

“Keep Your Money in Your Pockets, Not CRAs”

Accounting and Financial Planning Tools for Business Owners

BDCA  CHARTERED
PROFESSIONAL
ACCOUNTANTS

 **Assante**[®]
WEALTH MANAGEMENT

THOMSON
FINANCIAL PARTNERS

Welcome



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Agenda

- Accounting systems
 - Timeliness of data entry now, not at year-end time, start early
 - using the systems to help you make valuable business decisions to help yourself keep more cash in your pockets
 - efficiency tools within accounting systems
- Forecasts/budgeting
- Mileage logs – lets reduce the pain but still be protected from CRA attacks
- Recent legislation – Employees vs subcontractor classification...have you heard of a “dependent” contractor category?
- T4As
- Government funding
- Inflation and the Power of Compounding
- Why Diversify?
- Corporate Structuring
- Where to Save Surplus Earnings
- Risks We Face
- Exit Planning

Accounting Systems

- Data entry now versus later, throughout the year vs at year-end
 - You make critical business decisions now with speed, you jump to service your clients and respond to them now, why not review your numbers now?
- Quarterly reports
- Profit review now to plan for year-end bonuses
- How much have you taken out of the business to date? How will that affect your personal tax return?

Financial Reporting Key Items for Success

- Profitability the way you need to see it
 - Frequency and type
- Set up the accounts that are best for your business
- Create the classes/categories
- Report by location/department
- Review profitability by location/department to determine what changes if any should be made

Forecasts/Budgeting

- The unknown is scary
 - Let's say you have your accounting system in place, and with the great reporting options we've discussed, AND you are monitoring them....but there is still another half year to go?
- Why don't we predict the year in advance?
- Use QB or do it in excel
- Quarterly updates and reviews
- Make changes in advance to prevent a loss

ABC Co. Forecast

Sales	\$1,000	
Labour	(400)	} Fixed Costs } Variable Costs
G&A	(200)	
Other	<u>(100)</u>	
Expected Profit	<u>\$ 300</u>	

Accounting in the Cloud?

- Pros
 - Access anywhere, anytime
 - No manual update/support costs/installation required
 - Saves \$\$\$ - don't need a desk for your accountant anymore
 - Send links/invoices to your clients with ease
 - Year end simpler
 - Laptop is stolen? Not your data... it's in the cloud
 - Automation of processes (discussed later)
 - No backup required
 - Controlled access – activity logs

Accounting in the Cloud?

- Cons
 - System maintenance out of your control
 - Concern re data security/privacy?
 - Where is the server stored?
 - Who at QB has access to your confidential info?
 - Are you comfortable with your financial data being processed offshore?

Efficiency Tools in QB Online

- Automation
 - Bank, credit card, and other transactions imported
 - Auto invoicing for recurring invoices
 - How often are you billing now?
 - What would happen if you sped up the billing cycle by one month? Avg monthly billings \$20K? Extra \$20K in the bank per year with a simple tweak of process.
 - Auto emailing of statements of account
 - Auto emailing of monthly financial reports

Efficiency Tools

- Hubdocs – online document retrieval and storage system, \$25/mth
- Online payment systems – such as Telpay/Plooto or regular banking
- Receipt apps
- Dropbox/other file storage
- Time sheets – critical for project management and profitability and opportunities to extra bill where warranted
- Software to manage your people and projects
- Mileage trackers

Mileage Logs

- Mileage trackers – *QB self-employed, Everlance, Mile IQ, Stridedrive, Trip log, Mileage Exp Log*
- What about the receipts?
- Reimburse yourself standard rate, no need to keep the receipts, just need the mileage log
- The automobile allowance rates for Ontario **2019** are:
 - 58¢ per kilometre for the first 5,000 kilometres driven
 - 52¢ per kilometre driven after that

Employees, Subcontractors and T4As – Dependent Contractor?

- Employee or Subcontractor?
 - Control
 - Ability to hire others to assist
 - Tools/Equipment
 - Financial Risk
 - Responsibility for investment/management
 - Opportunity for profit

Dependent Contractor

- The concept of “dependent contractor” is one for employment law only.
- If someone falls into this category, it means they are not an employee even though they are afforded some rights under the Ontario Employment Standards Act (mainly upon termination).
- New classification for employment law purposes only, not considered under the income tax act

You Decide They Are a Subcontractor - T4A or not?

- The rules are simply unclear
- Common law displays you do not have to
- If you follow the T4A guide, you would issue one to individuals, partnerships, and corporations, even if that corporation was Bell Canada and it related to the service of providing a telephone line
- Protect yourself and issue one to the sole proprietors
- This will not guarantee you will “win” an employee vs sub audit, but it will help your case – CRA likes to see these for sole props.
- >\$500

Let's get you some funding! Free Cash....

Government Funding Available

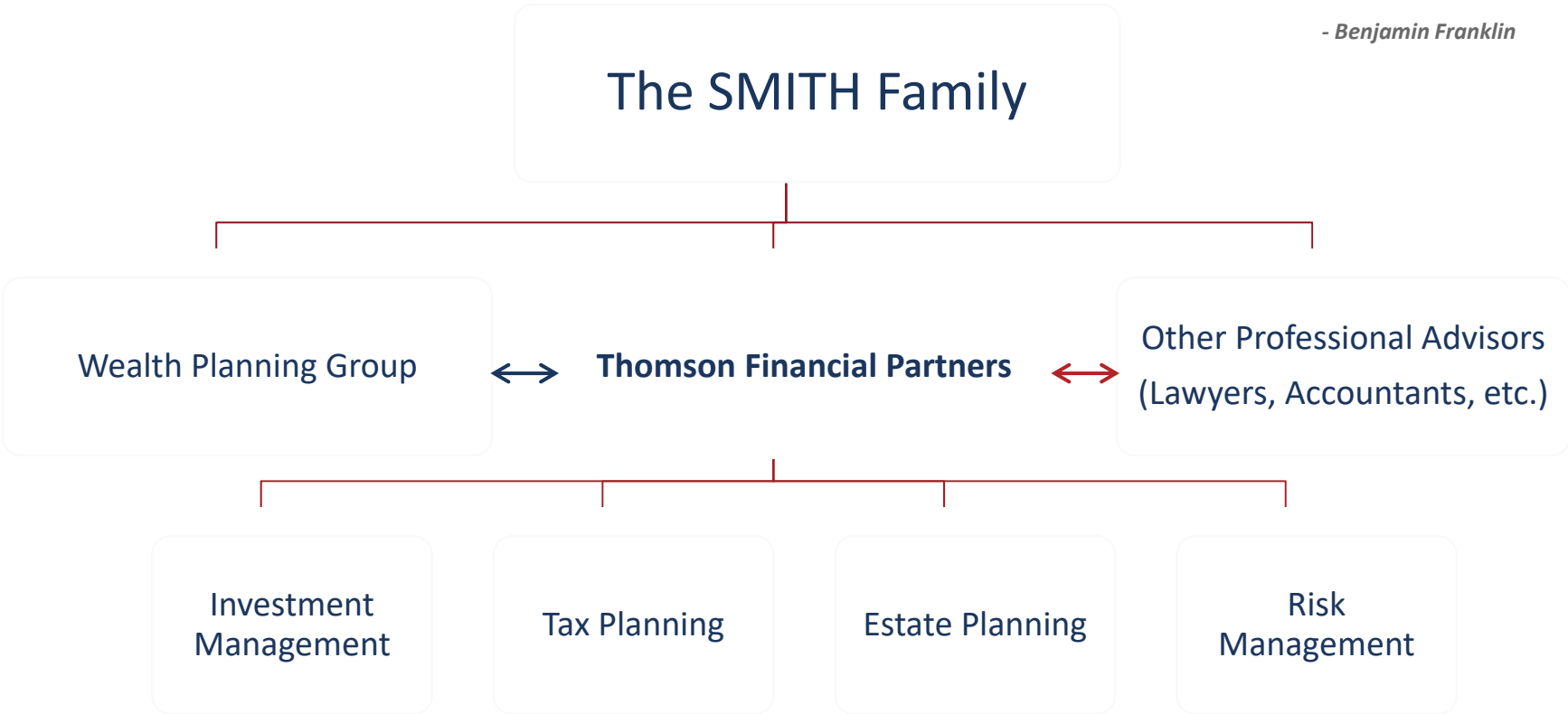
- Last year, governments in Canada distributed more than \$26B CAD to industry and small businesses through government grants and business incentives to help them achieve their growth objectives.
 - Approx 10% relates to SRED, and the balance to various different programs
- Doing it on your own?
 - Low success rate
 - Fact is the government entities either don't advertise the funding opportunities due to lack of their own resources – how do you know what's out there?
 - The applications can be extremely lengthy, taking time away from your daily crucial operating obligations
- The wording in the responses is key – technically you may qualify, but you answered the question in a manner that suggested you did not
- We have recently started working with a company to assist in obtaining government grants/incentives for your business where possible
- This is not funding directed to cash poor entities, this is simply funding that is available to all Canadian businesses

- With all the above implemented, this will increase the value of your business and of course maximize your wealth and cash in your hands.
- Let's give you freedom and peace of mind, that you are using all the tools available to and receiving the maximum benefits of it today.

