

Let's Talk

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LIPTON LLP Chartered Accountants

Interest Rates and Their Effect on Investment Decisions

Caution has become the watchword for business today. Although interest rates remain at historically low levels, creating possible growth opportunities for owner-managed businesses, careful planning must be done during these times of economic uncertainty.

Partners Paul Roberts and Michael Wagman advise clients to consider taking steps to lock in the long-term benefits of low interest rates whenever practical, and to be wary of assuming that these will continue.

“Low interest rates provide an advantage to owner-managers in financing investments, but they can be a double-edged sword,” Michael explains.

“What if rates go up? Borrowers might then find it difficult to maintain debt payments at higher rates, which could have a negative impact on business operations.

“We advise clients in this climate to focus on investing in familiar operating areas, and to consider ways to improve their own business capacity and efficiencies.

“The best return on investment is yourself and your business, because that’s what you know best.”

Paul points out that overall costs can rise in spite of low interest rates, and even because of them. Businesses that have looked for acquisitions to take advantage of low financing rates have found in many cases that prices are higher than expected. That’s because of competition from other potential buyers, combined with a short supply of solid investment opportunities.

“Interest rates are not the only factor to consider,” Paul says. “You still need to do research, conduct due diligence and develop a business case for any

investment. If you find a good product line to acquire and can present a business case for it, the variability of interest rates might not be a major factor.”

To finance existing assets and operations, owner-managers can seize opportunities to reduce costs over a long period. Paul and Michael have assisted clients in renegotiating mortgages on commercial properties in cases where the mortgages will become due within a few years.

By refinancing now, including the absorption of breakage fees, clients lock in low interest rates that will last for years.

No one can be certain when interest rates will rise or what the outcome of an investment decision will be, so Paul and Michael advise continued reliance on core business expertise and informed decision-making.

“Stick with the business you know, mitigate any downside risk and don’t speculate,” Paul summarizes.

Your Lipton adviser can assist you in analyzing the potential risks and rewards of business transactions in the current economic environment.

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US Citizens – New Filing Requirements

Canadian residents who hold citizenship in the United States are obligated to file US tax returns each year. Many have not done so, fearing that they could face substantial penalties if they were to bring their US tax filings up to date.

Now there is good news that will potentially provide relief for such US citizens resident in Canada.

The Internal Revenue Service (IRS) announced in June 2012 that a new procedure for dealing with tax filings by “low-risk” US citizens living abroad will go into effect on September 1, 2012.

The procedure will apply to those citizens who have not filed US tax returns for the past three years and owe less than \$1,500 for each of those years and now submit the returns.

When the returns are received, the IRS will determine whether there is a risk that the taxpayer owes more US tax. For those taxpayers presenting low compliance risk, the submission review will be

expedited and the IRS will not assess penalties or pursue follow-up action.

“A taxpayer must follow the rules carefully to benefit from the leniency program,” Senior Tax Partner Jeff Nightingale explains.

Three types of documents are required to be filed: tax returns for the past three years; a report of financial accounts located outside the US (where the aggregate value of all accounts exceeds US \$10,000 at any time in the year) for the past six years (Form TD F 90-22.1, called the Report of Foreign Bank and Financial Accounts or FBAR), and a letter giving reasonable cause as to why the returns and FBAR forms were not filed previously.

The intent of these new rules is to encourage continuing compliance with US tax filing laws and to resolve any past issues without negative implications. Your Lipton tax adviser can assist with interpreting the rules and help make submissions for US taxpayers living in Canada.

Ontario Tax Rate Changes

As of July 1, 2012, Ontario companies and individual taxpayers face changes in corporate and personal income tax. This comes as a result of the Ontario minority government’s temporary “Deficit-Fighting High-Income Tax Bracket,” which will be fully phased in by 2013.

First, the budget freezes the general corporate income tax rate at 11.5 per cent until the provincial budget is balanced, which is expected to occur in 2017-18.

“Previously the corporate tax rate was scheduled to come down to 10 per cent by July 2013,” says Tax Partner Sunita Arora. “Now the rate is frozen for the next five years.”

In a second move, a new tax on high-income earners having taxable income greater than \$500,000 a year makes Ontario the second-highest taxed province in Canada, following Nova Scotia.

“It is projected that the new tax will affect about 23,000 Ontarians,” explains Sunita.

On taxable income above \$500,000, the tax rate will increase to 12.16 per cent for 2012 (from 11.16 per cent in 2011) and to 13.16 per cent in 2013. When the Ontario surtax of 56 per cent is added to this tax rate, it will bring Ontario rates to 18.97 per cent in 2012 and 20.53 per cent for 2013.

Once the federal top tax rate of 29 per cent is added (which affects income over \$132,407), the result is combined federal and Ontario marginal tax rates of 47.97 per cent in 2012 and 49.53 per cent in 2013.

Several tax strategies are available to minimize this tax. For further information, please contact your Lipton tax adviser.

