just for the ladies. The statistics are just not so high for men. There is little if any pain associated with it especially at the beginning, hence the label of a "silent killer". It is easily treated and best detected in its early stages. Besides any medication the doctor may prescribe, you need only add Calcium, bearing in mind to be sure to have a diet rich in Vitamin D and necessary and taking time to do weight bearing exercises.



## Employee or Independent Contractor (cont'd)

- by Gail (taken from *Business Matters VOLUME 18, ISSUE 3, June, 2004*)

But there are other important considerations to their self-employed status. While not having to pay employment insurance (EI) premiums may, at first blush, seem an advantage, they are not able to collect EI benefits should they find themselves out of work. The employer must match the CPP contributions dollar for dollar for its employees. Independent contractors may pay all CPP contributions themselves: however, the additional one-half of the premiums is tax deductible.

Independent contractors are not entitled to company fringe benefits. To have coverage under a medical or dental plan, they would have to pay for the plan themselves. They can, however, claim the costs as a business deduction. In addition, they cannot contribute to a company pension plan.

If their taxable revenues exceed \$30,000 annually, independent contractors have to register for GST/HST and charge it on the supply of most goods and services to their customers or clients. But like all businesses, they can claim input tax credits (ITCs) on their expenses and most capital purchases.

Of course, along with these advantages and disadvantages come the recordkeeping and compliance aspects. Independent contractors must keep careful records and supporting documents for income tax, GST/HST and other purposes. They must also consider whether they have provincial sales tax (PST) obligations. Generally, they should register their business name with the province. In some situations, they may also have to determine whether it is necessary to obtain a license to meet the requirements of their particular municipality.

We have all heard self-employed individuals waxing on about writing off business losses. Yes, tax relief is generally available for independent contractors who suffer business losses as long as the business is carried on in pursuit of profit and is not a personal endeavour. However, for taxation years commencing after 2004, draft legislation proposes a reasonable expectation of profit test that will only allow business losses if it can be shown that the business expects a cumulative profit over the lifetime of the business.

The contract working arrangement has advantages and disadvantages as well as business risks for both the owner-managed business and the independent contractor. Whether you are an employer or an independent contractor, be sure to discuss your situation with your chartered accountant.