How is the profession faring in these stormy economic times? Not badly at all, the figures show

SMEs set to increase international business

Good show: Hamilton host of advice

The best way to respond to an angry client
Actually, the only thing certain in life is death.

At Brendan Moore, we know that sales taxes can be tricky. And when it comes to sales tax compliance, minor (or not-so-minor) errors in process can happen. That’s why over 1,000 clients have chosen us to review their sales tax processes on a regular basis. In doing so, we’ve helped them recover hundreds of millions of dollars in overpaid sales taxes. Something we’re certainly proud of.

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CAs are holding their own

National average compensation unchanged between 2007 and 2009 — and three CAs looking over the Vancouver Olympics

The results of the latest national compensation survey for the CA profession are out, and CAs seem to have weathered the first leg of the recession very well. Conducted in June last year, the survey covered compensation for 2008. Interestingly, the national average turned out to be just one dollar less than the last survey at $186,543, down from $186,544.

There are lots of variances in terms of region, practice, etc. John Lorinc’s article “Strong & steady” (p. 18) analyzes not only the compensation numbers, but the demographics of respondents, which totaled 15,981, for a response rate of 29%. For example, more respondents (61%) are under the age of 45, while this group represents only 48% of all CAs. The median figures offer a better picture — a 3.1% increase, from $123,000 to $126,857.

The recession hit CAs in industry more than in public practice and in the public sector, as total compensation dropped in oil and gas, mining and others. President-CEO respondents also reported a compensation decline from the last survey, done two years before. Atlantic and Prairie provinces fared better than the larger provinces of Ontario, Quebec and British Columbia.

Three CAs will cheer with millions of other Canadians when the 2010 Vancouver Winter Olympic Games open on February 12. Interestingly, they may cheer even louder when the Games close. Dave Cobb, executive vice president, revenue, marketing and communications and deputy CEO; John McLaughlin, vice-president and CFO; and Terry Wright, executive vice-president of services and games operations, are members of the Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games (VANOC). They were running a pretty tight ship until the global credit crisis in 2008. Roberta Staley tells of their ordeal in “Going for gold” (p. 26).

This month, our Regulars section offers articles on taxation (p. 32), information technology (p. 35) and a particularly timely piece about personal financial planning considering the season and the performance of the Canadian dollar: buying property in the US (p. 40).

At a time when credit card companies are poised to enter the Canadian debit card market, Jim Carroll tells us in his Netwatch column that they might be too late (p. 12). Finally, this first issue of the new decade concludes with Marcel Côté discussing another public issue very close to all Canadians: the healthcare system (Outlook, p. 52).

From everyone at CAMagazine, Happy New Year.

Christian Bellavance, Editor-in-chief
features

18 Strong & steady
Despite the red ink and the relentless scaling back of growth forecasts, the Canadian accounting profession appears to be weathering the financial storm, as the generally positive results of the CICA’s 2009 CA profession compensation survey suggest

BY JOHN LORINC

26 Going for gold
Come the Olympics, most Canadians will be glued to TV screens, cheering on the athletes, unaware of the trial organizers faced in preparation for the big event. Three of the senior management team are CAs, who by all accounts have been calm and resolute

BY ROBERTA STALEY
regulars

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Offshore trusts under attack: as the CRA challenges offshore trusts, many cases and appeals are working their way through the judicial system  By Jennifer Smith

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ONE SIZE DOES NOT FIT ALL

Regarding “Ask an expert” (Upfront, November 2009), I was disappointed at the oversimplified response to the question “I’m 57. Should I borrow to invest in stocks to make up for market losses?” The expert, David Trahair, advised getting out of stocks altogether. One of the basic principles of providing investment advice is know your client. In this case we know nothing about the client other than his or her age. We do not know his or her assets, debts, income level, expenses, years to retirement, number of dependents, risk tolerance, objectives, etc. Oversimplifying the situation and response makes it seem as though the investment world is just that, simple. It isn’t, as many investors and advisers have learned in the past year. Equities have proven over the long run that they can provide superior rates of return to most other asset classes and over time the risk is diminished. If we knew all the facts perhaps an all-equity portfolio might even be appropriate.

A one size fits all approach demeans the entire investment world.

Marc Furlotte, CA, CMC
Halifax

David Trahair’s reply:
You are correct; providing financial advice without knowing all the details of the client's situation is indeed fraught with peril. But the reason I suggest that people approaching retirement consider getting out of equities altogether is simple — being overexposed to equities can lead to personal financial disaster.

