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CHARTERED ACCOUNTANT

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Important Changes in the Labour Market

Business Matters

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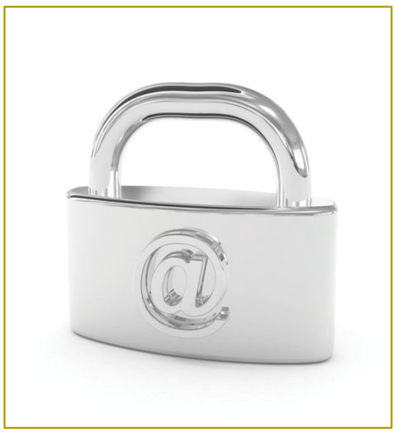
TECHNOLOGY

Encrypted Email

Email encryption is an essential business practice.



Since January 1, 2004, all businesses engaged in commercial activities have been required to comply with the Personal Information Protection and Electronic Documents Act (PIPEDA) and the Canadian Standards Association Model Code for the Protection of Personal Information, which PIPEDA incorporates.

Most businesses have internal security measures to deter theft of physical documents and data, including confidentiality training for staff, document-shredding processes and security software to reduce the probability that someone could hack into the company computers to steal sensitive information.

Little Thought to Email

Most companies, however, have given little thought to the need for email security. Every day we receive communications with attachments that contain legal documents, quotes, strategies and other data that we would not dream of sending in an unsealed envelope to a client.

With that in mind, small businesses, regardless of their industry, must ask:

1. Could an intercepted email transmission cause damage to, or embarrass our business or professional reputation? (e.g., discussions with our solicitor about a possible lawsuit)
2. What highly confidential documents are on company computers (e.g., SIN, bank account numbers for payroll, or data on employee health insurance)?
3. Do we send or receive email messages containing confidential information about our organization's work (e.g., quotes, comments about the competition, capital asset purchase plans, long-term growth strategies or concerns about existing projects)?

The Damage is Irreversible

In the days when the sender sealed letters with wax, the recipient would know if someone had broken the seal and accessed the information. Nowadays the distributed and unencrypted nature of email on the Internet means there is no guarantee your message has not been copied, distributed and read by thousands or even millions of individuals before you've seen it.

Email Encryption

To protect your business it is essential to encrypt your email messages along with the attachments. Encryption is a software tool that uses the complex mathematical rules of an algorithm to scramble data before it is sent and to unscramble it when it arrives at the intended recipient. Each algorithm uses a specific string of binary numbers (bits) to establish combinations. The more bits used, the more difficult it is to break the code. When the sender sends an email, a randomly chosen encrypted key is sent along with the message. When the receiver gets the email the attached encrypted key is used in combination with the encrypted data to unscramble the data. Without the correct keys a recipient cannot access the data.

There is a wide variety of encryption software on the market. The best are those designed and tested by independent third parties who failed to crack the code. Thus it is best to purchase from a reputable software developer and not rely on software offered for free over the Internet.

As Safe as Online Banking

Most businesses now use online banking. You connect via the Internet, key in your ID or account number, and a PIN or password processes your transactions.

Encryption enhances clients' trust in your company.

The encryption process is similar. Your email address is keyed in, your security code is requested and you are allowed to send email plus attachments secure from hacking. The recipient is notified via their existing email provider that a message is available, with a link to the provider embedded in the message allowing seamless access to the provider's server. The recipient keys in the necessary information and receives the encrypted message.

While encryption packages, like most software, can be purchased outright, do not forget to update it regularly. For convenience, you may wish to investigate a subscription-based provider that allows encrypted Internet communication from you, your contacts and vice versa.

