Let's Talk

Winter 2014

Accounting & Assurance | Tax | Business Advisory

LIPTON

Chartered Accountants

Join our online community

liptonllp/blog

Lipton's Partners and staff are now actively blogging to our website. Exclusive content as provided from our professionals, keeps you informed on the latest going on in the world of accounting, advisory, taxation and other matters.

linkedin.com/companies/liptonllp

LinkedIn is a professional and business networking site that allows you to connect to your Lipton LLP advisor(s). You can see what they are working on and recommend their work.

@liptonllp

Twitter is a social networking and micro-blogging site. Think of it as your personal news feed for up-to-date Lipton information.

facebook.com/liptonllp

Facebook is a household name and might have already won its place in your social calendar. It is a great way to stay in the loop with friends and family. Now, you can see what is going on at Lipton LLP. View event pictures, take surveys or just comment on our wall – we want to hear from you!

liptonllp.com/rss

For those that subscribe to RSS services, our news feed will send all of Lipton LLP's updates directly to your inbox. Subscribe today!

ABOUT LIPTON LLP CHARTERED ACCOUNTANTS

Lipton LLP Chartered Accountants is a full service, mid-market, public accounting firm providing a wide range of services to private and public entities in a variety of industries. We work with our clients to improve profitability, minimize tax and address business management concerns. We are committed to our clients' success. We are a proud member of JHI, a respected international association of member firms that allows us to serve our clients' interests around the world in a timely and seamless manner.

Our standards for client service and our approach to adding value, combined with the quality of our people are what differentiate our firm and make us a leader in the field of public accounting.

CONTRIBUTORS

Sunita Arora
Fred Arshoff
Jeffrey A. Nightingale
Steven Polisuk
Paul Roberts
Bryan Walderman

CONTACT US

245 Fairview Mall Drive
Suite 600
Toronto, Ontario
M2J 4T1

Phone: 416.496.2900
Fax: 416.496.0559
E-mail: info@liptonllp.com
Web: www.liptonllp.com

EDITORIAL STAFF

Michael Wagman, Editor
michael@liptonllp.com

Bryan Walderman, Content Manager
bwalderman@liptonllp.com

IN THIS ISSUE

Fred Arshoff,
BComm, CPA, CA, TEP
Managing Partner
Partner, Assurance and Advisory
fred@liptonllp.com

Jeffrey A. Nightingale,
BComm, MBA, CPA, CA, TEP
Managing Partner
Senior Tax Partner
jeff@liptonllp.com

A Message from the Managing Partners

Fred Arshoff and Jeffrey A. Nightingale

"The sign of a vibrant firm is a committed firm."

Welcome to the New Year!

In this Message from the Managing Partners, we discuss what Lipton LLP is striving to achieve in the months and years ahead. Although it is a challenging task, it is also exciting as we continue to move forward so that we can serve our clients better.

As you know, we now share the position of managing partners of Lipton LLP, having taken over from Mel Leiderman in July 2013.

At Lipton, we are constantly striving to:

- Provide personalized service and sound business advice to our clients
- Follow a service model that aligns technical expertise and communication skills
- Utilize technology in the most efficient manner
- Foster both existing and new client relationships
- Maintain strong relationships with our various professional contacts
- Create a friendly and challenging work environment for all our staff. We are particularly proud that all three of our CPA/CA students recently passed the Uniform Evaluation (UFE).

The sign of a vibrant firm is a committed firm. As professionals, we also support our profession and our community. We continue to contribute our time to the Institute of Chartered Professional Accountants of Ontario: Mel with the Discipline Committee, and Jeff with the Appeals Committee.

Lipton partners and staff are also involved in the community, helping organizations and contributing to its key institutions including religious groups, charities, not-for-profit organizations, amateur athletics and hospitals.

To all our clients and friends, and on behalf of the entire Lipton team, we thank you for your support. We look forward to accomplishing even more together in 2014.

Let's get started!

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RULE CHANGES WITH RESPECT TO FOREIGN INCOME REPORTING

Sunita Arora, MComm, CPA, CA, Partner – Tax

The Canadian government has made it a priority to "crack down on international tax evasion and aggressive tax avoidance." As part of this effort, the government has released a revised Form T1135, the Foreign Income Verification Statement. Taxpayers must include additional information on foreign property, starting with taxation years ending after June 30, 2013.