The inherent problems with equities at that age include:
- Emotion: we often invest with our emotions rather than with cold hard common sense based on facts. The S&P TSX composite index lost 49.64% of its value, from a peak of 15,073 on June 18, 2008 to the pit of 7,591 on March 6, 2009. Many people panicked; they sold and crystallized their losses at the worst time.
- Historical results: I have done a detailed analysis of the S&P TSX composite total return index over the past 50 years. The average annual rate of return was 9.52% a year, while the average rate for five-year GICs over the same period was 7.35% a year. If you were 100% invested in equities over the same period, utilizing a typical Canadian equity fund with a management expense ratio of more than 2% (the average fee), you were in GIC-return territory. Space limits prevent mentioning the other problems of stock-market investing, but if you can get near-equity rates of return in a simple GIC that charges you no fees, why bother with the market?
- The future: that 50-year history includes the post-Second World War baby boom and the expansion of many core industries. What will the next 50 years be like? What happens when all baby boomers start drawing retirement savings out rather than pumping money into the market? Personally I’m not counting on the market in the future.

“HARMONY” STRIKES A CHORD

I was very impressed with “Harmony at the top” (October 2009), which featured the achievements and accomplishments of Monique Leroux, head of Desjardins Group. It is inspiring to see a woman and CA at the helm of a large financial institution. We sometimes forget that banks are only one of the pillars of the financial institutions and that insurance, cooperatives and trust companies hold up the full platform. I worked in financial institutions for more than 15 years, and Leroux’s quotes in the article about the financial crisis are astute.

One of my observations of nontypical accountants who think outside of the box is that they are often musicians as well. I found it interesting that Leroux and Zarín Mehta (People) are also accomplished musicians.

Donna Sharp, CA, CMA
Toronto
“Well, you can start with Lannick. Our commitment to developing the right corporate culture is more than just talk. We’ve recently been recognized as one of the Best Workplaces in Canada. For the second time.

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DURING AN EPISODE OF THE REALITY SHOW House Poor, Suzanne Schultz has to deliver bad news to the homeowners: they must sell a car and some of their triathlon bikes. She knows they won’t be thrilled but money is needed to finish the basement kitchen renovation.

Schultz, a 38-year-old financial planner at RBC Dominion Securities in Hamilton, didn’t set out to be a TV host, but is enjoying her role giving tough love, sound financial advice — and sometimes a $10,000 reward — to couples.

She had been doing guest spots on business television shows for about 10 years when an HGTV casting director saw her on BNN’s Talking Tax and approached her about House Poor. She auditioned with contractor Frank Di Leo, the other co-host, and landed the gig. “I don’t want to say [being on camera] comes naturally, but I’m not a sit behind the computer all day kind of person. I am definitely outgoing,” Schultz says.

RBC has been flexible with Schultz’s TV schedule, allowing her to take two days off a week when filming. Each episode requires about four days of her time. There are story meetings, the couple’s financial information to review and days on set. Schultz’s first appearances on television were more by circumstance than design. She started by filling in for Tim Cestnick, another CA media darling, while working at his firm, The WaterStreet Group, in 2000. Soon, she was approached for interviews and continued with the media spots when she moved to RBC in 2006.

Schultz believes her CA training has helped with the TV work. When she did audits, she went from company to company, learning about different industries and dealing with different personalities. “That all transfers well to television,” she says.

Deena Waisberg

GOOD SHOW: Hamilton CA Suzanne Schultz helps homeowners balance their budgets on reality television’s House Poor

SMEs set to increase international business

More than half (54%) of small and medium-sized enterprises currently involved in foreign markets expect to expand their international activity over the next year — and 41% say they will increase it by more than 10%. Those are the findings of a survey conducted by HSBC Bank Canada in Montreal, Edmonton, Calgary, Toronto and Vancouver. The latter two cities are the most optimistic about their growth, with 67% and 71% respectively anticipating an upward trend. Montreal businesses are the least hopeful, with only 30% forecasting growth in international opportunities in the coming year.

A separate study by KPMG Enterprise confirms these great expectations: 60% of Canadian private companies surveyed said they plan to expand their presence outside Canada during the next five years, and 67% said revenue from foreign operations would grow as much as 80% during this period.

RÉSUMÉ
1997 obtains CA designation (Ont.)
1999 joins The WaterStreet Group, Oakville, Ont.
2000 appears on TV for first time
2006 joins RBC Dominion Securities, Hamilton
2009 co-hosts reality HGTV show House Poor

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BOARDS A BOON TO CAs

Canadian CAs continue to play a major role in the governance of both public and private companies, as well as not-for-profit and governmental organizations. According to the latest CA Profession Compensation Survey, 27% of members hold at least one board position. The majority (54%) of CAs who serve on a board are a director of a social or charitable organization, 28% are on the board of a privately held company, 9% are on the board of an industry or trade association and 9% serve on the board of a public company or one of its subsidiaries.

Only 10% of CAs serving as directors are compensated for their board work, but the experience offers many benefits. In addition to providing CAs with a chance to give back to the community by serving on the board of a not-for-profit, board work is also good for career development, the survey findings suggest. The average compensation for CAs serving on a board is $247,626. CAs who serve on public company boards have the highest mean compensation ($468,294), followed by those on hospital/university boards ($367,640) and private company boards ($358,931). The mean compensation for CAs serving on boards of industry and trade associations ($271,518) and social and charitable organizations ($200,243) are also well above the average for all members. (See “Strong & steady,” p. 18.)

