

# Let's Talk

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LIPTON LLP Chartered Accountants

## Business Succession Planning – An Update

Many family-owned businesses have long-term succession plans in place to prepare for the transfer of ownership to the next generation. Though such a plan is indispensable, it may not be enough to protect a company from unforeseen events such as the sudden loss or disability of one or more key executives.

“Succession plans should include provisions that give businesses short-term protection if people with singular authority for strategic, creative or operating decisions are suddenly not available,” says Managing Partner Mel Leiderman.

Measures that can be built into the governance mechanisms of family-owned enterprises in order to help ensure sustainability in unexpected circumstances include the following:

1. Corporate owned life insurance is sometimes overlooked as a way to provide financial protection for the company in case of the loss of a shareholder or key executive. Business partners may wish to put policies in place covering each others' lives. If one shareholder dies, the corporation receives a death benefit that can be used to purchase the shares from the deceased shareholder's estate or provide additional working capital.
2. In order to reduce or in some cases eliminate the tax liability on the death of a shareholder, an estate freeze can also be considered. This is a way to fix the value of the shares owned in the corporation, and pass on future growth to the next generation in a tax-efficient manner.
3. Shareholders of family-owned businesses may also be able to take advantage of the \$750,000 lifetime

capital gain exemption, a tax-minimizing strategy that may be available to owners when disposing of shares of their business.

4. Another important component of succession planning for companies is a shareholders' agreement, which specifies what is to happen when shareholder matters need to be addressed. “If the unexpected should happen for any reason – death, disability, even disagreement – a shareholders' agreement can be crucial to the future success of the business,” says Partner Stephen Aidelbaum.
5. Finally, an appropriate corporate structure can help facilitate an orderly transition to new ownership or management if circumstances dictate. For example, a holding company can be established to own redundant assets, including surplus cash and investments that are not required by the operating company. A holding company may also provide some protection from creditors. For information about these and other prudent steps to consider, please consult your Lipton adviser.

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# Partnership Year-Ends – Tax Changes

**W**hat are the tax implications of a member of a corporate partnership having a fiscal year-end different from that of the partnership? The latest federal budget provides a new answer to that question.

Previously, partnerships owned by corporations could defer taxes on their income. They did this by setting the year-end of the partnership on a date after the year-end of the corporate partners.

For example, if a corporate partner had a March 31 year-end, the partnership could have an April 30 year-end in order to defer the partners' income taxes on 11 months of income from the partnership.

The budget proposals of March 22, 2011 will do away with this deferral opportunity.

Henceforth, each corporate partner will be required to include in its current fiscal year its share of the partnership income calculated on the deferred portion

of the partnership's fiscal year. This period is referred to as the "stub period."

There will surely be some fine-tuning of the calculations but generally this new rule applies to all corporate partners, other than professional corporations, that have year-ends of March 23, 2011, or later.

"Some clients were concerned about the additional tax burden of having to include additional income in their fiscal years ended March 31," says Tax Partner Sunita Arora.

"The government has made a transitional reserve available to permit the stub-period income to be brought into income over five years, using a graduated formula."

Furthermore, the Canada Revenue Agency has stated that they will also apply similar rules to members of joint ventures and co-tenancies. At this point, these details have not been released.

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## Donations of Flow-Through Shares

Registered charities may receive fewer donations when proposed changes introduced in the March 22, 2011 federal budget come into effect.

These proposals, which are now in draft legislation, aim to reduce the tax benefits of donating publicly traded flow-through shares to registered charities.

"The budget proposes that only the capital gain in excess of the original cost of the flow-through share will be exempt from tax," explains Senior Tax Partner Jeff Nightingale.

"This is a significant change since an added benefit of donating flow-through shares will no longer be available to taxpayers. When this draft legislation

becomes law, the change will take effect for any shares purchased after March 11, 2011.

"Under the existing rules, the tax cost of the shares is reduced to nil by virtue of the flow-through of deductions and credits. If the shares are donated, the resulting capital gain, which is equal to the value of the shares, is not taxed. The proposed change will tax the portion of the share cost that was written off when purchased, thereby significantly increasing the after-tax cost of the donation."

If you need further information, please contact your Lipton adviser.

# Using Social Media in Your Business

Social media is acknowledged by most business owners today, yet there is still confusion over how it should be used.

