

Let's Talk

SPRING 2009

Lipton Wiseman Altbaum & Partners LLP - Chartered Accountants

Dealing with Financial Institutions

In the current economy, dealing with financial institutions can take on new meaning for many business owners. If you establish and maintain a positive relationship with your bank, you can avoid surprises – maybe even get ahead.

Partner Steve Altbaum advises clients to be proactive in dealing with their bank, particularly as the availability of credit continues to shrink.

"Don't surprise your banker. At a time when financial institutions are being much more cautious and reluctant to lend, it is critical to make the bank your partner and provide advance notice of any plans and cash requirements. Also be aware that if you're in acquisition mode, there are low interest rates and lots of opportunities available."

When you do go to the bank, be one step ahead and provide more detailed documentation. As Partner Mel Leiderman explains, that's because banks are more demanding in a downturn.

"Be prepared by providing your year-end financial statements, cash flow projections, debt covenant calculations, business and strategic plans, and other related information. Lending institutions need clear evidence of your financial position and assurance that you can live within your line of credit. Also be prepared for more scrutiny depending on the industry sector, such as manufacturing segments."

What can business owners do to prepare for a trip to the bank? Steve and Mel provide these tips.

- Focus on your own business. Meet any margin requirements, and try to reduce inventory levels.
- Cash is king – maintain your cash flow and minimize any possible bad debts by conducting credit checks and managing your receivables on the timeliest basis possible.

- Postpone major capital asset purchases, if possible.
- Finance capital asset purchases with term debt or leases rather than your operating line of credit, which is for your receivables, inventory and other working capital requirements.
- Be positive and set aside any emotion in discussions with your bank, as shopping for a new financial institution can be time-consuming and expensive.
- Watch the radar screen. Are your existing customers slowing down payments or orders?
- Pay the bank first, and if necessary extend your suppliers depending on their importance to you. Suppliers can be more flexible than your bank.
- Be prepared for your credit line to be reduced.
- As a commercial and industrial real-estate owner, maintain your debt at a reasonable level – banks will be concerned about rentals, especially at the higher end.
- As a homeowner, be prepared for your financial institution to ask you to pay down a portion of your mortgage – your house may now be reappraised for less – and avoid borrowing too much if you are purchasing a house.
- Contact Lipton Wiseman. We're here to help you.

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Building a Winning Team

When it comes to team-building, business leaders can look to the sports arena for good advice. Renowned football coach Bo Schembechler of the University of Michigan Wolverines has these tips for success.

Recruit Inside – If possible, hire people from within your own organization. You know these individuals, and other employees will be more motivated to work harder to gain a promotion.

Listen – Recognize your team's intellectual capital, and ask employees for their honest opinion before you make key decisions.

Look for Character – The person who will perform most effectively isn't necessarily the hotshot. "When you recruit for character, you sleep a lot better, too."

Motivate – Your job as leader is to inspire employees, including the middle-management level, to accomplish more than they thought they could.

Cultivate Bench Strength – Avoid creating an "us versus them" environment by developing senior employees who can in turn help manage by motivating their own staff.

Fighting Chance – Refuse to judge anyone prematurely, and give everyone a fair chance to excel.

Assign Clear Roles – Give each employee a specific role and explain its importance to business success.

Scuttle the Star System – The team comes first. If you hire some stars, don't let them run the show.

Fire Fast – Especially if you discover dishonesty or disloyalty.

Prepare Ahead – To maximize performance, ensure that staff members are organized and well prepared for important presentations and activities.

Employer Provided Scholarships

Business owners know the importance of retaining valued employees. In this challenging economic climate, companies are looking for creative ideas to encourage employee loyalty.

One way is to offer scholarships for employees' children. The Income Tax Act provides that corporate scholarships can be granted for elementary, secondary and post-secondary education.

Amendments that became effective last year removed any dollar limitations on such scholarships. If structured correctly, they are not taxable to the student recipients, produce no taxable benefit for employees and are deductible for employers.

Senior Tax Partner Jeff Nightingale notes, "Until recently, there was a significant restriction on corporate scholarships because the Act required that such payments should be made to only a certain number of children, selected on the basis of their scholastic records."

Canada Revenue Agency had interpreted that provision narrowly, requiring that any recipients of

corporate scholarships must have superior academic achievement.

The picture has changed, however, as a result of two cases heard by the Tax Court of Canada in 2008. The court decisions gave expansive interpretations to the rules governing corporate scholarships and ruled in favour of programs that Canada Revenue Agency had argued were not sufficiently exclusive.

The implication of the decisions is that a corporate sponsorship program may be compliant with the Act if:

- It offers a limited number of scholarships;
- There is an assessment or selection process for applicants, with objective criteria;
- The scholarships are awarded based on some merit.

There are other considerations, too, Jeff says.

"The scholarship must be paid by virtue of employment and not shareholdings. A plan that would benefit only the children of the owner might not be compliant."

For details on how to properly establish a scholarship program, please contact us.