CAs who want to be on a board can post their résumé on the CICA’s Directors Source website. For more information go to www.directorsource.com or e-mail directorsource@cica.ca.

John Tabone is CICA’s manager of member value and research services.

## Findings

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<th>What kind of boards do CAs serve on?</th>
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<td><strong>Type of organization</strong></td>
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<td>Social or charitable organization</td>
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<td>Privately held company</td>
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<td>Industry or trade association</td>
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<td>Crown corporation</td>
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<td>Other</td>
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### What’s the best way to respond to an angry client?

Unhappy clients will not always tell you they have a problem; they simply move their business elsewhere. So, if a client gives you a chance to repair a bad situation, take it. Here are a few tips to keep your business relationships from going bad — and rescue those that have started to sour:

**Extend a peace offering.** Don’t succumb to the temptation to avoid clients when hard feelings are present. Offer an apology and make things right with a gesture as simple as a handwritten note, refund or coupon.

**Don’t strike back.** Your first reaction may be to explain why you are right or why the client is overreacting. But your chances of keeping that client are much greater if you instead work toward a resolution. Smile, take responsibility (even if you haven’t done anything wrong) and offer solutions.

**Listen.** Clients will listen to reason if you respectfully listen to what they have to say first. Knowing that you are truly listening to their concerns can make clients agree with your suggestions much more quickly.

**Have a standard service protocol.** Creating standards, procedures and methods of dealing with clients and servicing their needs can really help. Effectively resolving problems with clients makes them more loyal because they see you care about their business.

**Get feedback.** Ask what you can do better or how you can improve. And when a problem has been solved, ask if you handled it to their satisfaction or if there is anything they would like you to have done differently.

Maribeth Kuzmeski is author of *The Connectors: How the World’s Most Successful Businesspeople Build Relationships and Win Clients for Life*.
Ready, set, spend  In 1924, advertising arrived at the Olympics. Today, more than ever, the enormity of the Games depends on the financial support of corporations.

2.6  Millions of US dollars paid to secure a 30-second ad at the 2006 Super Bowl. McDonald’s restaurants chose to pass on the NFL championship and advertise at the Turin Games that year, where US$700,000 secured the same result.

35 to 50  Millions of US dollars spent by Visa International during its two-year Calgary Games campaign. “At the 1988 Winter Olympics, they will honor speed, stamina and skill. But not American Express,” read one ad criticized for bending the truth to take aim at a rival.

45  Olympic advertisers who received “make-good” ads in the wake of the 1984 Sarajevo Games where there were one-third the viewers ABC had projected.

82  Years Coca-Cola has advertised at Winter and Summer Games, beginning in Amsterdam in 1928.

386  Millions of US dollars secured by the 1988 Calgary Winter Games for selling broadcasting rights to ABC. Squaw Valley, Calif., received US$50,000 from CBS in 1960.

900  Millions of US dollars received by NBC for advertising sold during the 2006 Turin Olympic coverage.

1999  Year Johnson & Johnson pulled out of a sponsorship deal worth an estimated US$30 million after it was divulged that members of Salt Lake City’s bid committee had bribed Olympic Committee members to secure the Games.

Steve Brearton

Going Concern

KAREN KINSLEY, FCA
PRESIDENT & CEO, CANADA MORTGAGE AND HOUSING CORP.

COMPANY PROFILE: As Canada’s national housing agency, CMHC helps sustain a healthy housing market by providing mortgage loan insurance to enable mortgages at the lowest possible rate and facilitating homeowners in renovating or refinancing their properties. Established in 1946 and based in Ottawa, the Crown corporation employs 2,000 and posted assets of $203.5 billion in 2009, with revenue of approximately $12 billion.

HOT FACTOR: Under Karen Kinsley’s leadership, CMHC has received many awards for corporate citizenship and management practices. Most recently Kinsley received the Ottawa Business Journal’s CEO of the Year for 2009. She was also recognized by the Women’s Executive Network in 2008 as one of Canada’s Most Powerful Women: Top 100 Award.

COOL PROJECTS: Partnering with Natural Resources Canada, CMHC launched a $2-million EQuilibrium Housing Initiative providing resources to private developers to construct homes that generate as much energy as they consume. The 15 demonstration homes, to be located across the country, will be completed by 2012 and some are already open to the public for viewings. In 2008 CMHC also initiated a $300-million housing fund to assist First Nation families to buy, build or renovate homes on reserve lands. This is anticipated to open up housing possibilities in other aboriginal communities in the country.

IN HER OWN WORDS: “Knowing the business, clarity in what must be done, integrity and determination are all values ingrained in me through my CA training. As a leader I try to instill in the people around me a clear sense of direction, and to demonstrate an unwavering commitment to seeing things through. From time to time I also need to believe that impossible things are possible.”

