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# Business Matters

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## MANAGEMENT

### What Should I Charge for My Services?

**Finding your optimum charge-out rate is one of the most important calculations you can make.**

What should I charge my clients for my services? Without a properly calculated charge-out rate you will not be able to sell enough services to cover your costs and make a profit. The right charge-out rate is the result of a complex interplay between your costs of production and delivery on the one hand and, on the other, the price your customers are willing to pay given market conditions — primarily competition.

Two key components make up the fundamentals of determining a charge-out rate:

1. What income do you, as an individual, need to earn in order to support your personal lifestyle?



2. How many chargeable hours do you anticipate are available for you to work?

### **How Much Do I Need to Earn?**

On the first point, you need to know your personal or family cost of living. For example, your experience has shown that you need at least \$60,000 in gross income per year to pay your taxes and have enough left over for shelter, food, clothing, transportation and recreation.

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*2,000 working hours a year will only yield about 1,400 chargeable hours.*

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### **How Much Should I Charge Per Hour?**

The second issue is chargeable hours. Let's start with 365 days a year and do the math from there. Assume for a moment that weekend work (104 days) is out of the question and another 11 days accommodate statutory holidays and illness. This leaves 250 working days. An eight-hour workday gives 2,000 hours available for work in a year. However, this time is not all chargeable. Within that time frame, there are "time costs" such as marketing, public relations, human resources, financial management, technical delays and training courses that must be considered. It is safe to assume that about 30% of the time available for work is not going to be productive. The 2,000 available hours will probably yield only about 1,400 chargeable hours. It would therefore be a mistake to set a \$30 rate based on 2,000 hours to earn a \$60,000 gross income. In fact, a charge-out rate of \$43 per hour for the 1,400 hours is required to generate \$60,000.

### **Estimating the Future**

The next step involves good estimating and a spreadsheet. Not only is it necessary to know the cost for supplies, transportation, utilities, office equipment, bookkeeping, training programs, public relations and advertising (to name a few), but it is also essential to determine when income will be generated and costs incurred during the year. This knowledge will enable you to estimate cash flow needs and the potential requirement to borrow working capital that will precipitate loan interest.

Commercially available spreadsheet programs can set up categories and manipulate data to time cash flows for accounts receivable and accounts payable.

For most individuals, however, a spreadsheet indicating month-by-month sales and expenses will suffice.

When completing an income and expense budget, be conservative with sales projections and liberal with expenses. Assuming estimated expenses total \$80,000, it is apparent that the break-even point (the point at which expenses and revenue are equal) to operate the business is \$140,000 (\$80,000 + \$60,000). Given the 1,400 chargeable hours available, the minimum requirement to keep the doors open is \$100 per hour.

### **Future Needs**

In addition to establishing the charge-out rate needed to break even, individuals should also give consideration to capital costs. Assets such as vehicles, computers and other equipment must be replaced. These costs are often missed in the calculation of a charge-out rate because they are not day-to-day costs. If equipment must be replaced every two or three years, a determination of the hourly cost of that equipment should be calculated and factored into the hourly rate charged.

### **Factor the Future**

The future for most businesses is uncertain. For this reason, it is beneficial to ensure that funds are available for a rainy day. In that "breaking even" is a calculation based on current conditions but not the future, charge-out rates should have built-in profit margins. Contemplate a need for a 10%-to-20% profit margin and increase the charge-out rate by that amount. In our example, if the charge-out rate is \$120 instead of \$100 per hour, the revenue earned on 1,400 hours increases to \$168,000 with expenses stagnant at \$140,000. This provides a buffer of \$28,000 per year.

