

**TAXATION**

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Everyone Wins

# Business Matters

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**TAXATION**

## I Hate Paying Income Tax

### **Penalties for income tax evasion can range from heavy fines to imprisonment.**

Who doesn't hate paying their income tax? However, most Canadian taxpayers, including owner-managers, understand that paying their fair share of income tax is simply the price of living in Canada with its many benefits. It is not surprising that those who *do* pay their share of income taxes are justifiably outraged by those who do *not* pay, especially if it appears they are able to get away with it.

***The cost of delinquency to the people of Canada is enormous.***

Tax avoidance, or minimization, is the skillful use of the tax laws to minimize the amount of tax owed. Tax evasion, on the other hand, may be defined as failing to report taxes owed, reporting inaccurately or using some illegal means such as fraud to reduce the taxes owed under the tax laws.



### **The Cost to Taxpayers**

The cost of delinquency to the people of Canada is enormous. Tax Justice Network, a London-based independent organization created in 2003 to monitor tax systems around the world for fairness and transparency, claims the people of Canada lose about \$81 billion annually through tax evasion. That's four times what we spend on defence and almost one third of what we spend on healthcare every year.

In fact, tax evasion is taken so seriously by the Canada Revenue Agency that it has a "Newsroom" [www.cra-arc.gc.ca/nwsrm/cnvctns/menu-eng](http://www.cra-arc.gc.ca/nwsrm/cnvctns/menu-eng) where it uses court records to publish press releases announcing convictions for tax evasion.

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The CRA does this “to maintain confidence in the integrity of the self-assessment system, and to increase compliance with the law through the deterrent effect of such publicity”.

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***Canada loses about \$81 billion annually through tax evasion.***

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## **The Cost to Delinquents**

Punishment for tax evasion can be a fine, jail time or both. Convicted tax evaders must pay the full amount of taxes owing plus interest and any civil penalties assessed by the CRA. Failure to file a tax return can lead to a fine of between \$1,000 and \$25,000 and as much as 12 months in jail. Making a false or misleading statement on the tax return or wilfully evading paying taxes can bring a fine of between 50% and 200% of the amount of tax owed and a two-year prison term.

## **Rogues Gallery**

The following examples from the 2011 “rogues gallery” is only a small sampling of the kind of violations prosecuted by the CRA.

### **1. Failure to Comply with a Court Order**

In June 2011, the Ontario Court of Justice found a taxpayer guilty of eight counts of failing to comply with a court order to file outstanding personal income taxes for the years 2000 through 2007 inclusive. The taxpayer was fined \$8,000 and ordered by the courts to file the outstanding returns.

The taxpayer could easily have avoided the fine and possible additional penalties by meeting CRA’s request to file. When returns are outstanding, the CRA’s policy is to ask the taxpayer to file the missing returns. If the taxpayer ignores the request and fails to file, the CRA then serves a notice demanding the returns be filed. In this case it is apparent that the taxpayer did not comply and therefore charges were laid.

### **2. Tax Preparers Sentenced**

Tax preparers themselves are not immune to scrutiny by the CRA. In July 2011, the courts found a tax preparer guilty on 134 counts of tax evasion under the *Income Tax Act* and four counts under the *Tax Rebate Discounting Act*. According to court records the tax preparer claimed or obtained \$393,504 in false income tax refunds by filing fraudulent returns for 134 clients. Not only did the tax preparer have to repay the total amount of tax evaded, he had to pay a fine of \$393,504 (100% of the evaded amount) plus an additional \$2,000 on the four counts under the *Tax Rebate Discounting Act*. He was also sentenced to house arrest for two years less a day. The preparer was allowed to pay the fine in installments over five years. Failure to comply will result in a jail term in excess of two years.

The courts also found three other persons party to the scheme. Their sentences were as follows:

1. Nine months in jail and a \$286,000 fine
2. Three months in jail, six months’ probation and a \$36,000 fine
3. Three months in jail and a \$36,000 fine.

