

TAXATION

Are Professional Fees Tax Deductible?

At each stage of a company's life, it incurs professional fees incorporating, purchasing another company, conducting routine business functions, collecting delinquent accounts, reorganizing or restructuring or defending itself or its directors and officers in a lawsuit to name a few. When the amounts of these fees are significant, their deductibility (or non-deductibility) can become an important tax consideration.

Is That Deductible?

The guidelines for determining whether professional fees are allowable expenses relate to the *purpose* of the expenditures. Legal and accounting fees are deductible to the extent that:

- The expenses are incurred for the purpose of gaining or producing income from a business or property; and
- The expenses are *not* incurred on the acquisition of capital property.

Generally, legal and accounting fees are allowable when they are incurred in connection with normal activities, transactions or contracts that are necessary for the business to earn income. For example, a company may deduct the related accounting and legal fees incurred for:

- Preparing contracts for the sale of inventory;
- Collecting accounts receivable or other trade receivables;
- Registering liens or obtaining security on trade debts;
- Preparing financial records and minutes of shareholders' and directors' meetings;



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*Solutions for today -
Strategies for tomorrow*

- Making annual corporate filings;
- Routine or regular audits of financial statements;
- Conducting appeals in respect of sales tax, including Goods and Services Tax/Harmonized Sales Tax, excise, municipal or property taxes; and
- Monitoring laws and regulations that affect the business operations.

Financing Expenses

Within certain limits, legal and accounting fees are deductible in connection with:

- Issuing mortgages, bonds or debentures;
- Borrowing money for certain business or property purposes;
- Incurring indebtedness that is an amount payable for certain business or property expenses; and
- Rescheduling or restructuring debt obligations.

Generally, the costs related to the issuance of shares or incurred on the borrowing of funds for the issuance must be deducted on a straight-line basis over five years. Any undeducted financing costs can be written off when the loan is repaid. These costs include professional fees as well as other borrowing costs, such as registrar and transfer fees, prospectus filing fees and

notary costs for the preparation of a loan contract.

Capital Property

Legal and accounting fees incurred on the acquisition of capital property are normally included as part of the cost of the property. For depreciable property, the tax rules require that the entire cost be claimed slowly over a period of years. This is accomplished by claiming capital cost allowance (CCA), which allows a certain percentage of the cost to be claimed each year on a declining basis. The percentage varies with the type of property purchased.

When the business sells capital property (such as a building), the legal and accounting costs are not deductible from the company's income. Instead, these costs are deducted in determining the capital gain (or loss), recapture, terminal loss or business investment loss resulting from the sale transaction.

Directors, Employees and Officers

If a company incurs legal expenses in defending an employee, officer or director against charges of having committed an illegal or wrongful act in the ordinary course of business, these are deductible from income. This could include legal expenses relating to allegations of offences under business practices or competition law.

An employer may deduct premiums under

an insurance policy that covers the legal expenses of officers or directors defending themselves against claims made against them by reason of their positions with the employer.

However, if a company pays or reimburses an employee (or a member of his or her family) for personal legal expenses, the amount paid is a taxable benefit to the employee. The employer may deduct the legal costs as a business expense on account of the employee's wages or benefits, provided the amount paid does not exceed a reasonable amount.

Tax Evasion

Tax evasion is a willful intention not to report earned income. It stands to reason that the CRA generally does not allow the deduction of legal and accounting fees incurred for defending charges of tax evasion. Any related penalties or fines are also not deductible.

The Bottom Line

It is almost impossible for companies to avoid the cost of professional representation in a business climate that demands contracts, employee agreements, corporate governance and the accountability of officers and directors. As the rules for the deductibility of professional services can be complex, be sure to ask your chartered accountant if the expenses may be considered deductible.

Business Writing That Gets Results



In today's fast-paced, information-driven world, the pressure is on to achieve results quickly from each written document you create. At the same time, you need to ensure your business communications say what you intend and say it well.