According to Systems Administrator Bryan Walderman, the question is not if, but how you should use social media as a marketing tool.

“Social media is here to stay, and it’s too large a market to ignore. The sheer number of people using these sites is staggering – it’s been said that all Facebook users together would constitute the third most populated country in the world.”

Of the hundreds of sites available, the most popular are Facebook, LinkedIn, YouTube and Twitter. Each site has its own demographics, cutting across all ages and groups, enabling business owners to target specific markets. Best of all, these sites are free.

Where do you start in creating a social media presence? Bryan offers this advice:

- **Identify the site.**  
“Do your research. The type of business determines the media channel used. Tap the know-how of younger members of your staff or family.”
- **Create a policy.**  
“Obtain legal advice. The policy outlines the conditions of use and comprises human resources, information technology, legal and marketing principles. One aspect should cover employee use of social media during work hours.”
- **Maintain your page.**  
“Maintain your presence by updating your page regularly so it remains relevant to your target market.”
- **Consider security.**  
“Social media sites are password protected and encrypted. However, if you want 100 per cent security, these sites may not be for you.”  
For more information, please contact your Lipton adviser.

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## Professional Profile – Jeffrey Nightingale, BComm, MBA, CA, TEP

Senior Tax Partner Jeff Nightingale values the same things at Lipton LLP today as he did when he joined the firm 25 years ago.

“We are a true partnership. Even with all the changes in business and technology, our core values have remained the same. We share ideas freely and collaborate as a team to deliver the best solutions for our clients.”

As taxation has evolved over the years, Lipton’s tax team has also grown significantly under Jeff’s leadership, keeping pace with the complex changes in estate planning, tax planning and compliance. The team now consists of a second tax partner and two tax professionals, including two U.S. CPAs.



A graduate of the University of Windsor, Jeff obtained his MBA from Babson College in Wellesley, Massachusetts. He was recently appointed to the Ontario Institute of Chartered Accountants Appeals Committee, which conducts appeals of decisions made or sanctions imposed on Chartered Accountants by the Discipline Committee. Jeff is also on the Budget and Finance Committee and Audit Committee of Temple Sinai Congregation, having previously served as its treasurer.

With Jeff and wife Sherri’s three children now young adults, he plans to even further increase his time and involvement at Lipton.

He explains, “We pride ourselves on serving clients with an entrepreneurial bent, which in turn means that the partners and staff must always be leading edge.”

# NewsBrief: Firm News

Lipton LLP continues its involvement in professional, business and community organizations at both the local and international levels:

- Managing Partner **Mel Leiderman** was appointed to the Board of Directors and Audit Committee of Colossus Minerals Inc., a company listed on the TSX, as well as the Professional Conduct Committee of the Ontario Institute of Chartered Accountants. Prior to this latter appointment, Mel served on the Institute's Discipline Committee since 2003.
- Senior Tax Partner **Jeff Nightingale** was appointed to the Ontario Institute of Chartered Accountants Appeals Committee, which conducts appeals of decisions made or sanctions imposed on Chartered Accountants by the Discipline Committee.
- **Michael Wagman** was reappointed Treasurer of the City of Vaughan Hockey Association. This is his third consecutive term. Michael is also a head coach of the Vaughan Rangers Minor Bantam A team.
- Senior Tax Partner **Jeff Nightingale** discussed estate-planning objectives and strategies in a recent presentation to BMO Nesbitt Burns.
- Founding Partner **Stephen Altbaum** and partners **Fred Arshoff** and **Michael Wagman** recently attended the JHI International Conference in Los Angeles.

## A Tribute To Larry Solomon



It is with deep sadness that we announce that our Partner, Larry Solomon, passed away on July 20, 2011.

Larry joined Lipton on January 1, 1999, having known our firm's founding partners many years earlier. We will all miss Larry's friendship and professionalism, and the care that he showed towards his clients and everyone at Lipton.

- Partner **Stephen Aidelbaum** and **Bryan Walderman** recently attended the JHI Tech Conference in Atlanta.
- **Soheil Talebi** and **Bryan Walderman** recently completed their CPR certifications as part of Lipton's Health and Safety team.
- Singing karaoke was just one of the highlights of the Lipton summer party, held at the Mandarin Golf Club in August 2011.



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