Form T1135 must be filed by Canadian-resident individuals, corporations or trusts that, at any time during a taxation year, owned specified foreign property with a cost exceeding $100,000 in total. The types of property include:

- Amounts in foreign bank accounts;
- Debts owed by non-residents (other than foreign affiliates);
- Intangible property not used in a business;
- Interests in offshore mutual funds;
- Certain non-resident trusts;
- Real estate held outside of Canada, other than personal-use property or that is used in an active business;
- Shares in foreign companies (other than foreign affiliates).

Form T1135 must also be filed by partnerships that hold more than $100,000 in foreign investment property and whose non-resident members' share of income or loss is less than 90% during the reporting period.

Extensive Details

Changes to the T1135 by the Canada Revenue Agency (CRA) make the form more complicated to complete because details now have to be reported by investment. Previously, foreign income in aggregate could be reported. Detailed information is now required for each specified foreign property including:

- The name of the specific foreign institution or other entity holding funds outside Canada;
- The specific country to which the foreign property relates;
- The cost of the property at the end of the year, the highest cost amount during the year and the income or gains generated from the foreign property, on a property-by-property basis.

When income from specified foreign property has been reported on a T3 or T5 slip from a Canadian issuer, taxpayers are exempt from reporting specific information for that property on the T1135. If several properties are held in one investment account, only those properties for which a T3 or T5 slip was issued for the taxation year would be exempt from detailed reporting. The taxpayer is required, however, to file the T1135 indicating that the exemption applies.

Concerns Over Penalties

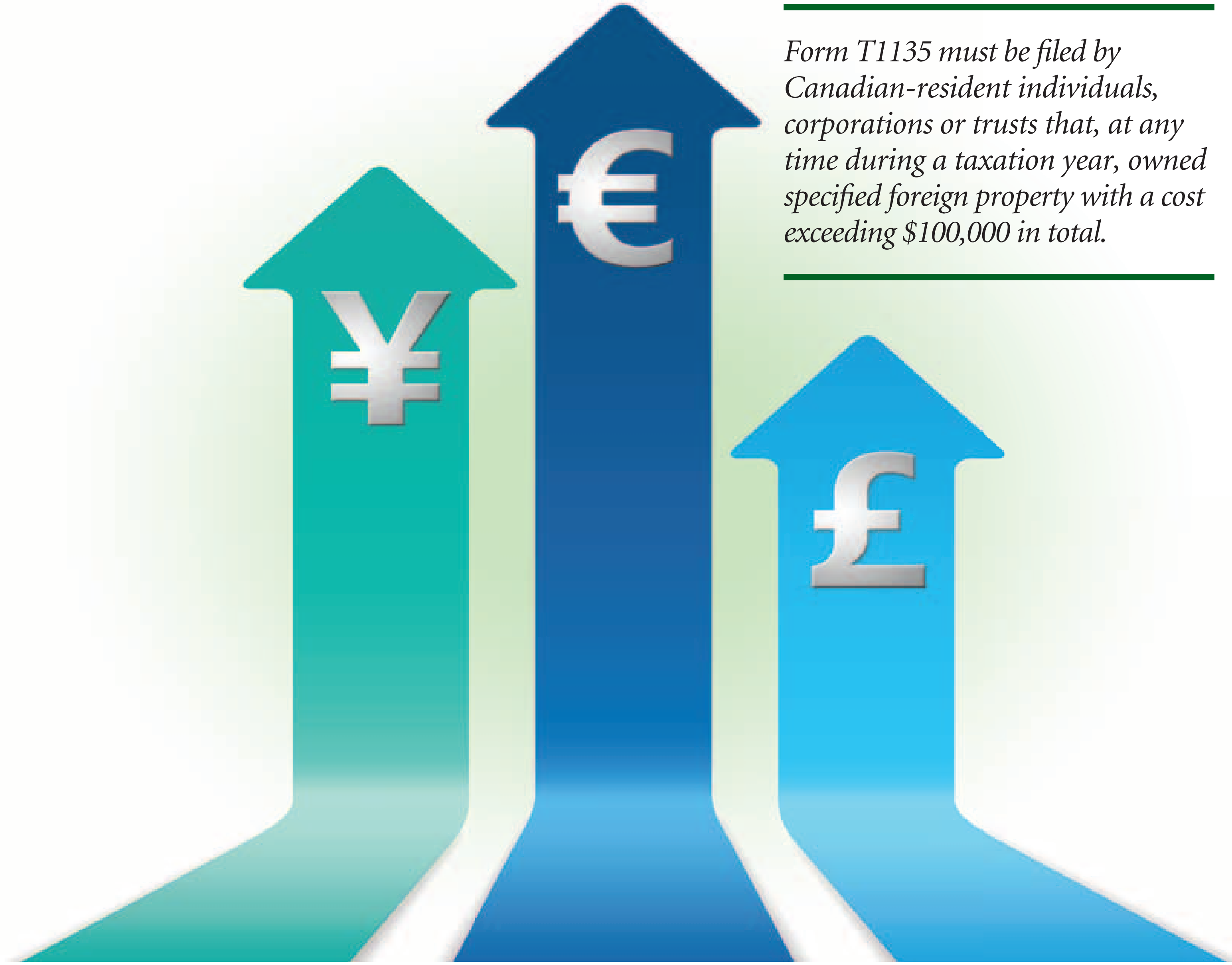
The CRA has imposed heavy penalties on non-compliance with the T1135 form. Even taxpayers who fully wish to comply potentially could be subject to penalties by unintended omission of details.

