

Vehicle Logbook Policy

A common concern for those using a vehicle for business purposes is keeping track of business travel. When a vehicle is used for business and personal use, the expenses relating to its business use must be calculated and substantiated. Only those expenses relating to business travel are eligible for a deduction and input tax credits.

The Canada Revenue Agency (“CRA”) requires a logbook to substantiate business use of a vehicle. The logbook should document for each instance of business use: the destination, business purpose and distance travelled. Further, a taxpayer must have proper documentation to support the automotive expenses incurred.

In June 2010, CRA announced that it will accept a logbook maintained for a “sample period” as evidence of a full year’s usage of a vehicle, if the following conditions are met:

- ❖ A logbook was kept for the business covering a typical 12-month period (starting in 2009 or later) (the “base year”).
- ❖ A logbook is maintained for a sample period of at least one continuous three-month period in each subsequent year (the “sample year period”).
- ❖ The distance travelled and the business use of the vehicle during the three-month sample period is within 10% of the corresponding figures for the same three month period in the base year.
- ❖ The calculated annual business use in a subsequent year does not change by more than 10%.



The business use of the vehicle in the subsequent year is calculated as follows:

$$\frac{\text{sample year period \%}}{\text{base year period \%}} \times \text{base year annual \%} = \text{calculated annual business use}$$

If the calculated annual business use in a subsequent year changes by more than 10%, the sample period logbook would be reliable only for the three-month period it is maintained. Actual travel records would be required to determine the business use portion for the remaining nine-month period.



For more information please contact Jim McConnery at: jmconnery@welchllp.com

Jim McConnery, CA, TEP, Partner
Ottawa Office

INSIDE

To Tender Or Not To Tender?.....pg2

Transfers of Life Insurance Policies.....pg2

ASPE – Things You Need To Know.....pg3

What is the CoreValue™ of Your Business?.....pg3

Canadians May Have to File a U.S. Tax Return.....pg4

To Tender Or Not To Tender?



From time to time, many not-for-profit organizations request tenders for audit services. Below, we will analyze some benefits many organizations expect to achieve by going to tender and possible alternatives.

Lower Fees

The expectation of lower fees by changing auditors often does not materialize. You may be surprised with extra billing by your auditor for services you did not realize were being provided by the incumbent. When writing up the request for proposal, it is best to request this information from the incumbent and clearly outline the required services in the request for proposal. This would help avoid a possible misunderstanding by all parties. Another option is to consider evaluating the audit firm's performance annually. This practice will often help keep the fees under control and ensure superior client service without switching auditors.

Complacency & Independence

Complacency and independence are legitimate concerns and changing auditors regularly does mitigate that risk. However, it takes several cycles for an audit team to gain a full understanding of the organization's intricacies. The audit strategy is constantly evolving and this comprehensive understanding allows auditors to better assess audit risks and tailor their procedures to address these risks. By regularly changing auditors, your organization's finance staff and senior management are repetitively burdened with getting the new auditors up to speed and, as a result, you may be sacrificing a smarter audit. Instead, consider a scheduled rotation of audit team members and/or audit partners. This preserves the investment in systems documentation and audit program design, but with the benefit of the audit being approached with fresh eyes.

Audit Committees assume huge management oversight responsibilities and a proper audit is a key component of fulfilling this role. We do not wish to imply that tendering audit services is not a good idea. We just want to emphasize that there are other alternatives that could address the concerns of the Audit Committee. The decision to tender audit services should be well thought out and the request for proposal should be designed with care. Making this exercise an automatic occurrence, though, is likely not in the organization's best interests.



For more information please contact Christa Casey at: ccasey@welchllp.com

Christa Casey, CA, Director, Government & Not-for-Profit Sector, Ottawa Office

Transfers of Life Insurance Policies

While the decision as to the best way of owning a life insurance policy will depend on the specific facts in each situation, it is generally accepted that there may be advantages to having a life insurance policy owned by a corporation. These advantages include tax-efficiency in funding annual premiums and an opportunity to reduce tax upon one's death. However, where a life insurance policy is owned personally, transferring the policy to a corporation may provide additional advantages.

Consider the example of Bob, a 55 year old that owns a corporation, but also personally owns a Term 100 life insurance policy with a death benefit of \$1 million. Assume that based on Bob's age, health, life expectancy and specific terms of the policy, the fair market value of the life insurance policy is \$200,000. However, being a Term 100 policy, it is likely that the policy has no cash surrender value.

Bob may transfer the life insurance policy to his corporation for proceeds equal to its fair market value of \$200,000. The corporation may pay this amount in cash or may issue a note

payable for that amount. However, for tax purposes, Bob will be deemed to have disposed of the policy for proceeds equal to its cash surrender value of nil. As a result, there will be no taxable income resulting to Bob from this transfer, but he will be able to withdraw \$200,000 from his corporation on a tax-free basis. This strategy is consistent with the provisions of the Income Tax Act and is accepted by the Canada Revenue Agency.

In contemplating this type of planning, the type of life insurance policy is a key factor. While it is typically most feasible with Term 100 policies, it may also work with other policies in certain situations. It is also important that the fair market value of the policy is supported by an actuarial valuation. Key factors in determining the fair market value include the amount of death benefit and life expectancy of the individual. Lastly, where there are multiple corporations in a group, consideration should be given to which corporation should own the policy. The transferee corporation should generally also become the beneficiary of the policy subsequent to the transfer.