Rosalind Stefanac
Canadian pensions score high worldwide
Canada’s retirement income system ranks fourth in a global pension index comparing private and public pension systems in 11 countries.

The index, produced by consulting and investment firm Mercer, considers factors including the adequacy of benefits — or how much income is available to a retiree, the participation in private pension plans and the level of pension assets (as a percentage of GDP). While the Canadian system appears strong compared with many other countries, the report concludes there is still room for improvement and cites the following recommendations: increase the level of coverage of employees in occupational pension plans, possibly through a more efficient system; introduce mechanisms to ensure voluntary retirement savings are preserved for retirement purposes and to increase the pension age as life expectancy continues to increase, and increase the level of household savings.

“The fact that no country achieved an A-grade classification [a score greater than 80] confirms that no one system is perfect or currently robust enough to withstand the challenges presented by an aging population,” says Mercer’s David Knox, who oversaw the study.

<table>
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<tr>
<th>Global pension index</th>
<th>Overall index value (out of 100)</th>
<th>Country</th>
<th>Overall index value (out of 100)</th>
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<tr>
<td>Netherlands 76.1</td>
<td>Chile  59.6</td>
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<td>Australia 74.0</td>
<td>Singapore 57.0</td>
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<td>Sweden 73.5</td>
<td>Germany 48.2</td>
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<td>Canada 73.2</td>
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<td>UK 63.9</td>
<td>Japan  41.5</td>
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<td>USA 59.8</td>
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Source: Melbourne Mercer Global Pension Index 2009

Secrets to saving
Ever wonder where your friends and colleagues pinch pennies during tough times? Chances are brand names are the first to bite the dust, according to a Harris Poll.

Nearly two-thirds (64%) of US adults surveyed in October said they bought more generic brands over the previous six months in an attempt to save money, while 47% brown bagged their lunch and 43% went to the hairdresser or barber less often.

Money-saving methods used by at least one-third of respondents include drinking tap instead of bottled water (36%) and cancelling magazine subscriptions (34%). Others cut down on dry cleaning, cut back or cancelled cable TV or newspaper subscriptions, stopped buying their morning coffee, changed or cancelled their cellphone service and increased their use of carpooling or mass transit.

ETHICS OATH
MBA graduates from the University of Ottawa’s Telfer School of Management are the first in Canada to take a voluntary oath of professional conduct. The 2009 grads took the inaugural Canadian MBA oath to conduct affairs ethically in October, following a similar pledge made by Harvard University’s business school in June.

SMALL BIZ’S BEST FRIEND
Canada’s small-business owners rely on accountants for financial advice more than any other resource, finds an Angus Reid survey for Sage Software. Two-thirds (65%) of owners polled use an accountant or consultant to help manage their finances, followed by the Internet (38%), industry contacts (32%) and government info (29%).

TFSA TOTALS
Seven in 10 Canadians have not yet opened a tax free savings account, even though they are aware that the tax-saving vehicle exists, finds a poll by RBC. The main reason cited for forgoing a TFSA, available since January 2009, is a lack of money to invest (51%).
Flex plans gain in popularity

Flexible benefit plans are not new, but they are certainly becoming more appealing in the current economic and demographic climate, according to a recent survey by Hewitt Associates. Most organizations with such plans say they have been able to contain benefit cost increases — an advantage as Canada moves from recession to recovery.

Of the 211 organizations across Canada that responded to Hewitt’s Flexible Benefits in Canada 2009 survey, 60% offer a benefit plan with a flexible component, up from 41% in 2005 when Hewitt last conducted this survey. Three-quarters of those who do have flex plans said these programs are meeting or exceeding their expectations with regard to the top three advantages they identified: meeting diverse employee needs, containing rising benefit costs and improving employee recruitment and retention.

Many organizations have employee populations that are increasingly diverse in terms of age, race, culture, gender, family make-up, and so on. Each group has different concerns and drivers as well as a variety of work styles and expectations. “One size fits all” human resources programs don’t meet their range of needs, and so aren’t effective in attracting and retaining employees. At the same time, the current economic situation forces organizations to make decisions that ensure programs are structured for optimal return.

Flexible plans are evolving to meet changing needs. A new trend is a focus on employee health: wellness accounts, critical illness insurance and health club memberships are all on the rise. In addition, 30% of employers are making financial/tax counseling available and 14% have introduced the new TFSA as an option. At the extreme end of the employee benefit plan continuum, organizations offer choice with respect to total rewards, cash, retirement, work environment, work hours — virtually every aspect of the employment relationship.

Do the advantages of flex plans increase with additional flexibility? Not necessarily. More important to the success of a flexible benefit plan is including options that meet the needs of employees — preferably determined with their input — as well as effective communication and flawless delivery. If these three aspects are in place, a flexible benefit plan is a sure win-win for both employer and employees.

This is a summary. For an expanded article, please visit www.camagazine.com/flexplans.

Paul Stephens is a senior benefits consultant in Hewitt’s Vancouver office. Contact: paul.stephens@hewitt.com

Is IT ready for IFRS?

