

NAVIGATOR



Guidance at every turn

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SUMMER HOURS

For the months of July and August, the office will close at 2:00 pm on Fridays.

Congratulations!

Stern Cohen LLP, is pleased to announce that Peter Weinstein, MBA, CA•IFA, CBV, has become a Partner in Stern Cohen LLP. **Peter** joined us in May 2005 as a Principal in Stern Cohen Valuations Inc. and since that time has greatly expanded our valuations and litigation support practice.

Jeff Singer B.A, C.A, who joined Stern Cohen LLP in 2003, has been appointed to the position of Principal. Jeff provides accounting, tax and advisory services to owner-managed business.

The partners at Stern Cohen LLP are also pleased to announce the promotion of **Alex Powell**, **Victoria Begley** and **Lauren Pratile** to Senior.



Air Miles

The following is from a Canada Revenue Agency (CRA) Question & Answer Session.

Q) An employee travels for work. The employee buys the plane tickets and is reimbursed by the employer. Do the frequent flyer miles earned on these business trips belong to the employee? Is the CRA assessing a taxable benefit on the employee in these situations? If so, how is this benefit valued and when is the benefit taxable (i.e. when the miles are earned or used)?

A) The CRA's policy with respect to frequent flyer miles earned on business travel and redeemed for personal use is stated in paragraph 14 of Interpretation Bulletin-470R **Employees' Fringe Benefits**. This policy also applies to all other travel rewards and loyalty programs. It states:

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This notice is designed to alert clients to recent developments and to existing planning opportunities, which are often discussed in general terms, and therefore should not be acted upon without professional advice.

TAX PENALTIES – A HARSHER ENVIRONMENT



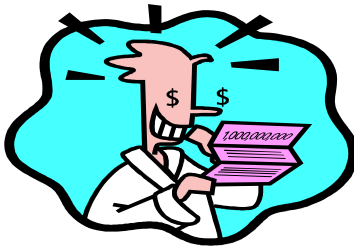
Stung by criticisms from the Auditor General, the Canada Revenue

Agency (CRA) has been showing less restraint in assessing penalties, of up to 10%, for tardiness in remittance of taxes withheld at source: either payroll taxes or taxes which must be withheld from various types of payments to non-residents of Canada. These penalties, as well as the \$25 per day penalty (with a \$100 minimum and \$2,500 maximum) for **late filing** of the various separate information returns which are required to be filed in addition to regular income tax returns, are now often assessed automatically.

Consequently those who withhold taxes at source and who have to prepare annual information returns (for example, T3's, T4's, T4A's, T5's, NR4's and T4A-NR's) to send to payees, as well as to the CRA, should pay careful attention both to the timely filing of information returns and to the way in which the withheld tax is remitted to the Receiver General. The funds must be received, not just sent, by the applicable deadline. The size of the remittances in a preceding year can trigger the obligation to make faster and more frequent payments. Starting in 2006, the CRA has also started a more rigorous campaign of assessing a 10% penalty against larger employers for failure to pay withheld taxes at a financial institution as

opposed to sending the funds to a CRA office.

Even those who are not obliged to withhold tax at source are now routinely being assessed the \$25 per day penalty for late filing of income tax "information returns".



A particular source of annoyance for many Canadian taxpayers is that these "information returns" may readily be mistaken for schedules forming part of an individual's or corporation's tax return, especially owing to the fact that required information returns are often due at the same time as, and filed with, a tax return. Accordingly those Canadian residents who have filed their return late in the belief that they will not be penalized because there is no tax owing at the time the return is due may be surprised by an assessment for one or more \$25 a day late filing penalties as the "information returns" which accompanied the return were filed late. We have seen such penalties triggered by the late filing of the relatively obscure form for disclosure of foreign properties with aggregate costs in excess of \$100,000 which had accompanied an individual's return claiming a substantial refund.

The whole problem has been exacerbated by the increasing

number of information returns which the Income Tax Act requires individuals, trusts, partnerships and corporations to file. The CRA's own tardiness in producing forms for newly required filings has added to the frustration. Requests for discretionary reductions or cancellation of penalties under the CRA's fairness program – now called the taxpayer relief program – are often time consuming and difficult to pursue with inevitably uncertain results. Often the size of the penalty, although large enough to be painful, simply doesn't justify gambling the costs of the required formal submission for relief under a program which rarely permits any dialogue, even if it is requested, between the taxpayer and the CRA staff who make the decision. Taxpayers don't want to hear that their chances of recovery would be so much better if they had been struck by lightning while they were attacked by that grizzly on the way to the bank or CRA office.

The only reliably safe response to the current hazardous tax compliance environment is to file timely returns with all the required disclosures even if you don't owe any tax. Those who must withhold taxes from employees and/or non-residents should recheck both the timeliness and manner of their payments to the Receiver General as well as monitoring the timeliness and completeness of the annual reporting documents which they are obliged to send both to the payees and to the CRA.

