

PROSPERITY

Wilkinson & Company's newsletter for our clients and friends

WILKINSON & COMPANY LLP PROUDLY CELEBRATES FORTY YEARS OF SUCCESS!



Founding Partner, Wilf Wilkinson, FCA, CFE

Forty years ago, the accountant that had just persuaded his wife to relocate to Trenton, telling her it was for six months, now stood before superiors who were urging him to close the office and move back to Montreal. "How large do you see that Trenton office growing?" his superior from E.C. Leetham & Co. asked, skeptically. "Oh, to four, maybe five accountants some day," replied Wilf Wilkinson, diffidently. A short time later, he was on his own, back in Trenton having founded the W. J. Wilkinson CA firm that was destined to achieve more than even he predicted that day.

Soon the firm grew to three partners, Wilf Wilkinson, Mike Ackerman, and Jerry Silverthorn. The company dedicated itself to providing superior service in helping its clients build wealth. The firm's first location in Trenton was beside a theatre, part of a



John Lewars, CA at Pinnacle Street



The former Wilkinson Belleville office at 217 Pinnacle Street (until 1994)

maze of small offices boasting other businesses. As the company grew, it took over each space as it became available. Wilf eventually gained the space that had once been the office of the bank manager, and discovered a peephole that allowed him a bird's-eye view of the bank vault. Another surprise was in store when the theatre was torn down, they discovered that the wall that had once enclosed them was gone, leaving them very much in the open-air until a new exterior wall could be built.

"Our firm has not, nor will it ever be built on the efforts of a single person, but rather its future, like its past, will be built on the contribution of all those associated with the firm. Let me, therefore, encourage you to be enthusiastic and competent in your work, patient and objective in your criticisms, and above all, be tolerant and well spoken of both our clients and of your associates in the firm."

- Wilf Wilkinson, *Accounting for...Wilkinson & Company* Feb. 1982.

Gail Lockwood began her career as a financial statement typist with Wilkinson & Company LLP in October 1969. "There were 5 or 6 of us back then," she fondly recalls, "it was great! I worked on an Underwood manual typewriter and a crank-style adding machine. We typed copies using 8 sheets of carbon paper!"



Mike Ackerman, CA, 1988

Ten years in business marked a milestone for the company when it merged with John Lewars' accounting firm, which had been operating out of Belleville for twenty years. John had located to Belleville because it was a midway point between Toronto and Cornwall, the boundaries of his territory. Selling the eastern Ontario portion and joining Wilkinson & Company LLP as a partner, he gained the resources to concentrate on building his Quinte area clientele. John has since retired after almost fifty years in the accounting profession, but still keeps active with some clients.

Both Jo-Ann Patrick and Linda Marshman have over 31 years experience at Wilkinson & Company LLP. Jo-Ann joined the firm as a



Bob and Linda Robertson, Christmas 1988

secretary after working with John Lewars in his practice. "The best thing about Wilkinson & Company LLP has been all the people I have worked with," she said, "they're a wonderful bunch."

In what turned out to be a momentous year, 1974, Wilkinson & Company LLP also acquired the Trenton office of Dunwoody & Company, a merger that saw the firm gain Rob Cory and Bob Yager. Later that same year, the growing firm merged with R.G. Harrison, and expanded its operations at 217 Pinnacle Street in Belleville. Grant Harrison who had previously been the Managing Partner of McColl Turner & Company, came on board at that time; he retired in 1996. During his forty-five years as an accountant, he has seen many changes in the profession, including the advent of Ontario Corporation income tax returns, PST, GST, EHT, CPP, RRSPs, and the capital gains tax.

From early days, Wilkinson & Company LLP has sponsored young people who are considering a career in accounting, both at the high school and post-secondary levels. A generous program of scholarships sponsoring accounting students prompted one graduate, Jack Shorey, to pursue employment with the firm as a CA. Since then, more than eighty graduates have followed, some even becoming partners.



