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Business Matters

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TAXATION

IMPENDING CHANGES TO CPP

In 2018, many owner-managers across Canada chose to adjust staff levels, wages and prices when the minimum wage was increased. For many, it is still too early to determine the final impact on the corporate bottom line as a full fiscal year has not been completed.

With the adjustments of 2018, owner-managers may not have looked at budgets for 2019, but considering changes in the Canada Pension Plan (CPP), it may be time to start projecting 2019 and beyond.

Bill C-26

On October 6, 2016, Bill C-26 was passed with the objective of enhancing the CPP to increase the amount working Canadians receive from CPP when they retire. The amount is set to increase from one quarter of their eligible earnings to one third. The increase to an individual's pension will depend on how long and how much they have contributed to the enhanced CPP structure. An individual will receive the full increase if they have contributed to the enhanced CPP for 40 years. Further, the federal working income tax benefit (WITB) will increase to offset the increase in CPP contributions from low-income earners.

This is a polite way of saying that starting January 1, 2019, higher contributions will be required from both employees and employers. Higher contributions will be phased in over seven years.

The new structure requires that employees and employers contribute more on earnings up to the maximum amount of eligible earnings as indicated under the CPP contribution tables. By 2023, the employee and employer CPP contribution rate will have risen from 4.95 per cent to 5.95 per cent of eligible earnings. This increase will be phased in gradually from 2019 to 2023.

Those who are self-employed pay both sides of the equation, so contributions will have risen by 2% of eligible earnings by 2023.

Maximum Pensionable Earnings Increasing

Under the current system, CPP contributions are capped at 4.95% of the maximum annual pensionable earnings of $55,900. Once the $3,500 basic exemption is applied, the maximum contribution by both employee and employer is $2,593.80 for a total contribution of $5,187.60.

Down the road the Yearly Maximum Pensionable Earnings (YMPE) figures are going to change starting from the 2018 YMPE maximum to a projected YMPE of $72,500 by 2025. This amounts to an increase in the YMPE approximating 30%.

In addition to establishing a graduated YMPE rate for contributions there will be a new upper earnings limit starting in 2024 called the Year's Additional Maximum Pensionable Earnings (YAMPE) that will effectively require both the employee and the employer to pay an additional amount into CPP when they exceed the YMPE. It appears that an additional 4% contribution will be required by both the employee and the employer on any amounts that exceed the $72,500 YMPE amount up to the YAMPE of $82,700.

Tax Deduction for Enhanced CPP Contribution

For the employed and self-employed that exceed the $72,500 YMPE and are required to pay in an additional amount to CPP, the employed will be entitled to a tax deduction on the excess amount, while the self-employed will be able to deduct both the employee and employer share of enhanced contribution.

Manage the Future

Even though these increases will be phased in over time, astute owner-managers must consider:

- the future cost of payroll and the impact on profits
- the impact that these changes may have on the company retirement and savings plans already
  in place for employees
- whether future hires will be entitled to the same benefit package as existing employees
- ensuring that those preparing payroll are aware of the impending changes
- preparing your employees for the additional deductions by communicating to employees the projected additional CPP source deductions from their pay
- communicating to the employee the additional benefit cost for contributions the company makes
  to their CPP
- communicating to employees the impact that additional contributions may or may not have on the company retirement and savings plan
- the impact that this may have on future payroll costs as employees request raises to offset the additional deductions from payroll and an increase in the cost of living
- the timing of bonuses and other discretionary income

Employers and those who are involved in payroll may be interested in reviewing the *CRA website* that offers a chart showing the timing of the changes, the increased YMPE, the additional contribution amounts that will be required up to the YMPE and the contributions required on amounts over the YMPE. Those who are involved with payroll will certainly want to keep abreast of the changes and ensure that their accounting packages can be modified for the changes that are coming.

MANAGEMENT

MAINTAINING SAFETY IN THE WORKPLACE

It is the owner-manager's responsibility to ensure that the workplace is safe for employees or subcontractors.