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***CRA investigations tie up personnel, clog the courts and cost taxpayers money.***

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### **3. Electrical Contractor Fined**

An electrical contracting company was convicted of one count of evading GST and one count of income tax evasion. The company had claimed \$379,705 in non-business expenses between 2004 and 2006 as well as construction expenses associated with building two cottages for company directors. Input tax credits for GST of \$24,007 related to the cottage expenses were also claimed as business expenses. The company was fined \$165,822, an amount equal to 200% of the total amount evaded and given one year to pay.

### **4. Inflated Business Expenses**

For the years 2005 through 2007, a taxpayer failed to offset credit notes against purchases, claimed invoices twice, indicated that personal expenses were business expenses and claimed expenses for which receipts or other documents were not available. The cost to this taxpayer was more than \$49,000 after charges of tax evasion were upheld by the courts. The \$49,000 fine represented 80% of the federal tax evaded. In addition, the taxpayer will have to pay the taxes owed plus any interest or penalties assessed.

### **5. False Invoicing Scheme Costly for All Involved**

Three business associates cooked up a false invoicing scheme in which, over a two-year period, invoices from Company A billed Company B for costs associated with building a personal residence for Company B's owner. Company B was then able to reduce the corporate income by \$165,000. As well, the owner of Company B failed to report the benefit received from payment of the construction cost. This resulted in tax evasion approximating \$45,000. The courts fined not only Company A and Company B but also the principals involved in the scheme. The total amount fined exceeded \$105,000. As well, the companies and principals were ordered to repay the taxes owing along with interest and penalties.

## **If You Think You Might Not Be in Compliance**

Chartered accountants deal with the CRA on a regular basis and find that in the normal course of business the CRA is fair when dealing with professionals and their client base. The CRA, like most businesses, would prefer that taxpayers meet their obligations voluntarily because investigations resulting in settlements tie up personnel, clog the courts and, of course, cost taxpayers money. This is why the CRA suggests that taxpayers who have inadvertently failed to report all of their income from prior years may be able to avoid such penalties and potential jail time if they comply before any action is taken by the CRA.

If you think you may not be in full compliance with current tax legislation, ask your chartered accountant about the Voluntary Disclosure Program or visit the CRA website [www.cra.gc.ca/voluntarydisclosures](http://www.cra.gc.ca/voluntarydisclosures).

## MANAGEMENT

## Ethical Behaviour

### A strong corporate ethic has effects deep into the stakeholder community.

Owner-managed businesses are under increasing pressure to ensure that their conduct as corporate citizens and the conduct of their employees as private citizens meet certain standards of ethical behaviour. It is all too easy for owner-managers to forget, however, that even though their business is run behind closed doors, the stakeholder community that buys its goods and services and on which it depends for employees, suppliers and financing have expectations about how it and its employees should behave.

Unfortunately it is only when an employee steps outside the unwritten but publicly assumed framework of expectations does the owner-manager or the employee understand that an ethical standard has been breached.

Business behaviour that may raise ethical eyebrows among stakeholders includes:

- Toleration of swearing, bullying, sexism or sexual harassment
- Bypassing environmental protocols, safety standards or employment standards
- Hiring practices based not upon qualification but gender, nationality or race
- Remuneration based on subjective evaluations rather than performance measurement
- Advancement based not upon evaluation but favouritism
- A reward system based strictly upon closing the deal rather than satisfying client needs
- An attitude that employees are there to be exploited rather than developed and rewarded
- An attitude of indifference to the law and employee safety and welfare

## Business Ethics

Business ethics may be defined as codes of principles and values that govern decisions and actions within an organization.



Corporations large enough to have an HR department may have a written mission statement and code of ethics; smaller businesses may just assume a code of some sort to be an unwritten part of the corporate culture. As the age, gender, ethnic, educational and other factors in the employee mix change with the company's growth, however, owner-managers may find it necessary to create a coded business ethic for all employees. A Google search of *business ethics* turns up about 20 million results, a measure of the extent of debate around this issue. Obviously, no magic

formula exists to create a company ethic. There are, however, two approaches to corporate ethical behaviour that should be part of any in-house debate.