Kingston office, 2001



Brian and Susan Kehoe, Christmas 1988

Over the years, the firm continued to grow and evolve. After twenty years at the Pinnacle Street location, the Belleville office moved to 139 Front Street, in 1994. In 2001, another merger brought the Kingston firm of Shurtleff & Savage into the firm and expanded the area of Ontario served by Wilkinson & Company LLP. In 2002, the company was also pleased to announce the launch of Wilkinson Financial Services, a division dedicated to assisting clients in safe-guarding and building their wealth.

Over the course of the last forty years, Wilkinson and Company LLP has grown into one of the largest regional public accounting firms in Canada, and a member of the prestigious Top 30. With typical modesty, Wilf looks back on this exemplary track record, "We were very lucky in our partners, our employees and our clients. We've consistently attracted people who value excellence. Our staff has been excellent. Northumberland, Hastings, and Kingston areas have been most receptive and supportive. It's been a good place - for the business and for our families."

We can confidently expect to see continued excellence from Wilkinson & Company LLP, as the firm builds another forty years of success. ■

This is an exciting year for Wilkinson & Company LLP. Our 40th anniversary provides the opportunity to celebrate this milestone with our clients and to express our appreciation for their business. Watch for future announcements about our 40th anniversary year celebrations.



Robert Yager, CA, CFP, TEP is a Client Services Partner with Wilkinson & Company LLP and Liaison Partner to Wilkinson Financial Services Inc.

As a business owner, are you concerned that you won't have enough money for retirement? Well, Wilkinson & Company LLP has a solution! In 1991, the CRA established Individual Pension Plans (IPPs) as a special type of registered defined-benefit pension plan for business owners and their spouses. These IPPs offer significant advantages over RRSPs in terms of both tax savings and growing your wealth; they can do much to help you save for retirement.

- The amounts you can contribute annually are substantially higher than allowable RRSP contributions. You can also roll over your existing RRSPs into the IPP.
- Any contributions to these plans, and any expenses incurred in establishing and maintaining them, are tax-deductible for the company. These contributions, as well as the investments held, and any amount compounding within the plan, grow tax-free until you begin to withdraw amounts after retirement.
- You can choose to retire as early as age 55, and may be able to withdraw up to \$70,000 annually – twice the allowable RRSP limit. Also, unlike RRSPs, IPPs allow additional contributions if their growth falls below the 7.5% a year as set by the CRA. In fact, your company can borrow the funds needed to top up the IPP and claim the interest payments as expenses.

THE STEROID RRSP

A FAST, TAX-FREE WAY TO ACCELERATE YOUR RETIREMENT SAVINGS

By Robert A. Yager, CA, CFP, TEP

- In your initial contribution, you can apply all unused RRSP contributions, dating back to the incorporation of your company.
- You can contribute a lump sum contribution upon retirement.
- As a defined-benefit pension plan, an IPP guarantees your annual pension benefits when you retire.
- As a trust, your IPP also offers creditor protection.

The Safety Net

IPPs are in a class-defined benefit plan, meaning they must grow at 7.5%, as determined by CRA. If this plan depreciates, your company is required to make up the difference. However, if your plan grows by more than 7.5%, then your contribution limits decrease in the next year. Think of it this way: the growth of your plan is expected to follow a predetermined curve.

Do You Qualify?

Only key executives 50 years old or more, with annual salaries in excess of \$86,111, automatically qualify provided their corporation is active (that is, not a holding company or a sole proprietorship). CRA needs to be satisfied that the corporation is not created solely for IPP purposes, and that there is a genuine employer/employee relationship. Make sure your financial advisor is well acquainted with your personal situation when setting up an IPP, as Individual Pension Plans that fail the Primary Purpose test may be subsequently de-registered by CRA. Annual contribution limits are determined by careful consideration of a number of variables: your age, past salary, time with the company, and so on.

Once the IPP is established, the money invested is inaccessible until you turn 55. However, in cases of critical illness or disability, you can collapse the IPP without penalty.

Case Study: The Joneses Built \$2 Million in Additional Wealth!

