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the newsletter of Prentice Yates & Clark

Take Two

Make sure you collect and keep all your receipts for tax-deductible medical and moving costs.

Now is a good time to take a look at two tax deductions that taxpayers often think little about until the approaching income tax deadline sends them scurrying to find all those illusive receipts they might need for the end-of-the-tax-year meeting with their CPA.

Medical Receipts

Over the last few years, the Canada Revenue Agency (CRA) has made many changes to allowable medical expense deductions. Technological advances and recognition of non-traditional treatments have created a broader range of deductions. By way of example, claims are now allowed for:

- phototherapy equipment for treating psoriasis or other skin disorders
- vehicle modification to enable wheelchair-bound individuals to drive a vehicle
- medical marihuana if the person is authorized under the *Controlled Drug and Substances Act* to purchase or produce this otherwise illegal drug.

Many taxpayers claim medical expenses that are not deductible. As well as listing expenditures that are deductible, the CRA details the conditions for which expenditures are not deductible. For example, a prescription issued for over-the-counter vitamins would not be allowable because the item could be purchased without a prescription.

Your province or territory of residence may determine whether the health care service is tax deductible. For instance, acupuncture is not recognized as a medical practice in Nova Scotia, Saskatchewan, Prince Edward Island and the three territories; this suggests that an acupuncturist's billings may not qualify as a tax deductible medical expense for taxpayers who live in these geographic areas.

Because of the ever-expanding list of deductible expenses for treatments and drugs, the CRA website includes a link that lists allowable medical expenses.

People often forget to keep receipts.

Moving Expenses

Canadians are mobile. A study by the Vanier Institute of the Family shows that 41% of Canadians moved in the five-year period between 2001 and 2006. Unfortunately, during the move itself, people often forget to keep receipts for expenses incurred. The general rule is that, if you are moving to carry on business, moving for employment, or to become a full time student in a post-secondary educational institution, you are entitled to deduct moving expenses.

There are, however, some provisos:

1. You cannot deduct moving expenses against investment or employment insurance income.
2. You must have moved at least 40 kilometres closer to the new place of business, place of employment or educational institution.
3. Moves must be within Canada. (There are some exceptions; for more information on eligibility and exceptions see the CRA's "Information about Moving Expenses" at www.cra-arc.gc.ca/E/pbg/tf/t1-m/t1-m-14e.pdf, or consult your CPA).
4. You cannot claim expenses that have been refunded.
5. Moving expenses cannot exceed the net income earned from the new business or place of employment.
6. Students who receive taxable scholarships or research grants cannot deduct expenses that exceed these amounts.
7. If the entire moving expense cannot be used in the year of the move, it can be carried forward to the next tax year and beyond, if applicable.

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Take Two - continued

Possible expenditures include:

1. The cost of moving the personal effects inside a mobile home is deductible, but the cost of moving the mobile home is not.
2. Transportation and storage costs for all household items as well as recreational items are deductible.
3. Travel expenses include vehicle expenditures (the most obvious of which is fuel), meals, and temporary lodgings for the taxpayer and family members. Temporary lodging is limited to 15 days.
4. If you rent, lease cancellation for the former residence is deductible.
5. If you own, vacate the premises to move, and incur expenses during the selling period you may claim up to $5,000 for the cost of insurance, property tax, interest, heating, and utilities. These deductions do not apply if you are renting the vacated property.
6. Costs, such as legal fees, advertising, real estate commissions or mortgage penalties for paying off a mortgage before the maturity date are also deductible. If you purchase a new home in your new work location, costs incurred for legal fees, land transfer fees or registration costs can be claimed.
7. To claim meals and vehicle expenses as tax deductions, the taxpayer has the option of choosing the detailed or simplified method. For meals, there is a predetermined flat rate per person; for vehicles, the distance from the start of the move to the destination must be determined. A cent-per-kilometre amount (as prescribed by the CRA) is used as a multiplier to obtain the allowable expense deduction.
8. With respect to moving expenses carried forward, they can only be applied against the original self-employment or employment income earned.

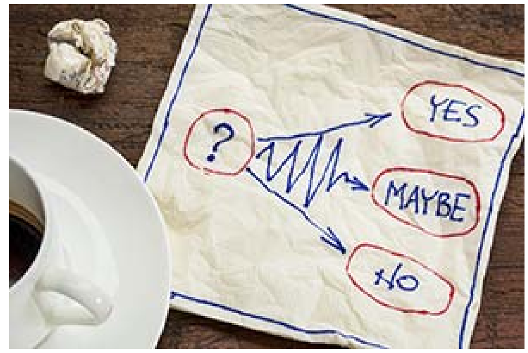
Some expenditures cannot be claimed:

- replacement of personal-use items
- cleaning or repairing a leased premises
- expenses incurred to fix up the old residence for sale
- mortgage default insurance
- job hunting travel expenses
- cost of replacing items movers may refuse to take (plants, gasoline, ammunition, paint, etc.)
- any loss incurred on the sale of your home

Whether filing for medical or moving expenses, the CRA may audit your return and require documentation to establish whether the expenses are justified. Medical expenses can be claimed for any 12-month period ending in the tax year; if the taxpayer has died within the year, the period is extended to 24 months and must include the date of death. Since moving costs can be carried forward to apply against future years' income, the taxpayer may be subjected to a CRA audit after the first year of claiming if the carry forward is available and used in the following year. In any case, it is the responsibility of the taxpayer to obtain and keep all documentation required to support the deductions claimed.