In addition to the regular penalties up to a maximum of $2,500, plus interest, for not filing a T1135 form, there is also a gross negligence penalty up to a maximum of $12,000.

Previously, the CRA in most cases did not process a reassessment for additional tax after the normal reassessment period, which is generally three years after the date a notice of original assessment is sent to the taxpayer. Now CRA has extended the reassessment period for a tax year by three years for the entire tax return if a taxpayer has failed to report income from a foreign property on his/her income tax return and/or if Form T1135 included incorrect or incomplete information concerning a foreign property.

It is entirely possible for a taxpayer to fail to comply by reason of error, especially when the new requirements are unclear.

Finally, there are concerns about the method of filing. CRA still requires that Form T1135



Form T1135 must be filed by Canadian-resident individuals, corporations or trusts that, at any time during a taxation year, owned specified foreign property with a cost exceeding $100,000 in total.

be paper filed. Taxpayers filing their tax returns electronically may inadvertently fail to include Form T1135.

CRA has said that it will clarify these and other issues concerning Form T1135. Until then, taxpayers with foreign holdings are advised to obtain the best and most detailed information possible about each of their investments.

For more information on foreign reporting requirements, please contact me.

SUNITA ARORA

Sunita has worked extensively in corporate and personal tax with specialization in planning for owner-managed businesses, estate and succession planning. She has significant experience in the areas of mergers and acquisitions, purchase due diligence, shareholders' agreements, employee remuneration and the development of innovative tax planning strategies.

sunita@liptonllp.com

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TAX SEASON QUICK TIPS

Paul Roberts, BAcc, CPA, CA, Partner - Assurance & Advisory

Tax season is just around the corner. To make sure you're prepared, submit your information as early as you can.

Make sure you've tracked down all the relevant information. If you have a family, children in post-secondary education or aging parents, you may also qualify for tax credits that help minimize your taxes.

Here are some quick tips about tax credits, benefits and deductions that are available to assist you. It's intended as a handy guide, not a comprehensive list. For more detailed and specific information, please contact your Lipton advisor.

General

- Review your 2012 personal income tax return to ensure that you have all the expected reporting slips for 2013.
- Make your RRSP contribution or spousal RRSP contribution by March 3, 2014. Your 2012 Notice of Assessment will show your available 2013 contribution room.
- Consider contributing to a Tax Free Savings Account, or TFSA. An additional $5,500 of room became available as of January 1, 2014. Please contact the Canada Revenue Agency or your Lipton advisor for your available contribution room.
- Be prepared to provide significantly more documentation if you own foreign property. Recent changes to foreign income reporting on Form T1135 are significant, as outlined in Sunita Arora's article in this edition of Let's Talk.
- Be aware of eligible pension income that you can possibly income-split with your spouse.
- Obtain a statement from your financial institution providing the interest paid on monies borrowed for investment purposes.
- Include your donation receipts from registered charities, including donations of publicly traded securities. Depending on the donation amount, different tax rates apply. (Donations above $200 garner a 47% non-refundable tax credit; under $200 is 23%.) Unused donations can be carried forward for five years.