Publicly accountable businesses in Canada now have their sights set on January 1, 2011, as the formal conversion date from GAAP to international financial reporting standards (IFRS). But to be ready in time, they may need to start overhauling their financial IT systems as early as this month, according to Grant Thornton LLP.

“Even though 2011 is the official starting point for IFRS in Canada, the process requires that comparatives for fiscal 2010 be presented with the 2011 financial statements,” explains Doug Steele, a Vancouver-based partner and regional IFRS leader with Grant Thornton LLP, “and that comparison must be made in an IFRS context. So if your 2010 fiscal year matches the calendar year, it means that your involvement in IFRS actually began on January 1, 2010. Public companies in Canada are aware of what IFRS means for their accounting obligations, but when it comes to making necessary changes to IT systems used for financial data, some will get caught off guard about how quickly it’s coming up.”

Steele points out that the initial challenge will lie in simultaneously running distinct accounting systems during the 2010 fiscal year. “While the 2010 fiscal year reporting needs to be IFRS compliant as part of 2011 reporting, 2010 is also the final year that companies will be using Canadian GAAP. Businesses in this scenario need to make sure that their IT systems can handle parallel processing. Are the company’s IT systems’ storage and memory capacities up to the job? Will they have the resources to file financial data into two systems? Will the finance staff have access to the type of data they need for the simultaneous filings? A public company that isn’t sure of the answers to these questions could be in for an unpleasant surprise after January.”

For more on conversion-related IT challenges, please visit www.CAmagazine.com/ITforIFRS.
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THOMSON REUTERS
Stranger than science fiction

Is your industry in the midst of a transition at Silicon Valley speed? If it isn’t, it could be very soon, because I’m seeing it happen wherever I go. Take the global credit card industry. For a long time, the pace of innovation has been relatively slow and deliberate; aside from the chip found in your new credit card, it’s still been about the same old piece of plastic.

All that is about to change, because as I observed at a recent global financial conference, it is quite likely that our cellphones, BlackBerrys and iPhones will become the credit card of the not-too distant future. When you enter a store, you’ll punch a code into your iPhone to confirm the transaction, and you’ll get an instant receipt. As this transition occurs, the financial payment industry will find it has suddenly lost control of its innovation agenda. Rather than having the future figured out in boardrooms of bank towers, control will have been wrested away by someone in Silicon Valley who innovates at hyper-speed.

The trend is happening everywhere I look, even in the world of sports. I spoke to 4,000 professionals at the National Recreation and Parks Association’s annual conference in Salt Lake City. I challenged the audience — most of them responsible for civic or state recreational activities and park infrastructure — to think about the baseball bat of 2015 or 2020. From my vantage point, it’s going to look the same, but it’s likely to have a variety of sensors built into it that will provide players with instant feedback regarding the strength and accuracy of their swing; the same sensors will trigger their nearby cellphone to automatically capture a video of their time at the plate.

Retail will change at the same fast and furious pace. I’ll walk into a store, and behind the scenes, the store will recognize me through an interaction with my mobile device. That will cause a plasma TV in the corner to start displaying a customized advertisement for me based on prior shopping history, at the same time I’m zapped a coupon for a 20% discount for a few items over on aisle 12.

Farfetched? I don’t think so. Creepy? To us maybe, but perhaps not to the next generation. When we think of the strangeness of the future and our likely negative reaction to some of what might come next, we have to remember this: it’s not bad, it’s just different.

The key point is that entire industries will be swept along at a raging rate of innovation. All of a sudden, those people who have managed in-store design, layout and promotions will find their old skills don’t transfer as easily to this strange new world as the digital denizens re-shape the customer experience.

Even the slow, staid senior citizen housing industry is being impacted. Five to 10 years out, we’ll have a lot of baby boomers living out their golden years in regular homes as opposed to retirement homes (simply because society won’t be able to afford it). Medical professionals will manage their care from afar using a vast array of biocnectivity medical devices; sensors embedded throughout the home will detect if their behaviour patterns are out of the norm and will trigger an alert. Science fiction? Research into this type of sensor-application is well underway at the University of Missouri.

Here’s a good way to think about innovating at Silicon Valley speed: in my home office, I have an MP3 player from somewhere around 1999. It can hold about three or four songs. It seemed cool at the time. Today, it’s positively a joke compared with the modern iPod.

Could the fundamentals of your industry as quickly become something like a joke?

Jim Carroll, FCA, is a well-known speaker, author and columnist. Reach him at jcarroll@jimcarroll.com or log on to his website at www.jimcarroll.com

THE LATEST INNOVATIONS

ContactlessNews: payment technology www.contactlessnews.com/tag/Payment
“Health-monitoring technology helps seniors age in place” www.workingcaregiver.com/articles/aging-in-place/age-in-place
The future of snowboarding and skiing www.jimcarroll.com/blog/2006/06/the-future-of-snowboarding-and.html
You see the opportunities, now capitalize on your vision.

