

WINTER 2014

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HERE'S A TIP

Point of sale software tracks gratuities as they pass through the hands of both restaurant owners and servers.

Electronic point of sale (POS) software on a tablet carried by a restaurant server has revolutionized the way restaurant patrons are seated, orders taken and sent to the kitchen or bar, and the way customers are billed at the end of their visit. Order information is also streamed wirelessly to the central POS system where the invoice is created and the customer's payment recorded. Payments usually include a gratuity for the server in the form of cash on the table or added to the credit or debit card amount processed at the POS "cash register" or on the wireless debit card device or tablet. When a patron pays using a debit or credit card, the amount deposited to the bank will include the gratuity recorded on the POS.

Owners and Servers Should Be Aware

Electronic POS systems now track all the data associated with a transaction including any gratuities.

This means that all data regarding gratuities is recorded and available to the Canada Revenue Agency (CRA).

For example, POS systems record the:

- identity of all servers
- total of all tips accrued to the server
- total sales and tips per server calculated to determine a percentage
- funds deposited to bank accounts, with all details establishing types of sales, methods of payment and gratuities.

Canada Revenue Agency Guidelines

The CRA states: "Gratuities or tips received by employees are income earned in respect of employment for purposes of the *Income Tax Act*." The CRA further states: "it must be determined whether tips received in the course of employment are considered pensionable earnings under the CPP (Canada Pension Plan) and/or are insurable earnings under the EIA" (*Employment Insurance Act*) (There are exceptions for Quebec not addressed within this article.)

Because employers are required by law to deduct CPP contributions and EI premiums from most amounts paid to employees, it is important to understand that the CRA recognizes two classes of tips: controlled tips and direct tips.



Controlled Tips

Controlled tips are those controlled by the employer (i.e., considered by the CRA as remuneration to the employee) and thus subject to CPP and EI deduction requirements. Examples include:

- a mandatory service charge added to the bill by the management to cover tips
- a percentage of the bill added to cover tips
- amounts received by employees based on a tip-sharing formula established by the employer
- tips that are collected by the employer and therefore included in the employer's revenue, are then expensed by the employer and paid out to employees (i.e., the employer creates a tax-deductible expense for the business)
- tips turned over to the employer and later redistributed to the employees
- cash tips deposited in the employer's bank account as the employer's property before being paid out to the employees.

Direct Tips

Direct tips are those paid directly to the employee by the patron without passing into the control of the employer. Examples include any tips:

- left on the table or otherwise given directly to the employee
- pooled and shared in a manner determined by the employees
- included in a credit or debit card payment and returned by the employer to the employee in cash.

Direct tips are not subject to CPP contributions or EI premiums. Employees can, however, elect to make CPP contributions if the tips are received in the course of pensionable employment.

Oops, I Didn't Mean to Say That

"Words are the source of misunderstandings." — Antoine de Saint-Exupéry, *The Little Prince*

Your emails carry more than just your message; your reputation is at stake. Be careful what you say and how you say it.

The advent of email some 30 years ago was a technical revolution that has allowed a means of communicating with one person or thousands simultaneously. Unfortunately, the ability to communicate has not necessarily created better communication.

Traditional letter writing evolved protocols for writing all kinds of letters, including business letters. The immediacy and constancy of email contact today, however, allows, even encourages, a much less formal writing style. Such casualness can often create misunderstandings and stand in the way of establishing a positive relationship between communicating parties. The fact that so much communicating is done by email rather than person to person, over the phone, or even face to face across an office desk suggests that a few guidelines may be in order if you want to create and maintain any kind of decorum in your business communications.

Do not insert the recipient's email address until you are ready to push Send.



To improve email communication consider:

1. To avoid the embarrassment of sending an email before it is finished, do not insert the recipient's email address until you are ready to push *Send*.
2. Make sure the subject line summarizes the content. If your recipient receives scores of emails every day, the subject matter of your email must be obvious at first glance or it may be left unread. The subject line should always be filled in to reduce the possibility that the email will be identified as spam by the recipient's antivirus software.
3. Start the body of your email with a courteous salutation to avoid appearing demanding or abrupt.
4. Keep the body text as short as possible. No one has the time to read all the details of something that is better expressed in an attachment.
5. Use a measured level of formality. Clients usually prefer traditional greetings. When addressing anyone with a title (e.g., Assistant Vice-President, Sales), use it. People have worked hard for those titles and love to see them used. If you are not sure, check the company directory or call the main switchboard.
6. Using *Smiley* icons is not appropriate.
7. Always double check to ensure the name, initials, title and gender of the recipient are correct (e.g., is it McDonald or Macdonald?). Many last names are now used as first names for both men and women (i.e., Mackenzie, Cameron). With people from so many diverse cultures working in business today, you may not be familiar with many naming protocols. If in doubt, check the spelling of the name in the office directory and ascertain the gender of the recipient.
8. Ms. is probably the safest way to address a woman recipient. "Miss" seems to have dropped out of business language as a form of address and Mrs. should not be used unless you are sure of the woman's marital status, that she is using her married name and that she prefers to be addressed in that way.
9. Never send an email without checking the spelling. Do not rely on spell check alone. Spell check will sometimes accept a word that is correctly spelled but is incorrect in the context. You never know who all will read your email and correct spelling gives an impression of care and professionalism to those whose first encounter with your name is through this email.
10. Punctuation, capitals, full sentences and all other writing protocols should be followed.
11. When you read the proposed email does it answer the "Who, What, Why, When, Where" criteria? This approach will reduce the annoying back-and-forth emails seeking answers to the initial enquiry.
12. Ensure that your carrier can support the file size of any attachments. Better yet, compress the file before attaching. This avoids fractured files and wasted time.
13. Always check the email address before the email is sent to avoid the embarrassment of sending the data to the wrong individual.
14. *Never* forward emails received if there is any possibility the attachments may contain viruses. *Ensure* your antivirus software scans for data received from third parties to reduce the risk of forwarding infected correspondence.
15. If there is a possibility that a virus was forwarded, contact the recipient at once.
16. Confirm the recipient has the appropriate software to open the attachment. If secured by passwords, phone the password to the recipient.
17. Always identify the software used for the data. This saves the recipient time trying out various softwares.
18. Limit the details in the email and place them in an attachment. Scan and attach your hard copy letter or use your computerized letterhead and attach.
19. When responding to emails, always remove the addresses of those who do not need to receive the reply.