Wage Loss Insurance Plans

Businesses often provide their employees with group insurance coverage that provides wage replacement benefits for loss of income due to sickness, accident, or disability. The employer may pay the full amount of the premiums for the insurance plan or there may be an arrangement by which the employer and employee share the cost of the premiums. In some instances, the employee may pay the entire premium.

Generally, wage loss replacement insurance is disability insurance. For tax purposes, your employees may find the following information helpful.

Premiums Paid by the Employer

If the company pays the premiums, the premiums are not considered taxable benefits in the hands of the employee.

Should the employee claim benefits because of say, a long-term illness, the amounts received are considered employment income for tax purposes and taxed in the hands of the employee.

Premiums Paid by the Employer and Employee

If the premiums are paid for by both the employer and the employee, the taxable amount of any benefits received from the plan can be reduced by the amount of the premiums that the employee has paid for the coverage. This includes premiums the employee has paid in previous years while a member of the employer's plan.

If your company provides this type of plan, consider providing employees with a summary of the premiums paid on their behalf each year. An accompanying



letter could explain the importance of maintaining this

record should the employee need to claim compensation for loss of income.

Premiums Paid by the Employee

If the employee is responsible for all of the premiums and pays them with after-tax dollars, any benefits received under the plan are tax-free. Note that for an employee-pay-all plan to exist for tax purposes, the employee must be contractually obligated to pay all premiums under the plan.

Provisions and Tax Implications

It is important that employees understand the specific provisions of the plan and the required documentation should a claim arise. Owner/managers should also ensure that employees understand the tax implications of the premiums paid and any benefits that may be received.

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Air Miles

Frequent flyer Program

14. Under this program, which is usually sponsored by an airline, a frequent air traveler can accumulate credits, which may be exchanged for additional air travel or other benefits. Where an employee accumulates such credits while traveling on employer-paid business trips and uses them to obtain air travel or other benefits for the personal use of the employee or the employee's family, the fair market value of such air travel or other benefits must be included in the employee's income. Where an employer does not control the credits accumulated in a frequent flyer program by an employee while traveling on employer-paid business trips, it will be the responsibility of the employee to determine and include in income the fair market value of any benefits received or enjoyed.

In summary, where the employer does not control the points, it is the employee's responsibility to self assess by including the fair market value of the redeemed points in income if they are not redeemed for business purposes. If the CRA determines that an employee has not included in income travel loyalty points redeemed for personal use that were earned while on business travel, the employee's tax return may be reassessed to have the fair market value of the redeemed points included in income.

Before Discarding a PC

Companies typically shred documents before disposing of them but too often do not take proper measures when disposing of old PCs. Not only are there privacy and data security issues to consider, it may also be necessary to delete certain applications to avoid violating the license agreements.



When your company upgrades its computers, you may decide to sell, donate or recycle the old ones. But before handing over a PC to anyone else, you need to make sure all data is permanently deleted from the old computer. It is a well-known fact that cyber-criminals routinely target sold, donated and discarded computers because of the amount of information that can be easily retrieved.

Deleting is Easier Said than Done

Some users believe that when they go through their hard drive to delete files and then empty the recycle bin, the data is gone. However, this process simply makes the file unreadable to the operating system at that time. With a bit of work, and not much time, the files can be recovered and read. In addition, Windows often stores information such as passwords, credit card numbers and previously deleted files and e-mail without your knowing it.

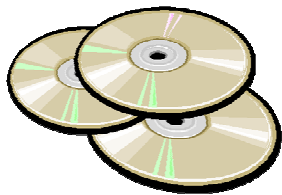
So what can you do to ensure the data cannot be retrieved? As a first step, you should establish guidelines for preparing computers for disposal and know exactly what will happen to these old PCs.

Wiping the Hard Drive

Every time a PC is disposed of, the hard drive should be “wiped” to ensure that no data is accessible to any future owner of either the PC or the hard drive. As data can be recovered from broken disk drives, the only real method of permanently removing data is using a special software program designed for this purpose.

There are two types of programs that can be used to wipe a hard drive – those that “scrub” files and folders and those that “wipe” the entire hard drive.

Software programs that “scrub” the hard drive can remove all data without disturbing the Windows operating system. The software also “bleaches” hard drives by overwriting the data on the drive with randomly selected characters to ensure that it cannot be recovered.



Other programs will delete everything on the disk by reformatting the hard drive. Unlike the scrub software, these types of programs do not allow you to pick and choose the files, applications and programs that are to be removed. For the PC to be usable again, the new owner will need to reinstall Windows, the drivers and the application software.

Take Precautions

Failure to destroy data is an invitation for unscrupulous individuals to obtain critical corporate information that could damage your business or be used for identity theft. Before selling, donating or recycling old computers, take extra precautions to make sure the hard drives are truly erased.

Also keep in mind that many electronic devices such as cell phones and PDAs also carry an immense amount of data. Similar to PCs, you need to take steps to ensure all data is erased before you donate or recycle them.

Industry Benchmarks

For a number of years, we have been subscribing to a benchmarking service known as Sageworks. Recent enhancements now provide industry specific data for Canada.

If you would like to benchmark your industry, call your Stern Cohen LLP contact.