Welch LLP can provide the expertise to assess the appropriateness of this type of planning and to coordinate its implementation. For more information please contact Zoran Vranjkovic at: zvranjkovic@welchllp.com

Zoran Vranjkovic, CA, CFP, Senior Manager
Ottawa Office

ASPE – Things You Need to Know

Many private companies that are required to issue financial statements in accordance with Canadian Generally Accepted Accounting Principles will be required to adopt Canadian Accounting Standards for Private Enterprises (ASPE) for periods beginning on or after January 1, 2011. For many companies this transition will be relatively seamless since the new ASPE standards are comparable to existing standards. There are, however, some changes that may have a significant effect on a company's financial reporting practices. A few of these changes are explained below.

Under ASPE, investments in equity instruments, whose prices are quoted in an active market, will now be required to be measured at their fair value. In addition, an organization has the option of electing to measure any of its financial instruments at their fair value.

The decision to take advantage of this option should not be taken lightly as it could have a significant impact on the company's financial statements and the costs incurred to produce them.

Under ASPE a company may also take advantage of a one-time election to re-measure any item of land, building and equipment at its fair value at the date of transition to ASPE. At first glance this may seem like an attractive option as it will increase the value of the company's assets and its equity. However, there are also some significant drawbacks:

- ❖ An appraisal will likely be required to substantiate the fair value of the asset which will result in incremental costs to the entity.
- ❖ If the value of a building or a piece of equipment is increased it will result in

higher amortization costs in the future, which will adversely impact the company's bottom line.

- ❖ For some larger companies increasing the value of its assets could result in the company paying higher taxes.

Even though the adoption of these new standards might seem a long way off, it would be useful to get an understanding of the impact that ASPE will have on your company.

For more information please contact Shawn Kelso at: skelso@welchllp.com



Shawn Kelso, CA
Director of Professional Standards
Ottawa Office

Welch Going Social!



Please visit our blog at: accountingcanada.wordpress.com

Welch Going Green!

Please visit our website at: www.welchllp.com/insights and complete the form to receive our newsletter by e-mail.

What is the Core Value™ of Your Business?

This is perhaps the most fundamental and important question a private company business owner can ask and answer. But unfortunately very few can. In fact the majority of privately-held businesses have little or no economic value in the market, a sobering fact that often comes as an unwelcome surprise when it's

time to sell or transfer ownership. This is because many business owners fall victim to the "Value Trap", assuming that their past performance (revenue and profit) equals future enterprise value. But, in fact, value is not a measure of past success, but

a measure of future potential, and your company's ability to generate and sustain profits, even without you, the business owner.



Here at WelchGroup Consulting we understand that a company's value is not only based on its financial performance but on its transferable operational capabilities. In other words, can your business thrive without you?

With CoreValue™, a standards-based business software and methodology, we will help you:

- ❖ Measure your current business value
- ❖ Rate your performance against industry standards
- ❖ Assess your company's weaknesses to turn them into strengths
- ❖ Quantify the dollar value of fixing the weaknesses
- ❖ Define an action plan to increase your business value, and
- ❖ Measure and track performance improvements

We offer a holistic assessment of your company and will give you a road map to improve its value. We empower business owners to take their business where they want to go.



For more information, please visit www.w-group.com or contact Candace Enman at: cenman@w-group.com

Candace Enman, COO
WelchGroup Consulting



Canadians May Have to File a U.S. Tax Return

In recent years, we have seen an increase in the number of our clients spending time and/or earning income in the United States. While most of them are aware of the requirement to report the U.S. income on their Canadian tax returns (individual and/or corporate), more than a few are surprised to find out that they may also be responsible for U.S. federal and/or state tax filings.

The five most common situations in which this occurs are:

1. Employment Income earned in the United States

Canadians who earn employment income in the United States are required to file U.S. federal and state tax returns to substantiate any foreign tax credit claimed on their Canadian tax return.

2. Snowbirds

Snowbirds (Canadians who annually spend a considerable amount of time in the United States) may be deemed to be U.S. residents and may be required to

file certain U.S. information returns or even a U.S. tax return.

3. Ownership of U.S. rental properties

Canadian owners of U.S. real estate property who rent it out on a full-time or part-time basis are required to file a U.S. tax return and pay tax on the net rental income earned.

4. Business income earned in the U.S.

Corporations and self-employed individuals performing services in the U.S. may be required to file U.S. tax returns, even if the income may be exempt from U.S. tax under the Canada-U.S. tax treaty.

5. Dual citizens/Green Card holders

Dual citizens and U.S. Green Card holders are considered to be U.S. residents for income tax purposes and are required to file a U.S. tax return.

Welch LLP has extensive tax expertise to assist with U.S. tax compliance. For more information please contact Michel Bossé at: [mbosse@welchllp.com](mailto:mboss@welchllp.com) or visit our website at: www.welchllp.com



Michel Bossé, CA, Tax Principal
Ottawa Office

OFFICES:

- Belleville, Ontario
- Campbellford, Ontario
- Cornwall, Ontario
- Gatineau, Quebec
- Napanee, Ontario
- Ottawa, Ontario
- Pembroke, Ontario
- Picton, Ontario
- Renfrew, Ontario
- Trenton, Ontario
- Tweed, Ontario

INDUSTRIES:

- Owner-Managed Businesses
- Government and Industry Regulated Funds
- Automotive Dealerships
- Construction
- Independent Contractors
- Not-For-Profit Organizations
- Professionals
- Public Sector Organizations
- Real Estate

SERVICES:

- Accounting/Financial Reporting
- Business Advisory
- Business Valuation
- Doing Business in Canada
- Financial Statement Audit
- Fund Administration
- Government Contribution Audit
- Compliance Audit
- Tax Advisory
- Virtual Accounting Office
- Wealth Management

www.welchllp.com