RESPs Now More Flexible

The federal government has made several changes to the rules governing Registered Education Savings Plans (RESPs), which have made them more attractive for parents wishing to save for their children's education.

Flexibility has increased because people can invest for a longer time in RESPs, and also keep them in place for more years before termination.

Although contributions to an RESP are not tax deductible, they still provide benefits including tax deferral and income-splitting opportunities. One advantage of an RESP is that tax is deferred on any income accumulating in the plan. Similarly when the accumulated income is paid out from the RESP as an Education Assistance Payment (EAP), it will be taxed as the child's income, not the parents'.

Effective for 2009 and onward, contributions to an RESP can be made for 31 years. The previous limit was 21 years.

Similarly, plans must now terminate after 35 years instead of 25. In both cases the deadlines are extended if the beneficiary qualifies for a disability tax credit.

Tax Partner Sunita Arora notes that the period when payments can be made to students is also longer than it used to be.

"EAP payments can be made for up to six months after the student ceases to be enrolled in a qualifying education program," Sunita advises.

A proviso is that any such payment must still qualify as an EAP – that is, it must meet the same defined requirements as though it had been made immediately before the student's enrolment ceased.

Lipton Wiseman professionals can assist clients to make their best plans for RESP contributions.

Professional Profile – Soheil Talebi, CA

There was a time when accounting firms didn't need someone in the role undertaken by Soheil Talebi. Today, the expertise he brings to Lipton Wiseman as Director of Professional Standards and Education is a critical asset, and is likely to become even more important in the future.

Soheil's responsibility is to ensure that Lipton Wiseman professionals stay on top of new accounting and audit standards so they can continue to deliver services of the highest quality to their clients.

The accounting profession is changing rapidly around the world. New rules and standards affect the firm's assurance clients wherever they operate. It is Soheil's knowledge of Canadian, US and international standards for both auditing and accounting that makes him so valuable.

"Professional standards are evolving globally along with business structures, and these will only get more complex," Soheil says.

"Not too long ago, some of today's business transactions and financial instruments did not exist. Now,



it's a full-time job to simply keep up with the changes in the profession to account for such transactions and instruments."

Soheil reviews every financial statement prepared by Lipton Wiseman for quality control. He consults with partners and educates staff on various accounting and assurance issues and attends the planning meeting for each audit engagement.

Since joining Lipton Wiseman in October 2008, Soheil has worked with Professional Standards Partner Paul Roberts to enhance the firm's audit methodology and is helping in its implementation.

Soheil feels that, "this change will benefit both the firm and its audit clients as it will make the audit process more efficient."

Born in Iran and after living in Europe, Soheil came to Canada at the age of 12 with his family. He graduated from Brock University and obtained his CA designation in 2002 while working with a large multinational accounting firm. Soheil is married to Caterina and enjoys spending time with their 1-year-old daughter Sohrina.

NewsBrief: Firm News

Lipton Wiseman recently successfully completed the Practice Inspection Program of the Institute of Chartered Accountants of Ontario. This internationally recognized program is a key regulatory process that ensures all members in public accounting adhere to strict professional standards and preserves public confidence in financial reporting.

Senior Tax Partner **Jeff Nightingale** addressed the Law Society of Upper Canada on the tax implications of marriage breakdown.

Partners **Stephen Altbaum** and **Fred Arshoff** attended the JHI International Annual Conference in Miami in October, meeting international colleagues and extending LWAP's worldwide professional network.

Lipton Wiseman welcomes the new Director of Professional Standards and Education, **Solheil Talebi** (see profile page 3).

Congratulations to our new CA **Priscilla Leung**, who passed the UFE in December 2008 and joins the Audit and Assurance Department.

Welcome to University of Waterloo students **Tobin Shields** and **Miranda Chen**, who are joining LWAP for the first time in their co-op program, and co-op student **Kathleen Li**, also from the University of Waterloo, who is returning for a second term.

Welcome to **Nini Yang** and **Wayne Tran** in the Audit and Assurance Department, and **Sara Sahadeo** who joins the administration team.

Congratulations to **Jovita Muller**, who recently celebrated her 15th anniversary with LWAP.

Congratulations to **Lan Tran** on obtaining her CGA (Certified General Accountant) designation – and on her recent marriage!

Congratulations to **Alex Ghani** and his wife Sana on the recent birth of their son Nyal.

Lipton Wiseman ushered in the 2008 festive season with a celebration at Sopra Restaurant and prepared for the 2009 tax season with a February get-together at Trattoria Piazetta – featuring its second annual Texas Hold 'Em Poker Tournament!



Congratulations to the Vaughan Rangers – minor midget champions in the November 2008 City of Vaughan Hockey Association (CVHA) Marshall Drewnowsky Memorial Tournament as well as the February 2009 West London Hawks Tournament! The team is coached by Tax Partner **Jeff Nightingale** (second from right). Partner **Michael Wagman** also volunteers as Treasurer of the CVHA.

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