### **Beyond the Numbers**

Following a process to determine a charge-out rate provides benefits beyond a final number because it:

- a) allows determination of whether the business or marketplace can support your business (If not... why would you invest time, money and emotion into a venture that is going to crash?);
- b) demonstrates a structured approach to a business venture that will be beneficial if financing is required;
- c) provides a chronological projection of the business for a 12-month period to reveal the ups and downs of a business cycle; and

d) induces an understanding of how workload and financial constraints might impact your personal life by demonstrating when cash and time are required. This knowledge, in turn, will impact not only personal spending habits but also determine when you can take time to enjoy that vacation.

### Discuss Your Findings with Your Chartered Accountant

Once you are confident the calculations are representative of prospective business activity, it would be

prudent to discuss your findings with an impartial advisor such as your local chartered accountant. With their knowledge of the community, they will undoubtedly be able to review your efforts and raise issues you may not have considered. Further, they can provide additional knowledge concerning GST/HST and income tax specific to your proposal. They may also provide guidance on the legal structure of your venture to minimize or defer taxes payable. This information, combined with your efforts, provides additional fodder essential in making the decision best for you.

## TECHNOLOGY

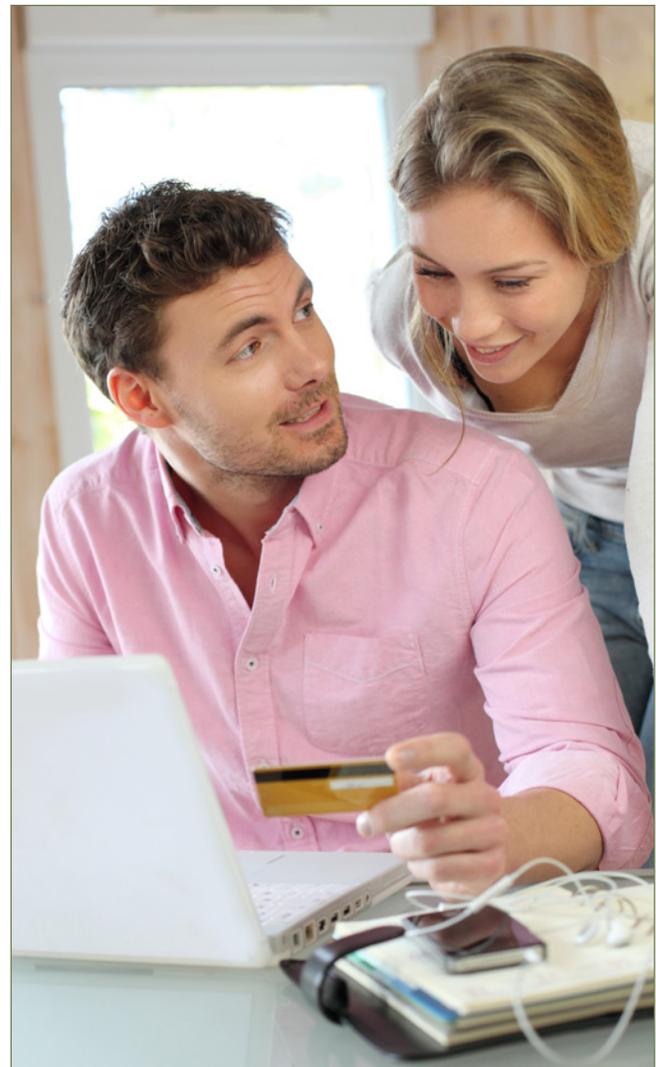
# Online Purchasing

### *Caveat emptor* is still good advice in the online era.

The world has changed much since *caveat emptor*, Latin for “let the buyer beware,” was first uttered. Unfortunately, the principle still applies today, even in an online marketplace. While ecommerce has become viable and even mainstream for many companies, it still holds potential risks for individual consumers and businesses. Identity theft is a new risk for those purchasers who reveal too much information to insecure websites, but traditional methods of swindling can still relieve you of your cash.