For 2013 there is a new first-time donor's super credit. This new credit effectively adds 25% to the rates used in the calculation of the charitable donations tax credit for up to $1,000 of monetary donations.

Families

Many tax credits are available and offer tax-free benefits to help families offset the expenses of raising and educating children, and caring for aging parents. These credits are often easy to miss because no official receipts are issued by the government. Save your receipts for any relevant activities or services throughout the year. The following tax credits may apply to you:

Child Tax Credit

Every year, families can claim a certain amount for each dependent child under 18. The credit is available to only one parent, and the amount varies each year.

Children's Fitness Credit

Parents can claim up to $500 annually in sports and fitness-activity fees for each child under the age of 16 (under the age of 18 if the child is disabled). Eligible physical activities include hockey, soccer and gymnastics, and certain conditions apply.

Children's Arts Credit

This credit allows parents to claim their children's arts-related activities. Similar to the Children's Fitness Credit, parents can claim up to $500 per child, if certain conditions are met.

Disability Tax Credit

This credit helps disabled adults, parents of children with disabilities who are under the age of 18 years, and other dependents who are disabled. A disability is defined as a severe and prolonged impairment in mental or physical functions, and a Canada Revenue Agency approved Disability Tax Credit Certificate T2201 is required.

Child Care Deduction
Child care expenses are the amounts that you or your spouse paid to have someone look after your child, who is under the age of 16, so that you can earn employment or business income. (The age limit does not apply if the child is disabled.) This is a deduction against income, and parents require a tax receipt from the provider. Summer camps, nannies and day-care providers are considered child care.

Caregiver Tax Credit
If a parent over 65 years old is living with you, then this may apply. The amount of this credit depends on the income level of the parent. This credit may also apply to spouses, common-law partners and minor children.

Students
Students are entitled to claim certain tax credits if they are enrolled full-time or part-time in post-secondary education, including an education tax credit for each month that they are a student. Other credits and deductions include:

Tuition and Textbooks
Students can claim their tuition fees, cost of professional exams as well as a certain monthly amount for textbooks. Tuition receipts for students are available online in the student's university account. If the student is unable to use the tax credit, under certain circumstances he/she can transfer a portion of the credit to his/her parent or spouse, or the student can carry it forward and use it in a future tax year.

Rent
Send in your cancelled rent cheques or a receipt from your landlord. Under the Ontario Trillium Benefit, students who rent accommodation in Ontario while at school are eligible for a tax credit for any rent paid, either by themselves or their parents.

Student Loan Interest Tax Credit
Students receive a tax credit for the interest paid on student loans granted under the Canada Student Loans Act, the Canada Students Financial Assistance Act or similar provincial legislation. Check the annual

Statement of Interest Paid, which is issued by the government. Interest for 2013 or the preceding five years can be carried forward and then used to reduce income tax.

Public Transit Tax Credit
Save monthly transit passes and include them with your tax information. This credit allows you to deduct your monthly transit passes to a maximum of $1,000. It also applies to children younger than 19 at the end of the tax year.

Moving Expenses
Students who move at least 40 kilometres to attend full-time post-secondary school may claim moving costs, if they have income from scholarships, fellowships, bursaries and research or similar grants.

PAUL ROBERTS

Paul Roberts has a wealth of experience providing assurance, taxation and business advisory services to a wide range of entrepreneurial clients. Working closely with business owners he has developed expertise in a variety of sectors including retail, manufacturing, real estate, construction, insurance, financial services, healthcare and emerging knowledge-based industries. Paul serves as the Treasurer of the Southlake Regional Health Centre. In addition to assurance, advisory and taxation work, Paul is involved with our international accounting affiliation JHI as a member of the Information Technology committee and Lipton's paperless initiative.

proberts@liptonllp.com

Tax filing deadlines

Personal Income Tax Return (other than self-employed or spouse of self-employed)	April 30, 2014
T4s and T5s	February 28, 2014
Self Employed Individuals	
First tax instalment for 2014	March 15, 2014
Payment for remaining tax owing net of annual instalments for 2013	April 30, 2014
Tax return	June 15, 2014
RRSP Contribution for 2013	March 3, 2014
T3 Return (Trusts except certain testamentary)	March 31, 2014

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WHEN CATASTROPHE STRIKES

Steven Polisuk, CBV, CFE, President – Lipton Polisuk Inc.