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20. If you need a response to an email, request it in the body. If a response has not been received, check your *Trash* bin before you contact the recipient from whom you are expecting a response. This ensures the message was not directed there by your antivirus software.
21. Save important business correspondence to a client file. Relying on *Sent* or *Deleted* for recovery does not work if those files are erased either intentionally or accidentally.
22. Review each email before hitting *Send*. Ensure the message is clear and the tone is appropriate to the content and the recipient. Open the attachment before sending to check that it is the correct one.
23. Take time between receiving an email and responding. If the issue requires research, respond to the sender with an estimate of when a response can be expected.
24. Privacy laws in Canada and other countries require businesses to safeguard personal information such as a person's name and date of birth. Use an encryption program for all emails that contain any personal or corporate information.
25. If a misunderstanding seems to have been created in an email communication, pick up the telephone and call the recipient to discuss the issues.
26. End emails politely with the tried and true "*Sincerely,*" "*Regards*" or "*Thank you.*"
27. Providing name, address and alternate means of contacting you with telephone or Skype is an excellent means of ensuring communication lines are open in the event of Internet failure.
28. Never write and send an email that is emotionally charged. Always reflect on how the expression of emotion may impact the recipient's view of your business or others to whom it may be forwarded.

Good Manners

Email has changed business communication forever. Nevertheless, it is wise to use courteous email-writing practices that respect the recipient and support good business relations.



Holiday Donations

In lieu of seasonal gifts to individual clients, Prentice Yates & Clark made donations to the following charities:

Homeward Family Shelter
St. Clare's Multifaith
St. Hilda's Towers Foundation
Society of St. Vincent de Paul

Inside PYC

Congratulations to **Susan Maturine, Director, The Inter-Operational Network Non-Profit Homes Durham Inc.** Ms. Maturine won the draw for the Niagara Presents gift basket courtesy of Prentice Yates & Clark at the recent ONPHA Conference and Trade Show.

Congratulations to Andrew Ho who has recently completed all the requirements for his designation as a chartered professional accountant.

Best of Luck to Rohan Sharma who has joined another accounting firm recently to further expand his experience. Congratulations to Rohan also for successfully completing the CPAC Uniform Final Examination. Rohan continues to accumulate work experience toward his designation as a chartered professional accountant.

Viola Bardhoshi and Dionne Reid will be attending the Co-op Staff Association of Central Ontario and Co-ordinators Association of Southwestern Ontario's 2015 Education Forum on February 11, 2015 to be held at Ingersoll's historic Elm Hurst Inn. Viola Bardhoshi and Dionne Reid will be delivering one workshop: **"Demystifying the Audit"**.

The Tools 2014 Conference for Non-Profits, Charities and Co-operatives was held on November 26, 2014. Dionne Reid, Viola Bardhoshi and Paul Jaroszko delivered three workshops: **"Demystifying the Audit"**, **"Internal Controls and Fraud"** and **"End of Section 95 Operating Agreements for Housing Co-operatives"**.



Here's a Tip

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Owners

During the course of the business day, restaurant owners usually receive sufficient cash payments to pay the servers in cash at the end of each shift. To avoid issues with the CRA in the event of an employee or business audit, owners should maintain detailed records of gratuities paid to each server at the end of every shift. It may even be appropriate to have the server sign off that the funds have been received. An owner who does not record payouts will have difficulty supporting the difference between bank deposits and recorded sales. In the event of an audit, the CRA could suggest the difference be attributed to the owner's draw and thus be added to the owner's income.

Further, owners must establish whether the tips are "controlled" or "direct" in order to determine whether the appropriate source deductions must be accounted for and submitted.

CRA requires servers to report both controlled and direct gratuities.

Servers

Servers are required to report tip income on their income tax return regardless of whether it is controlled or direct. Servers who underreport tip income will find it difficult to refute the CRA's figures when the reassessment is based on POS data supplied from their place of employment. Further, the POS system is able to distinguish the dollar value of the server's sales and tips (and therefore tips as a percentage of sales) from the server's sales that have no tips attached. Armed with this data, CRA could conceivably calculate the "table tips" by applying the determined percentage to sales without tips recorded on the POS system per server. Servers who have failed to report adequate income could find themselves in for a surprising reassessment.

Inform the Staff

Once owners have determined whether the tips are "controlled" or "direct," a meeting with servers should be convened to ensure the servers are aware of the CRA's position regarding tips and the implications that the detail provided by the POS has for the employer and for the employees' personal tax filings. It might be worthwhile to clarify this information in writing for all employees. The most important thing is that the CRA requirements are clear to both employers and employees alike.



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We hope that you find *info@pyc* a useful source of information. If you should ever have any specific questions or concerns regarding your own business or personal finances, please call us. We will gladly help in any way that we can.

If you would like to contact us by e-mail, we can be reached at *info@pyc.net*. Some of the articles appearing in this issue of *info@pyc.net* were prepared by the Chartered Professional Accountants of Canada for the clients of its members.