Integrated Wealth Management

*"How can they advise
if they see but a part."*

- Benjamin Franklin



"Wealth Planning Group" pertains to the Wealth Planning Group of United Financial, a division of CI Private Counsel LP.

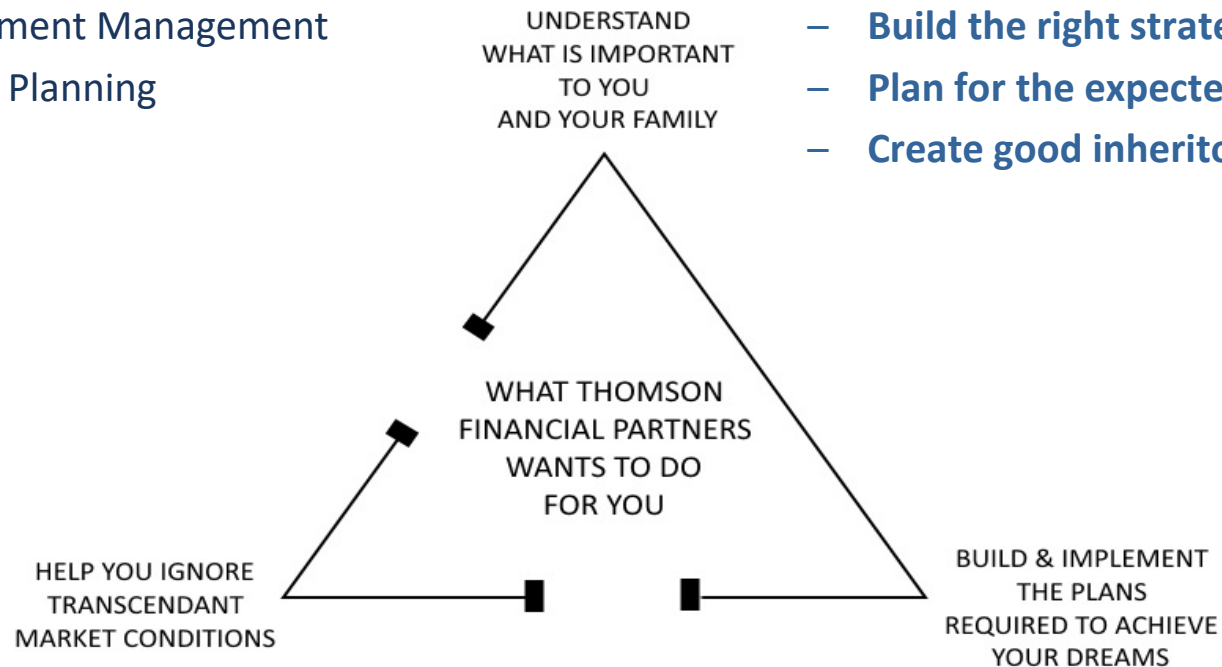
Thomson Financial Partners Commitment

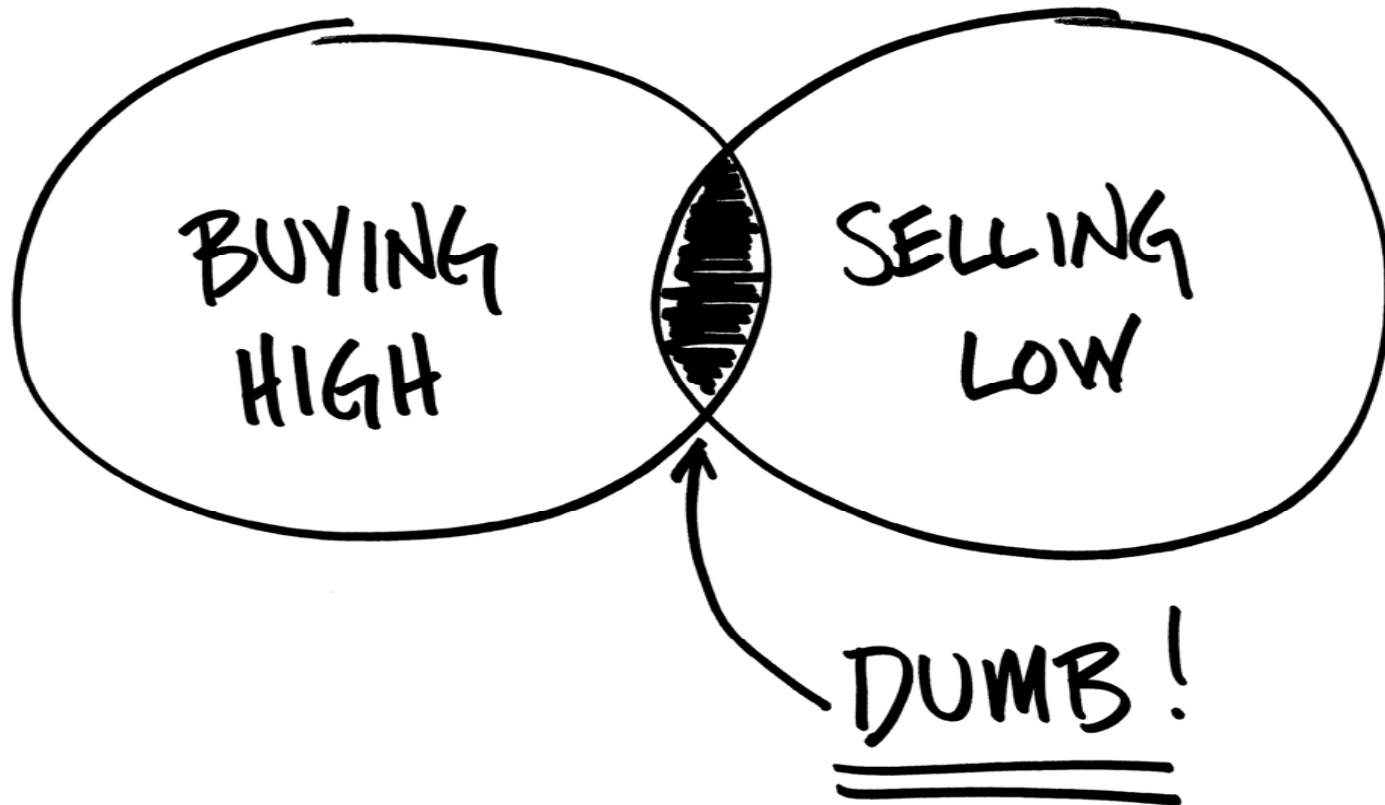
- What most of us say we do:

- Tax Planning
- Retirement Planning
- Risk Management/Insurance
- Investment Management
- Estate Planning