### **Approach 1**

Owner-managed businesses answer the same question posed by their larger counterparts: “Is the purpose of our business solely to make profit for the shareholders or are we responsible as well to the greater good of our broader stakeholder community?” When shareholders (owners) instill in management a philosophy that their only purpose is to provide a return to the shareholders, concerns for employees, third-parties such as suppliers, customers or society in general, may go out the window. This bottom-line approach can lead to money-saving methods that reduce workplace safety, jeopardize product safety, or endanger the community.

### **Approach 2**

An organization shows the flip side of “profit at any cost” when shareholders instill in management the requirement to consider the needs of all stakeholders within the influence of the company. Stakeholders are not just the shareholders; they include everyone who derives value from the survival of the business: employees, suppliers, customers and all those other small businesses such as the local grocery, clothing or appliance store, or even the movie theatre that survive on the personal spending of employees.

The scope and breadth of influence, of course, depends upon the size of the community and the ownership of the business. A small retail store owned by generations of the same family may be willing to allow political posters in its window at election time because the owner wants to be part of the debate over local issues.

On the other hand, a national franchise with stores coast to coast may not want its name to appear associated with any issue and therefore prohibits local franchisees from displaying anything concerning the community. The national franchise’s inaction creates pockets of silence and excludes itself from the very community upon which it depends for its business. Is its behaviour ethical or merely self-serving?

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***Owner-managers and their employees should consider  
whether their actions may be perceived as ethical or  
unethical.***

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In a world constantly influenced by social media, owner-managers must be aware that any action within their sphere of influence may have a butterfly effect upon local, regional and federal governments, the community and its residents. For this reason, owner-managers and their employees may wish to consider whether any action or inaction may be perceived as ethical or unethical.

Businesses and the stakeholder community in which they operate have a symbiotic relationship: the business needs the support of the community and the community needs the business for its prosperity. When a business is perceived as unethical all community members suffer. The challenge for owner-managers and employees is to consider the potential ethical consequences of their actions.

## Four Questions

Perhaps if employees asked themselves these four questions before making decisions, incidences of unethical behaviour would be fewer:

1. Is my decision based upon my knowledge of the truth?
2. Will my decision be fair and respectful of all stakeholders?
3. Will my decision add to the goodwill my company enjoys in the community?
4. Would I be ashamed if my decision became public knowledge?

As much as we detest written procedures, a written code of ethics raises to consciousness what employees used to take for granted. It is the framework any business needs to show all employees what is expected of them by the company and by the law. Without formalized procedures a business could discover it has not performed the due diligence required to protect third parties from unethical acts committed by the business and its representatives.

## A World without Madoff

If rules and regulations could control human conduct and prevent unethical behaviour, the Quebec-based Earl Jones and the USA-based “Bernie” Madoff ponzi schemes might never have happened. In the final analysis, corporate ethical behaviour must reflect the ethical values of stakeholders in order to be acceptable. It is the owner-manager’s job to ensure the ethical behaviour of all within the business meets or exceeds the expectation of this community.

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### TECHNOLOGY

## Scan it Anywhere

### Scanning is no longer confined to the desktop.

There are times in any business when you’re out of the office and away from your scanner but you still need to make a digital copy of a paper document or business card. When you’re at the office, chances are you have either a standard desktop scanner or multi-function printer (which typically includes a scanner and copier function) to handle such tasks. However, when you’re away from your desk at a meeting or a tradeshow, you probably don’t have your desktop scanner or a bulky photocopier available. In a pinch, a camera might do, but that’s probably not your most elegant option.



### There’s an App for That

For occasional mobile scanning needs, having the right applications available on your smartphone or tablet device is essential. A small investment in apps suitable to your business and work habits will help to make the large investment you have already made in mobile devices pay off. You may need a few different types of apps to handle each situation. Since there are multiple mobile platforms, each with

its own unique selection of apps, the following list includes the types of applications you may find useful along with the typical price range. Many apps are available for free or a nominal cost.

