PRENTICE YATES & CLARK
CHARTERED PROFESSIONAL ACCOUNTANTS

info@pyc

the newsletter of Prentice Yates & Clark

Fall 2022

110 Sheppard Ave. East,
Suite 800
Toronto, Ontario
M2N 6Y8

(416) 366-9256
1 (800) 265-7818
Fax: (416) 366-9171
Web: www.pyc.net

In This Issue

An economist explains: What is inflation?

David-Alexandre Brassard, CPA Canada's chief economist, explains the cause of rising prices and how you can reduce its impact.

Inflation is something that everybody is talking about and while we all understand its impact on our wallets, it can be hard to understand exactly what it is. Several factors have contributed to the recent rise in inflation. COVID and the subsequent supply chain disruption and labour shortages have driven higher prices for staples such as furniture, cars, gas and food, while the Russia-Ukraine crisis has had an additional impact on oil and gas prices. There could also be spikes in processed food because of the diminished wheat production in Ukraine and Russia.

From March 2021 to March 2022, inflation was tracking at 6.7 per cent. "The last time inflation reached these rates was 1991, where it stayed high for eight months," says David-Alexandre Brassard, Chief Economist, CPA Canada.

The average inflation rate in 2020 was 0.7 per cent, it was 3.4 per cent in 2021, and it's forecasted to be around 5.3 per cent for all of 2022. "It means that we'll have two years of inflation that will be significantly higher than the two per cent long term target of the Bank of Canada," explains Brassard.

To help explain these rising costs, here are some basics on what inflation is, how to reduce its impact and what we can expect to see in the months to come.

What is inflation?

Inflation is based on the **Consumer Price Index**, Brassard explains. "Statistics Canada tracks an average basket of goods and services that people buy and estimates how the price of that basket fluctuates over time."

The basket of goods used in calculations includes eight components:

- Food
- Shelter

- Household operations, furnishings and equipment
- Clothing and footwear
- Transportation
- Health and personal care
- Recreation, education and reading
- Alcoholic beverages, tobacco products and recreational cannabis

Each category contains multiple goods and services. For example, transportation will include the cost of buying or renting a car, as well as the cost of gasoline or public transportation. The basket of goods and services must be updated frequently to account for the changes in consumption patterns of Canadians.

"An increase in prices of certain goods and services can impact multiple categories either directly or indirectly," says Brassard. "The increasing cost of energy for example will impact transportation and shelter directly and can drive up transport prices for imported goods across multiple categories."

Ways you can fight inflation

As consumers see prices increase they may try to reduce consumption.

"That's not always possible," acknowledges Brassard. "Components such as food and gas might be hard to cut back on. You could eat out less or reduce gas usage by working remotely, but not everyone is in a position to do that."

An economist explains: What is inflation? - continued

There are several strategies that are gaining traction with consumers facing challenging times. “As people experience financial distress, they are turning to online reused goods markets and co-ownership. The sharing economy can also offer options to consumers,” Brassard says.

Some ways to minimize the impact of inflation at home include:

- **Reduce consumption** of items that have risen the most, such as meat and dairy
- **Cook more** to reduce consumption of processed food and eating out
- **Postpone renovation plans**. “Construction prices right now are very inflated. This is something you could hold back on, if possible,” advises Brassard
- Try to **extend the life of durable goods** such as appliances, furniture and cars as much as possible. “It’s cheaper to repair than buy new ones,” he says
- **Take advantage of the resale marketplace** for second-hand goods and consider renting or sharing items that are used infrequently
- **Comparison shop** to find the best prices and seek out coupons for groceries
- **Drive less** where possible

Looking past 2022

Brassard is hopeful that inflation may not remain as high after 2022. “Central banks are starting to increase interest rates in an effort to slow down inflation. Increasing rates makes it more costly to borrow so it becomes advantageous for consumers and businesses to hold money rather than spend it. This, in turn, reduces pressure on the demand side.”

While hyperinflation and rapid price increases are often discussed, he believes that scenario is unlikely. “Hyperinflation is defined as when inflation reaches 50 per cent month-over-month. That means your $1 apple in September will cost $1.50 in October. We are miles away from that possibility.”◆

Inside PYC

Congratulations to **Aidan McGivney** who has recently completed all the requirements for his designation as a chartered professional accountant.

The annual Ontario Non-Profit Association (ONPHA) conference will be held on November 4th. PYC is a sponsor this year and will be attending the Trade Show.