The Joneses have owned a successful business for 15 years. Now 49 and 45, they set up an IPP with their financial advisor, and contributed \$384,900 in the initial year. This amount consists of \$78,200 in past service benefits, \$32,700 in new contributions, and \$274,000 rolled over from existing RRSPs. In the next twenty years, the contributions generally exceed the amount allowed by RRSP regulations, so when Mr. Jones retires at the age of 69, the total amount of IPP assets is \$4,624,143.* The Joneses also add a lump sum payment of \$558,816 to their initial payment for a total IPP balance of \$5,182,959.

If they had only RRSPs, and contributed the maximum allowable amount, assuming the RRSPs achieved the same gains as the IPP, they would have had \$3,188,946 at retirement. The IPP gained almost 2 million additional dollars for their retirement security and enjoyment!

The Final Word

IPPs—the Steroid RRSPs—are the fastest way to increase your retirement savings; they make sense if you are a business owner.

Let Wilkinson & Company LLP sit down with you to see if an IPP is right for your wealth-accumulation retirement plans. Call your Client Services Partner today!

*This amount based on the predicted 7.5% annual growth rate. ■



Tim Almeida, CA is a Manager at Wilkinson & Company LLP, Kingston office.

TAX SAVING STRATEGIES THROUGH BONUSING

By Tim Almeida, CA

Owners of Canadian-Controlled Private Corporations traditionally take out surplus corporate taxable income annually, leaving only the active business income in the company to enjoy the preferential Small Business Deduction as set in section 125 of the Income Tax Act. Since this money is usually taken as a bonus, the process is called "bonusing down". In 2003, the Ontario small business tax rate threshold was increased, but was not at that time harmonized with the Federal threshold. The Federal budget of March 22, 2004, however, proposes to bring the two limits closer into agreement with a new effective limit of \$300,000 Federally, for 2005 and subsequent years.

This means for every dollar of taxable income over the small business deduction limit, a company will pay approximately 37 cents in tax. By bonusing down to the small business deduction limit, however, companies will pay 20 cents; therefore, bonusing down provides a tax savings to the company of 17%.

However, this tax-planning feature provides other benefits such as:

- Paying out the bonus as salary could maximize the owner's personal RRSP contribution limit, which is set at \$15,500 in 2004 (earned income of \$86,112 is required to meet this level of RRSP contribution limit); or

- If the company bonuses down to the small business deduction limit, the company's income tax payable for the subsequent year-end is due three months after its year-end, otherwise the income tax payable would be due two months after its year-end.

It is possible to bonus down below the small business deduction limit, however, this is not always the best tax planning decision. The tax rate for taxable income up to the small business deduction limit in Ontario is approximately 20%, compared to the high marginal personal tax rate in Ontario of approximately 46%. Therefore, it would not be advisable to bonus down below the small business deduction limit because you are losing a potential tax deferral of approximately 26%.

Since the benefits and tax savings/deferrals are significant it is recommended that companies bonus down to the small business deduction limit. There are a number of factors that the business owner should consider to minimize taxes paid by the



company, and to protect the company's cash flow. Bonuses must be paid within 180 days of the corporation's year-end. Occasionally, this can be inconvenient for the company and its cash flow requirements. However, there are ways to reduce taxes payable while still making more cash available to the corporation, such as:

- A bonus resolution must be documented in the corporate minute book, stating that the first part of the new fiscal year's wages are given to the shareholders/management, in place of the bonus. This is workable and accepted by the CRA, as long as the wages payable for that portion of the year is greater than the amount of the bonus.
- The employee deductions on the bonus are paid to CRA, the bonus payout is properly documented, and then the after-tax portion of the bonus is reinvested in the corporation as a shareholder loan. Amounts can then be withdrawn from the shareholder loan at any time, without paying tax on it.
- Your tax advisor will need to review other implications with you, for example, the Alternative Minimum Tax, or income splitting with other family members.
- To avoid a challenge, the owner or manager receiving the bonus must be a Canadian resident, actively involved in the day-to-day operations of the business, and contribute to the income-producing activities to which the remuneration relates.