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***There are many different apps available to handle most situations.***

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**A Simple Photo Editor:** (\$0 -\$5) After you've taken a picture of something with the camera on your device, having an application that will let you crop, make minor changes and save as a new file is extremely useful.

**Text Recognition:** (\$0 – \$5) Equally as useful as a photo editor is an app that can do Optical Character Recognition (OCR), that is, convert an image into text. Such an app will allow you to start editing your document right on the spot without having to wait until you get back to the office.

**QR Code Scanner:** (\$0+) This app allows you to capture those square digital “barcodes” that you've probably noticed popping up everywhere. QR codes can contain many kinds of data, but are commonly used to store and convey contact information and website addresses. Businesses are starting to print QR codes on business cards. A single snap of a QR code is enough for you to capture someone's entire contact information and automatically add it to your smartphone's contact book.

**Productivity Suite:** (\$0 – \$30) Although productivity apps are not directly used for “mobile scanning,” having a word processor, spreadsheet and presentation editor on your mobile device will allow you to immediately use the information you've scanned or images you've captured and start making changes on the spot.

## **Portable Document Scanner**

If you find yourself scanning many documents while you're out of the office, you have another option in addition to your trusty smartphone. There are now products on the market that will scan most documents on the spot without the necessity of connecting to a computer. These devices are so portable that the user can hold it in one hand and literally feed the document into the scanner with the other. Although not all products have the same features, they are all designed to convert paper-based documents into a digital format.

For about \$200 you can purchase a discreet portable document scanner that can scan documents, photos and business cards on the spot, without the need for a computer attached. Most portable scanners allow you to connect to a Mac or Windows computer to download previously scanned documents, either via a USB cable or wirelessly via Bluetooth. The battery is usually sufficient to scan about 100 documents per charge. While lightweight and portable, these scanners have the disadvantage of being a separate device that must be carried around in addition to your laptop and briefcase, and still require a computer to make use of what has been scanned.

## **Save Time, Save Money**

Any business that wishes to work more efficiently, reduce or eliminate inaccuracies and move toward a paperless environment should consider portable scanning options, either through smartphone apps or a portable scanner to meet its mobile office needs.

**MONEYSAVER**

## Everyone Wins

**Co-operation, thrift and efficiency are the best ways to keep a small business going.**

Owner-managed businesses rely on their employees to meet the demands of customers. Indeed a driving force for many owner-managers is ensuring that sufficient business is in place to provide employment for both themselves and all their employees. Any employer will tell you their most painful task is informing employees with whom they have worked with for years that they must be laid off.

Since there is no guarantee the clients or job of today will be available tomorrow, owner-managers and employees working together to maintain company profitability is the best way to ensure continuous work. The cost-saving models of large corporations are not available to smaller businesses where management and employees must work together to maintain profitability.

Here are a few areas in business where owner-managers and coworkers can save money and thereby benefit the bottom line.

### Use Time Wisely

“Time is money,” Ben Franklin said. Use time efficiently and do not fritter it away:

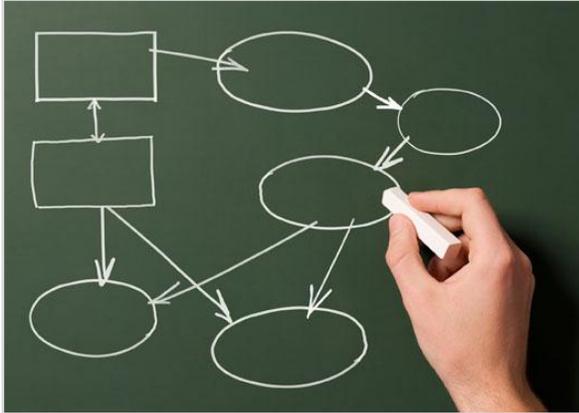
- Be on time every day.
- Start working at a predetermined time rather than arriving at the work location on time and then spending 15 minutes getting ready to work.
- Put in a full day’s work. If possible arrange car repairs or dental appointments on your days off or at the end of the business day.
- Stick to the scheduled break and lunch times. Stay within the time limit.
- Determine whether overtime is really necessary. Overtime slowly eats at mental acuity and physical endurance and over the long term may actually reduce efficiency.
- Purchase a coffee maker and make coffee at the office.
- Educate family and friends to limit their calls, texts or emails to emergencies.

