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CHARTERED PROFESSIONAL ACCOUNTANTS

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PERSONAL FINANCE

Happy New Year!

The end of the year is a good time to review long-term investments and mortgages.

New Year's resolutions. So easy to make, so hard to keep. According to a Nielsen survey, the most common resolution for 2015 was to keep fit. A resolution to spend less money and save more was only the fourth most popular after lose weight, and enjoy life to the fullest. As we are about to enter 2016, perhaps we should all resolve to pay more attention to spending and saving and the effect on our investment portfolios and mortgages in the coming year.

Review Your Investment Portfolio

- Start with investments outside the RRSP or RRIF.

- Calculate the gain or loss between the end of 2014 and the end of 2015.
- Review your statements for the entire year.
- Calculate investment fees paid.
- Identify withdrawals or contributions.

- Net your gains against your losses.
- Calculate the percentage return on investment after deducting the cost of fees paid to your broker, financial advisor or mutual fund manager.
- Using this rate of return and a compound interest table, assume a constant rate of growth and calculate what the investments could be worth by the time you want to cash them in.
- Calculate the potential future value assuming:
  a) a regular annual capital infusion
  b) no capital infusion.
- Using different rates of return, calculate how much additional capital must be saved and invested to meet your investment goal.

Review Your RRSP

For self-employed persons and those not in pension plans, the RRSP probably represents the principal source of retirement funds. As such, the capital gains and income generation should be monitored closely. Perform the exercise mentioned above on your RRSP portfolio to determine whether the future value of your RRSP investments will be sufficient when you can no longer contribute and have to roll the RRSP into a RRIF in the year you turn 71.

If you discover the calculated rate of return on the RRSP and your current level of contributions will not meet your investment goals, discuss the various options available to you with your investment advisor. Perhaps you will need to restructure the balance between equities and interest-bearing securities, increase the risk or increase your contributions. Keep in mind, however, that higher rates of return usually bring a higher risk of a loss.

Now is also the time to review your RRSP contribution limit to determine any unused amount. Do not forget that unused annual contribution amounts are carried forward. If you find a fairly large balance of accumulated contribution room, you and your advisor may be able to develop a strategy to meet your investment/retirement goals.

Funds can be withdrawn from a RRIF into a trading account or a TFSA.

Review Your RRIF

If you have already rolled your RRSP into your RRIF, review the RRIF portfolio using the procedure outlined above. There is a mandatory withdrawal rate based on a predetermined percentage. (This information is available from CRA or from your investment advisor.) Review the current value and rate of return. Remember that the withdrawal rate simply determines the portion of the RRIF that must be deregistered each year and brought into taxable income. It does not mean you have to sell that portion of your portfolio every year. In a self-directed plan, for instance, the taxable amount can be transferred in kind into a trading account and thus remain part of your total investment portfolio for future use.

Instead of having a trading account to receive the securities withdrawn from your RRIF, you could move them into a Tax-Free Savings Account (TFSA) if you have the room. Future capital gains and income within the TFSA are not taxable.

Review Your Mortgage

Reviewing your mortgage should be part of any New Year's resolution. Look at the current balance and determine when the mortgage will be completely paid off at the current payment rate. Ideally, your mortgage should be fully paid before retirement so you do not retire still having to withdraw funds from your RRSP or RRIF to meet mortgage payments. Review the mortgage agreement and identify any lump sums that can be paid to reduce the remaining balance owing. Use an amortization table to calculate the number of years by which the life of the mortgage can be shortened by doing any or all of the following:

a) finding a better interest rate
b) changing the payment frequency from monthly to weekly, or
c) making a lump sum payment.

Work with Your CPA

Whether projecting income within your investment or retirement portfolios or calculating a strategy to reduce your mortgage, amortization tables will help you with those calculations. Work with your CPA to provide unbiased feedback on the choices available to you in your particular circumstances. The decisions you make now will impact not only your lifestyle but personal income taxes in the future.

TECHNOLOGY

Marshmallow, Anyone?

Security of the mobile devices used in your business should be a primary concern.

Because mobile devices are able to take on more and more tasks traditionally performed by desktop computers, work done in an office environment can increasingly be done almost anywhere. As a result, the security features of the mobile device and platform should be important considerations for your business.

Marshmallow Introduced

In October 2015, Google released Android 6.0 "Marshmallow", the latest version of their mobile device operating system. Google has strengthened security in a move to attract the business consumer.

Should you consider an Android switch in your business? Are you already an Android-based business wondering if your security is up to snuff? Is Marshmallow secure enough for small business?