Whether you are writing a letter, proposal, memo or report, the document is a direct reflection of the person sending it, and by extension, the company that person works for. Poor grammar, shaky constructions, incorrectly used words and other writing weaknesses could send the wrong message that your company does not pay enough attention to detail or is too rushed to provide good service.

Here are 12 tips that can help you and your employees improve the effectiveness of your business communications.

1. Write the way you speak. Your readers will be more likely to understand your communications if you use a normal, conversational tone in your writing. If what you have written flows smoothly when you read it out loud, then you have probably written it the way you would say it in front of a customer. It will also be a lot shorter.
2. Keep your sentences short and uncomplicated. Whenever possible, restrict your sentences to one idea and an average length of 15 to 17 words. That doesn't mean writing every sentence the same length. Good writers vary the length and rhythm of their sentences.
3. Use simple, direct, everyday language. A thesaurus is helpful when you want to replace a word that has been overused in your communication. But avoid the temptation to use it to search out fancy words that your reader might have to look up. If a simple word will say the same thing as a complex or unfamiliar word, use the simple word.
4. Avoid worn-out phrases, clichés and overly formal phrases. "Enclosed please find" and "per your request" are more simply stated as "The requested data is enclosed." Consider this long and cluttered sentence: "In the event that you have any questions on this report, please do not hesitate to contact the undersigned by phone or e-mail." It is more effective to simply say, "If you have any questions, please contact me by phone or e-mail."
5. Avoid business jargon and acronyms unless essential. Instead use phrases and words people understand. Consider this pompous sentence, "We interacted with external experts to provide enhanced communication protocols for our company." What the writer meant to say is, "The new telephone system allows us to talk on the phone and use the Internet at the same time." While common acronyms and jargon might be used by those in your field to speed up communications, you need to spell these terms out in clear terms for others to ensure they understand them.
6. Be direct; address the issue. If your company is experiencing difficulty, come right to the point. For example, state that "As the company is losing money on these products, the line is to be discontinued." Do not communicate hope or uncertainty by suggesting that "Since the product line is not doing as well as was hoped, cost cutting measures will have to be implemented."
7. Respect your reader. Phrases such as "By now, you should all know that..." assumes the reader has the same level of knowledge about the topic as the writer. This approach suggests recipients were naive or not informed.
8. Take a positive approach. Consider how many people when asked how they feel will say: "Oh, not bad." rather than, "I feel great." No matter what the message even if it isn't what the reader was hoping to receive deliver your message using a positive tone and approach.
9. Whenever possible, address the reader directly. The inclusive statement "You are invited to attend the annual barbeque." is friendlier than "Management cordially invites you to the annual company event." Avoid excessive use of the pronoun "I".
10. Use the active voice. A sentence is active when the subject is doing the action. When the subject is being acted upon, the sentence is passive. For example, consider "The envelope was addressed by my assistant" versus "My assistant addressed the envelope." When you use the active voice, your sentences are brief, direct and more vigorous than the passive.

Passive: This form should be signed and should be returned to me.

Active: Please sign the form and return it to me.
11. Focus on the information requirements of your readers. If you are selling, promoting or proposing something, identify the main issue and make that your primary focus. Introducing other points will distract and confuse. Try to anticipate questions that they might have and answer them right away. This reduces the need for additional correspondence to answer those questions later.
12. Edit the content carefully. Despite spell-check, many business communications are still poorly written. Another pair of eyes makes a difference. Have another person review your draft before you finalize it so you can avoid typographical and other errors that can detract from your message. Good writing appears effortless when you read it, but it takes work. Professional writers write, rewrite, rewrite and rewrite to ensure their writing is clear, concise and easy to read and understand.

If you have difficulty with any aspect of writing, take a class to hone your skills, pick up one of the many publications available on business writing or search the Internet for tips and sample templates for effective business communications.

Extended Warranties

Once you have made your purchase decision and reached the checkout point, either online or in a store, the final step of the transaction is frequently, "Would you like to purchase an extended warranty with that?"