Not only does safety protect the worker from injury or death, but a consistent record of safety also lowers payment to WSIB and lessens the cost to employers by ensuring that injuries to workers are minimized to guarantee that quality workers are not prevented from performing an essential company task.

Management should take it upon themselves to conduct personalized workplace walk-arounds to identify areas that may potentially pose a safety hazard and determine whether safety procedures that have been put in place or mandated by safety boards are working as they should.

Going through a jobsite or the manufacturing factory also allows management to assess if project or floor managers as well as employees are following safety practices that have been mandated. After all, corporate safety manuals may mandate wearing safety glasses or a safety harness, but employees may disregard the mandate for sake of comfort or expediency.

A proper safety inspection should be planned. However, notifying department heads that a safety inspection is imminent provides a forewarning that may set up a utopian result that a surprise walk-around could not mimic. Regardless of whether the walk-around is a surprise or a joint effort with department heads, owner-managers may wish to consider the following:

- As a precursor, management should take courses that help them identify safety issues on the job. Many courses are offered both by provincial/federal and private sectors, but should cover the outline provided by the Canadian Centre for Occupational Health and Safety:
  - Introduction to Health and Safety Training for Managers
  - Safety Principles and Risk Management
  - Legislation
  - Hazard Recognition and Control
  - Emergency Preparedness and Fire Prevention
  - Occupational Hygiene
  - Ergonomics
  - Workplace Inspection and Accident Investigation
  - Program Development and Implementation
- Management should familiarize themselves with the project or department to understand what equipment is used, the stage of development, the number of workers onsite, who has oversight for the project or department.
- Review previous safety inspections and reports that were provided in-house or by outside agencies.
- Review WSIB injury claims for the last few years.
- Review WSIB billings for the last few years. Not only will this provide insight into the type of injury and where in the process the injury occurred; it also indicates the cost associated with accidents and by default motivates a business to continue safety efforts to reduce cost.
- If specific areas are constantly targeted or found deficient, review these areas to see if appropriate changes have been made.
- Determine the areas that are to be inspected and the safety equipment that is needed. Ensure that you are knowledgeable about the necessary safety equipment and how to wear it. Your

credibility is on the line … you won't be taken seriously if you are not projecting the need for personal safety.

- Engage workers that have been injured on the job. Find out why they were injured and what steps have been taken, both by the company and individually, to improve workplace safety.
- Ask if there are additional safety issues that the employee feels would enhance safety within their working environment. Make it plain to the employee that this is not a witch hunt to lay blame, but rather that, as a concerned employer, you are always interested in ensuring the welfare of employees within the workplace environment.
- Observe workers in action. Are they lifting above suggested guidelines? Is the job repetitive and monotonous?
- As in all reviews it is imperative that notes be taken as you progress through the review to capitalize on the issues while they are fresh. Notes should identify the issues, observations and potential solutions for later review.
- There are areas of safety concern that even a novice should be able to identify. If you have taken a safety inspection course it should be easy to spot tripping hazards, blocked or locked exits, frayed or exposed wires, slippery floors, missing machine guards, shoddy housekeeping, or equipment that is long in the tooth and may not meet standards. Further, if walls are damaged or doors dented, it implies that drivers are not as diligent as they should be. Such lack of diligence may endanger not only the operator of the equipment but the workers as well.
- If employees are not using company-mandated safety equipment, ask for an explanation. Explain to them that not only are they jeopardizing their own safety, they also risk putting fellow employees and the company at risk should the company be shut down or face fines that will complicate future cash flow. It would seem appropriate at that moment to insist that the worker wear the clothing or remove them from the floor to establish your commitment to safety.
- Observe workers as they perform their job. For example, do they lift heavy objects? Do they stand/sit in positions that are not compatible with the machinery they are operating? Are they performing repetitive motions?
- When necessary take pictures to document issues for future reference.

Post Inspection Follow Up

Post-inspection follow-up is important to establishing your credibility as an employer committed to improving any identified safety issues.