Consider the following before you purchase online:

- **Location.** Where is the supplier located? Purchasing from an out-of-province or out-of-country supplier can potentially introduce complications. If you receive goods of inferior quality, shipping costs may make returning the product an unattractive proposition. Even worse, what if you don’t even receive the goods for which you have already paid? Since consumer protection laws may vary from country to country or even province to province, taking the seller to court might not be worth the cost, time and effort required.
- **Warranty.** Products sold in Canada usually carry a warranty, especially for the Canadian marketplace. Those sold in the United States may not carry a warranty for Canadian consumers. If the prod-



uct is a “lemon” you are at the mercy of the seller to either repair it or provide a replacement. If the

seller refuses, it is at your cost. Before purchasing online, it is always wise to check with the manufacturer to determine whether the product warranty is country-specific or international.

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**Keep browser and malware protection up to date.**

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### **Make Sure Your Online Buying Is Secure**

In addition to the aforementioned considerations, there are other areas online purchasers should keep in mind to protect themselves.

1. An order placed using a public Wi-Fi network, such as at a local coffee shop, may not be secure or encrypted.
2. Your operating system, browser and malware protection should be up to date. Since many downloaded updates include code to patch known vulnerabilities, it is strongly advisable to keep all your devices current. Check your system at least once a week to see whether it has the latest updates. Don't ignore those notices that tell you an update is available and ask if you want to install it now.
3. With the ubiquitous availability of Apps and an expectation of security through the device's App store, it is easy to become careless about downloading Apps. For example, you may find an App claiming to allow online searching for the location of the stores of a merchant you like. Check out the company's website before installing or using the App. For all you know, the company does not have an App, or the official App may go by a different name, and a hacker has simply offered a counterfeit App for the unsuspecting to download. By downloading and using the counterfeit, you may be inadvertently providing personal information to an identity thief.
4. Look for the padlock icon. The symbol suggests that the website is encrypted via SSL (secure sockets layer) or TLS (transport layer security). The browser should show a padlock icon near the address bar if the site is secure. Notice that the URL of a secured website will begin with "https://" and *not* "http://"
5. Although it has been said a thousand times, it is worth repeating: do not provide credit card numbers over the Internet to any organization, unless your connection is secure, as noted above. *Never* send your credit card information by email; email is not secure.
6. Use available independent organizations to ensure the company you are dealing with is reputable. Your local Chamber of Commerce as well as the Better Business Bureau are useful starting points to discover the reputation of companies. Keep in mind that mere payment of membership dues to these organizations does not always mean a company is an outstanding citizen of commerce. Search blogs or ask your friends or business associates whether they have ever bought from the company.
7. Whenever possible, use online payment services that act as a buffer between you and the merchant. To protect their reputation, many payment services monitor transactions with suppliers and merchants for abnormal activity. Using a payment service is not, however, going to protect you from a merchant who ships faulty goods or fails to honour return policies or warranties, but it may prevent unscrupulous individuals from gaining access to your banking or credit card information.
8. Most companies want to obtain as much information as possible about their customers and use warranty registration questions as a means of gathering that information. Since we like to comply, we willingly provide serial numbers, model numbers and our name and address as they seem to be a logical requirement for registration. Beyond that, be cautious when providing information, especially when ordering from sources that are not household names. Privacy laws exist to protect you, but they may not always be respected.

### **Final Words**

Since the day commerce began, there have always been individuals and organizations bent on taking advantage of the unsuspecting consumer. Internet purchasing has not changed the nature of those who wish to make a fast buck. It has, however, changed the way purchases are made and thereby introduced new ways people and systems can be manipulated. Consumers ordering online must follow safe communication protocols as well as exercise due diligence before making purchases. Ecommerce is generally safe and secure, but, in both the bricks-and-mortar world and online, it never hurts to be cautious. *Caveat emptor.*

## MONEYSAVER

# The Perils of Credit Cards

**Credit cards are very useful but they can also hurt you.**

Do you know all the terms of all your credit cards? Do you really use or even want any of the benefits, such as rewards, travel or cash back for which you are eligible? Have you ever balanced the value of the benefits against the costs of using the card?