An extended warranty is intended to protect you if the product breaks down after the original warranty expires. From electronics to vehicles, this coverage is big business for retailers and manufacturers alike. Indeed, many stores pay incentives to employees to sell customers this additional warranty coverage.

Of course, you must weigh the pros and cons to determine whether the extended warranty is a good investment.

The first consideration is to determine who is providing the extended warranty. There are two types—those provided by the manufacturer and those provided by the retailer or a third party. The manufacturer's extended warranty generally extends the original warranty for an additional charge. The extended warranty provided by a retailer or third party is also provided at an additional charge but it is not an extension of the manufacturer's warranty. Rather, it is a service agreement for future repair costs and may not provide the same protection that a manufacturer's extended warranty does.

Technical Support and Repairs

Technical support is often included in the extended warranty, particularly for electronic products. This support can range from a telephone hotline, the ability to return a defective product to the manufacturer or retailer for repair or replacement, to having a technician come to your premises to do the necessary repairs.

Consider whether the warranty provides

that you can have a replacement unit during the time that your product is being repaired, which could take anywhere from a few days to several weeks. Where on-site service is provided, determine whether the coverage includes parts and labour, or limited coverage on parts and labour, or only parts.

For many businesses, the technical support and repair policies may be the most important considerations when deciding whether to purchase an extended warranty.

Preventative Maintenance

Extended warranties may include preventative maintenance service as part of the program. For example, an extended warranty on a vehicle may include free oil changes for the duration. In some instances, the manufacturer may replace parts that break down because of wear and tear. These two warranty add-ons could be a deciding factor in purchasing an extended warranty, especially if the equipment will be subject to heavy use or product reviews have indicated that a certain part is likely to wear out prematurely.

Inclusive

The word "inclusive" is often used in extended warranty agreements. This term means that the extended warranty starts on the day the product is purchased. Thus, if a product has a one year manufacturer's warranty and you purchase an "inclusive" three-year warranty, the two warranties run concurrently. In essence, you are paying for a full year of coverage that is already covered by the manufacturer's initial warranty. Be sure to ask if the extended warranty begins when you purchase the product or when the manufacturer's warranty ends

Replacement

Although a defective item will be replaced within the warranty period, the manufacturer does not always replace or fix the replacement unit should it break down. That is, the extended warranty covers only the original purchase, not the replacement unit.

Shipping

Warranty provisions sometimes require that the product to be repaired must be returned to the service centre at the purchaser's expense but the manufacturer will pay to return the repaired unit. Consider where the product must be returned if it breaks down and calculate the cost and method of shipping it back. How does this compare to the cost of the warranty itself?

Damage

If the product is susceptible to damage (for example, a laptop), find out if extended coverage can be purchased that will cover the costs of repairs or replacement if it is damaged. Also ask your insurance representative if your business insurance policy covers damage and the amount of the deductible that applies.

Credit Card Warranties

Many credit cards give extended warranty coverage to customers who purchase a product in full on their credit card, in which case you may not need to purchase extended warranty in the first instance. Depending on the credit card agreement, the purchaser must either pay for the repair and submit the invoice or contact the credit card company before sending the product for repair. Some also provide that if an item purchased in full with your credit card is stolen or damaged within 90 days of purchase, you may request a replacement, repair or reimbursement.

Read the Fine Print

Not all extended warranties are created equal. As the length of the guarantee and benefits offered can vary, it is important to read the fine print and ask questions about the terms, when the coverage starts, the

limitations and the support that is provided. Compare the coverage offered by various suppliers and brands. Consider the length of time that you will keep the item and the cost of the extended warranty in view of the purchase price.

The coverage may be worthwhile if it provides for on-site service or timely replacement of equipment that is essential to business operations, as these services can reduce the risk of lost production time.

TECHNOLOGY



To Laptop or Not



Companies that are thinking about upgrading computer systems cannot help but be impressed by the laptop's high performance and increasingly attractive prices. With entry level laptops getting cheaper and cheaper, some owner/managers may be asking, "Is it time to switch from desktops to laptops?"