Once the review is completed the impetus for change must be continued. Identified weaknesses should be categorized and accompanied with a plan establishing corrective action to be taken, timeline for the changes, and potential cost for implementing the safety procedures.

If it is not possible to make wholesale changes – as complex issues require further investigation or engineering studies to achieve completion – management will have to determine what intermediary safety changes must be made to minimize potential injury. Not only will this step maintain worker safety, but it will also provide evidence that the company was aware of the issue and was taking positive steps to correct the safety concern initially identified.

Feedback to employees showing what was determined as a result of your safety walk-around, and what process is being put in place to address concerns that may have arisen, provides confidence to employees that your company is committed to ensuring they can go home injury-free after their shift.

Owner-managers recognize their legal and moral responsibilities to provide a safe work environment for all employees. As such management involvement in identifying and correcting issues that may compromise the integrity of the workplace and negatively impact both the financial and public perception of their organization is of paramount importance.

MONEYSAVER

SELF-DIRECTED INVESTMENTS

Fundamentally, there are four avenues that the average Canadian may consider over their lifetime:

- **R***egistered* **R***etirement* **S***avings* **P***lan* **(RRSP)**
- **R**egistered **R***etirement* **I***ncome* **F***und* **(RRIF)**
- **T**ax **F***ree* **S***avings* **A***ccount* **(TFSA)**
- **N**on**-R***egistered* **I***nvestment* **A***ccount* **(NRIA)**

The first three account types are registered with taxation authorities and as such are accompanied by rules and regulations that must be followed to obtain specific taxation advantages or to avoid penalties for non-compliance.

The **NRIA** is not encumbered by the requirements of the registered accounts and about the only requirement is to ensure that the CRA receives full disclosure of income earned, capital gains or losses and administration fees that may be incurred throughout the calendar year.

Many taxpayers that have one or more of these investment vehicles relinquish management of such to institutional investors, not realizing that all these investments can be placed into a self-directed investment vehicle within their financial institution or investment firm.

Advantages of Self-Directed Investments

- Lower cost per trade. Most institutions will allow trades, buying and selling, for approximately $10.00 per trade transaction.
- Investors can make trades online quickly and efficiently without the need to contact your broker.
- Most self-directed trade sites provide information about the investment. Reports show important information that include, to mention a few areas:
  - balance sheets, income statements, cash flow statements quarterly or year to date
  - history of dividend payments
  - high and low market value of the investment for not only the current but past years
  - other investors' analyses of the company and, in some situations. a rating of whether to buy,
    sell or hold the investment
  - current news updates on the company
- The investor has control of the investment rather than leaving the decisions in the hands of an investment firm or another individual.
- The investor is not locked into specific investment vehicles such as Mutual Funds, Exchange Traded Funds, specific individual stocks, bonds or GICs that may be an institutional investor's approach.
- Some financial institutions offer a “play” account wherein you can practice trading using their software to become accustomed to how the system works and also gain insight into how well the investments would have done if you had invested.
- Many financial institutions aid investors want to self-direct their investments.

Disadvantages of Self-Directed Investments

- An unsophisticated investor may not have sufficient knowledge to determine the appropriate investment decisions considering factors such as their age, portfolio diversification and risk tolerance.

- Familiarity with the investments that are allowed and not allowed in registered investment vehicles is required.
- Investments in foreign jurisdictions may become problematic if foreign tax authorities require registration or reporting in their country.
- Investors may not be familiar with tax requirements.
- Record keeping is essential for non-registered investments as taxation authorities need to know the buy price, sale price, commissions, dividends, income, capital gains, capital losses and administrative cost. Some online brokerages may provide this reporting for their investors.
- A starting portfolio with low investment may not offer a return on investment comparable to an investment firm that can comingle smaller amounts to create a large investment portfolio.
- A minimum deposit amount may be required to open a self-directed account.
- Financial investors may charge an annual fee. These fees may be hidden in the RRSP or TFSA investment vehicles. These fees are not tax deductible but simply reduce the overall amount that is available for investment. Similarly, within an NRIA, the more that it costs to administer or complete trades, the less that is available for investment growth. Investment fees within an NRIA are tax deductible.