Email Encryption Service

Issues to consider before aligning your business with an email encryption service:

a) Is it based in Canada? (Storing data in foreign jurisdictions may permit access to your data.)
b) Is there a contact list similar to your existing email listing allowing you to enter the recipient's address and simply "click" to retrieve it at any time in the future?
c) Is there a "tracking" message that lets you know the date the message was sent, whether the message was received, and whether it was opened?
d) Does the server authenticate both the sender and receiver?
e) Does the server maintain a history of emails received for your future review?
f) Is there an indicator of the number of attachments accompanying the email?
g) Does the provider allow large file attachments and ensure the attachments are encrypted?
h) Will the provider allow review of all stored messages with the option of deleting them at any time?
i) Does the provider have redundancy in its system to ensure that if its primary server fails there is a seamless transition to another offsite server?

Better Security — Low Cost

With the cost for quality Canadian software starting at about $100 annually, the decision should not be whether your company's email needs encryption, but rather how soon can a provider set up the service. Email encryption provides a layer of security between you and your clients; it is not only sound business practice that potentially saves embarrassment and lawsuits but also demonstrates to present and future clients that your company takes their privacy seriously and helps to reinforce the trust your clients have placed in your business.

TAXATION

Be Your Own Boss — Save on Taxes

Starting your own business while still gainfully employed may offer many tax benefits.

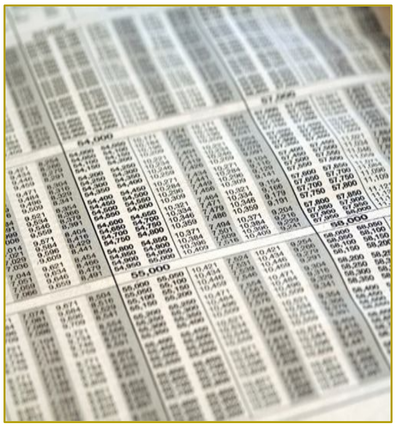
Assume for a moment one of the following scenarios:

1. You have a good job, make decent money but the rumblings in the workplace suggest there may be layoffs and you start to wonder if it is time to strike out on your own.
2. You have always had the desire to start your own business.

3. You are a few years from retirement and are looking for new challenges.

Become a Sole-Proprietor While Still Employed

To understand the advantages of becoming a sole proprietor while you are still employed, you must first understand the basic 2011 tax brackets and rates. (Only federal rates are provided for ease of explanation, but rest assured that the application of provincial rates simply enhances the potential income tax savings.)



2011 Tax Brackets and Federal Tax Rates

- 15% on the first $41,544 of taxable income, +
- 22% on the next $41,544 of taxable income (on the portion of taxable income between $41,544 and $83,088), +
- 26% on the next $45,712 of taxable income (on the portion of taxable income between $83,088 and $128,800), +
- 29% of taxable income over $128,800.

As is evident, the progressive tax scale requires the taxpayer to pay a higher percentage of tax on the portion of taxable income over a certain dollar amount. Thus, if a taxpayer earns $42,544, the additional $1,000 earnings will attract the base amount of federal tax of $6,232 (15% @ 41,544) less the savings due to tax credits, plus an additional 22% or $220 when the taxpayer moves into the higher tax bracket. This $220 liability is 7%, or $70, higher than it would have been had the income been taxed in the lowest bracket.

Losses

Most individuals start a business with a reasonable expectation of making a profit, but, as is the case in most start-up businesses many individuals experience losses for a period of time until they are fully established. Fortunately, the *Income Tax Act* permits losses from self-employed ventures to reduce the income earned from employment income, thereby potentially dropping the taxpayer into a lower tax bracket. Self-employed individuals are often entitled to many deductions not available to salaried employees.