Probably not.

Credit card issuers have done their research and designed a range of cards for more finely identified market segments. The appeal to the consumer is in the various types of incentives: travel, rewards or cash back. The incentives vary but the common theme is a consumer benefit of some kind.

Benefits can run from simple offerings such as:

- Earn 2% cash back credits on grocery store purchases;
- Earn up to 1% cash back credits on all other purchases;
- Redeem your cash back credits on flexible terms;

to the more complex:

- Earn a welcome bonus of 150 AIR MILES®\* reward miles on the first-time use of the card;
- Earn one reward mile for every \$15 in card purchases at AIR MILES®\* Sponsors;
- Earn one reward mile for every \$20 in purchases charged anywhere else;
- Shop at participating AIR MILES®\* Sponsors across Canada with your BBBB® AIR MILES®\* Credit Card and your AIR MILES®\* Collector Card, and you can earn reward miles twice;
- Redeem for a wide range of rewards — everything from movie tickets to electronics, travel and more.

### More Incentives Mean Higher Potential Cost

But how do the issuers give stuff away yet still make a profit? As a rule, if a credit card issuer offers more rewards, there is usually an annual fee and a higher interest rate on outstanding balances. Canadian business credit cards that offer annual rates as low as 3.25% – 4.50% offer little in the way of incentives. On



the other hand, there are American-based credit card companies charging the equivalent of 30% annually on balances.

### Convenience

Credit card use has many advantages for both merchants and consumers. They protect merchants against NSF cheques since the card issuer deals with the consumer and the issuer's quick payment to the merchant provides the merchant with virtually instant cash flow. Cards also provide a convenient loan for the user when cash is low and purchases are necessary. Combine these positives with the fact that credit card purchases effectively offer 20-30 days of interest-free bridge financing to the consumer (if the loan is repaid on time) and the usefulness of credit cards becomes obvious.

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***Review your business credit cards  
and add up all the debt.***

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### Credit Cards Can Be a Burden

Why then have credit cards become such a burden not only to the economy of Canada, but also to the average Canadian? The answer is simple: the convenience of credit cards, combined with the rewards and the low minimum monthly payments, is difficult for the consumer to resist. However, as many consumers are discovering, it's easier to run up balances than pay them down.

So, how does the average small business owner control credit card debt?

The first step is to review the number of credit cards your business uses and add up the debt on each card. Most businesses will be surprised to discover that, although individual card debt is not great, the aggregate is significant.

Review all your credit card statements for each of the last three months and ask yourself:

- Were the cards used for purchases or to obtain cash advances? (Cash advances usually bear the highest interest rate and are calculated from the time of the withdrawal.)
- Was interest paid on any card in the three months?
- Were the cards paid off in full each month or were just the minimum payments made? How long will it take to pay off a balance if only the minimum payment continues to be made? This number can be a frightening reminder of the high cost of this kind of borrowing.

For example, assume a purchase of \$2,500 and a minimum payment requirement for the month of 2% or \$50 consisting of \$37.50 in interest at 18% per annum and \$12.50 in repaid principal. After the first payment, you will still owe \$2,487.50. The following formula can be used as a rough calculation of how the principal and interest are calculated.

1. Multiply \$2,500 by 18% to get \$450, the annualized amount of interest.
2. Divide \$450 by 12 to get \$37.50, the monthly amount of interest owed.
3. Subtract \$37.50 from \$50 to get \$12.50, the amount of principal repayable.

If the minimum-repayment requirement was 2% of the balance due every month, it will take approximately 334 months (just under 28 years) to pay off the \$2,500. Interest costs alone will be \$5,896.52 for a \$2,500 piece of equipment!\*

\*The above simplified example is given only to illustrate the perils of credit card financing by showing the typical consequences of failing to pay off the full balance by the due date. Because financial institutions differ in their methods of calculation, figures calculated in other ways may vary from those presented. The difference has to do with how the interest is calculated. Some institutions, for example, will calculate the interest on the first-of-month balance and some use the end-of-month balance. It could also be possible that the 18% is compounded daily.

