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FOUNDATIONS

IDEAS & TECHNIQUES TO BUILD YOUR SUCCESS

INDEX

two things are certain.....1

up close and personal.....2

the retiree as
entrepreneur.....3-4

dates and deadlines4

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

two things are certain

Death and taxes. Whether you are nearing retirement or prudently investing for that seemingly far-off future, you may be accumulating a substantial portfolio for your retirement years. This may include contributions to an RRSP, a private pension plan and perhaps investments in mutual funds, shares, stocks and bonds, a cottage or rental property. If you are an entrepreneur, you may also have a successful company that you may plan to sell or pass on to family members when you retire. But what happens when you die?

In tax law, a person is deemed to dispose of all property at fair market value immediately before death. As the income from that property will be taxed as part of the deceased's estate, the taxes will ultimately affect the size of the estate that you pass onto your beneficiaries. Unless you have made appropriate plans, this accumulated wealth may be subject to substantial income taxes as well as probate fees/taxes.

Of course, the tax liability of the deceased's estate will depend upon a number of variables, such as a surviving spouse or partner, bequests willed to charities, the amount of tax already paid at source and income earned from investments.

when should you start your estate planning?

Many taxpayers may feel that tax planning for the event of their death is not an urgent matter. It may be that they:

- are young and not concerned with the inevitable;
- perceive tax liability on their estate as relating only to annual income rather than changes in the value of their entire portfolio of assets;
- view any discussion of estate planning and their eventual demise as morbid;

- underestimate the value of their holdings and the potential tax liability that may arise upon their death.

However, estate planning is an essential part of your personal financial planning, regardless of your age or the size of your portfolio. As such, it is something you should be doing now, not some time in the future.

prepare a will

The most basic estate planning strategy is making sure you have a will. Anyone who owns assets should have a will to simplify matters upon death and to ensure that all property is distributed according to his or her wishes.

When drawing up your will, it is important to get professional advise on ways you can:

- minimize or defer taxes upon death;
- provide a means of funding taxes upon death.

You may also wish to make gifts during your lifetime to reduce the value of your estate at death.

what are the tax implications?

Discussing the tax implications of your estate planning with your contact at Scott, Rankin & Gardiner will give you the opportunity to find ways to minimize or defer taxes on your estate.

You need to consider matters such as:

- yearly income from investments, dividends, and other income sources such as rental properties;
- the value of all properties including a cottage or rental property;
- using the principal residence with the highest gain and possibly part of the gain on another property;

continued on next page

two things are certain continued from page 1

- the value and location of properties owned in foreign jurisdictions and the applicability of estate or other taxes in that jurisdiction;
- capital growth of mutual funds or investments in stocks that are held outside of an RRSP. It is important to have the appropriate records of the cost and timing of all transactions for determining capital gains or capital losses;
- whether the February 22, 1994 Capital Gains Election placed a valuation on assets as at that date that would affect the tax liability at the time of death should this property form part of your estate;
- the value of a sole proprietorship or a partnership with consideration to buy-out clauses or the sale of the assets of the business or the business itself;
- the value of shares in privately held corporations taking into account the provisions of any shareholders' agreement regarding the deceased shareholder's shares. Consideration should also be given to funding alternatives to pay the tax liability on the gain if the shares cannot easily be sold or the company is to be retained in the family;
- insurance policies and whether the beneficiaries are individuals or a corporate entity
- company pension plans from your owner/managed company and/or current or previous employment;
- the value of RRSPs and the ability to roll over these assets to a spouse or dependant, as provided under the *Income Tax Act*;
- capital gains or losses and the CNIL (Cumulative Net Investment Loss);

- the various taxes that can have an impact on succession planning for a family business;
- any GST/HST consequences that may be involved in wills and estate planning matters.

what are your options?

What are some of the estate planning options you could discuss with your tax advisor?