Wilkinson & Company LLP invites you to discuss bonusing-down options, so we can ensure that you and your company receive the maximum benefit. Please call us today for more information. ■



Stephen Thompson, CA, CFP, TEP is a Tax partner and member of the Wilkinson Tax Group. He is also the author of the best-selling book, *Beat The Taxman*, now in its 8th edition.

A word to the wise about refunds and penalties: Canada Revenue Agency (CRA) has changed the dates that they start to pay interest on your income tax refund or repayment. Compound daily interest starts to apply on whichever date below is the latest:

- May 31, 2004;
- The 31st day after you file; or
- The day after you overpaid.

From April 1, 2004 to June 30, 2004, the interest rate paid on overpayments is 5%.

The interest rate in the same period charged on overdue taxes, CPP contributions, and Employment Insurance premiums is 7%. Unless you know that you don't have a tax liability, you should not wait until June 15 to file and pay any taxes owing. Many people don't realize that even if you have until June 15 to file, as is the case with self employed individuals and their spouses, if you owe any money to CRA then they are going to charge interest from April 30. At 7% compounded daily, it is expensive to use the government as your banker! Further, if you are late filing your tax return you will be charged a penalty of 5% of the taxes owing, plus 1% for each month the tax return is outstanding.

PERSONAL TAX TIPS: WHAT'S NEW?

By Stephen Thompson, CA, CFP, TEP

Missing Information

As noted above, if you owe money to CRA, it's a good idea to file and remit on time. In addition to avoiding penalties, filing on time will avoid any disruption in receiving your GST tax credit or Canada Child Tax benefit. But what if you're missing a document that you need to substantiate an allowable expense? If you're filing a paper return, estimate the amount as accurately as possible, and attach a note to your return explaining the circumstances. Then when you get the receipt, you can send it on separately. If you're e-filing, just estimate the amount and when you get the receipt, file an adjustment to your return if necessary and keep your receipt with your file.

Correcting Mistakes

Suppose you have already filed and then notice that you made a mistake? You should file a notice of objection to get CRA to go back and revisit the file, but generally they will do so with just a request from you. In fact, you can ask them to go back three years from the date of assessment. For prior years, you will need to file a separate Form T1-ADJ, T1 Adjustment Request for each

year. For personal tax returns, CRA may even consent to go back as far as 1985. The recent Federal budget proposed changing the rules relating to requesting adjustments in prior years such that for requests made after 2004, you will be limited to making adjustments for only the past ten years. So review your prior year records now before it is too late to request an adjustment or obtain a refund.

Automobile Expenses: Still Claimable?

The definition of "automobile" has been changed to exclude certain types of vehicles. At the end of December of every year, CRA reviews the permissible allowances on vehicles, as well as vehicle definitions. Depending on whether your vehicle is classed as passenger, motor, or other, and to what extent you use it for business purposes, the amount that you can claim may have changed from prior years. The issue of car and travel expenses is a complicated one, and you should review your particular situation with your tax advisor to make sure that you are claiming everything allowable. ■





Jennifer Fisher, FCA is the Partner and Practice Leader of Wilkinson & Company LLP's Kingston Practice.

WILKINSON'S KINGSTON OFFICE: COMMITTED TO CLIENT SATISFACTION AND COMMUNITY SUPPORT

By Jennifer Fisher, FCA

The Wilkinson name is still relatively new to many people in Kingston, since we entered the Kingston market a short three years ago through a merger with the firm of Shurtleff and Savage. We are looking forward to building on the 25+ years of client service and community support that began with David Shurtleff and Michael Savage, and to celebrating our own 40th anniversary!

The goal of the Kingston office is the same as that of our firm as a whole: an unwavering commitment to total client satisfaction. We have increased our staff, and we continue to foster a culture of life-long learning by providing professional development opportunities. I am proud of the dedication and achievements of all our staff, and would like in particular to recognize Tim Almeida and Angela Campbell, who have earned their CA and CFP designations respectively. Tim is also taking the CICA "in-depth" tax course, a two-year specialty program.