- What are the interest rates charged on the various cards?
- What rewards have accumulated on the various cards in terms of cash back, travel points, etc.?

Determine whether the rewards have accumulated sufficiently for you to take advantage of them.

- Have the original “teaser rates” and free membership offers expired and are double digit rates and full membership costs now in effect?

Once you have calculated the reality of your current costs and rewards, eliminate those cards with the highest interest rates and the most incentives. Get a line of credit from your financial institution and pay off the credit cards with the highest balances and the highest interest rates. Then pay off the line of credit as quickly as possible. Structure a repayment schedule for the line of credit and stick to it. But be careful not to get caught in a second minimum-monthly-payment trap created to tempt you by some financial institutions.

### Taking Control of Your Credit Card Use

1. Cancel the credit cards that have been paid off.
2. Learn to say **NO** to all credit card solicitation. Don't be flattered when someone tells you that you have just been preapproved for a credit card with a \$50,000 credit limit.
3. Use only the credit cards that provide few benefits; they probably have a lower interest rate. If you want reward incentives, ensure the rewards earned exceed the cost of the yearly “membership” fee and that the rewards actually benefit you and your business.
4. Pay off the full balance every month. This allows rewards to accumulate but not the interest that will negate the value of the rewards.
5. Put low credit limits on the cards. This will restrict card use and make paying the monthly balance easier.

### The Obvious Benefits

It is certainly a good idea to have more than one credit card (i.e., a “spare” for emergencies or in case your primary card is compromised) but use the additional card only as a backup. Use cash or a debit card to fill up the gas tank and make other everyday purchases.

Credit cards are part of our business reality. They make transacting business much easier, provide access to emergency funds, permit tracking and accounting for expenditures and provide 20-30 days of free financing for your business. However, letting credit card balances get out of control can quickly affect cash flow requirements and the bottom line. Use them wisely.

## TAXATION

# Tax Tips for 2013

**It's not too early to begin planning your tax strategy for 2013.**

## Automotive

### *Deductible Allowance Rates*

If you have employees who use their own vehicles in your business, the limit on deductible tax-exempt allowances paid by you to your employees in 2013 increased by one cent to 54 cents per kilometre for the first 5,000 kilometres driven and to 48 cents for each additional kilometre as of January 1. The rates in the Yukon, the Northwest Territories and Nunavut are 58 cents and 52 cents respectively.

### *Taxable Benefit Rates*

If you drive a vehicle supplied by your employer, the prescribed rate for determining the taxable benefit of the personal portion of operating expenses paid by your employer for 2013 will increase by one cent to 27 cents per kilometre. For taxpayers employed principally in selling or leasing automobiles, the prescribed rate will increase by one cent to 24 cents per kilometre.

### **Instalment Payment Dates for 2013**

Because income from interest, capital gains or rental properties is usually not taxed sufficiently (if at all) at source to cover the annual tax liability, the Canada Revenue Agency (CRA) wants taxpayers with this kind of income to pay in instalments for balances owing accrued through the tax year. The previous year's tax return or a notice from the CRA will indicate the instalment amounts. If the payments are not received on time, the CRA will calculate interest charges on the overdue amounts and add them to your reassessment when you file your next income tax return.

Your instalment payment dates for 2013 are March 15, June 15, September 15 and December 15. If a due date falls on a Saturday, Sunday or statutory holiday recognized by the CRA, the payment is considered to have been paid on time if it is received on the next business day. It is worth noting that the CRA will not recognize a letter postmarked on the due date as having been received on that date. Payments sent by mail are



only considered to be received and paid to the CRA on the actual date they are received at a CRA office.