How Losses Work

The type of business will determine the eligible deductions that can be offset against revenue earned within the business and therefore will have an impact on the amount of business loss available to offset against salaried income. The following are some of the allowable deductions. While similar deductions may be available to employees, these are generally more restricted.

a) All purchases of material and supplies consumed in the making of a product.

b) All purchases of machinery, equipment, furniture, electronic devices and all other capital items used in the business are deductible within guidelines established in the income tax regulations. Deductions are allowed against expenses over a period of time as set out under capital allowance rates.

c) Place-of-residence deductions are claimable expenses if incurred to earn income. Property taxes, mortgage interest, utilities as well as repairs and maintenance are all legitimate deductions when based on usage attributed to the business. Taxpayers would do well to consult with their Chartered Accountant to ensure that the at-home expenses are allowable and reasonable given the business conducted and the portion of their home used to conduct business operations.

d) Vehicle expenses: keep detailed records of the kilometres driven in pursuit of business income, especially if the vehicle is used to drive to your regular place of work.

e) Interest and other charges on business loans and credit cards, and bank charges, if incurred in the pursuit of profit. It is normally advisable to have separate business bank accounts and credit cards to establish that expenses were not incurred for personal benefit.

f) Working-age children and spouses can be paid a reasonable amount for work performed in earning income for the business.

Reduce taxable employment income with self-employment losses.

The taxpayer's objective is, of course, to find a tax bracket that is the lowest possible based upon the progressive scale shown. Starting your own business may allow you to reduce your taxable income by offsetting losses from self-employment against income earned from regular employment.

If annual revenue from sales and services amounted to $20,000 and expenses, such as the ones above, totalled $35,000, the taxpayer would sustain a business loss of $15,000.

If the individual's taxable income from all sources before the application of the business loss was $50,000, the wage earner could expect to pay federal income taxes of 15% on the first $41,544 ($6,216.60) (before considering tax credits), plus 22% or $1,860 on the remaining $8,456 for a total federal tax payable of $8,076. In that the *Income Tax Act* permits the self-employed taxpayer to offset the business loss against earned income, the $15,000 loss would reduce the taxable income to $35,000 ($50,000 – $15,000). The taxpayer would then be taxed in the lower tax bracket of $35,000, where the tax rate is only 15%. The personal federal income tax would now be $5,250 ($35,000 @ 15%) (before considering credits) and a potential refund of $2,826 ($8,026 – $5,250).

Tax Loss Benefits

Self-employment losses, when offset against regular employment income, will provide tax benefits in that the income tax deducted by your employer will be refunded to you, in part, as your taxable income is reduced by the losses incurred in your business. Nevertheless, do not run your business simply to incur losses that *may* be offset against earned income since even at the highest tax rate you only receive a percentage of the overall loss as a tax refund.

Furthermore, if you never turn a profit, all your losses could conceivably, in some circumstances, be denied by the CRA, using hindsight, on the basis that the business is a hobby with no expectation of profit.

Ask Yourself These Questions

Significant questions to consider in the decision to start your own business while you are employed:

- Will my current employment allow the time and effort required?
- Is there a term in my employment contract that prohibits me from carrying on another business?
- Is there sufficient cash flow or lines of credit to get a good start?
- Is there sufficient space at home or will another location be required?
- Is it possible to hire members of my immediate family?
- Will the business support my lifestyle should T-4 income disappear?

A Word from the Wise

As in any new venture, an individual should seek the advice of those who have gone before. Talk with people who started a business while still employed. Their insight may be invaluable.

Naturally, your Chartered Accountant can help with advice concerning record keeping, government forms and regulations, deductions that will be allowable, and the impact of those deductions on your current taxable position. Further, your CA can apply various loss and profit figures against your earned income to show the combined impact of both federal and provincial income tax on various "what if" scenarios. This will allow tax planning strategies to be envisioned for your benefit.

Weigh the Benefits

In the final analysis, the foray into self-employment while still gainfully employed offers:

1. The ability to take a risk without the fear of losing everything.
2. The opportunity to prepare for the day when you may not have regular full-time employment.
3. The time required to learn about your new venture while enjoying a secure source of income.
4. The experience needed to determine whether the route taken is one to pursue after your regular employment ends.
5. A reduction of income taxes during the earning years instead of accumulating non-capital losses that **may not provide personal income tax benefits should the business never make a profit.**

MANAGEMENT

Going Green

Going green is not a passing fad.