Serving the Business Community through Seminars

As part of our focus on client satisfaction, we believe in providing our clients with information that is timely and relevant to help them achieve business and personal financial success. One of the ways that we do this is by presenting short informational seminars, and by working with other organizations and businesses to provide presentations on topical subjects.

On April 7, I was pleased to be invited by ADVOCIS Kingston, an association of insurance professionals, to present "Tax Saving Strategies: Exploring Options Available to Self-employed Individuals to Reduce the Amount of Tax Payable."

On April 13, I presented "Privacy Compliance in the Private Sector", in collaboration with Chris Edwards of Templeman Menninga, reviewing the responsibilities imposed on private companies by the new privacy legislation, PIPEDA.

On April 22, through the Greater Kingston Chamber of Commerce, I conducted a workshop, "The Financial Responsibilities of the Board of Directors", a timely topic for not-for-profit organizations.

On May 13, our office was delighted to have the opportunity to co-host a presentation with Business Development Bank of Canada (BDC). Stephen Thompson, CA, CFP, TEP, Partner and member of the Wilkinson Tax Group, presented "Succession Planning: Maximize the Value of Your Business." The presentation contained important information about planning for the time when you hand over your business to your children or other designated successors, and minimizing taxes.

On October 28, 2004, in conjunction with Small Business Week, I will present "Understanding Your Financial Statements", a workshop held through the Greater Kingston Chamber of Commerce. We will also be sponsoring the

"Large Business of the Year Award" at the Chamber's annual Business Achievement Awards Gala.

You need not miss an opportunity to attend our valuable and informative seminars. Give us a call! I will be pleased to put your name on a mailing list to ensure that you and your business or organization are notified when the next presentations are scheduled. Or, for specific issues that concern you, contact me or any of my professional team.

Supporting the Community

Our firm has a tradition of giving back to the community in which we live and work, a tradition begun 40 years ago by our Founder, Wilf Wilkinson, FCA. This is a tradition that I am proud to continue as leader of the firm's Kingston practice.

I would like to take this opportunity to thank those responsible for inviting me to become a member of the Kingston General Hospital Foundation Board of Directors, serving on the Finance Committee and chairing the Audit Committee. This commitment reflects my long-time interest in serving the not-for-profit community. My staff and I look forward to finding additional ways to support the Foundation.

The professional team at Wilkinson & Company LLP's Kingston office looks forward to continuing our commitment to client service and community support for many years to come. ■



Rob Deacon, CA, CFE is a Partner with Wilkinson & Company LLP, Forensic Accounting Services Division.

Are you self-employed? Do you drive a car? If you answered yes to both questions, have you ever considered what would happen if you were injured in a car accident and couldn't work?

Auto insurance reforms are much in the news these days. With all the attention on rates, many of us may not think about some of the coverage issues that are vital to protect self-employed persons in the event of an accident. Just consider what harm might be done to your business if you were unable to work for an extended period of time. In addition to lost sales and missed opportunities, you may suffer losses due to ongoing costs. Many people do not realize that the standard automobile policy includes "Income Replacement Benefits" as a mandatory part of Statutory Accident Benefits to protect you and your business.

\$400 a Week May Not be Enough!

The current legislation that deals with automobile insurance in Ontario, Bill 59, provides a standard weekly benefit up to \$400—not much protection for a higher-income earner. However, it also allows consumers to increase their income replacement coverage in order to more closely reflect their actual income level prior to the accident. Consumers can increase their coverage to \$600, \$800, or a maximum of \$1000 per week, for an additional premium.

THE FORENSIC FILE

Important Insurance Facts for Self-Employed Individuals

By Rob Deacon, CA, CFE

Impact of Other Disability Policies

If you have private disability insurance coverage, your automobile insurer will take the place of secondary payer. If you receive short-term or long-term disability payments, referred to as collateral benefits, and the policy provides equal or greater income replacement benefit coverage than your automobile insurance, you will not be eligible for any benefit under your automobile policy.