### Information is Power

Keep your coworkers and the boss informed of what is happening on your project. Getting the job done on time is important, especially if the company you work for does not get paid until the job is done. If the company doesn’t receive payment, additional strain placed upon the cash flow may necessitate a bank loan to make payroll.

### Train Backup

If only one person is trained to drive the front-end loader and that person is not there, productivity stops. Without productivity the job doesn’t get done and no one gets paid.



If the billings or payroll clerk is not available, an entire operation could shut down. Writing NSF cheques, or failing to pay bills, employee tax deductions, HST and other withholding taxes will cost interest and penalties.

### **Manage Office Utilities**

We all are aware of the high cost of utilities in our home, but often do not give a second thought to the cost of utilities at the office or plant. Shut off lights in washrooms, kitchenettes, storage areas or shop areas when you leave. Turn down the heat or air conditioning before long weekends.

### **Communications**

Communication has become a high cost for most businesses. When out of the office consider whether it is necessary to answer every call or respond immediately. Before leaving your communication zone on business, consider whether the company should consider a “roaming” package to keep costs down. Take care of communication devices. Lost, stolen or damaged equipment cost the company money.

Consider using communication platforms such as SKYPE to reduce the cost of long distance charges or to replace face-to-face meetings with video conferencing.

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***Getting the job done on time is essential.***

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### **Company Vehicles**

There are a number of ways of reducing the cost of operating company vehicles.

1. Obey all traffic rules to avoid fines and an increase in vehicle insurance.
2. Reduce additional fuel cost by not idling, speeding or making jackrabbit starts.
3. Reduce excess wear and tear by staying within its performance criteria.
4. Maintain and log proper maintenance schedules to ensure warranties are not violated.
5. Transport more than one person to a jobsite.
6. Plan shopping or pickups to avoid duplication or backtracking from the worksite to the local supplier.

### **Protect Your Data**

The downtime from lost data is always expensive. Follow existing backup procedures. Establish a system whereby Day One work is backed up on Disk One, Day Two work is backed up on Disk Two and Day Three work is backed up on Disk Three, etc. On Day Four backup on Disk One and follow the routine. This should ensure your data is never more than one day behind if the systems crash. At

least once a week, backup all files and locate them offsite whether using a “Cloud” facility, an external hard drive or a local offsite server.

Ensure that a master password and specific authorization for all key sites is available to key personnel. This will allow access to data in the event an employee is absent or terminated.

Client and personnel confidentiality are essential to avoid possible legal action. Employees should be instructed to encrypt all data sent via Internet.

## **Travel Expenses**

Travel expenses can mount up. The incentive-points earned for staying at specific hotels or eating at certain dining establishments may bias us to spend more than we would spend if we were paying for the trip for our own personal pleasure. Certainly it is important to portray an image to our clients, but, at what cost to the business?

## **Payables and Receivables**

Maintain constant vigilance over receivables and payables. Do not overextend credit to clients; constantly follow up on receivables. Pay payables on time to ensure your suppliers will continue to grant credit and not force the business to increase an existing line of credit. Employees and owner-managers should always be vigilant for changes in delivery times or payment times that may be a sign of a troubled supplier or customer.

## **Promote the Business**

We all need to promote the business. Participation in community events creates positive images for the company that may be more effective and less expensive than advertising.

Many employees feel it is not their job to get business. Nothing could be further from the truth. Promoting the business you work for provides work for the company. If you have a potential client, mention it to the owner-manager. Even a small job could lead to something bigger or a long-term contract.

Everyone from owner-managers to employees would like to say with certainty that 2012 will be a banner year. Although no one can predict what the future holds, working together to reduce unnecessary expenditures and promote the business is definitely a process that is a money saver.

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