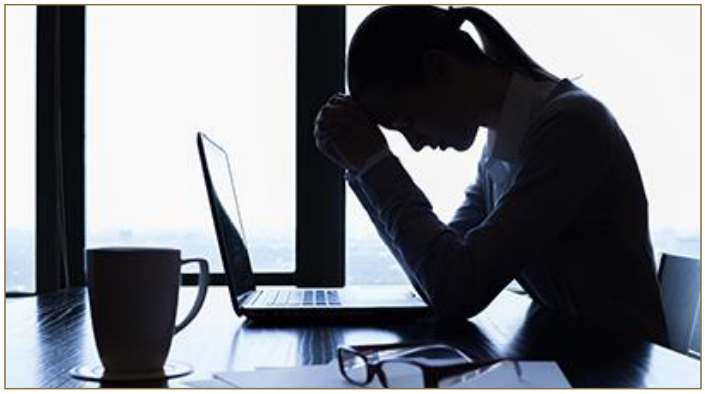
Other Considerations

- The transfer of all four investment categories from a managed portfolio into a self-directed portfolio in kind is permissible. Many investments held in a managed portfolio can simply be transferred over to a self-directed account without the need to liquidate and repurchase. Some investments can only be held in a managed portfolio and accordingly would have to be liquidated. Generally, there are no tax implications of liquidating assets held in an RRSP or TFSA (as long as the funds are not withdrawn from the account). Naturally, you must stay within the confines of a financial institution. You may be charged an administration fee. Most online brokerages cover the fees for transferring your investments.
- Investors must determine if they want interest, dividend or capital gain growth in their investment. Unlike dividends and interest growth, the capital appreciation of a stock compared to its original cost does not necessarily result in an increase in cash, unless the stock is sold. Accordingly, if an investor chooses to hold a stock and its value subsequently decreases, that money is no longer available to invest.
- A capital loss within an registered vehicle is not tax deductible. It merely reduces the amount of the investment when the stock is sold.
- A capital loss on a **NRIA** under normal circumstances can only be used to offset capital gains, though these losses may be carried back or forward to other taxation years.
- There are limitations on investments that can be made in registered accounts. The CRA considers these investments to be qualified investments. Investors should be familiar with investments by visiting the CRA website and referring to the publication *Income Tax Folio S3-F10-C1, Qualified Investments-RRSPs, RESPs, RRIFs, RDSPs and TFSAs*. Failure to follow the rules and investing in non-qualified investments could result in a tax of 50% of the fair value of the investment at the time it was purchased or became non-qualified.
- An investor could choose a company for its dividend potential. However, if the market value drops below the original cost, the dividend income may not be sufficient to make up the capital loss.
- Investors must determine whether they are going to purchase and hold or actively trade. The CRA has been cracking down on TFSA abuses where investors have been allegedly running a trading business in these accounts.
- You can invest in debt obligations, mortgages, precious metals, warrants and options, securities on designated stock exchanges, money and deposits with Canadian banks, trust companies and credit unions (GICs). However, before making an investment outside designated stock exchanges or GICs, ensure you understand the requirements and restrictions.
- You cannot invest in digital currency.

Converting a managed investment vehicle to a self-directed vehicle is not for everyone. Those who are anxious about their ability to take on the responsibility for their retirement nest egg may not mind paying a management fee and thus are best to stay with a managed account. Others who feel confident in their investment prowess may determine that the risk of self-investing is more than offset by the potential increase in their portfolio value that they may realize by investing the administration fees they did not have to pay.

MONEYSAVER

THE HIGH COST OF STRESS



According to Psychology Today:

"Stress generally refers to two things: the psychological perception of pressure, on the one hand, and the body's response to it, on the other, which involves multiple systems, from metabolism to muscles to memory. Through hormonal signaling, the perception of danger sets off an automatic response system, known as the fight-or-flight response, that prepares all animals to meet a challenge or flee from it."

