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FOUNDATIONS

IDEAS & TECHNIQUES TO BUILD YOUR SUCCESS

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If you, a colleague, or friend are interested in receiving a copy of FOUNDATIONS by email, simply forward your email address to elevi@srgg.com.

The primary purpose of *Foundations* is to provide you, our clients and friends, with timely and useful advice and information on a tri-annual basis (December, June and September). In the months ahead, we will be bringing you helpful tips for saving taxes, growing your business, managing and investing your money wisely and planning for your financial future.



CHARTERED ACCOUNTANTS
SUCCESS ARCHITECTS

“my account” – a handy tool

by *Caren MacLeod, CGA*

My Account is a Canada Revenue Agency (CRA) online service designed to give you the convenience and flexibility of managing your personal income tax, Canada Child Tax Benefit (CCTB), and Goods and Services Tax (GST) Credit accounts on a secure website.

My Account allows you to access personal information such as your:

- tax refund or balance owing;
- account balance and payments;
- actual income tax returns;
- installment account;
- Registered Retirement Savings Plan, Home Buyers' Plan, and Lifelong Learning Plan status;
- CCTB and related provincial and territorial programs payments and account balances; and
- GST Credit and related provincial programs payments and account balances.

You can use *My Account* to manage your personal income tax account online, including:

- changing your address or telephone number;
- changing your tax return, after it has been filed and assessed; and

- disagreeing with your assessment – although we strongly urge you to consult with us before taking this step yourself.

You cannot make payments through *My Account*. Likewise, you cannot print installment reminder statements from *My Account* for purposes of remitting an installment at your bank. This is because the remittance form has special magnetic ink required for processing by the financial institutions.

To access the services available through *My Account*, you will have to register for a Government of Canada epass. Registration is a three-step process wherein you:

1. authenticate yourself with the CRA by providing specific personal information (your social insurance number, your date of birth, the amount reported on line 150 of your 2003 or 2004 income tax return, and your postal / zip code);
2. create an epass User ID and Password, after which CRA will mail your personal CRA Activation Code to you; and

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- upon receipt of the activation code (which has an expiry date), return to the *My Account* page and enter the code.

This service is secure and you can help keep it that way by not providing your personal information to others (i.e. SIN, line 150 amount, activation code, etc). If you are logged into the *My Account* service and you do not perform any activity for more than 20 minutes, your session will automatically close and you will have to log in again to continue.

Currently, *My Account* is not accessible by third parties including your spouse and other family members, your accountant or your banker / broker. Even if Scott, Rankin & Gardiner has authorization allowing CRA to speak directly with us, we cannot access your information through *My Account*. In 2006, CRA is expecting to offer an online service for representatives that will allow us, when authorized, to access information and services for clients.

The CRA website (<http://www.cra-arc.gc.ca/eservices/tax/individuals/myaccount/menu-e.html>) has very helpful, easy-to-read information about *My Account* and the process for using *My Account* is quite user-friendly. It's a terrific tool for determining, confirming or changing / updating personal information. Depending on your specific needs at the time, it's a great alternative to the busy signals and long waits when calling CRA. There is tremendous future potential with this system.

relay for life

On June 10th/11th, the Canadian Cancer Society held its 7th annual **Relay for Life** at the Nepean Sportsplex. The eager SR&G Turtles and Hares were back on the track tearing it up and slowing down other teams for this twelve hour relay. The firm once again sponsored the information booth serving up both popcorn and protein bars and helping participants throughout the event. Once again Interactive Nutrition International Inc. was generous to supply us with ample protein bars for the hungry runners throughout the event.

The Canadian Cancer Society – Relay for Life is a twelve hour overnight relay that celebrates cancer survivors and pays tribute to the lives of loved ones who lost the battle. It was certainly a night of fun, friendship, and fundraising for a great cause.

Together the SR&G Turtle and Hares team raised \$12,925 with more donations still trickling in. Adding this to the SR&G sponsorship

funding brought us to a total of \$24,625. The team was also awarded a plaque for being one of the eight teams to raise over \$10,000 for the event.

This year the event had a record of 183 teams participating in the heat and rain. An astounding \$751,000 in total was raised for cancer research.

Special thanks to Lyman and Brenda for enduring the heat and dawn-ing the turtle and hare costumes for the team parade. The information booth was well manned throughout the event thanks to Kevin, Steve, Doug, Peg, David, Sami, Lynda, Amanda, Denise, Jen, and Jeff.

Last but certainly not least we thank you for your support! It was YOU who helped us raise the funds and give back to this deserving community.

company shares

Owner/managers of incorporated businesses know that they own the company, but at times may not be as familiar with some of the concepts regarding shares.