Five tips for reducing the tax impact for your heirs

Taxes and other fees can take a big dent out of your assets when you die. So, consider using insurance and other vehicles in your estate planning.

You may have been putting considerable energy into saving for retirement, but what about estate planning? If you want your assets to pass through as easily as possible to your beneficiaries, it’s worth speaking to an advisor and doing some planning early on.

“There are many things to consider during the planning process,” says FCPA Bruce Ball, vice-president, taxation for CPA Canada. “You’ll want to consider if you have any desire to make charitable donations on death and assess how you’ll deal with ownership structuring and coordination with the will, among other things.” It’s also important to do some more basic things, such as clearly documenting where all of your property is held.

Here are some key things to consider.

1) Have powers of attorneys in place, along with a will

“Powers of attorney are important to have in place in case you become incapacitated. It’s often recommended that you have one drafted for financial matters and one for health,” says Ball. (Once you die, the powers of attorney cease, and the will takes over.) Also, if your affairs are particularly complex, you might want to add a statement of wishes supplement that explains why you have written your will in a particular way. “You can’t really put your ‘whys’ in a will, only the ‘whats,’” says Bob Gore, principal of Robert Gore & Associates Chartered Professional Accountants.

2) Name your executors carefully

As Gore explains, the first person you name might no longer be capable of fulfilling the role when the time comes. You can name as many people as you want, but first consider their values and their life, judgement and financial experience. And be sure to check with them beforehand to make sure they accept. It can be a significant task and there may be reasons why they may have to decline. Also, if at all possible, do not appoint a non-resident executor (or someone who may become non-resident), as this may create financial and tax concerns. There is also the option to appoint a trust company, or an individual and a trust company, suggests Ball.

3) Consider the use of joint accounts

For situations where they may not already have access to your bank accounts and one of whom may also be the executor. “That way, they can pay the bills until the will gets probated,” says Gore. Inform your financial institution in writing about this intention and make it clear in your will that this transfer to joint ownership has been done only to facilitate estate planning and management, and that there is no beneficial ownership change in the account. Keep in mind that transfers to a joint account may not be reversible, so the decision should be considered carefully. It may be possible to pay for some expenses with a deceased’s bank account, so it may be worth determining what can and can’t be done after death before a new account is set up.

Five tips for reducing the tax impact for your heirs - continued

4) Determine if life insurance is needed

Life insurance can help deal with two factors in estate planning – creating an estate to support your heirs after you are gone and preserving an existing estate if costs such as tax will arise on death. In either case, an evaluation should be done to establish the estate that you want to leave and determine if insurance is needed to bridge any gap. "If there will be a significant amount of funds in the estate and your heirs are not in need of specific financial assistance, then life insurance may not be necessary as the costs over the years may outweigh the benefits," says Ball. One key issue to consider is whether there will be assets that will not be liquidated after death and, at the same time, unpaid taxes. If there will not be enough funds to pay the tax, this may be a good situation to consider life insurance to make up the difference.

As an example, "you might have a cottage that you would like to leave to your children," says Gore. "You might have paid only $200,000 for it, but it's now worth $4 million. When you die (and if your spouse predeceased you), the deemed disposition of the cottage will trigger a capital gains tax assuming it is not designated as a principal residence. An insurance policy can put the cash into the estate to pay the tax bill." Otherwise, it may be necessary to sell the cottage. Similar issues arise for those in business where business ownership will be transferred on death within the family.

5) Consider a trust

It can be created on death as part of your will or in advance. "A trust could be useful in a number of circumstances, such as where a beneficiary may not be competent with money, they are a minor or there are children from a previous marriage where a spousal trust may make sense," says Ball.

The funds generally will be held in trust until the trust is no longer needed. Using a spousal trust as an example, the property can be held in trust during the surviving spouse's lifetime, allowing him or her to benefit from the income earned on the property while naming children from an earlier marriage as residual capital beneficiaries. The tax treatment of trusts can vary significantly depending on when and how they are set up, how long they will remain in place and who the intended beneficiaries are. Specific tax advice is highly recommended.

Plan ahead

However you arrange your affairs, remember that you should do it as early as possible, and ensure everything is well documented and easy to find. It is also important to get legal advice when creating a will and powers of attorney. Financial and tax advice is also recommended. As Gore explains, "There's really no such thing as retroactive tax planning. You cannot say, 'We bought this cottage for $100,000 and now it's worth $1 million. Can we just transfer it into a trust for the kids?' No, you cannot, because the transfer is assumed to take place at market value."