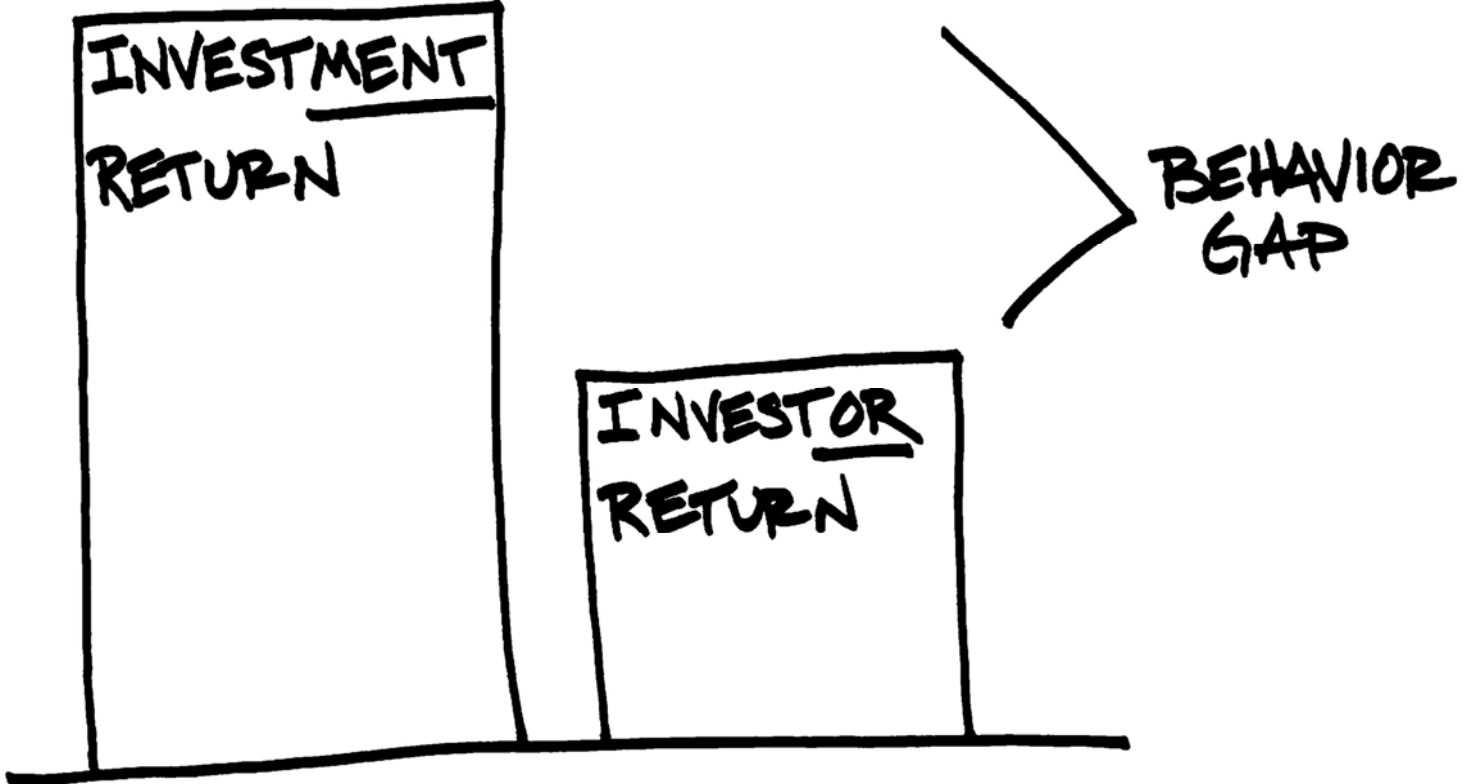
- What we actually do:

- **Provide peace of mind**
- **Maximize tax planning opportunities**
- **Help avoid the big mistake**
- **Build the right strategy**
- **Plan for the expected *and* unexpected**
- **Create good inheritors**





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Requirement to Build Wealth

- Many business owners want:
 - *An affluent retirement lifestyle*
 - *To provide for their families, charities, etc.*
- This requires funds to be saved, invested and later withdrawn

Priorities:

1. *Bring in more cash than is required for annual spending*
2. *Build portfolio / asset allocation*
3. *Determine and address risks*
4. *Determine optimal corporate structure*
5. *Choose which “buckets” should be used for accumulations*

Planning for Business Owners

- Have no retirement pension plan – have to create your own.
- Business stock piles non-productive cash
- Many owners feel their business will take care of them in retirement
- Best return on investment can be in the business but the business is not necessarily liquid and carries significant concentration risk
- Business owner dies or becomes disabled or critically ill?
- No time to put plans in place

Saving your money may not be enough.....

Inflation Takes a Bite

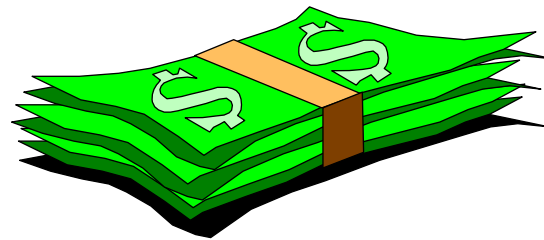
A dollar today will not be worth a dollar tomorrow.

AFTER 20 YEARS....

\$10,000 Investment



== 44 cents



== \$4,420

**Assuming inflation rises each year at a rate of 4%.*

Inflation Takes a Bite

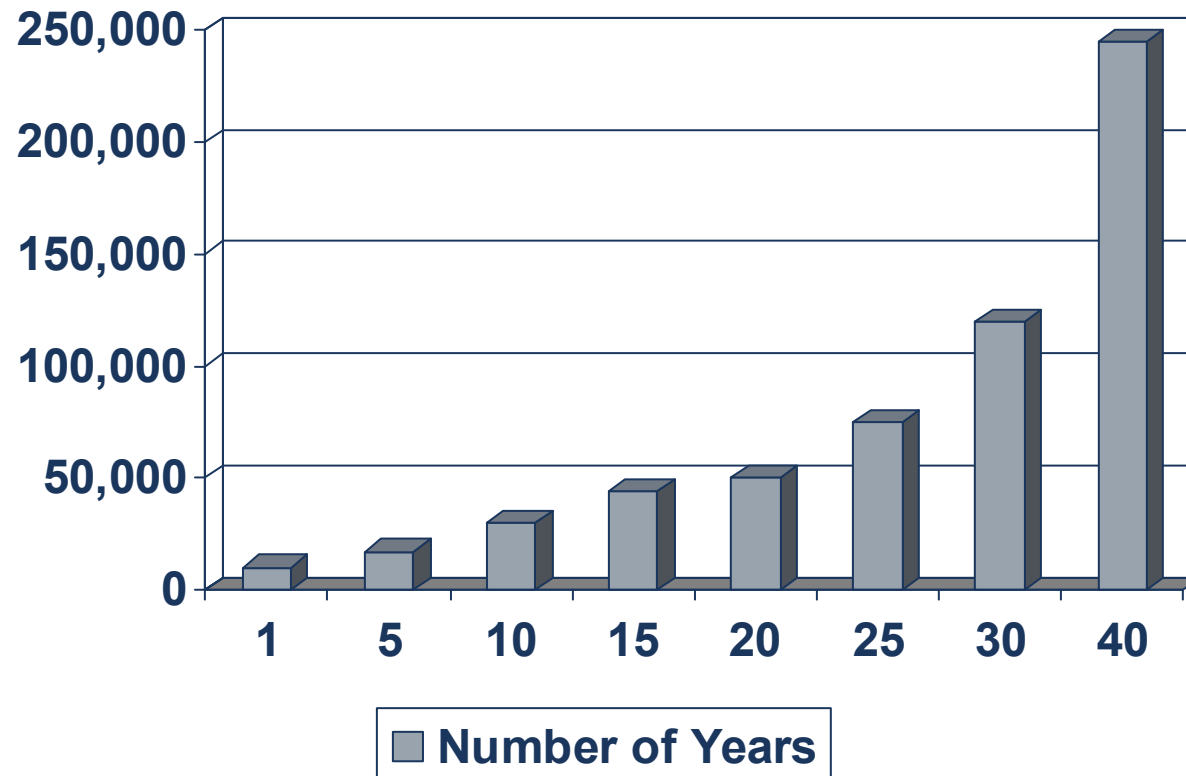
- 2000 price of a Big Mac in Canada - \$2.85
- 2019 price of a Big Mac in Canada - \$5.69
- Rate of Inflation = 3.7%
- Expected cost of a Big Mac in 2039 = \$11.77

Inflation Takes a Bite

- Saving money is not enough. Most people need to look for ways to compound their money at a rate of return in excess of what inflation will erode it by.....

The Power of Compounding

Growth of a \$10,000 investment at 8% per year



Which option would you take?

- Option 1 – receive \$32,258.06 per day for 31 days?

OR

- Option 2 – start with \$0.01 and have it double every day for 31 days?