In the course of doing business, a company may be affected by an insurable loss, such as a fire, flood, equipment failure or explosion. These incidents, if not handled properly, can result in significant damage to the company's profit, financial stability and possibly its reputation. It cannot rely solely on its insurance policy to avoid the economic loss that can result from an incident.

The important steps to mitigate the risks of a loss include:

- Having a formal risk mitigation plan in place.
- Accounting for the claim with a proper reporting structure.
- Properly quantifying the claim and being actively involved in managing the relationship with the insurance company.

Risk mitigation plan

At first, be prepared: Have a risk mitigation plan in place that can be put into action immediately upon the occurrence of the incident.

As part of the plan, identify people who will take charge and manage the claim process. Each member of the team would have preset tasks in the event of an incident. The plan should also specify alternative production facilities, suppliers and warehouse space, with the goal being to keep the company operational and minimize losses.

As a next step, carefully review insurance policies and identify all potential issues regarding coverage, valuations, exclusions and endorsements. If the policy is unclear, it should be reviewed with the insurance broker to make sure there is adequate coverage.

Once an incident occurs, it will be too late to find out about coverage limitations that jeopardize the company’s ability to recover.

External advisors should be identified in advance to assist during the incident. They may include accountants, lawyers, risk managers, engineers and others. Using external advisors who can help with the claims process will allow the company to focus on its day-to-day operations. They will also allow the company to level the playing field with the insurance company and its representatives who deal with claims on a daily basis.

Also, most insurance policies will cover the costs of professional services needed to assist with the claims process, through the professional fee endorsement portion of the policy. External advisors are knowledgeable with how claims work and can accelerate the process, increase the recovery amount from the insurance company and relieve pressure on the company’s staff.

Accounting for a claim
It is vital to capture all loss-related costs. The company should set up an insurance receivable account on its balance sheet, with sub-accounts to capture all the costs in the correct “buckets” in accordance with the insurance policy. These may include cleanup and debris removal, property repairs, etc.

It is important to have the costs categorized correctly to facilitate the payment of the insurance claim. If the costs incurred from the incident are not allocated to the correct categories, the insurer may not pay for them. For example, costs related to the business interruption portion of the claim, such as loss of sales resulting from downtime, must be accounted for separately from property damage costs. Supporting documents should be included to provide backup for the costs, such as invoices, time sheets, cancelled cheques and correspondence.

Managing the relationship
In quantifying the claim, the company’s methodology should be consistent with its insurance policy. One of the most widely used methods is known as the “three-column approach,” which uses a modified income statement and presents the calculation in three columns. Column one itemizes results the company expected to achieve if not for the incident. Column two is the actual results achieved following the incident. The third column is the difference between the two, or the loss incurred. The company uses this method for its sales, cost of sales and extra expenses.

The company’s lead representative in charge of the claim should work closely and openly with the insurance company. This is not an adversarial relationship and should not be treated as such. The insurance broker should also be used as a resource to help co-ordinate the loss recovery. It is important to keep the insurer and adjusters advised of any changes that may affect the claim.

If after submitting its claim the company is not happy with the insurer’s settlement offer, it should take steps to explain its position carefully. External experts experienced in dealing with the insurer can be of assistance during this process. Make sure that all the components of the claim have been set out clearly and accurately with adequate supporting documentation.

As mentioned previously, the insurer requires documentation and will not just take your word for it. The company should present its claim in person to the insurer and may request that its broker be in attendance. Do not change the rationale or methodology of the claim once it has been submitted as this will damage the credibility of the claim.

By following the steps detailed in this article, a company can be better prepared to mitigate the losses from an incident.

This article was originally published in a recent edition of Lawyers Weekly

STEVEN POLISUK

Steven Polisuk, CBV, CFE, is in charge of the valuation and litigation support practice at Lipton Polisuk Inc.

spolisuk@liptonpolisuk.com.

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SOFTWARE COMPLIANCE AND WHY IT MATTERS

Bryan Walderman, BA, MCP, MCSA – Manager of IT Services

As an IT Professional, I am often asked the same question. “Bryan, I just acquired a new computer. Can you find me a copy of Office or Photoshop that I can install?”

My answer is always the same. Absolutely not!

My refusal comes from the knowledge that software vendors are getting tough on those stealing their software.