Gore adds that it's fine to give cash gifts to your children while you are still alive. "But, for assets that gain in value, such as businesses or shares, you will pay capital gains tax on the gift because a gift is considered the same for tax purposes as selling it at fair market value," he says. "You need to be planning way ahead." Also, care should be taken to ensure that you don't give away too much money too soon. It's much safer to keep more than you think you'll need and then distribute what's left as part of your will.◆

Ask the right questions when hiring virtually, pros say

With remote interviews, many of the cues you would normally use to read a person are lacking. But there are still tactics you can use to help make the right choice.

Even in normal times, selecting the right candidate for a position can be challenging. But, for many organizations, COVID-19 has made the process even more difficult by requiring employers and candidates to adjust to remote interviews that lack the kind of human connection – including direct eye contact and collegial handshakes – that in-person exchanges can bring.

The shift comes with consequences, experts say. According to new research from Robert Half Canada, more than half (56 per cent) of employers say the cost of making a bad recruiting choice is higher than it was pre-pandemic.

Still, given that remote work is likely here to stay for many and that virtual hiring offers access to larger talent pools, we are likely to see more, rather than less, remote recruiting going forward.

Here are four tactics that can help you make the right hire.

1. Prepare your questions

With remote interviews, you have to be slightly more pointed in the way you ask questions, says David Dial, founder of Calgary-based Dial Solutions Group.

"Some people are professional interviewers. They do a great interview. Then they show up and within the first week you're saying, 'This isn't the person we interviewed.' "

One solution, Dial suggests, is to ask questions that put the candidate into unique or challenging job-related scenarios. Listen for evasive responses, he adds.

"Take the person away from a script and observe how they behave," he says. "If they're feeling uncomfortable answering, dig in a little bit with follow-up questions."

Ask the right questions when hiring virtually, pros say - continued

2. Connect creatively

When interviewing in person, you can often get a feeling about a candidate by reading their body language, Dial says.

"Remotely, you miss that … so you need to listen very carefully," he says.

To help compensate for a lack of in-person cues, Michael French, regional vice-president of Robert Half Canada, suggests spending a few minutes getting to know the candidate. Choose questions that showcase their personality and why they are interested in the role and organization, he says, and pay attention to facial expressions and tone.

"Get a good understanding of how and why they came to meet you," he says. "Make sure their tone comes across as comfortable."

Connections can also be made with prospective teammates, adds French. Once candidates are shortlisted, arrange video conferences with future colleagues and consider their feedback during the final selection process.

3. Stay alert to cues

The pandemic has brought added stress for many employees, and it's important to show flexibility and understanding, says French.

There are limits to employer flexibility, though. If a candidate reschedules an interview more than once, it may indicate someone who is unreliable. If they have persistent technical issues during the interview process, this could be a knowledge gap.

Beyond having the right skills, it often comes down to a candidate's attitude and the overall impression they make, French says.

"Look out for someone who responds negatively," he cautions.

This could be a sign they're not the right fit for the role, adds Dial.

4. Probe for solutions

Finally, if you find yourself with a bad hire on your hands, try to avoid the knee-jerk reaction of firing on the spot, says French.

Instead, exhaust all options to keep the new employee rather than waste time and resources used to replace them, he advises. For example:

- Consider whether talking about any issues – such as punctuality, meeting deadlines – could put things on track.
- Assess whether retraining could be easily executed.
- Find out if the employee has personal issues because of the pandemic.
- Determine whether your virtual onboarding process is effective.

If you must let an employee go, Dial adds, do it fast and within the probationary period. "Mistakes are made when people hire because they're desperate to fill the role," he says.

"Take your time hiring the person. But, if it's wrong, change it quickly."◆

Fall 2022

Prentice Yates & Clark,
Chartered Professional Accountants

Phone: 416-366-9256 / Toll Free: 1-800-265-7818

Fax: 416-366-9171

CONTACT	EXT.	E-MAIL
Partners		
Tom McGivney	233	tom.mcgivney@pyc.net
J.J. Pauze	230	jj.pauze@pyc.net
Paul Jaroszko	227	paul.jaroszko@pyc.net
Dionne Reid	232	dionne.reid@pyc.net

visit our website

www.pyc.net

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.