How Much Coverage Do You Need?

The intention is to replace 80% of your loss of employment income as a result of the accident. This includes consideration of business losses that may result after the accident. The calculation starts with 80% of your pre-accident after tax income and adds 80% of post-accident losses from self-employment and then deducts 80% of post-accident income from employment, subject to the weekly maximums as described above.

Therefore, to estimate the maximum coverage you require, you need to consider your current weekly after tax income, plus the weekly amount of expenses that would continue even if you are totally unable to work after the accident. These expenses can also include the cost of wages to replace your services. If your business is incorporated, the calculations become even more complicated.



Your advisors at Wilkinson & Company LLP are always available to help you evaluate your options.

How To Make a Claim

The Insurance Act of Ontario considers the onus to be on the claimant to substantiate a claim. It is vital that your financial records are complete, accurate, and up-to-date. In order to support your claim you may be asked to provide the following:

- Financial statements for your business for its last fiscal year or the fifty-two weeks before the accident;
- Personal and/or corporate tax returns and assessments;
- Goods and Services Tax Returns;
- Bank Statements; and
- Source documents (e.g. invoices, contracts, deposit slips).

If your business has continuing expenses after your accident, you will also be required to provide financial statements for the post-accident period. Delays in providing the required information may result in a serious cash flow problem. Wilkinson & Company LLP can assist you in properly preparing the necessary documents.

A Word of Warning

Although the legislation and the forms used for making a claim refer to your Gross Income, when you are self-employed your benefits are really based on your net income and recent changes to the legislation mean that income which is not reported on your tax return will not be eligible for Income Replacement Benefits.

For more information about protecting your income, call your Client Services Partner. ■

WILFRID J. WILKINSON LECTURE THEATRE OPENED AT LOYALIST COLLEGE

March 9th marked the official opening of the Wilfrid J. Wilkinson Lecture Theatre at Loyalist College. In March 2002, Wilkinson & Company LLP made a significant pledge of \$25,000 to the Super Build Fund to help construct the new Lecture Theatre. This new facility is now officially named after Wilfrid J. Wilkinson, FCA, CFE, the founder of Wilkinson & Company LLP. The Lecture Theatre's new name recognizes both the significant contributions that Wilf Wilkinson has made towards the advancement of Loyalist College since 1968, as well as the support of Wilkinson & Company LLP.

Wilf Wilkinson is a charter member of the College's Board of Governors. He was appointed in 1968 and chaired the Board in 1974 and 1975. He also chaired the Leadership Division in the College's Foundations for the New Millennium Campaign in 1996-98, and is an Honorary Director of the Loyalist College Foundation.

The Speakers

The opening was hosted by Loyalist College and took place in the new theatre, with



Wilf Wilkinson, FCA, CFE addresses the attendees

Doug Auld, President of the College, acting as MC. Some of the many dignitaries who also attended and spoke about Wilf's contributions, were Wendell White, current chair of the Board of Governors, Leona

Brian Kehoe spoke on behalf of the partners and staff of the firm. His remarks were made from the heart as he spoke of Wilf's vision, his pride in seeing the firm graduate many CAs and professionals over the years, and his principles, upon which the firm was founded and that still hold true today.

A Tribute to a 40 Year History

This year, the firm is celebrating its 40th anniversary. There could have been no better way to mark this milestone, than to have the Lecture Theatre named in honour of its Founder. It is a living tribute to his vision; a vision that has led to the creation of one of Canada's largest regional public accounting firms.



Doug Auld, President of Loyalist College, Joan Wilkinson, and Wilf Wilkinson, FCA, CFE

Dombrowsky, MPP of Hastings, Frontenac Lennox, & Addington, and Mrs. Paul Macklin, on behalf of Paul Macklin, MP of Northumberland. Also in attendance were family members and many friends.

Wilkinson & Company LLP would like to express its sincere thanks to all those at the College who were responsible for organizing this memorable event. ■



Wilkinson & Company LLP
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