Day 10

- Option 1 - \$322,580.60
- Option 2 - \$5.12

Day 20

- Option 1 - \$645,161.20
- Option 2 - \$5,242.88

Day 25

- Option 1 - \$806,451.52
- Option 2 - \$167,772.16

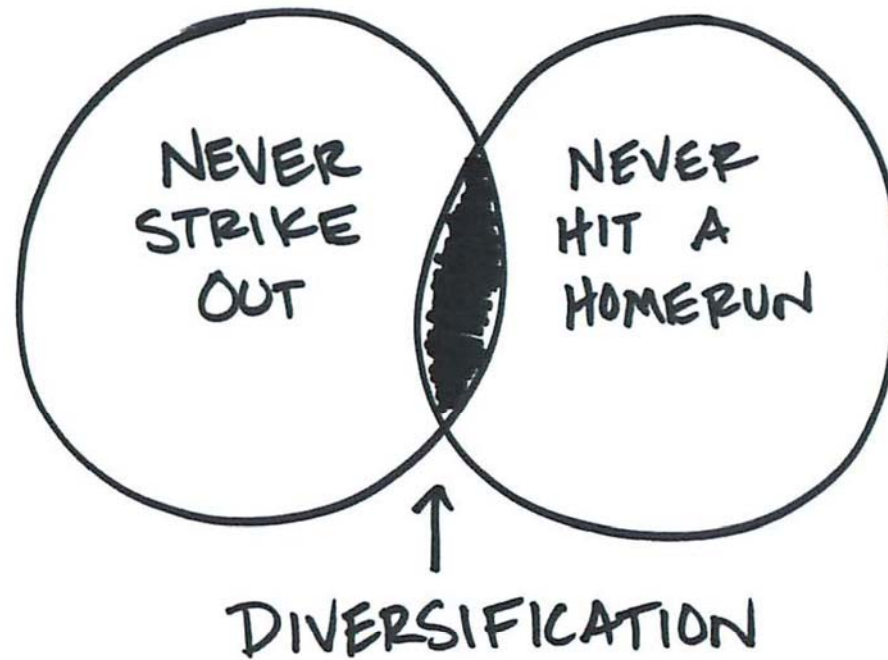
Day 27

- Option 1 - \$870,967.62
- Option 2 - \$671,088.64

Day 31

- Option 1 - \$1,000,000
- Option 2 - **\$10,737,418.24**

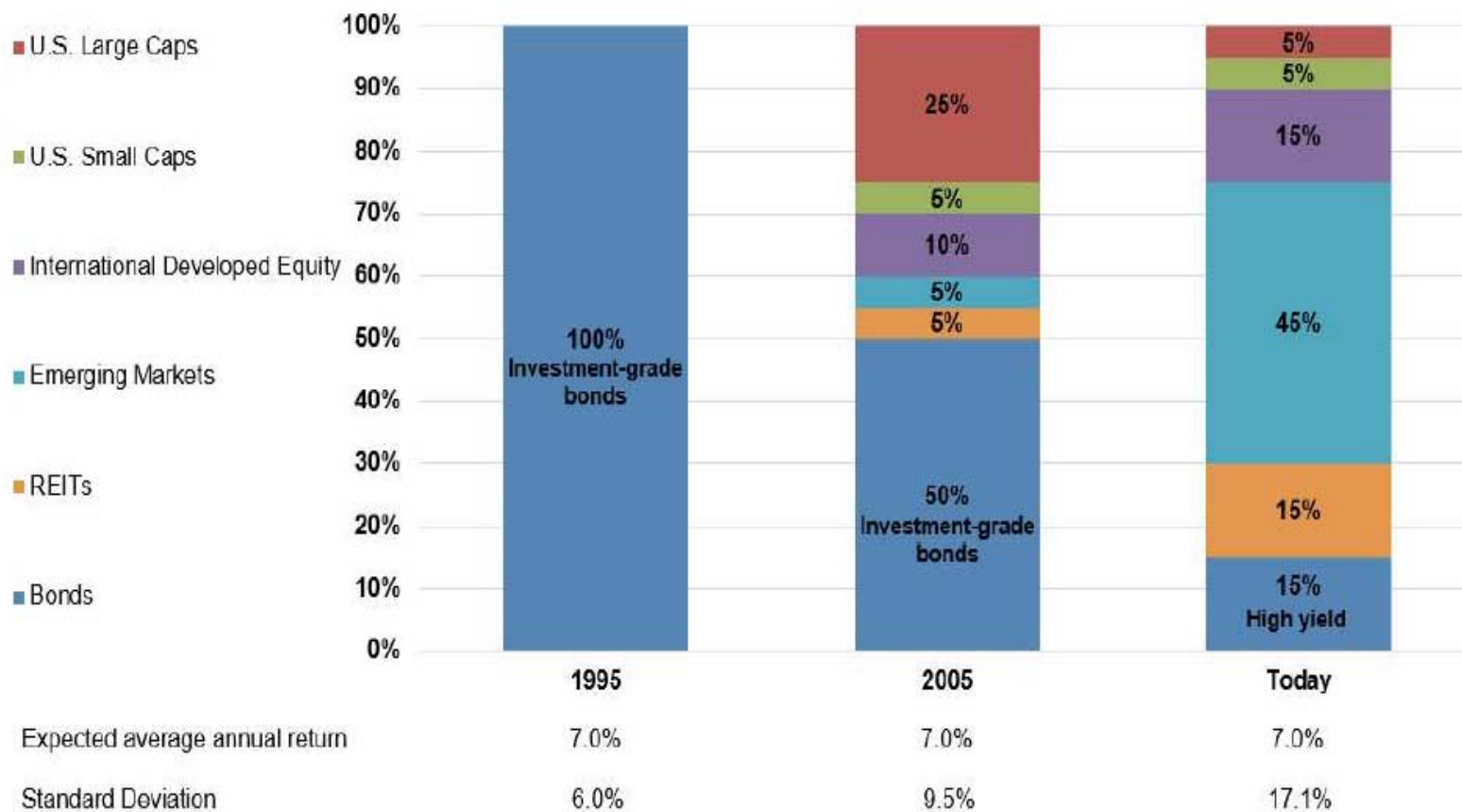
The last doubling is always the biggest.....



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Complexity of earning 7%



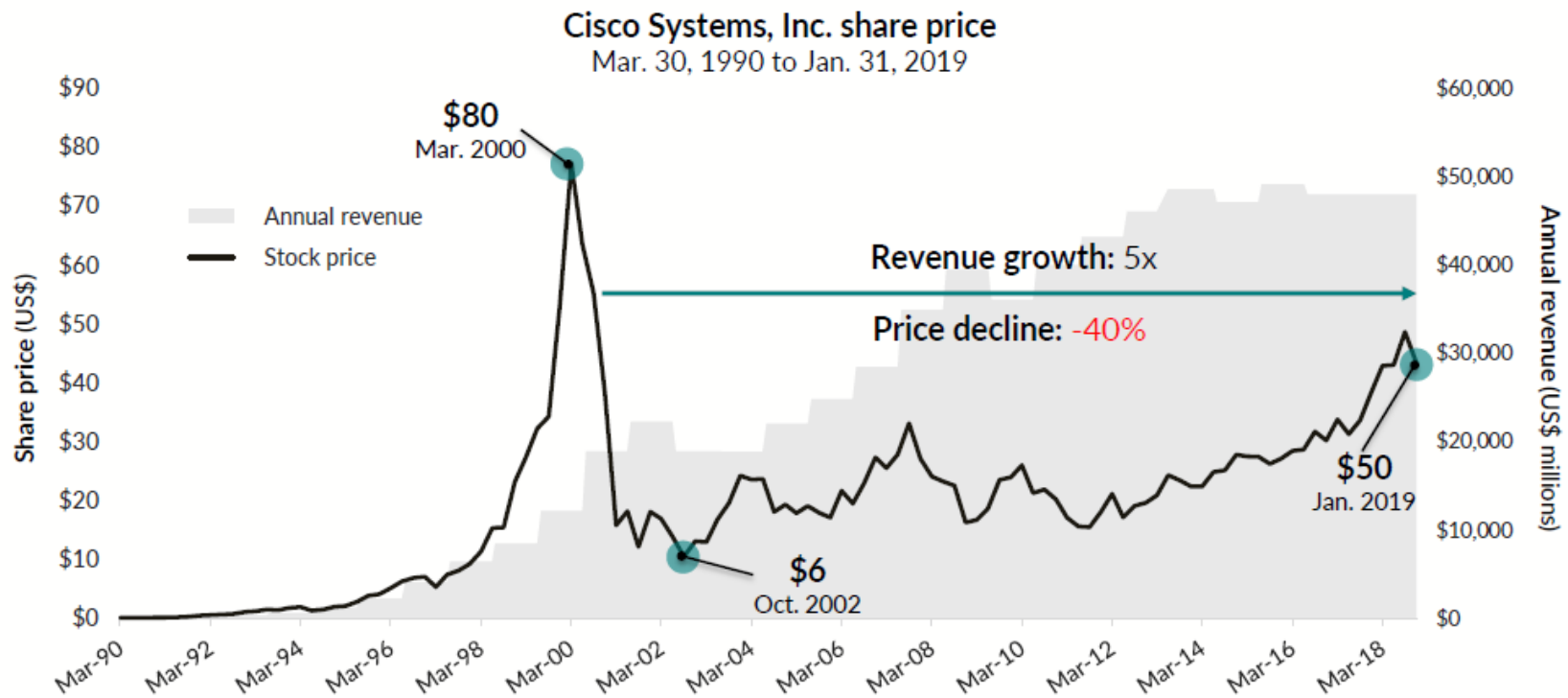
Sources: Research Affiliates, LLC; Bloomberg L.P.; and Larry Berman. Data as at May 31, 2019.



