

Let's Talk

SPRING 2010

Lipton Wiseman Altbaum & Partners LLP - Chartered Accountants

Business Opportunities Await

On the surface, today's economic conditions appear promising but at the same time uncertain. In fact, these are the times when opportunities can arise for both buyers and sellers of businesses.

The not so recent economic downturn and uneven recovery have put pressure on many businesses to shore up their finances. While they may have quality products and/or services, a sound customer base and skilled staff, there may have also been financial setbacks that have prompted their lending institutions to seek additional infusions of capital.

With proper due diligence, it is possible to negotiate transactions that produce best-case scenarios for both a potential buyer and seller of a business.

Managing Partner Mel Leiderman describes the kind of situation that can arise today: "The owner could be nearing retirement and doesn't want to invest more of his or her own money into the business in anticipation of the next business cycle. Maybe this is the time when the owner might consider selling the business to an investor or competitor, or to employees in a management buyout."

A prospective buyer who sees synergies and potential future profit and growth in a company is well advised to approach the owner through an adviser or business broker. Lipton, as a member of JHI, is part of an international network of accounting firms with knowledge of business opportunities and has helped bring buyers and sellers together across continental distances.

A confidentiality agreement between the prospective seller and buyer is typically the first step toward sharing information on which a transaction can be based. Lipton often works with clients at that point to conduct due diligence so that the client

gains valuable insight into the financial results, overall operations, asset values, contingent liabilities, taxation position and general business matters.

The tax aspects of a transaction can be critical to its success, even if the buyer and seller agree on a price. The seller might want to sell shares to take advantage of the capital gains exemption, whereas the buyer might wish to acquire assets because of certain tax advantages. Lipton has extensive experience in helping buyers and sellers negotiate their tax positions to conclude an agreement.

Another important consideration for buyers is to calculate the potential profitability of the business as it would be operated under the new ownership. This is called "normalizing" the income of the business.

"Many companies are bought and sold based on a multiple of normalized earnings," Mel notes. "As an investor, you want to know what the normalized income would be if you ran the business."

By taking care to resolve such issues, buyers and sellers can find these times to be more prosperous than they appear. Lipton can offer experienced guidance to help these opportunities become a reality.

Inside

IFRS Deadline Approaches.....	2
Family Trust Update	2
Harmonized Sales Tax Update.....	3
Professional Profile	3
Firm News.....	4

IFRS Deadline Approaches

January 1, 2011, is fast approaching – that’s the changeover date when International Financial Reporting Standards (IFRS) will replace the current Canadian accounting standards.

“While this changeover will have less impact on small private enterprises,” Partner Paul Roberts explains, “owner-managers must still choose whether to adopt either IFRS or the new private-enterprise standards (PE GAAP).”

“Because this decision affects year-ends beginning on or after January 1, 2011, discussions with owner-managers will be required in order to determine how these options will apply in their particular circumstances.”

IFRS will apply to accountable entities including public companies and not-for-profit organizations and pose significant changeover and cost implications for auditors and management. The Accounting Standards Board is still assessing the not-for-profit standards, which will follow a different timeline.

PE GAAP, however, offers a “made-in-Canada” solution for Canadian private enterprises and presents a more straightforward approach that simplifies reporting requirements in certain areas and reduces the burden of disclosure requirements in others. Notable changes include areas considered overly complex, particularly accounting for financial instruments.

When should you consider converting to IFRS?

“Two circumstances may warrant a conversion,” continues Paul. “If you are planning in the short term to take your company public, or if you are a large private company competing for financing with sophisticated bankers and lenders, then converting to IFRS now may be a prudent choice.”

A brochure is available on the Lipton web site (www.liptonca.com) that discusses both IFRS and PE GAAP.

For further information, please contact your professional adviser at Lipton.

Family Trust Update

Family trusts are often used as part of an overall strategy to hold and protect corporate and personal assets, as well as to provide certain tax advantages.

According to Tax Partner Sunita Arora, owner-managers who have previously established family trusts should check with their professional advisers to ensure that these trusts continue to be properly documented and administered.

“At the moment, Canada Revenue Agency (CRA) is showing a keen interest in reviewing these types of trusts. It is important to ensure that they can stand up to CRA scrutiny.”

Family trusts are used in various ways.

“As an example, trusts can be established to provide income to children or other dependent family members.

They are often used in corporate reorganizations and estate-freezing scenarios to transfer future income and capital gains to the taxpayer’s family.

“There can also be tax advantages if corporate shares are owned by a trust. As well, placing assets and shares in a trust may also help to protect them from certain creditors as well as reduce probate fees.”

The tax ramifications of the “21-year rule” must also be carefully considered. This rule stipulates that the trust will be deemed to dispose of all of its assets at fair market value every 21 years. As a result, distributions of trust property prior to the 21-year anniversary to beneficiaries and/or other types of planning need to be considered.