Greening of the environment should, by now, be the norm as everyone recognizes the need to control our use of the earth's limited resources and thereby reduce our impact on the ecosystem.

Owner/managers of small businesses may ask how much they contribute to greening of the environment when their individual operations are so small. When one considers, however, that small businesses number in the hundreds of thousands across Canada and are collectively major users of resources, it becomes clear that the combined efforts of all businesses, including the small enterprises, will have a significant impact on making and keeping the world greener. The stumbling block seems to be in how to get started.

Look to the Leaders

Most major corporations have already designed, refined and adopted methods to green their organizations. The task is not easy but perseverance has created an unexpected side benefit – an improved bottom line. Small business can benefit from the experience of larger corporations by adopting initiatives that have already proven effective.

The objective of going green is to use energy in smarter, less wasteful ways. Greening starts by determining where the environment is impacted and if change makes economic sense. On the job site, one will have to look at the cycle of production: products, processes, raw materials, staffing, how waste is handled, etc.; at the front office one will have to look at office procedures: invoicing, printing, advertising, meetings and the like.

Efficiency and Effectiveness

An efficiency-and-effectiveness review of each stage of any process should be able to determine where major costs in time and energy are incurred. For example, if the suppliers provided the required supplies to a building site on time, would the number of times staff needs to return to the job site be reduced, thereby cutting gas consumption and staff time, thus increasing the profit on the project?

Each small business must understand the symbiotic relationship between itself and other businesses. A small-business green program involves staff, clients, regulatory authorities and suppliers as stakeholders in each other's prosperity. Indeed, large businesses that have embraced green have discovered many benefits from working with their stakeholders. The following are some of the benefits:

- a branded product or service that allowed expectation pricing from buyers who respect green;
- reduced costs through analysis of wasteful procedures;
- reduced resource use;
- just-in-time inventory management reduced the need for excess inventory, cut down on the need to move inventory in the warehouse, lowered costs for repairs and maintenance and simplified paperwork. Employees were now freed up for service and production. By understanding inventory needs, suppliers improved shipping schedules and reduced their own costs. Reduced costs meant less corporate tax, less payroll tax, less HST and reduced cash-flow requirements;
- public relations benefits similar to those attributed to businesses that sponsored cancer drives or supported local amateur athletics;
- as green operating efficiencies embedded within the company, the income statement started to look better, return on investment increased, retained earnings improved and cash flow strengthened. Existing and prospective clients became more confident in the business's long-term viability. The better financial position also reduced dependency on financial institutions and conversely, when funds were needed, a better balance sheet from which to negotiate lines of credit.

Mission Statement

Essential to this process is a realistic mission statement that outlines your company's green objective. A mission statement that indicates you plan to reduce your dependency on fossil fuels to zero sounds noble, but, a more realistic vision might be: "We will reduce our dependency on fossil fuels by 50% within five years." Perhaps your business might work only with suppliers who use recycled products, or reduce on-site waste to zero. Whatever the goal, it must be achievable within the economic limits of your business.

Use energy in smarter, less wasteful ways.

Involve Staff

Staff must understand their role in meeting company objectives. Interdepartmental lines of communication must be open at all times since green issues cross functional boundaries. It makes little sense, for instance, for the warehouse to purchase electric forklifts to replace propane forklifts if the electrical service must be changed and finance says the budget can't handle the cost.

Train Staff

Your consultant will want to establish a training program to explain the green process and how everyone must be involved and committed to the long-term transformation of the business.

Review, Analyze and Change

As the process goes forward, progress must be reported to a central coordinator for review and analysis to ensure all areas are moving forward according to a timetable. When areas are "out of sync" with the end goal, the process needs to be reassessed and any necessary changes reviewed, discussed with all team members, and documented for future reference.

Kermit Knows Best

Whether going green is for your children, your grandchildren or the bottom line, the reason is not as important as the end result and the end result must be green.