We’ve built a global leadership position with a singular focus on helping our clients achieve their objectives. We rely on a process of uncovering and analyzing market intelligence so that our clients can seize opportunities.

We’re There.

PotashCorp was a multiple winner at the Corporate Reporting Awards presented last month in Toronto by the Chartered Accountants of Canada. PotashCorp also won awards for Excellence in Financial Reporting, Excellence in Electronic Disclosure and an Award of Excellence for the mining sector. In addition, the company collected an Honourable Mention in Sustainable Development Reporting.

“Our focus on all aspects of corporate reporting helps enhance our accountability and further protect the interests of the stakeholders who are essential to our long-term success,” said Denita Stann, senior director of investor relations. “It is always an honour to be recognized by the judges and the Canadian Institute of Chartered Accountants.”

The program has recognized excellence in financial and corporate reporting in Canada for more than 50 years. The awards are presented annually and reflect the CA profession’s commitment to enhancing the quality of financial reporting.

TD Bank Financial Group and Nexen Inc. were the other multiple winners, collecting industry and judging category awards. In total, 20 awards and honourable mentions were handed out. This also marked the third year that the program featured award categories for large and small federal Crown corporations.

“With today’s challenging economy, clarity in corporate reporting is more important than ever,” said Kevin Dancey, FCA, CICA president and CEO. “Corporate Canada is facing extensive scrutiny from investors. It is important that good examples of corporate reporting be recognized.”

Winning companies and Crown corporations are profiled in the Book of Judges’ Comments for the 2009 Corporate Reporting Awards. The book is available free of charge by telephone at 416-204-3435 or online at www.cica.ca/cra.
Canada’s CAs helping business owners with estate planning

The Chartered Accountants of Canada and Scotiabank Group have teamed up to publish The Estate Planning Toolkit for Business Owners: Building and Preserving Your Wealth. The official launch of the toolkit was held in Toronto in late 2009.

“Knowing more about where you are now and where you are heading is very much in your own self-interest, and that of your family,” said Cairine Wilson, CICA’s vice-president, member services.

The toolkit was written by Peter B. Lillico, BA, LLB, and Steven C. Bark, BA, BComm, CA, with contributions from Pina Melchionna, BA, LLB, MBA, national director, will and estate planning, Scotia private client group. All three made brief presentations at the sold-out event held at the Toronto Board of Trade. Estate planning involves creating, managing, preserving and passing on wealth. It incorporates financial, tax and succession planning, along with risk management and personal protections.

“The event’s sellout reflects strong interest in the subject matter,” said Board of Trade president and CEO Carol Wilding. “The toolkit launch was an ideal springboard to provide valuable information about estate planning. We were pleased to host an event that brings this kind of added value to our members.”

Additional information about the toolkit, including how to order a copy, is available on the CICA website, www.cica.ca/estateplanning.

Stable platform for 2011 IFRS adoption

The Accounting Standards Board (AcSB) staff has released an update of an analysis titled Which IFRSs are Expected To Apply for Canadian Changeover in 2011?, which discusses anticipated changes to international financial reporting standards. The latest analysis makes it clear that there are unlikely to be any further significant changes to IFRSs that will be mandatory for 2011 adoption, though a number of standards are likely to be available for voluntary early adoption.

“This is good news for Canadian companies,” said Ian Hague, principal, accounting standards dealing with the AcSB’s IFRS transition plan. “Companies can now select accounting policies secure in the knowledge that they will not be required to change them again by the end of 2011. However, companies should continue to pay attention to changing standards and consider whether they wish to early adopt any new IFRSs.”

To help publicly accountable enterprises (PAEs) plan appropriately, the AcSB staff analysis provides information about: IFRSs that are expected to be applicable for the first year of adoption; IFRSs that PAEs can safely study and plan for now; and the anticipated timetables for IFRSs that will be changing. It also discusses which IFRSs will change again shortly after an entity has adopted them and what the effect of such changes could be.

The analysis includes all changes presently on the IASB active agenda. Given the usual time to complete a major standards project it is unlikely further significant changes will be made until several years after Canada’s adoption. The AcSB is monitoring all IASB projects closely and will, as necessary, discuss the need to avoid undue difficulty for the Canadian adoption of IFRSs.

The updated analysis is available for free download on the CICA’s IFRS website. Visit www.cica.ca/IFRS for a broad range of useful IFRS planning and implementation resources.

Not-for-profits — future financial reporting direction update

With more than 160,000 not-for-profit organizations in Canada ranging from local sports and cultural associations to such organizations as hospitals and universities, the future financial reporting direction is of interest to many.

The Accounting Standards Board and the Public Sector Accounting Board plan to release a document for comment in the first half of 2010 that proposes possible reporting options for this diverse and complex sector. Until a new direction has been established, existing accounting standards used by the sector — those from the CICA Handbook — Accounting — will continue to apply unchanged.