Harmonized Sales Tax Update

The new Harmonized Sales Tax (HST) arrives in Ontario on July 1, 2010.

In order to ensure that businesses are prepared for this new tax, Senior Tax Partner Jeff Nightingale asks you to consider arranging a meeting with one of Lipton's commodity tax associates.

"As a business owner you should be preparing now. This tax can impact each industry differently, and we are available to advise you on how the HST will affect your business.

"While the HST itself is not overly complicated, it does raise significant issues that may affect your bottom line. You are wise to adapt your accounting systems and continue to manage your cash flow carefully, in order to account for a likely increase in your accounts receivable.

"You should also take note of the new e-filing requirement which is effective for all reporting periods ending on or after July 1, 2010 and stipulates that certain businesses, including those with annual revenues in excess of \$1.5 million, must file an electronic return."

It is also important to understand the various transitional rules that have been released by the Ontario Ministry of Finance. These include: sale of goods, provision of services, real property, sale of intangible personal property, as well as leases, licences and equivalent arrangements.

Further details are also available at www.rev.gov.on.ca.

For more information or to arrange a meeting with one of our commodity tax associates, please contact us.

Professional Profile – Carol Tieman-Eakins

Many people contribute in different ways to the high quality of client service at Lipton. Some are familiar to our clients, others are not. Carol Tieman-Eakins is one person whose conscientious work makes a difference to the firm and its clients, even though she works behind the scenes.

Carol is Lipton's long-time controller. She is responsible for internal financial matters including invoicing, payables, payroll and the firm's internal reporting. Through her work, the firm has a clear understanding of its operations and an accurate basis for communicating with clients.

"The internal operations of Lipton are a reflection of the quality of service that we provide to our clients," Carol says. "As a result, I set a very high standard for my work."

Carol joined Lipton in 1988 as an accounting technician after deciding on a career move. She holds



a Bachelor of Science degree in food sciences from the University of Guelph but found that she preferred working with computer programs and finding creative ways to analyze data. She was promoted to the position of controller at Lipton in 1991.

Aside from family time with her husband and three grown sons, Carol still likes to explore new electronic paths and is also studying web design at Seneca College.

She says she enjoys working at Lipton because of the friendly people, flexible hours and opportunities to take initiatives to enhance the firm's internal financial reporting.

"Every year I try to streamline the software presentations to produce a better analytical grasp of the data," she says.

"If my work is done efficiently, the partners don't need to spend unnecessary time with day-to-day operations and can devote even more of their time to client service."

NewsBrief: Firm News

Managing Partner **Mel Leiderman** has been appointed to serve on the Private Enterprises Advisory Committee, which was established by the Accounting Standards Board of the Canadian Institute of Chartered Accountants to provide input into the development of reporting standards for private companies in Canada (see page 2).

Partner **Paul Roberts** addressed the Business Development Bank of Canada, North York office, on the new reporting standards for private enterprises in Canada (see page 2). Also attending was Director of Professional Standards and Education **Soheil Talebi**.

Congratulations to **Joel Arshoff** on successfully passing the Uniform Examination (UFE), the rigorous professional examination that governs admission to the CA profession.

Lipton welcomes new employee **Queenie Ng** in the Assurance department and University of Waterloo co-op students **Kathleen Li** and **Tobin Shields**, who are returning to Lipton as part of their accounting education.

Congratulations to three Lipton staff members on their recent promotions – **Hanson So** to Senior Manager, and **Gary Yeung** and **Emily Yiu** to Supervisor.

Congratulations to **Soheil Talebi** and his wife Caterina on the birth of their daughter Ariessa.

Congratulations to **Ming Po Wong** on receiving his 10-year service award, which was presented at Lipton's annual holiday celebration held last December at Il Mulino restaurant.

On behalf of Lipton, Commodity Tax Associate **Ron McKenzie** presented an information session on the Harmonized Sales Tax (HST) to RESCON, a builders' association dedicated to builder issues and interests.

Lipton staff and partners attended an in-house continuing-education session on work-life balance, led by consultant Jerome Shore of the Coaching Clinic.

Lipton also prepared for the 2010 tax season with its 3rd annual Texas Hold 'em poker tournament, held this year at Trattoria Piazetta. Congratulations to this year's winner, **Brandon Burtnik**.

Feedback

Referrals from friends, colleagues and clients are the nicest way to be introduced to new clients.

Thank you for recommending us.

Any comments on the articles in this issue?

Please give us a call at 416-496-2900

or e-mail us at lipton@lwap.com

For more information about our firm and to consult back issues of this newsletter, please visit www.liptonca.com.

Lipton is offering a free book, *The Personal Tax Planner Guide 2009-10*. Call or drop by our office for a copy!

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