DOT-COM (2000s)

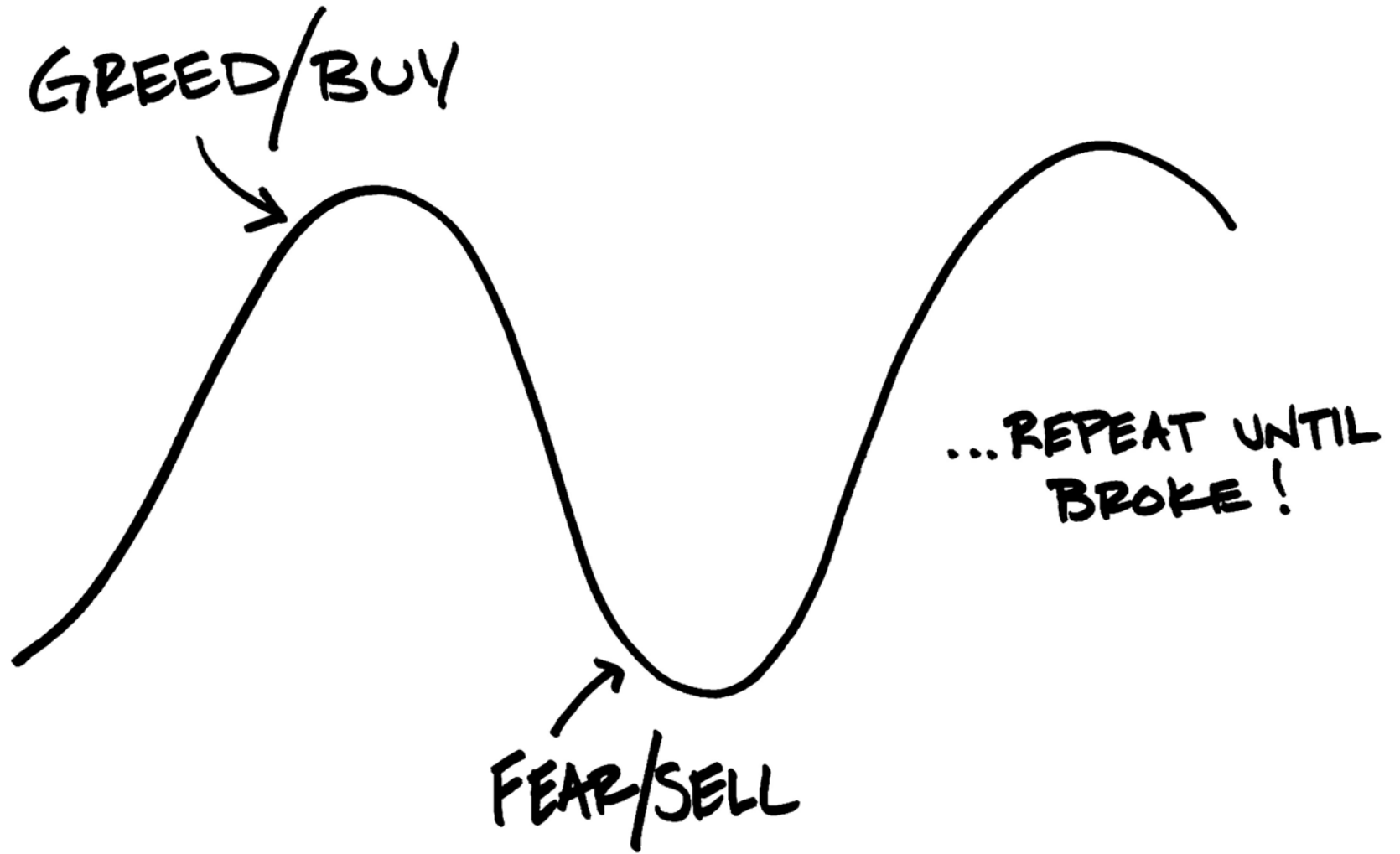
THE STORY OF CISCO

Cisco Systems, Inc. helped fuel the dot-com boom reaching over US\$82 at the peak of the bubble making it the most valuable company in the world by market cap



Source: Bloomberg LP. Price return decline/revenue growth period: March 31, 2000 to January 31, 2019.

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Corporate Structures

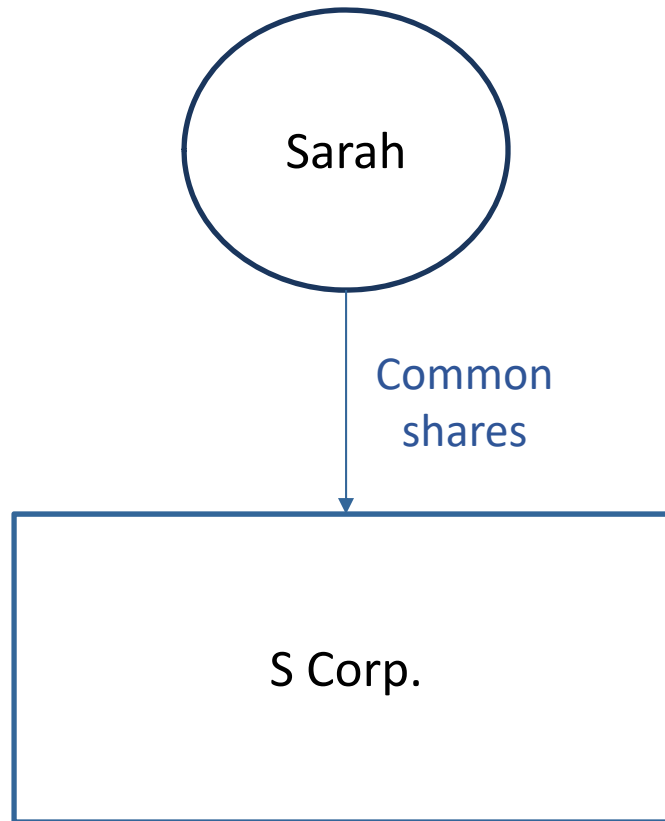
Smaller / Less Complex:

- Simplicity
- Cost
- Business requirements
- Public perception
- Professional body restrictions
- Family dynamics

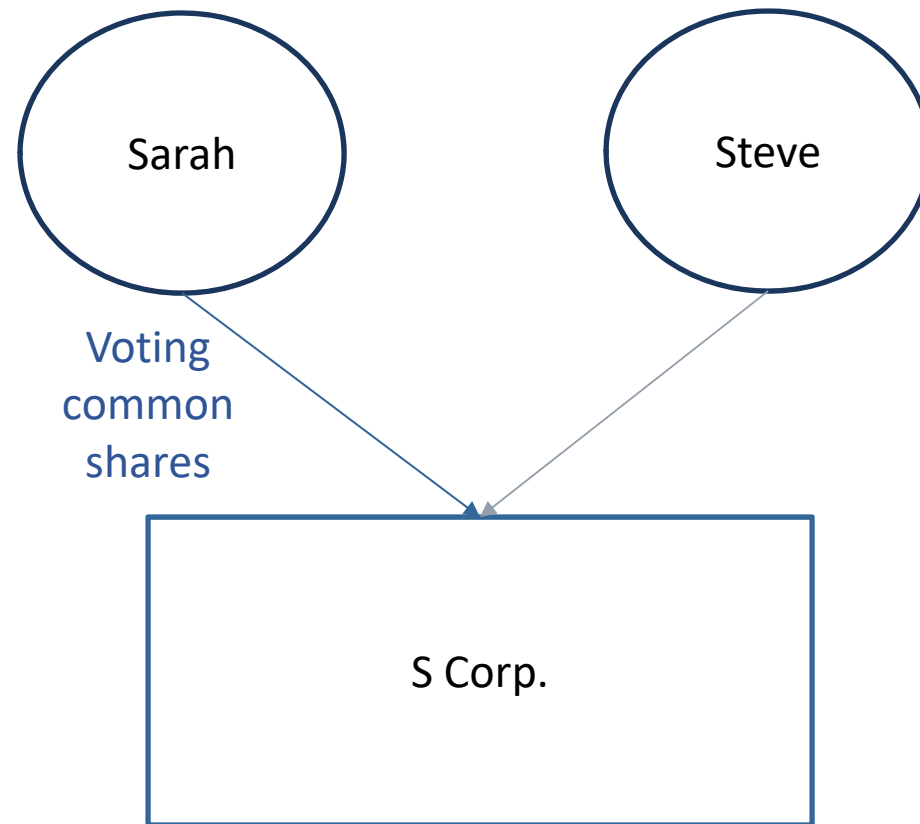
Larger / More Complex:

- Business requirements
- Public perception
- Professional body restrictions
- Creditor protection
- Capital gains exemption planning
- Multiplication of tax benefits through family members
- Exit Planning

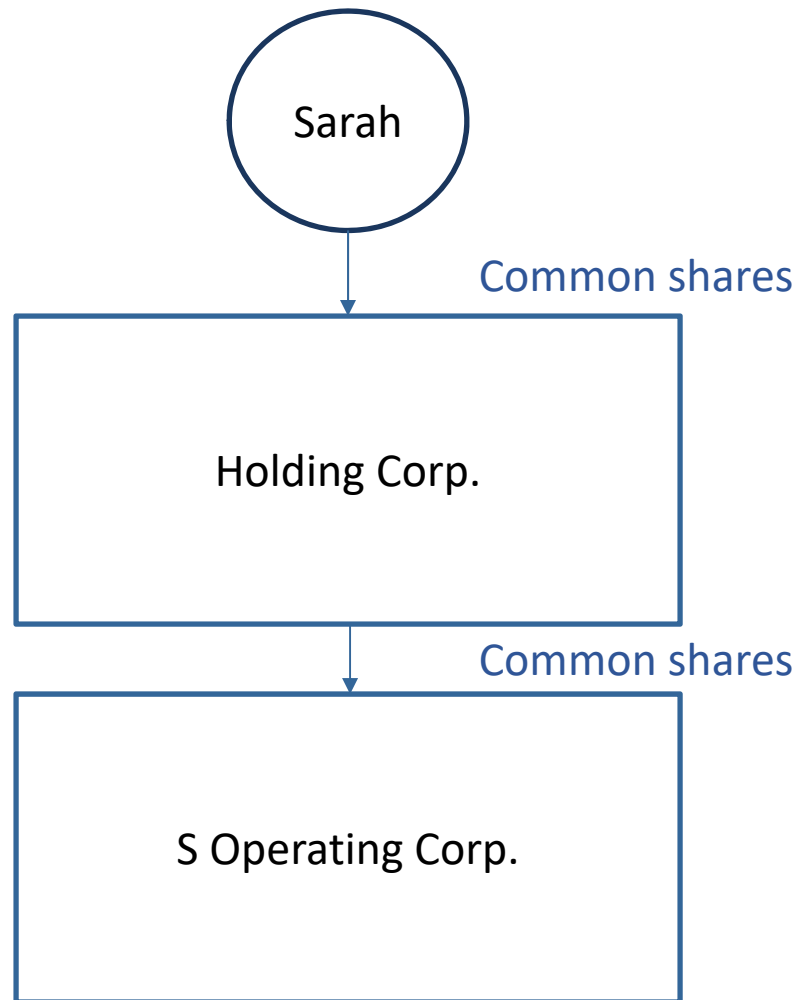
Corporate Structures



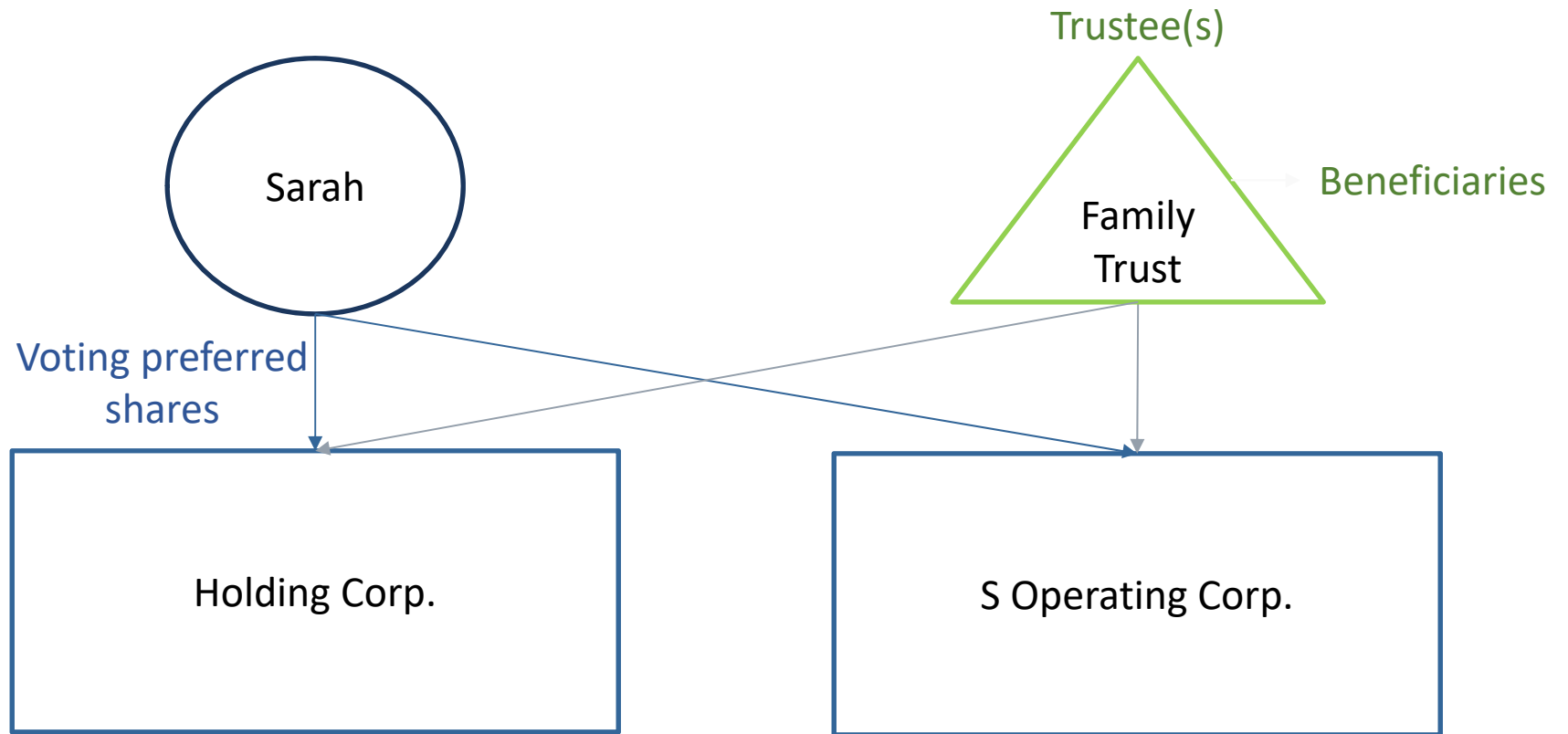
Corporate Structures



Corporate Structures



Corporate Structures



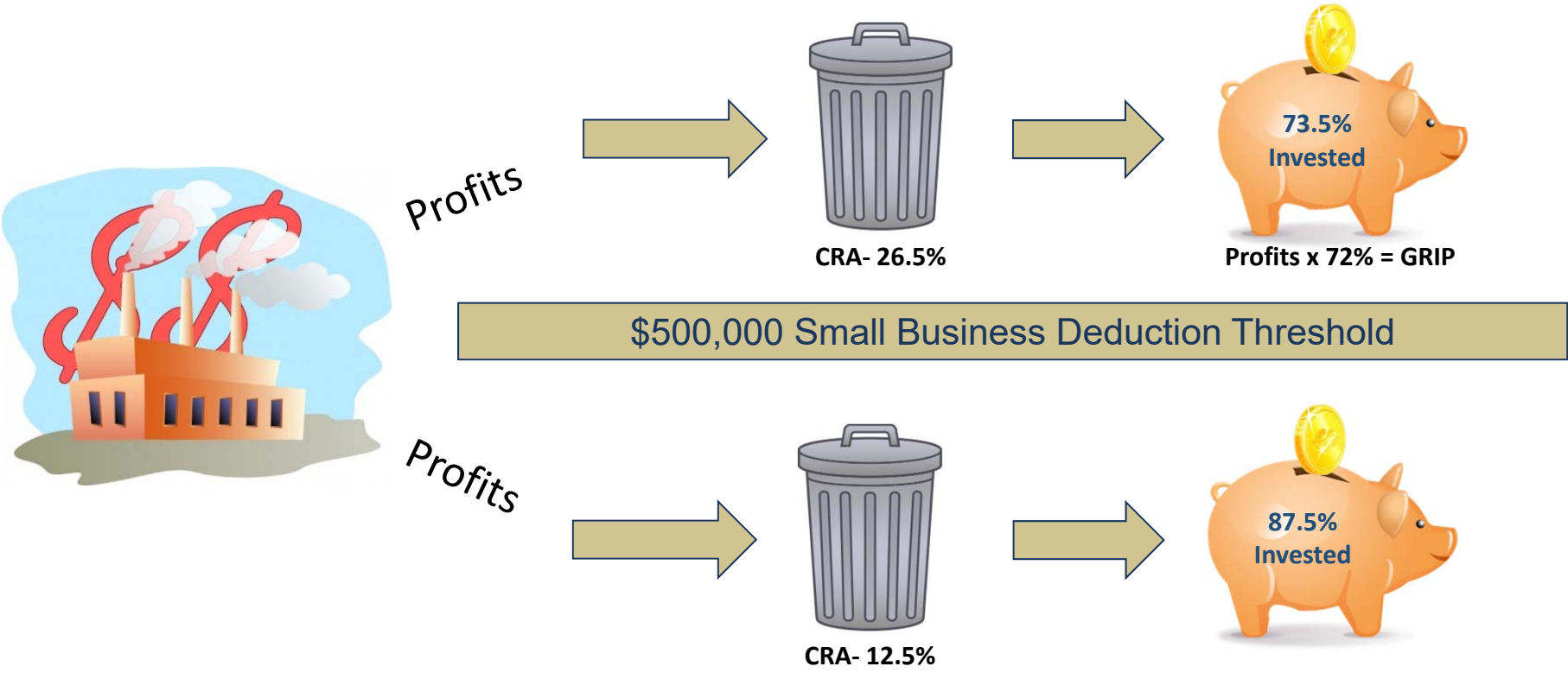
Business Owner Issues

- Things are much more complicated!!!
- Saving opportunity inside corporate structure, so now necessary to evaluate if funds should be removed from corporation to go into another bucket or not.
- Rules of thumb?
 - Nope.
 - *“It all depends...”*