Depending on your particular circumstances, you may discuss how you could:

- provide for property to pass outside of your will to reduce the value of your estate for probate purposes, such as having property in joint ownership;
- designate beneficiaries for the proceeds from your insurance and RRSP and RRIF rather than make your estate the beneficiary;
- use an estate freeze to limit the increase in value of some or all of your assets, in order to minimize the tax liability arising from the deemed disposition of property on death;
- create a family trust as a will substitute to simplify estate administration and avoid probate fees/taxes;
- prepare multiple wills. In some jurisdictions, a will can be prepared for assets that will be probated and another for those that do not require probate. A separate will may also be prepared for assets held in a foreign jurisdiction;
- create an alter ego or joint spousal or common-law partner trust to extend rollover treatment as well as take advantage of the additional tax and estate planning alternatives these trusts provide for individuals 65 years of age or older.

get professional advice

Estate planning is a complicated area of tax law. Simple solutions do not exist as each individual has particular circumstances, holdings, expectations and financial requirements. Your contact at Scott, Rankin & Gardiner can help you carry out a preliminary analysis of:

- cash flow;
- estimated tax liability at death;
- disability insurance needs;
- life insurance needs;
- estimated probate fees/taxes; and
- calculation of estate needs after death.

With this analysis, your contact at Scott, Rankin & Gardiner can then help you address the ways you can achieve your estate planning goals and minimize the impact of taxes upon your death.

Estate planning also involves consulting your lawyer, and depending on your particular circumstances, other professionals such as your banker, trust officer, insurance agent, investment advisor, financial planner and a valuator or real estate appraiser.

Be sure to review your estate plan periodically. Circumstances change. Tax laws and other laws change. As these changes can have an impact on your estate planning strategies, adjustments may be necessary.



up close and personal . . .

with Richard Allison

Richard Allison is one of the newest Chartered Accountants at Scott, Rankin & Gardiner.

Richard joined the firm in December 2001 after working for three years with another local accounting firm. He worked mostly with owner-managed businesses and enjoys the integration of the corporate and personal aspects of companies. He was admitted to CA membership in November 2003, after passing his Uniform Final Examination on his first attempt.

"I decided to join the firm after having recognized the friendly atmosphere that exists at Scott, Rankin and Gardiner. While working for the firm I was quickly impressed by the level of personal attention and service provided to all of their clients. With such a diverse and growing client base, I look forward to providing excellent service to our clients for years to come."

Richard and his wife, Catherine, were recently married and have just moved into their new home in Stittsville.

the retiree as entrepreneur

When circumstances force early retirement or a package deal provides the funds to pursue a dream, many over-50s think about becoming entrepreneurs.

Retirement is a major transition at any age. But when individuals retire early, particularly with large settlement packages, they are sometimes tempted to go into business. Whether the motivation is a need for additional income or new challenges or the realization of a lifelong dream, do you have what it takes to be an owner/manager?

are you an entrepreneur?

What motivates you? What makes you happy? Will your business idea require you to broaden your skills or develop new skills? Are you prepared to work hard? Do you work well on your own or would you prefer working with others?

Identify your drivers, your strengths, your weaknesses and your ability to tough it out through the difficult times that are the norm in running any business. If you have only recently come out of a forced retirement, make sure you have taken sufficient time to restore your confidence, explore your options and solidify your plans.

do you know the business?

The best business is one that you know well. Many retirees become consultants in the industry in which they worked. Others may turn a lifetime hobby into a business venture. Sometimes individuals who have never been in business before will recognize a market niche and be quite successful. But too often budding entrepreneurs jump into a business without doing the proper research and planning. Starting up a business in a sector with which you are unfamiliar presents a high risk of failure. Build on what you already have.

have you prepared a business plan?

Many important considerations must be weighed in considering the viability of a start-up, such as the competition and potential market share, the demographics of your target customers, regulations, taxes, location, staffing, inventory, pricing, marketing, sales, operating costs and much more.

A business plan is essential. There are many resources in the library, your community and online that can help you get started on researching your market and developing a solid business plan. Find out if there are any community or government programs where you can upgrade your skills or learn new skills and network with similar people. Find out if there are any seminars available that are specifically designed for retirees who want to start a business.

Once you have drafted your business plan, talk to your contact at Scott, Rankin & Gardiner. They can assist you in developing your operating and cash flow forecasts and budgeting and ensuring your business plan has addressed the many facets to be considered.

working with others

A good working relationship is critical to investing capital and effort into an existing business or starting a new business with a partner or partners. Sharing experience, skills, costs, problems and the workload can make the venture more rewarding both socially and economically. On the other hand, sharing a business venture with someone else can have some hazards.