Plan Ahead to Keep Those Receipts

At this time of year, many students and employees are looking forward to moving to further their education or relocating for that new job. Along with the anticipation of an exciting move, comes the cost of ensuring adequate medical coverage and transportation needs. Take advantage of the tax allowable deductions by collecting and carefully filing receipts for all costs associated with your move and provide them to your CPA.♦



To Lease or Not to Lease

Buy/lease decisions are much more than a matter of taxes.

Buy or lease? That is the question that arises whenever a business needs a new asset. The question usually elicits a follow-up comment that a 100% write-off of the lease expense is available, whereas a purchased asset can only write off the capital cost allowance. The conclusion of the discussion is that there is a tax advantage to leasing.

Advantages of Leasing

1. Your business gets the full use of the asset while the cost is spread over a number of years (i.e., there is no immediate drain on cash flow). This may be important if the business has limited lines of credit, limited cash reserves or is cyclical and the asset is required immediately.
2. The lower cash outlay may allow the business to acquire better equipment with only a marginal increase in cash outlay, whereas a significant additional capital outlay would be required to purchase the asset.
3. Businesses normally establish cash flow and budgets based on operating revenue and expenses and often ignore the need to budget for capital asset acquisitions. Because the lease expense is a regular monthly withdrawal, budgeting for future expenditures may be easier than predicting the impact on cash flow and profit and loss of a major capital purchase.
4. Depending on the product and the leasing company, you may find it easier to cancel the existing lease and renegotiate a lease on a newer, better piece of equipment with payments that are not much different from those of the existing lease. If technology in your business is changing rapidly, leasing may be advantageous.
5. Leasing from the same company that manufactures the asset may be beneficial if the asset turns out to be a lemon. Because the manufacturer wants to retain the customer, it may be more willing to provide a replacement.

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To Lease or Not to Lease - continued

The lessor continues to control the asset through the leasing contract.

Disadvantages of Leasing

The lessor continues to control the asset through the leasing contract. This may have the following disadvantages:

1. Payments may continue longer than the usefulness of the asset.
2. If the lessor is financing the asset, it may not be possible to upgrade the equipment until the lease is paid in full or a buyout has been negotiated.
3. Businesses in possession of the asset after the lease period must continue payments even though the lease has been fully paid.
4. Lessees are responsible for maintaining the equipment unless maintenance is covered or a separate charge is paid. In fact, you may be required to follow a predetermined maintenance schedule. If the equipment is not maintained, the lessor may charge your company for restoring the asset to its original condition.
5. An operating lease (i.e., the term of the lease is shorter than the useful life of the asset) is an "off balance sheet" form of financing because only the rental expense is recorded on the income statement. Nevertheless, the lease creates a legal obligation even though nothing shows up on the balance sheet. Management may be unaware of this legal obligation for this kind of indebtedness. This situation can be mitigated by treating the lease as a capital lease and recording the value of the leased asset on the balance sheet and showing a corresponding liability. In some instances the contractual obligation is shown within the notes to the financial statements.

Tax Considerations

Normally, when an asset is leased, the cost of the lease is immediately expensed and the income is reduced by the lease amount. If, for instance, the lease cost is $1,000 per annum and the corporate tax rate is 17%, the income tax expense will be reduced by $170. The GST/HST input tax credit (ITC) is calculated each month based on the monthly lease amount.

When an asset is purchased, the cost of the asset is capitalized and, for purposes of the Canada Revenue Agency, the capital cost allowance (CCA) is applied to the cost of the asset and the amount is deducted for income tax purposes. The CCA amount is calculated using a percentage (such as 20%) of the cost of the asset. In the first year of purchase the CCA is usually limited to one-half of the CCA calculated on the purchase price. Thus, if an asset cost $1,000, the first year CCA would calculate as 20% of $1,000 equals $200 divided by 2 or $100. In the ensuing years, full CCA is calculated on the original asset cost less the accumulated capital cost allowance. ($1,000 less $100 or $900 times 20% or $180) until the asset is effectively amortized.

From a tax viewpoint, the first-year deduction for the CCA equivalent is $100. A first-year tax benefit approximates $17 assuming (17% of $100); whereas in the second year, the tax benefit approximates $31 (17% of 20% of $900). If the asset is purchased, the ITC on the original cost is calculated on the initial purchase cost and applied against the GST/HST payable. Further, if the capital asset is financed, the interest on the loan is a deduction from income.