Payments made through Internet or telephone banking systems are considered paid on the payment date. Taxfilers should, however, pay attention to bank processing rules. Payments made after 6:00 p.m. on a Friday or a holiday may not be processed until the next working day, for example. To save interest costs, make sure payment is made a couple of business days before the due date. Postdated cheques or preauthorized debits are considered paid the date the transaction is authorized.

If instalment payments were scheduled but the taxpayer dies during the year, the CRA will waive the remaining schedule.

### **Tax-Free Savings Accounts**

A taxpayer can make an annual contribution of \$5,500 in after-tax dollars to a Tax-Free Savings Account (TFSA). Withdrawals attract no tax. Some account holders accidentally overcontribute by mistakenly treating the account as a savings or chequing account and withdrawing and then redepositing amounts that in total exceed the allowable annual contribution limit. Overcontributions can be returned to the TFSA without penalty only after the end of the year in which the funds were withdrawn. Another mistake is to contribute a non-qualified investment or make a contribution while the taxpayer is a non-resident. If such a mistake occurs, an RC243 Tax-Free Savings Account (TFSA) Return must be filed along with any taxes owing by June 30 of the year following the year

in which the error was made. These areas will not be a problem if a financial institution or investment advisor is consulted before any contribution is made. In the event that an investor is not aware that they have erred, the CRA will use information provided by the issuer of the TFSA and send a notice of reassessment to the taxpayer.

Although there is an annual contribution limit, uncontributed amounts can be carried forward indefinitely. Thus, if the limit for 2013 is \$5,500 but no contribution was made in 2012 when the limit was \$5,000, the eligible contributable amount for 2013 is \$10,500. To find the amount of your eligible TFSA contribution room, go to [www.cra.gc.ca/myaccount](http://www.cra.gc.ca/myaccount), [www.cra.gc.ca/quickaccess](http://www.cra.gc.ca/quickaccess) or the Tax Information Phone Service (TIPS). The number to call is 1-800-267-6999.

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***Capital losses can be carried back for three years.***

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### **Capital Gains and Losses**

Net capital losses or capital gains are calculated each year by subtracting the lesser of the one from the greater of the other. Half of any net capital gain is included in income. Unused losses can be carried forward indefinitely to reduce future capital gains. The CRA also allows taxpayers to carry unused current-year capital losses *back* for three years to retroactively reduce capital gains and thereby recover some of the taxes paid on the taxable portion of those gains. For example, an unused capital loss in 2013 could be either carried forward to reduce any future capital gains or carried back and applied against capital gains in 2012, 2011 and/or 2010 to recover income taxes paid on the taxable capital gains in those years. To carry a current-year capital loss back to any or all of the previous three years, complete a Form T1A, Request

for Loss Carryback. Use this form and do not file amended returns for the year or years in question. Your chartered accountant will probably have all the information you need to complete the Request.

In addition to capital losses on investments that may be applied against capital gains of previous years, capital losses created in 2013 on listed personal property may also be applied against capital gains from listed personal property of the previous three years and for the next seven years. Note that only listed personal property losses can be applied against listed personal property gains.

Capital gains deductions and allowable business investment losses may be impacted by cumulative investment expenses such as interest, carrying charges, and rental losses. If these amounts are greater than similar income, including capital gains and dividends, then your deductions from the above amounts will be reduced. Once this data is entered, it shows as accumulated amounts on CRA form T936 Calculation of Cumulative Net Investment Loss.

If circumstances in 2013 promise gains in either investments or listed personal property, it would be wise to discuss the potential gains with your chartered accountant to put a tax strategy in place for the end of the year.

### **Always Plan Ahead**

Minimizing your personal income taxes is no longer a matter of just waiting until the end of the year and filling out the forms. To take full advantage of the expenditures allowed and the deductions available and to avoid paying unnecessary penalties and interest, take a proactive approach that includes maintaining proper up-to-date records and engaging in ongoing consultations with your tax advisors.

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