Make sure you are familiar with your potential business partner's approach to business and the experience and skills he or she can offer. How does this person set priorities? How much is he or she willing to invest in money, time and skills? Why do you think you will work well together? Have you discussed potential areas of conflict and how you will handle them? How will you set up the business? Have you considered the need for a partnership or shareholders' agreement?

If you have been approached to buy into a company, be wary. Do your due diligence as well as get professional advice. The offer may be nothing more than an attempt to obtain much needed cash flow for a sinking business. Make sure your funds are not destined to pay existing creditors. Do not invest until you have a comprehensive understanding of the operations and the potential for growth.

base decisions on facts, not emotions

Opening a restaurant, restoring old cars or making furniture – these types of hands-on businesses are often the dreams of many individuals who end one career and want to start another. Emotionally-based decisions do not have a place in investing in your future. Take off the rose-coloured glasses and do your homework. Too fast a move could mean unattainable sales, unrealistic expectations for business growth and a lack of preparedness for overcoming the inevitable challenges you will face when starting a new business.

If you are buying an existing business, be wary of a vendor who is anxious to close the sale. The vendor could pick up on your enthusiasm and help you self-promote your desires until you sell yourself on what could be a disaster. Watch out for fast-talking, high-pressure sales tactics. The individuals selling or promoting the business may harness any vulnerability you may have at this stage to make as much as they can on the sale or sales commission. If all you hear is glowing reports on how much money is to be made, be wary. If you are being pressured into making a quick decision, walk away.

Certainly, any dream is worth pursuing but if you start to wonder whether your decision is based on emotions rather than facts, it is time to go back to the drawing board. Keep focused on assessing whether going into business is a good match for your background and needs and whether your business idea truly has the potential to provide a good return on your investment.

continued on next page

the retiree as entrepreneur continued from page 3

I can turn it around

Many entrepreneurs believe that they have the ability to turn around a business that is going down the tubes and restore its profitability. While many do succeed, this is an investment of time and money that requires very astute analysis and investigation.

Make sure you are thoroughly familiar with the business, know the reason for the losses and have the resources to turn it around. Ask yourself: Why has the business failed? Would my investment dollars be better spent establishing a new similar business rather than resurrecting a failing structure?

Distress purchases are generally not advisable; however, there are unique circumstances where

the business has solid potential and the purchase price and terms of payment are highly favourable. Your contact at Scott, Rankin & Gardiner can help you assess the viability of the business as well as give you professional advice on any tax advantages to be weighed in your decision.

working capital

Working capital is the lifeblood of all businesses. Start-up businesses need at least six months of working capital to launch their operations, introduce their products or services to the market and cover overheads. On top of operating expenses, you need to be prepared for the lapse of time between a sale and the collection of accounts receivable. If the business is seasonal, you will also need cash flow to maintain operations during these slow times.

If you are starting your business with the proceeds of a settlement, it may not be wise to invest all of it into the business. If you will need financing, again a professionally-prepared business plan is a must.

get professional advice

Before pursuing that dream of having your own business, make sure you seek the advice of your accountant and your lawyer. Your contact at Scott, Rankin & Gardiner can advise you on your business plan or analyze the financial performance and viability of a company you plan to purchase. There will also tax planning considerations that you will need to discuss. And it goes without saying; do not sign anything without independent legal advice.

dates and deadlines

corporations

- Taxes are due either two or three months after the year end depending on the type of corporation and / or the nature of the income.
- Interest on taxes is calculated from earlier dates depending on the company's requirement to make instalments and type(s) of income.

personal

- Persons with self employment income and their spouses have until June 15, 2004 to file their income tax return. However, if any tax balance is owing, it is due April 30, 2004 and is subject to interest.
- Income tax instalments for 2004 are due on the 15th of each of March, June, September and December.

- March 1, 2005 will be the last day for contributing to an RRSP to claim as a contribution on your 2004 tax return.

GST

- Due dates for GST returns vary depending on whether you are required to file monthly, quarterly or annually.



SCOTT RANKIN & GARDINER LLP
CHARTERED ACCOUNTANTS • SUCCESS ARCHITECTS

Suite 207, 2650 Queensview Drive Ottawa K2B 8H6 Ph: (613) 596-2767 Fax: (613) 596-2775 E-mail: info@srgg.com Web: www.srgg.com

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