Under the *Canada Business Corporations Act* (CBCA) a corporation will have shares. The corporation is not required to have common shares, special shares or preferred shares, but rather it is only required to maintain shares. Most of the provinces' provincial legislation regarding share capital is very similar to the CBCA; however, there are differences. It is important to ensure that the corporation properly complies with the laws of the jurisdiction under which it is incorporated.

In many private companies, the owner/manager controls the corporation and may be the only shareholder. However, as the corporation is considered to be an entity unto itself, the shareholder must not treat the business as if all the assets were the assets of the shareholder.

Generally there are two types of shares issued from a corporation, common shares and preferred or special shares.

common shares

Where a corporation maintains only one class of shares, these shares must be entitled to vote at meetings of shareholders and must be entitled to the residual value of the corporation on liquidation. These shares are common shares. If there is more than one class of shares, it is possible to separate these attributes.

Common shares represent the residual capital in the assets and earnings of a business. Traditionally each common share has one vote. In most owner-managed businesses, the original common shares issued would have nominal value, say \$1 per share.

Common shareholders have the final say in the operations of a company. Normally a 51% majority is required to approve major events in a company, such as electing directors, liquidating the company or selling major assets.

rights of common shareholders

There are certain rights or advantages to being a common shareholder. These rights or advantages can be modified within the bylaws or within the shareholders' agreement but generally include:

- the ability to dispose of share holdings
- the right to vote
- the right to elect directors
- the right to attend company meetings
- the right to receive copies of the company's annual report and financial statements
- the right to share in the company's growth, earnings or assets of the company
- the expectation of limited liability.

These rights are not without a cost. Common shareholders can have no expectation in the profits of the company unless the dividends are declared by the directors. If a company is doing well, dividends are usually paid out of profits. Conversely, if profits do not exist, the company will not declare a dividend, and in some instances, may be prohibited from doing so. Add to this risk that should the company not be successful, common shareholders have little hope of recouping any of their original investment.

Many start-up entrepreneurs issue common shares to family members. This may be done, for example, to provide the ability to declare dividends to more than one person.

When considering the share structure of the company, the owner/manager should consider the rights of all common shareholders. Regardless of the number of shares held, common shareholders have rights that, if exercised, could create operational headaches for the majority shareholder.

preferred shares

Preferred or special shares have a differentiating factor in the special right or rights attached to these shares. For example, if a share is entitled to priority on liquidation, this share would be viewed as having preference over other shares. There are many attributes that can be

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attached to preferred shares, such as they may not be entitled to vote at a meeting of the shareholders or be restricted in the dividends that can be received.

Preferred shares are usually designed to be more secure than common shares that carry no guarantees as to their worth or the return on investment. For instance, it may be that the preferred shares must be paid a return of 5% before common share dividends could be paid out.

For most owner/managers, the use of preferred shares is not considered in the original incorporation of the company. Later, as a company becomes more successful and starts to accumulate value, preferred shares along with common shares may be used to create holding companies to protect the assets of the operating company and therefore the shareholder (owner/manager). This reorganization is often referred to as a Section 85 rollover as it utilizes that section of the *Income Tax Act*.

the shareholders' agreement

The shareholders' agreement governs the rights and obligations of the shareholders and as such, is a very important document. Among the many provisions specific to the corporation that are contained in this agreement, some rights and obligations arise due to the governing legislation. If the corporation is provincially incorporated, the applicable provincial legislation will apply. If the corporation is federally incorporated, the federal legislation will apply.

The agreement usually covers such matters as the amount of issued stock, names of shareholders and the amount and class of shares that they own. Other matters include necessary approvals by shareholders, nominees of shareholders and buy/sell provisions as well as organizational matters such as number of directors, name of chartered accountant, location of books and records and the cap on indebtedness that the corporation can incur.

Regardless of whom the shareholders are, whether your spouse, friends or business colleagues, it is imperative to have your lawyer draft a comprehensive shareholders' agreement. Areas that may be addressed include matters such as the amount of capital invested, the ability to sell shares to outside parties, distribution in the event of the death of a shareholder, and operational responsibilities such as signing authorities, debt and capital purchases. Formalizing these issues in the agreement will reduce the likelihood of conflict points during operations and will provide guidance in the event of the death of one of the shareholders.

Be sure to get advice from your lawyer and your contact at Scott, Rankin & Gardiner Chartered Accountants to determine the best means of protecting the rights and privileges of the company's shareholders now and in the future.



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