Encryption

Marshmallow devices ship with full-disk-device encryption enabled by default although some exceptions are permitted for lower-end models that do not have sufficient computing performance to encrypt on the fly. Encrypting the entire storage capacity means all data and apps stored on the device will be essentially unreadable without the cryptographic key. Google has also enhanced the Verified Boot function, which checks to see whether the operating system has been tampered with.

If you are concerned about encryption on your other computing devices, full device encryption is available on Windows and Mac computers and is already on by default for iOS devices.

Flex Storage

A number of Android devices over the years have included a Micro SD card slot, which allows you to add more storage capacity. Most current models no longer ship with this feature; however, that may change with Marshmallow. Google's Flex Storage feature allows the expandable storage to be formatted, encrypted and integrated with the main memory. This offers a secure way to substantially increase the capacity of your device without having to micro-manage what gets stored where. The downside, however, is that the memory becomes more or less permanent: if you remove your Micro SD card, apps stored on it will stop working;

since it's encrypted, anything stored on the card will not be readable on another device. Currently, iOS devices do not offer expandable storage as a feature.

Apps in Marshmallow request access to functions the first time they need them.

App Permissions

One of the biggest new security features in Marshmallow is a substantial change to the way apps may be granted access to certain functions. Previously, an app would request access to all functions it supported at the time of installation from the Google Play store. Apps in Marshmallow now request access to functions the first time they need them, such as a camera app requesting permission to use the camera. If an app requests access to a function you don't think it should have, you can say no and the rest of the app should still work normally. Permissions can also be reviewed and individually revoked at any time from the Settings. In iOS, app permissions already have this level of granularity.

Auto Backup

Another security feature is the automatic backup to Google Drive. Google will back up your data as long as there is a WiFi connection. Thus, if your device is lost, stolen or broken or if all your data is wiped out, you can restore it onto a new Android device. The iCloud Backup feature on iOS provides similar backup and restore capabilities.

Fingerprints

Marshmallow includes support for fingerprint recognition as part of the operating system. This will allow other app creators to more easily make use of the fingerprint reader via an API (application programming interface). Google's own services will also support the fingerprint scanner for authentication, such as authorizing a purchase in the Google Play store. Apple's TouchID feature supports fingerprint authentication on devices with a fingerprint reader; all current iPhone models and most iPad models now include TouchID.

Other Features

In addition to security enhancements, Android 6.0 Marshmallow also includes a number of other features, such as Now on Tap, which integrates Google's search nearly everywhere on the device. Hardware support for the new USB 3.1 standard, with the Type-C connector (easily insertable on the first try since there is no correct "up" side), is also included.

Get the Right Features

The mobile platform you choose for your business will depend on a number of factors. Security is important, but you will likely also need to consider the app ecosystem, app availability and potentially cross-platform interoperability. If you need a specific app that is only available on one platform, you will need to consider that too. Likewise, many popular apps are available on both Android and iOS. You may also want to give consideration to employee preferences; some employees will not care, but some will have a strong leaning for one platform over another.

A word of advice: do not go low end for your business. A high-end or mid-range device is more likely to include newer capabilities, which are not always easily dismissed as "bells and whistles"; good security features like full disk encryption and fingerprint scanners require better hardware. You only get what you pay for.

TAXATION

Tax Benefits for the Self-Employed

There are many tax advantages for self-employed Canadians who work from home and hire family members in their business.

The December holiday season is a time for home and family. This year, if you are self-employed, you may want to consider incorporating home and family into your business to create tax benefits for both the business and the family. Consider the following opportunities to reduce your taxable income and thus increase the amount of money left over to support your family.

Individuals in a 40% tax bracket save $40 on every $100 spent.