Not-for-profits considering adopting IFRSs should note that although Canadian PAEs are required to adopt IFRS on January 1, 2011, not-for-profits won’t follow that timeline. The transition for not-for-profits will be based on a separate timeline, allowing adequate time to successfully plan and transition.

Stay involved by subscribing for e-updates and visiting the CICA Canadian Standards in Transition website at www.cica.ca/transition.
Ontario’s information and privacy commissioner speaks at CA event

The CICA officially launched its publication The Canadian Privacy and Data Security Toolkit for Small and Medium Enterprises at a Toronto event in late 2009. The easy-to-use toolkit provides practical guidance about how companies can effectively address data security and privacy risks.

The toolkit was authored by Claudiu Popa, a security industry veteran and president of Informatica Security Corp. The informative publication uniquely features a foreword written by Jennifer Stoddart, privacy commissioner of Canada and an introductory chapter by Ann Cavoukian, information and privacy commissioner of Ontario. Both Cavoukian and Popa spoke at the toolkit launch.

“Management and employees, especially those on the frontlines, should have a clear understanding of why personal information needs to be protected and how best to protect that data,” said Cavoukian. “The CICA toolkit provides valuable guidance in a format that is easy to understand and accessible to non-privacy professionals.”

New IFRS resources — free and online

With the transition to international financial reporting standards entering the homestretch, the CICA has added three new online resources to its program of support to members and the larger business community.

For small and medium-sized enterprises

From the Trenches — IFRS Infocast: a series of conversations with Canadian companies making the transition to international accounting standards. “Listening to the experiences of other enterprises that are moving through the transition may provide insights that will help your organization,” says Gord Beal, CICA principal and project leader for the CICA’s IFRS transition strategy. The first episode focuses on the experience at Marsulex Inc. This medium-sized public company’s IFRS transition plan pays significant attention to property plant and equipment, which makes up more than 50% of its total assets.

Listen to the 15-minute podcast online or download the file and listen when it is more convenient for you.

Get to the Point — Practical how-to tips for small and medium-sized companies: a web-based presentation that helps cut through the complexities of the transition to IFRS. The first session provides basic information, including the transition timeline and core issues to consider. The second session covers information that will help analyze accounting standards and determine accounting policies.

Build your IFRS learning path

How much do you need to know about IFRS? All accounting professionals require a basic understanding of IFRS. Some need in-depth knowledge about issues specific to their industry. CICA’s new Learning Path tool helps assess your learning needs and develop an educational path. Simply answer a five-question survey and the tool will provide you with education and training options.

Visit the CICA’s dedicated IFRS website, www.cica.ca/IFRS, for these and other IFRS resources, including guides and publications, GAAP comparisons, sample financial statements, checklists and other practical planning and implementation tools.

Accounting standards for Canadian private enterprises now in the Handbook

ACCOUNTING STANDARDS for private enterprises in Canada have been finalized and are now part of the CICA Handbook — Accounting. They can be accessed through Knotia. The Accounting Standards Board consulted widely with stakeholders in development of the standards, which are designed specifically with the needs of private enterprises and users of financial statements in mind. Standards for private enterprises become mandatory for years beginning on or after January 1, 2011. Early adoption is permitted. To learn more, visit www.cica.ca/pe.
### Standards digest

Want to be kept informed? Log on to [www.cica.ca/subscribe](http://www.cica.ca/subscribe)

#### RECENTLY ISSUED PRONOUNCEMENTS

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<th>CICA Handbook – Accounting</th>
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<td>Preface to the CICA Handbook – Accounting</td>
<td>January 2010</td>
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<tr>
<td>International Financial Reporting Standards (Part I)</td>
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<td>Accounting Standards for Private Enterprises (Part II)</td>
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**EIC Abstract**

- Multiple Deliverable Revenue Arrangements, EIC-175 | December 2009

**CICA Handbook – Assurance (Part I)**

- Preface to the CICA Handbook – Assurance | December 2009
- Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements, CSQC 1
- Canadian Auditing Standards
- Retained Sections and Guidelines

**CICA Public Sector Accounting Handbook**

- Introduction to Public Sector Accounting Standards (revised) | December 2009

### RECENTLY ISSUED DOCUMENTS FOR COMMENT (to January 31, 2010)

**Accounting**

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<td>EDI Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (IFRS 1 amendments)</td>
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**Public Sector**

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### WATCH FOR

**CICA Handbook – Accounting**

- Accounting Standards for Pension Plans (Part IV)

**Documents for Comment**

- AcSB and PSAB proposals concerning Not-for-Profit Organizations
- AASB proposals concerning 2010-2013 Strategic Plan

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**Legend**

- ED – Exposure Draft
- EIC – ED issued by the IASB
- rED – Re-exposure Draft
- DS – Draft SORP
- ITC – Invitation to Comment
- SOP – Statement of Principles

† Refer to each Handbook pronouncement for the effective date and transitional provisions. The information published above reflects best estimates at press time. Please visit our website for the most recent information.
Despite all the red ink in the economy, the state of compensation in the profession has been generally positive over the past 18 months.