Business owners should pay close attention to this increasing scrutiny by the software companies – because it’s not a matter of if it will happen, it’s a matter of when.

Software giants such as Microsoft and Adobe have entire divisions dedicated to ensuring that all businesses, no matter how small, are compliant.

If your business is currently non-compliant, now is the time to make it right. Software audits are time consuming and, in the end, usually result in hefty fines or sanctions.

If your business is compliant, you should still be prepared for an audit. Many free programs are available such as Spiceworks that will inventory your software, track your installation codes, and print a report that you can use to easily identify yourself as being onside.

Want to make it easier on yourself? Volume licensing through the software companies makes it foolproof and also offers advantages such as software assurance. In the event your software gets an upgrade, you will receive it automatically and free of charge throughout the duration of your licensing agreement.

As a first step, speak to your IT advisor and request the following information:

- An up-to-date inventory of all computers in your office and the software installed on them
- A database of software programs and their installation codes
- Any volume licensing agreements you may have with your software vendors.

Having this information available is the best way to understand your licensing requirements. It also serves as a great resource in the event of a problem.

If you are still unsure about how to proceed, please give me a call. I am always happy to help!

BRYAN WALDERMAN

Bryan has been providing the accounting industry with technology solutions for over a decade. In an ever changing world, where technology is constantly evolving, Bryan keeps Lipton in-touch and onside and also assists our clients in doing the same.

bwalderman@liptonllp.com

NEWSBRIEF: FIRM NEWS

What's going on at Lipton LLP Chartered Accountants?

Lipton in the classroom
Partner Soheil Talebi recently conducted a seminar on accounting standards for real estate companies (Real Estate ASPE, Accounting Standards for Private Enterprise) in Markham, Ottawa and Toronto.

Professional Standards Manager Anastasia Rebro is currently writing cases to be included as part of the qualification process for Chartered Professional Accountants (CPAs).

Building an international network
Lipton LLP is a member of JHI, a global business network with member firms from the accounting and related professions. Lipton representatives attended two recent events: Partners Stephen Altbaum and Jeff Nightingale attended the JHI Annual General Meeting in Berlin, while Partner Stephen Aidelbaum and Manager of IT Services Bryan Walderman attended the JHI IT Conference in Chicago.

Community involvement
As a director of the Southlake Regional Health Centre in Newmarket, Partner Paul Roberts helped to raise more than $810,000 at the Southlake Masquerade Ball on November 2, 2013.

Partner Jeff Nightingale has been named Vice President of Temple Sinai Congregation of Toronto.

Partner Stephen Altbaum is involved in two community organizations: as Treasurer and board member of Oakdale Golf & Country Club, and as Editor of the Professional Advisory Committee Newsletter for the Jewish Foundation of Greater Toronto.

Partner Michael Wagman continues to coach the Minor Midget Vaughan Rangers A Team, which recently won the Bill Harrington Niagara Falls Winter Classic Tournament. Michael is also the Treasurer of the City of Vaughan Hockey Association.

Congratulations!
Michael Broaderip, Samuel Fu and Queenie Ng passed the Uniform Evaluation (UFE). Each year CPA candidates write this three-day qualifying examination, which leads to one single high standard for the CPA profession, and is nationally and internationally recognized. Lipton is proud of its tradition in assisting many of our CPA students in obtaining their CPA designations.

Ilana Zeidel was promoted to Manager in the Tax Group.

Anastasia Rebro was promoted to Manager of Professional Standards.

Bryan Walderman was promoted to Manager of IT Services.

Queenie Ng was promoted to Senior Accountant, and Brandon Burtnik, Nini Yang, Kristen Preszcator and Meghan Killeen were each promoted to Supervisor in the Audit and Assurance group.

Lipton LLP is pleased to welcome back Wendy Lo and Jason Yi, both of whom are returning as co-op students in the Audit and Assurance group. We also want to welcome Mathew Lam, staff accountant; co-op students Gracie Gong and Nimesh Ratnarajah in the Audit and Assurance group and Noah Gruneir in Administration.

Lipton LLP continues its tradition of firm-wide get-togethers, including our holiday celebration at Origin North.

Below: Fred Arshoff's B'nai Brith softball team that won the championship this past summer. Fred is fourth from the right, back row.

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245 Fairview Mall Drive, Suite 600
Toronto, ON M2J 4T1
416.496.2900
www.liptonllp.com

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