As a starting point, do not become too enamored with the low prices for laptops and notebooks. Although the price of laptops has declined, a price gap still exists. The low-end laptop still costs more than a similar desktop. And the high-end notebooks push the price to the point where you could buy two superior desktop PCs plus quality flat panel monitors for the price of one laptop.

While price is always an important consideration, your decision should be based primarily on how the computer will be used. If you or your employees need to use the same PC at home and at the office, in meetings and while travelling, then the laptop is the best choice.

Another major advantage is that many of today's laptops come equipped with integrated wireless networking features so that you can access the Internet whenever you are in the range of a compatible wireless network (known as a hotspot). Wireless networks are increasingly available at hotels, airport lounges, cafés and many more places.

To purchase a laptop or not, here are some other factors to consider.

Expanding and Repairing

The components in a desktop PC are easier and less expensive to upgrade, such as adding a bigger or second hard drive, increasing the memory (RAM) or upgrading the graphics card. Repairing a desktop is also a lot simpler.

With a laptop, you may not be able to upgrade the hard drive. If it can be upgraded, the price will be much higher than a hard drive for a desktop. The components of the laptop may also be limited to "proprietary" or manufacturer-specific ones. It usually costs more to repair a laptop than a desktop because the components are smaller and, therefore, the repair work is more time-consuming. However, manufacturers offer similar warranties on both laptops and desktops and often have repair depots.

For the most part, hardware innovations that move systems forward are designed to be incorporated into a desktop box. Laptops do not often have this luxury given their tiny size so a desire for the latest technology usually means replacing the entire system rather than simply adding a component.

Performance

Because of advancements in processing technology and an increase in the amount of RAM, the performance of laptops is comparable to desktops. Not only has processing speed increased but graphics cards in laptops now equal or exceed desktops as more and more laptops are used

for gaming and DVD viewing. These performance enhancements, combined with the larger viewing screens, are a very positive feature of the latest generation of laptops.

Screen Display

Resolutions of 1680 x 1050 with 19 inch screens are rapidly becoming the norm for high-end laptops. Of course, the larger screen does not fit on an airplane fold-down tray very readily.

On the other hand, you can easily add a new monitor to a desktop system, such as upgrading from a 15 inch to a 21 inch or from a bulky CRT to a flat panel.

Battery Life

A major drawback of laptops has been and still is their inability to run for extended periods of time without a back-up battery or plug in power. You will likely want to purchase an extra battery, particularly if you select a smaller, lightweight laptop with a small battery. You should also find out how you can optimize your battery usage.

Hard Drive Storage

Hard drive storage should not be an issue for most users. Laptops are now reaching into the 200GB+ arena, which is more than enough for most users. However, to put this into perspective, desktops have now reached a phenomenal 2 terabytes.

Functionality

The laptop's small size can make it less comfortable to use than a desktop. Unlike a desktop setup, all accessories are integrated into the system (mouse, keyboard, speakers, etc.). Some users find the keyboard is much easier to use on a desktop than the compressed keyboard on a laptop. However, a standard size keyboard can easily be attached to a laptop.

The prices for accessories are about the same for both laptop and desktop PCs. Some laptop users keep the add-ons in the office for when they return to their desk, as

the portability of the laptop rapidly loses its lustre when the add-ons are carried around with it.

Theft and Damage

The laptop's small size makes it more vulnerable to theft. And when your computer is stolen, you also lose your valuable data. Its portability can also make it more prone to accidental damage.

The Decision

For most users, the laptop will provide all of the requirements that they would find in a

traditional desktop PC but with the added advantage of portability. On the other hand, the desktop provides expandability and can be purchased at a much lower price. If you need the portability of a laptop, it can be a powerful productivity tool. But if the laptop will simply act as a desktop with only an occasional need for portability, a desktop is a better choice.

After you weigh the pros and cons, your decision likely rests on price, practicality and personal choice. The affordability factor might make it easier to have the best of both worlds a laptop and a desktop PC.

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