Corporate Tax on Investments

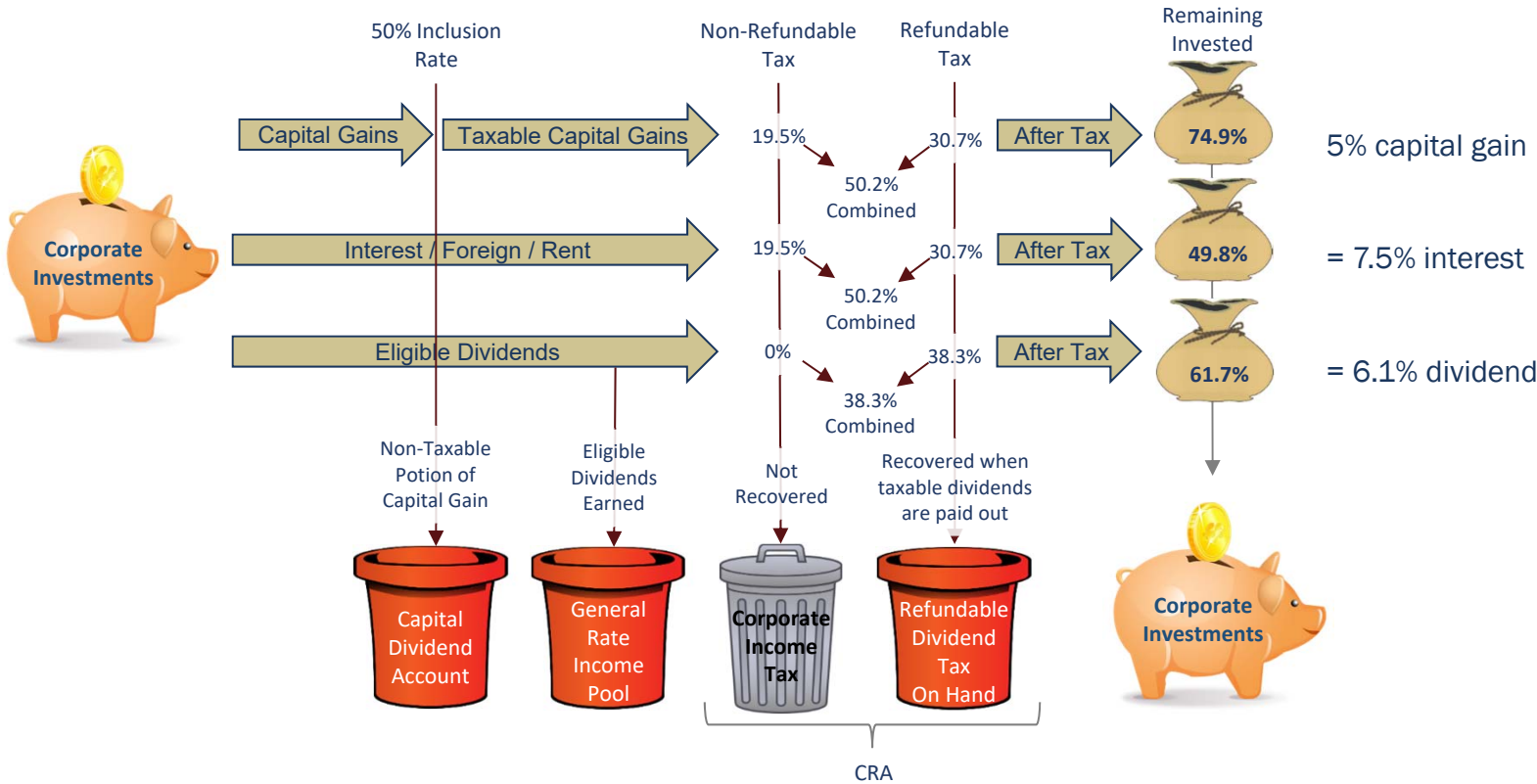
Corporate Earnings Available to Invest



New 3rd option in Ontario: Profits taxed at 18.5% (no federal SBD) but full GRIP

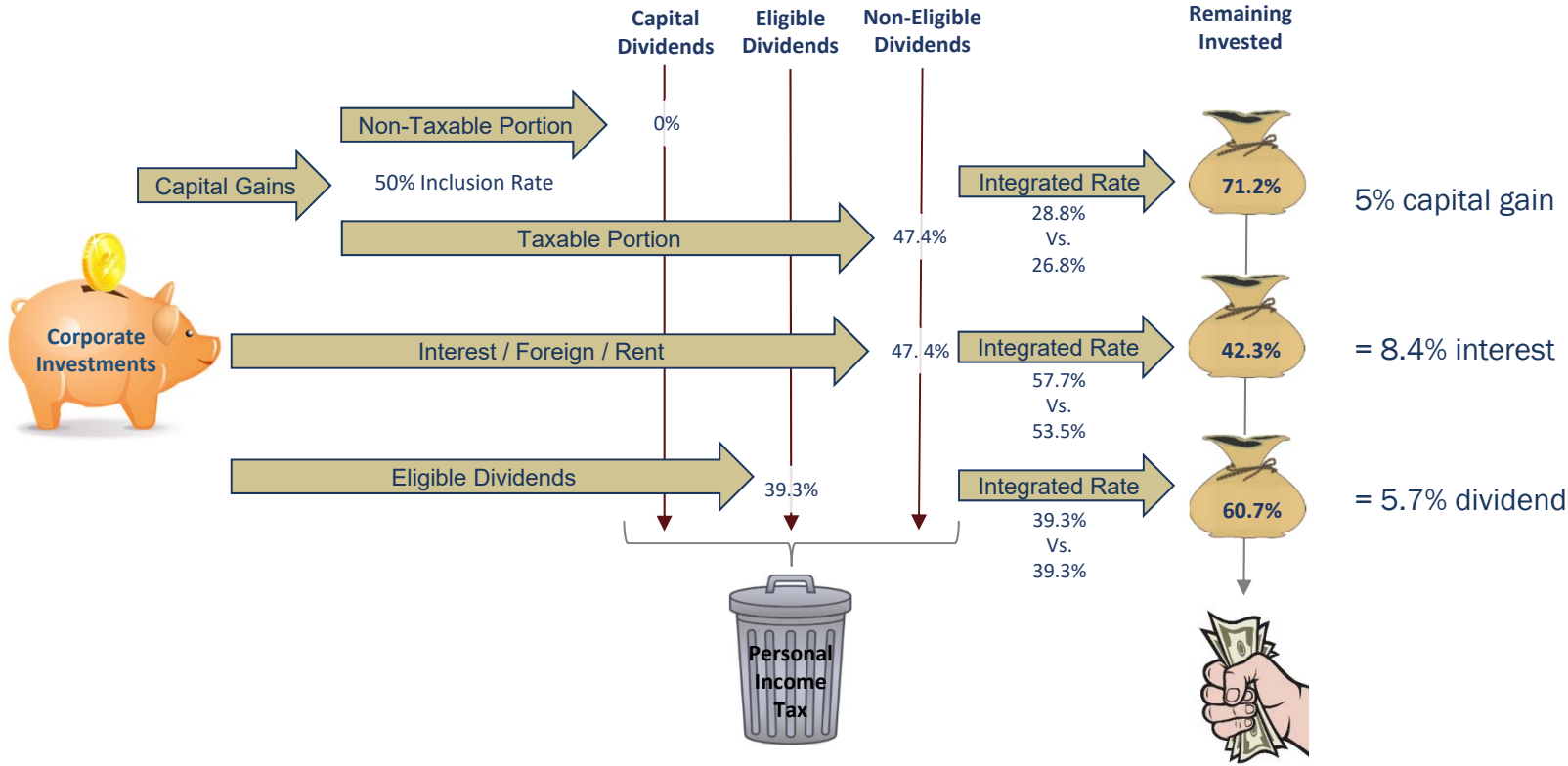
Corporate Tax on Investments

Corporate Earnings Available to Invest



Corporate Tax on Investments

Integrated Tax Rates



Determine the Buckets

- What are the options?
 - Non-registered
 - Corporate
 - Personal
 - Registered
 - TFSA
 - Insurance

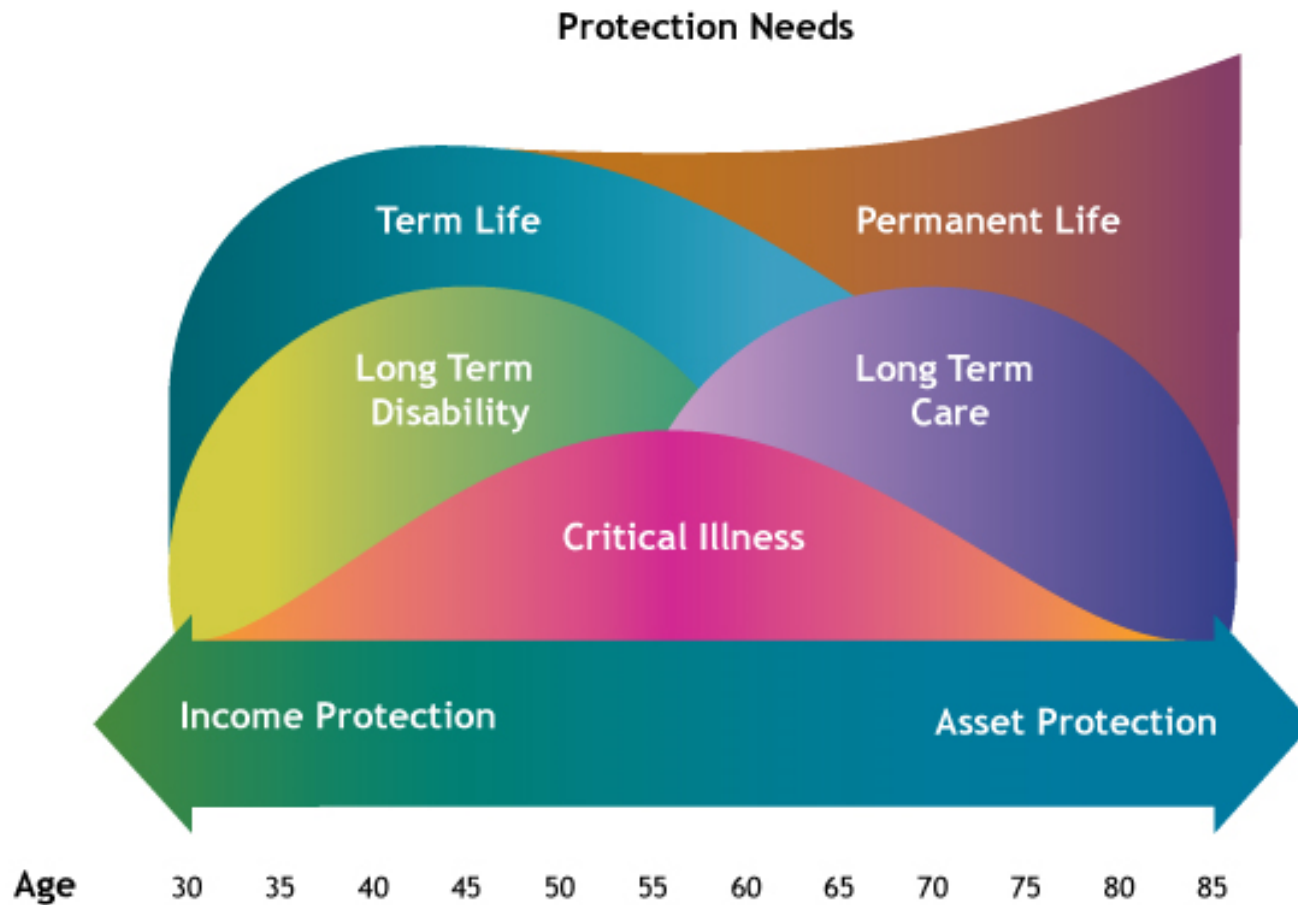


Saving \$10K of Corporate Pre-Tax Income

Corporate Savings Options	Tax Rate	Remaining	GRIP
Corporate Investments – no SBD	26.5%	\$7,350	\$7,200
Corporate Investments – no Federal SBD	18.5%	\$8,150	\$7,200
Corporate Investments – SBD available	12.5%	\$8,750	\$nil

Personal Savings Options	Tax Rate	Remaining
RRSP	0%	\$10,000
RRSP – EHT	1.95%	\$9,805
TFSA / Non-registered personal	20.05%	\$7,995
TFSA / Non-registered personal	29.65%	\$7,035
TFSA / Non-registered personal	43.41%	\$5,659
TFSA / Non-registered personal	47.97%	\$5,203
TFSA / Non-registered personal	53.53%	\$4,647

What Risks Should I Cover?



Business Insurance Needs

Basic risk protection for the business

- Key person protection
- Overhead expense coverage
- Debt coverage

Basic risk protection for the business owner

- Income replacement
- Providing for dependents
- Suffering a disability or critical illness

For the established business

- Funding for capital gains tax liabilities on death
- Facilitating business transition, buy sell planning
- Funding supplemental retirement income

Corporate owned life insurance basics

- Death benefit received by the corporation tax-free
- Receipt of death benefit also creates a credit to the capital dividend account (CDA)

Notional account for private corporations in Canada (CCPCs)

Allows for tax integration –tax free amounts received by corporation flow (mainly) tax-free to shareholder

Exit Planning

- **High level → Mid level → Detailed level considerations:**
 - **Do I have enough?**
 - **Outside influences**
 - *Unsolicited offer to purchase?*
 - *Changes in industry/technology impacting future value*
 - *Personal health*
 - **When is the right time for me to exit?**
 - *Slow & gradual?*
 - *Only after fully paid?*
 - **Is my business saleable?**
 - *Who might be a buyer?*
 - *Asset sale vs. share sale?*
 - **Should my children/employees take over?**
 - *Should they have skin in the game?*
 - *Are they trained sufficiently?*
 - *Wasting estate freeze or capital gains exemption option?*



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