Hiring Family Members

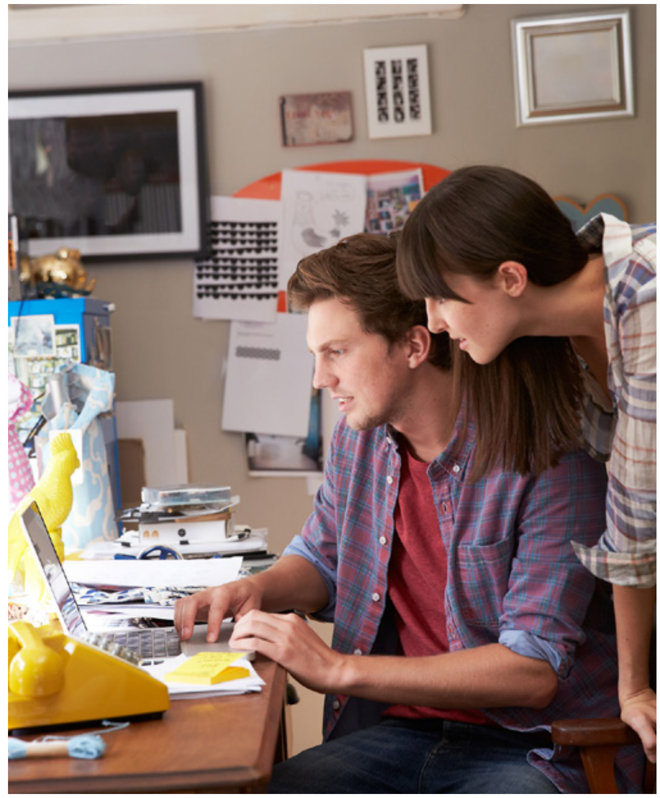
If your business needs employees, why not hire your children or your spouse? Of course, the job must correspond to their abilities and the pay be reasonable in terms of the going market rate for such skills. It is usually more beneficial for a sole proprietor to pay family members rather than a third party for the same work. Suppose, for example, you pay one of your children or your spouse $5,000 per year for performing a task and they have no other income. Because the $5,000 is less than their personal exemption ($11,327 for 2015) they will not have to pay any income tax on the earned amount. Further, the payment is deductible from your self-employed income. If, as sole proprietor, you are in a 40% tax bracket, the $5,000 paid to the family member effectively saves $2,000 on your self-employed income while providing $5,000 of tax-free income to the family member.

If, for example, you are paying $5,000 per year for your child's tuition and the child was not paid from your business, you are effectively paying in after-tax dollars. That means you will have to earn $8,350 (40% of $8,350 = $3,340) in order to clear the $5,000 ($8,350 - $3,340 = $5,010) needed to pay for your child's education.

Home Office

You are allowed to deduct at-home expenses if you meet **one** of the following conditions:

1. You do more than 50% of your work at home.
2. The work space is used only to earn income and for meeting customers or clients. You cannot deduct at-home expenses if you are just using your kitchen table to do the work.



Home Maintenance Expenses

You can write off a portion of your home maintenance expenses such as heating, home insurance, electricity and cleaning supplies. A percentage of property taxes and mortgage interest can also be deducted.

Capital Cost Allowance

CRA also allows the deduction of a percentage of the capital cost allowance on the cost of the house or outbuildings. However, since there are tax consequences after the principal residence is sold, discuss this option with your CPA tax advisor before claiming the expense.

Allowable Write-Off

The method of determining the percentage of allowable write-off must be determined on the basis of the space used by each particular business. Some sole proprietorships may only need a 10 x 10 office to conduct their business; others may need a larger office or perhaps even outbuildings for additional office space or storage. The most common calculation method, however, is to take the square footage of used space as a percentage of the total usable space.

Losses

If, for instance, profit before the application of home expenses was $7,000 and the at-home expenses were $8,000, you cannot claim a $1,000 loss. Your taxable income from the business will be nil but the $1,000 that was not applied can be carried forward to the following taxation year and applied against that year's income. If your business has a loss of $8,000, you cannot increase the loss by the application of at-home expenses. These losses would be carried forward from year to year as well.

To claim business expenses, retain all receipts.

Business Expenses

The expenses listed below are normally common to all businesses. In order to claim any of these, however, make sure they are incurred to earn income and that all receipts are retained:

- accounting and legal fees
- advertising expenses
- business taxes, fees, licences and dues
- insurance expenses
- interest and bank charges
- maintenance and repairs
- meals and entertainment
- office expenses
- salaries, including employer's contributions
- motor vehicle expenses

There may be limitations to deductibility within each category. Seek the advice of a CPA tax advisor before making any claims.

Credit Cards

Interest on credit card balances incurred for business expenses is deductible. But, if business purchases are made with a personal credit card, the CRA will most likely disallow the interest expense because the interest applicable to outstanding business balances cannot be separated from the interest charged on personal balances.

Business Bank Accounts and Business Loans

Business bank accounts allow bank charges to be easily identified as business expenses; deposits and withdrawals can be more readily traced back to suppliers, customers or owner's withdrawals or contributions. Separating business accounts from personal accounts minimizes the confusion when processing year-end tax information or when preparing for a CRA audit.

Loan Interest

Loan interest for vehicles and equipment is also a deductible expense. Make sure the transaction is transparent so you can establish that the principal went into a business bank account. If the loan is from relatives, make sure proper documentation establishes the date of the loan, the interest rate and the repayment terms.

Mortgages

Should you need to increase your mortgage to provide operational funds for the business, separate clearly in your records the mortgage for the principal residence from the funds for your business. The date the additional funds are deposited into the business account establishes the break. Your CPA tax advisor will thus be able to calculate separately the loan interest attributable to the business and that attributable to your personal residence.