Being a Team Player

Teamwork is a powerful tool in helping to achieve success in today's workplace, providing an environment based on active collaboration and the knowledge that thinking, planning and decision making are more effective when they are done cooperatively.

Studies have shown that team players are:

- Reliable – They can be counted on to meet deadlines, be effective, and get the job done.
- Constructive communicators – They are respectful, know when to speak up, and raise important points in an open and non-threatening manner.
- Active listeners – They encourage meaningful dialogue by listening carefully to others first and then speaking up. They ask questions to clarify others' ideas and emotions, consider different

perspectives without debating each point, and receive criticism without becoming defensive.

To enable effective communication and problem solving, good team players share information willingly, keep everyone informed, and go the extra mile by showing initiative, taking on additional responsibilities in support of team objectives.

Good team members are also flexible and can adapt quickly to changing circumstances. They think on their feet and, to keep the team moving forward, compromise when necessary. As committed team players, they make relationships with co-workers a priority and enjoy coming to work each day.

Finally, teamwork includes the ability to display a positive attitude, which inspires others and helps everyone on the team reach their goals.

Partner Profile – Mel Leiderman

During his 34 years with Lipton LLP, Mel Leiderman has helped build it into a strong mid-sized firm that prides itself on personalized and proactive services.

As the firm's Managing Partner and Lead Engagement Partner for numerous clients, Mel takes the Lipton philosophy to heart – to take the time to understand a client's challenges and always respond with innovative and personal advice tailored to individual needs.

“Our ongoing strategy is to ensure that Lipton continues to grow as a mid-sized firm,” Mel says. “While many firms of our size have merged with larger firms over the last several years, our goal has always been to strengthen our market position by adding the best technical expertise and quality staff, while maintaining our culture and values.”

Mel serves on the CICA Accounting Standards Board Private Enterprises Advisory Committee,



which sets financial-reporting standards for private companies in Canada. He is also on the Professional Conduct Committee of the Ontario Institute of Chartered Accountants, and formerly served on its Discipline Committee for nine years. He has also been a speaker at various professional organizations. He is a member of the Society of Estate and Trust Practitioners and a certified director (ICD.D) of the Institute of Corporate Directors. Volunteering time is very important to Mel.

“Giving back to my profession is very rewarding personally, and it also enables me to bring knowledge and experience back to the firm.”

Mel and his wife Helen celebrated their 25th wedding anniversary this year and enjoy travelling. They also enjoy spending time with their nieces and nephews and, in the past two years, happily welcomed their first great niece and great nephew to the family.

NewsBrief: Firm News

Lipton LLP recently passed the Institute of Chartered Accountants of Ontario's practice-inspection program, a key regulatory process that protects the public by ensuring that chartered accounting firms meet the highest professional standards.

Lipton LLP is also the proud winner of the Canadian 2012 Greenest IT Award, which is sponsored by Smartest IT, a knowledge centre promoting the use of smart and green technology. Lipton won for its "Network in a Box" technology, which enhances efficiency by using portable scanners and server laptops in client engagements. **Bryan Walderman** and **Paul Roberts** accepted the award.

Continuing the firm's tradition of professional involvement, **Soheil Talebi** was an instructor at the ICAO School of Accountancy and is also authoring a professional development course for the Canadian Institute of Chartered Accountants entitled *ASPE – Real Estate Course*.

Partner **Michael Wagman** was re-elected treasurer of the City of Vaughan Hockey Association for a third consecutive term. He is also head coach of the Vaughan Ranger Bantam A team (see picture).

Lipton welcomes the following new staff members: **Ilana Zeidel**, CA, supervisor in the tax group, **Kristen Preszicator**, CA, senior in the accounting and assurance group, **Lynda Basian** on the reception desk and **Marissa Barnartt** in administration.

Anastasia Rebro, CA, will be joining Lipton as Professional Standards and Development Supervisor in October 2012.

Congratulations to Partner **Michael Wagman's** son Shale, a dancer who was one of 12 finalists on the TV show *Canada's Got Talent*. In early July 2012, he also won the American Dance Awards national title as junior dancer of the year.



Congratulations to the Lipton 2011-2012 Minor Bantam Vaughan Rangers A team, winners of the 2012 Silver Stick tournament. The team is coached by Partner Michael Wagman, holding the banner at left. His son Jared is kneeling, far left.

As part of Lipton's active involvement with its international affiliation, Partners **Steve Altbaum** and **Fred Arshoff** attended the recent JHI Region of the Americas Conference in Vancouver.

Steve Altbaum has been elected to the Board of Directors of Oakdale Golf and Country Club.

Congratulations to our Institute of Chartered Accountants School of Accountancy students **Nima Afshani** and **Michael Broaderip**, who passed their exams qualifying them to write the UFE in September.

Lipton continues its tradition of firm-wide get-togethers, including our summer celebration at The Miller Tavern.



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