More Than Just Taxes

Making a decision as to whether to lease or buy an asset should take into consideration more than just the tax implications. Cash flow, maintenance, financing ability, obsolescence, long-term capital asset needs combined with the impact on the financial statement should all be factors when discussing the pros and cons with your CPA.♦

Thumbs Up!

USB flash drives are a great business tool – with a few risks to keep in mind.

The thumb-sized (or smaller) USB flash drive is a marvellous development in miniaturization that has revolutionized portable file storage. Fast, small, affordable and convenient, the flash drive has become indispensable. Flash drives have become so ubiquitous, they are frequently handed out as corporate-logo-embossed key fobs loaded with marketing and promotional material that can easily be reviewed by clients.

It all started in the mid 1980s when Toshiba developed the NAND flash memory that morphed into the USB flash drives we use today. The first commercial drives sold in the year 2000 held eight megabytes (MB), but within two years they had reached an astounding 64 MB. Today, a flash drive with storage of one terabyte (TB) is available, if you have the cash — a one-TB flash drive currently costs about $1,200.

The ability to store endless amounts of data so easily has resulted in the proliferation of USB flash drives (approximately 80 million are sold each year). Along with this extreme convenience and utility, however, comes an unprecedented threat to personal security.

Why Security Is an Issue

- Drives are small and subject to loss or misplacement. Most do not have access codes and thus, once found, can be downloaded by anyone.
- The loss (or theft) of company data such as employee names, addresses, birthdates, social insurance numbers, family-member information and bank information on an unencrypted flash drive could have serious consequences.
- Cyber criminals are starting to write viruses and worms that can penetrate the drives through the USB port. Once the bug is on the drive, the malware eventually finds its way to the host computer. If the computer is connected to a network, the entire system could be compromised.
- Discipline is required to ensure that USB flash drives do not compromise company data.

Best Practices

Most owner-managed businesses will not be a target of cyber-attack. Nevertheless, protocols should be in place to reduce the chance of loss or the compromising of important information that is transferred to USB flash drives at the end of every working day. The following practices will reduce risks:

1. Staff should be provided with corporate USB flash drives. Personal flash drives should never be used on corporate computers.
2. All USB flash drives should be scanned for viruses, even within the same office, before the data is transferred from the flash drive to the host computer.

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Thumbs UP! - continued

3. All USB flash drives should have the staff member's name and telephone number written onto them. If that is not possible, ensure the flash drive is attached to a lanyard or key-chain tag with the name of the user. If possible, a telephone number in indelible ink should be written on the tag so it can be returned to the owner if lost.
4. Instill the habit of returning the flash drive to a specific location as soon as data has been transferred; a drive left on your desk — even for a short time — may be accidentally picked up by a co-worker, cleaning staff, dropped into the trash, or placed in a client file.
5. Just as staff should never leave paper with confidential information on their desk at the end of the day, so USB flash drives should also be secured.
6. Employees should know they have a responsibility for security of the flash drives and the data they contain. They must understand the harm that may be done through loss of confidential corporate information.
7. Ensure your IT administrator uses a mandatory scan to parse sensitive data to prevent copying.
8. Use encryption. Encryption programs may be purchased separately or you may use software included with your operating system, such as Windows Bit Locker, to encrypt your files. Encryption software may be configurable to enforce your IT policies. Be sure to research the software before purchase to ensure the software package can accommodate the level of security your company requires.
9. Purchase USB flash drives that have built-in security features such as encryption and authentication (e.g., a password or fingerprint). Advise employees that company-issued flash drives should only be used to store the company's information, and are not for personal use.
10. Do not permit any apps or programs, regardless of how helpful they may appear, to be downloaded from any source until they are reviewed and approved.
11. Never plug in a device with an unknown origin.

Final Words

Even if it is not possible to stop the most malicious of attacks, most owner-operated businesses are probably not likely targets of hackers and malware-encoded USB flash drives. It is more likely that a small- to medium-sized company would be compromised internally by some failure to follow good security practices. For the majority of owner-operated ventures, keeping computers upgraded with the latest security patches, web-filtering and anti-virus software will isolate and quarantine most attacks that result from not following the rules. If you are able to balance your security needs with the ability to conduct your business, then you can embrace the convenience and versatility of the USB flash drive in your day-to-day operations. ♦

Inside PYC

The annual Ontario Non-Profit Association (ONPHA) conference will be held October 16th to 18th in Toronto where J.J. Pauze and Charlie Petralito will be at the Trade Show, Viola Bardhoshi will be presenting the Award of Excellence at the opening plenary and Tom McGivney reviewing ONPHA's audited financial statements at the AGM.

Viola Bardhoshi and Dionne Reid will be delivering an internal controls and fraud workshop at the Co-operative Housing Federation of Toronto's fall education event on October 24th being held at Oakham House.

The Tools 2015 Conference for Non-Profits, Charities and Co-operatives will be held on November 25th at Hart House on the University of Toronto campus. PYC will be a part of four workshops. Find out the latest at www.toolsconference.ca.

We would like to welcome Allison Mills as a member of our professional staff.

FALL 2015

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