Stress response was meant to be a temporary reaction to a life-threating situation, but unfortunately more and more employees are finding that the stress of everyday living combined with on-the-job stress is having an impact on their lives.

Owner-managers may not be able to control an employee's personal life stress. However they must be sensitive to stress points that trigger employees' unhappiness, both within and outside the workplace environment, and work towards assuaging the stress points.

Stress within the workplace is an expensive hidden cost to the employer:

- Absenteeism increases create higher payroll cost.
- Productivity is reduced when employees are absent.
- Illness, both physical and mental in nature, drive up the cost of health premiums.
- Employee turnover results in higher training cost and lost productivity.
- Costly litigation may result if employees challenge dismissal.
- Individuals under stress may have reduced ability to make critical decisions, as their thought process is clouded with personal issues that lead to errors.
- Interpersonal skills may deteriorate, as individuals under stress may not filter comments, thereby offending co-workers or clients.
- Other workers are negatively impacted thereby reducing effectiveness and creating job dissatisfaction.

Reducing Employee On-The-Job Stress

Identifying and counteracting on-the-job stress is not an easy task for the owner-manager. Perhaps the best approach is for the owner-manager to put themselves in the worker's position to try to understand the stress points of the job. It is not suggested that management needs to become an "Undercover Boss" as depicted on the television series, but adopting the concept certainly would help management identify stress points within a job classification and better enable them to address the areas that require attention.

Consider these practices to help your employees reduce their stress on the job:

- Have an open-door policy with the assurance of confidentiality that allows employees to discuss workplace-related issues as well as personal issues that are causing anxiety. (Only 23% of Canadian workers had enough confidence to approach management and seek help with stress issues.)
- Address job-related problems and or employee concerns (bereavement, divorce, illness, moving home and financial) in a timely fashion. An individual's stress is an overlay of personal and work-related problems and not understanding and working with the employee to address issues amplifies their stress level.

- Ensure that managers know how to reprimand and provide constructive criticism without humiliating or degrading employees.
- Never tolerate aggressive physical, emotional or vocal bullying tactics.
- Institute empathy and interpersonal skills training for all employees.
- Prepare employees for changes in work environment or upcoming projects through dialogue. Management receives feedback and thus a means of judging the demands that will be placed upon employees, available employee skills, project hours and timeline required. This in turn will assist in normalizing the project into a manageable process and thereby reduce stress.
- Owner-managers want employees that work as hard for the company as they do. Ensure that employees do not take on more than they can handle. Encourage employees to take coffee breaks, lunch breaks, full vacation and statutory holidays to allow time to let go of workplace responsibilities.
- Provide training in time management that educates employees not only to manage their time, but also to recognize that taking on multiple projects that cannot be completed within given time frames leads to poor job performance, anxiety and stress.
- Monitor employees and management to make more effective use of time. Spending time on non-essentials tasks when a major project is underway creates anxiety and stress. Focusing on what is important directs employees to what is priority.
- Ensure that upper management and team leaders can vent their concerns by having regular meetings to discuss concerns about projects, employees or management issues. Second-in-command individuals are unable to discuss issues with employees and thus need a means to express frustration and anxiety that they may be feeling about the job.
- Reward employees by letting them know their work is valued and appreciated. Regular reviews, and not just for raises, are required to let employees know when they are doing well and when there is need to modify their approach, or to gain more experience, additional training or education.
- Involve employees' spouses and children so they have an appreciation of job functions, environment and co-workers and thereby have a better understanding of what goes on during the work day. Consider family days, bring your child to work days or company events to create a family environment.

Canadian statistics indicate that 500,000 Canadians miss work each week from stress-related issues. Forty-seven per cent of individuals indicate that work is the most stressful part of their life.

Consider that work-related stress cost the Canadian workplace approximately $20 billion per year – isn't it time that that your business made every effort to reduce stress within the workplace and positively enhance the bottom line?

BUSINESS MATTERS is prepared bimonthly by the Chartered Professional Accountants of Canada for the clients of its members.

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