Limitations of Do It Yourself Software

Certainly you may choose to complete your tax return by yourself. "Do it yourself" software can tell you how to fill in the blanks and can do the calculations accurately; however, it cannot analyze the data to determine whether it has been entered correctly or whether you have obtained the maximum tax benefit. Hiring a CPA tax advisor will be your **best tax deductible expenditure.** Not only will your CPA ensure accurate tax results, but also suggest additional measures you should make this year and in future years to minimize your income tax liability.

MONEYSAVER

I Am So Tired

Lack of sleep can reduce productivity, increase absenteeism and add to the risk of accidents and errors on the job.

Changing Times

More and more we are increasing the number of hours we work. In a 2012 study, Human Resources and Social Development Canada found that we now devote 10% of each 24-hour day to paid work compared with 8.7% in 1976, an increase of 14.9%. We also spend a lot of time getting to and from work. According to Statistics Canada's National Household Survey for 2011, 15.4 million people commuted to work and 1.1 million worked from home most of the time. The average time to get to work was 25.4 minutes but many people in Toronto, Montreal, the Abbotsford-Mission area of British Columbia and their surrounding communities spent an hour or more getting to work. A similar amount of time was spent getting home.

Dr. Meir Kryger, MD, a former professor of medicine at the University of Manitoba says people who do not sleep well are more apt to show the following symptoms:

- frequent sleepiness
- nodding off
- difficulty with concentration
- memory lapses
- poor performance
- mood changes

Lack of sleep upsets natural body rhythms.

Working outside the normal daylight hours of 7 a.m. to 6 p.m. upsets the physical, psychological and behavioural changes in our bodies known as circadian rhythms. Although we are hardwired to sleep at night and be active during the day, people often work outside this range. The longer time spent working

and commuting means personal chores must be done outside the 7-to-6 norm thereby frustrating the body's need for sleep.

Potential Catastrophic Consequences

Sleep deprivation is often portrayed as an achievement. A co-worker brags about working until 11 p.m. at night or a student pulls an "all-nighter". In most situations, lack of sleep does not end with tragedy; however, investigators determined that in the following three instances, lack of sleep contributed to a catastrophe:

- *Exxon Valdez* oil spill off the coast of Alaska in 1989
- Three Mile Island, Pennsylvania, nuclear meltdown of 1979
- NASA's Challenger disaster of 1986

Impact on Workers

Long hours and shift work may lead to depression, occupational injury and poorer overall health. Unfortunately for the employer, they can reduce productivity, increase absenteeism, and potentially add to compensation costs. The result is often higher attrition by employees who can no longer tolerate the stress.

Shared Responsibility

Employee and employer are both responsible for maintaining job performance and safety. Employees are responsible for getting sufficient sleep and for recognizing that lack of sleep will affect performance.

Unfortunately for employers, the ultimate responsibility for errors or accidents rests with the employer through the legal principle of vicarious liability. When comedian Tracy Morgan sued Walmart after a Walmart truck struck his limousine, Morgan's lawyers alleged the Walmart driver had gone without sleep for 24 hours. Walmart, not the driver, settled for an undisclosed amount.

Is There a Solution?

Most provinces legislate the maximum number of hours a driver can operate a vehicle. But beyond these limits, there are few guidelines. Owner-managers should, in co-operation with employees, establish guidelines to ensure that a responsible program is in place to reduce the risk to employees and third parties. Consider the following:

- Break every one or two hours if the task is demanding.
- Schedule eight-hour shifts five times a week or 10-hour shifts four days a week, especially for night shifts.
- Avoid 12-hour shifts for physically or mentally challenging tasks.
- Schedule two full days of rest for employees who work five consecutive days of eight-to-10 hour shifts.
- Schedule two full days of rest for employees who work three 12-hour shifts.
- Educate employees and management as to the impact of shift work and lack of sleep on their personal and working lives.
- Teach employees how to identify indicators of sleep deprivation.
- Ensure employees that, if they feel the work schedule is impacting performance or safety, they can speak up and management will offer assistance without retribution.
- Determine whether an incident has occurred as a result of fatigue. By formalizing incident reports, employees and employers may discover that the timetable contributes to errors or accidents.

Lack of Sleep Affects Everything

Productivity, performance, employee job satisfaction and customer relations can all be negatively impacted by a desire to put in longer hours at the expense of much-needed sleep. Working together with employees and establishing work patterns that allow sufficient time for rest will cut employee absenteeism, reduce the chance of on-the-job accidents or errors, minimize the cost of WSIB or related claims and consequently improve the bottom line.

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