As Kermit the Frog from Sesame Street famously sang:

> *When green is all there is to be, it can make you wonder why, but why wonder. I am green and it'll do fine. It's beautiful, and I think it's what I want to be.*

MONEYSAVER

Important Changes in the Labour Market

Retiring Baby Boomers and lower fertility rates are tightening the Canadian labour market.

In 2011 the first of the Baby Boomers will be 65 years old. Who is going to replace them? Who will fill the new jobs created by the technologies of the future? The obvious implication is that a widening gap will open up between the supply and demand for labour over the next decade that will affect virtually all businesses.

Census Alert

Statistics Canada found some alarming figures in its 2006 census that should make every employer sit up and take notice:

- The 65-and-over population made up a record 13.7% of the total population of Canada in 2006. The proportion of the under-15 population fell to 17.7%, the lowest level ever.
- The number of people aged 55 to 64, many of whom are workers approaching retirement, has never been so high in Canada, at close to 3.7 million in 2006.
- The number of workers 55 years of age and over rose to 15.3% in 2006 from 11.7% in 2001.
- The number of Canadian workers over 40 is equal to the number of workers under 40 for the first time in Canada's history.

Add to this the fact that fertility rates are declining and the number of retiring workers is increasing relative to the number of replacement workers. In its 2010 annual compensation survey, the Conference Board of Canada found that 54% of its respondents were already having trouble attracting and retaining talent, even in an economy coming out of a recession. This percentage will grow as labour market conditions tighten and more Boomers retire.

The census for 2011 is in its final stages of completion with results to be published in early 2012. Undoubtedly it will establish that Canada has a population with more people at the age where they can leave the labour force than people at the age where they can begin working.

Consider the Petroleum Industry

One need only look at the oil and gas industry to see the measurable effects of these problems. The Petroleum Human Resources Council of Canada recently published a report estimating that more than 30% of the petroleum industry's current workforce will be retiring within the next decade. That's 39,000 jobs, if one assumes low oil prices. If energy prices continue to rise, the industry will face a severe labour shortage as the demand for labour increases and the pool of workers shrinks.

The shortage of labour could hit as early as 2012. If industry activity increases because of high energy prices, demand for labour could reach 130,000 workers over the next 10 years. Some of this demand has already been built in as oil sands companies construct new plants scheduled to come on line in the next few years. Employers are already announcing shortages of engineers, maintenance workers, production accountants, environmental specialists, and several other occupations.

Labour planning will be the key to successful growth.

Look to the Future

This sobering example should encourage owner/managers in other industries to do some forward thinking about where they want to be five years from now and what their labour demands are likely to be. Things to consider should include:

- Size of current and projected staff
- Age distribution of workers
- Median and average ages
- Workers likely to retire in the next five years
- Age and skills of workers in key jobs
- Succession plans for most important jobs
- Growth plan for the company over the next five years
- Skills needed to carry out the plan
- Availability of labour for all present and anticipated jobs
- Owner/manager's own retirement and succession plans
- Presence of any employees who might eventually want to buy the business.

In addition to these factors, owner/managers must recognize that retirements and hiring are going to put additional pressures on their businesses. If the local labour market cannot supply the labour needed in the next five years, perhaps the work may have to go where the labour is available, i.e., outside of Canada. In other words, it might be necessary to rethink important parts of your business practices.

A tighter labour market will put upward pressure on real wages. Can you afford to compete for increasingly expensive talent in this market? Since a tight labour market is a sellers' market for those with the right education, skills and experience, how will you be able to retain good workers? How will you pay for the training of younger workers and for the health benefits of the older ones?

The New World of Labour

The Boomers are leaving for retirement, technology is changing, globalization is becoming more important for all businesses, new visions of the future are emerging, competition is increasing, and good workers are becoming harder to find and want more money. Making all this work for your business is going to require some hard thinking. This *is* the new world of labour. As an owner/manager are you ready for it?

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