For veteran Winnipeg CA Joel Lazer, it was a revelatory moment. A co-founder of Lazer Grant Chartered Accountants and Business Advisors, he had set up an innovative employee bonus pool system, which encourages everyone in the firm to take personal responsibility for its overall performance. Inspired by a US management consultant’s advice during a 2002 seminar, the so-called “Lazer Results” system augmented an older philosophy established by the original partners in 1982 that ensured the various practice groups would share profits among themselves to cushion the blow of a slow year. “We always share the good stuff,” Lazer says.

The 33-person practice founded in 1982 by six accountants offers a range of services, including consulting, attracting entrepreneurs as clients and dealing with small businesses with revenues in the $5-million to $100-million range. All employees and partners see the monthly numbers. “Everyone at Lazer Grant sees themselves as responsible for marketing the company,”

by John Lorinc

Strong & Steady

Illustration by Michelle Thompson
Lazer says. The strategy appears to have borne fruit. The firm has doubled in size since 2002; in 2009, it was on track to generate one of the largest bonus pools since Lazer established the system, despite a downturn that seems to have mostly steered clear of Manitoba. Lazer’s story reveals much about the state of compensation in the Canadian accounting industry in the past 12 to 18 months, a period that straddles one of the most daunting global downturns since the Great Depression. Despite the red ink and the relentless scaling back of growth forecasts, the Canadian accounting profession appears to be weathering the financial storm, as the generally positive results of the CICA’s 2009 CA profession compensation survey suggest.

“CAs are doing quite well and holding their own, given the economic times we’re in,” says CICA president Kevin Dancey. The survey, conducted last spring, asked members about 2008, the year that began with the resolution of the asset backed commercial paper crisis and closed with the domino-like collapse of some of the world’s leading financial institutions. Dancey points to the fact that of the 15,981 respondents (equivalent to a 29% response rate), 56% were optimistic about total compensation growth for 2009. “It’s an important point,” he says.

The survey results offer few surprises about the makeup of the Canadian accounting profession as it enters the 2010s. Having been a partner for 27 years, Lazer belongs to the fastest-growing segment of the owner portion of the profession. And those boomer-related numbers continue to edge up. Compared to 2005, there are now more CAs who have worked 20 years or more, and slightly fewer at the front end of the profession — a result that speaks to the broader demographic change in the workforce at large. (The overall breakdown is likely even more pronounced. The 2009 results are skewed toward younger accountants because 61% of the respondents are under 45, whereas for the profession as a whole, the actual figure is 48%.)

Consistent with the pre-downturn strength of Western Canada’s commodity boom, the profession continued to shift toward British Columbia and Alberta since mid-decade, with those provinces seeing an increase in the overall number of respondents (BC 16.6%, Alberta 12.4%). Ontario and Quebec, by contrast, have seen declines of 6.3% and 12.2% respectively.

Ownership, on the other hand, seems to have declined: 83% are employees of a business or organization, up from 77% in 2005, whereas the profession in 2009 includes slightly fewer partner/owners and sole practitioners than it did four years before.

Over the same period, there has been a 6% increase in the number of CAs working in the three levels of government, as well as in public institutions such as hospitals and libraries (fewer, however, are working in universities and colleges). The growth has been driven by tougher accountability rules for civil servants and public programs, notes Ian Cullwick, a partner with Deloitte Consulting in Ottawa. “The public sector is a good example of where demand outstrips the supply of individuals with public sector experience.”

When it comes to compensation, the survey offers a snapshot of a profession capably handling trying times.

Between 2007 and 2009, total average compensation across Canada was virtually unchanged ($186,544 versus $186,543, respectively), although the median rose to $126,857 from $123,000 (the 2005 median is $110,000). The national average for sole practitioners is $167,515; $306,603 for partners; and $442,206 for the owners of other businesses. Nonowners — representing almost 14,000 respondents — report average total compensation of $167,833.

The average pay for a new CA is a respectable $71,817, and those figures rise steadily in the first five years — evidence, Dancey says, that the profession continues to be attractive to young people. (Indeed, the CA profession is expecting an increase in the number of UFE writers this year.)

Paul Long, the CICA analyst who compiled the survey, points out that the median figures offer a crisper picture of compensation trends because the averages are pulled up by a relatively small number of very highly paid members. Indeed, in the first to 85th percentiles, total compensation grew between 2007 and 2009.

While the average increases have outpaced inflation in the
past two years, salary growth is significantly lower than the 13.5% increase recorded in the 2004 to 2006 period, says Long.

Within the national data, there are clear regional variations. CAs from Atlantic Canada are still riding the wave of East Coast prosperity, with double-digit average compensation increases since 2007 in every province except Nova Scotia (which registered a more modest 5.2% increase). “Our region tends not to have the highs and lows of what happened in much of the rest of Canada,” says Michele Wood-Tweel, CEO of the Institute of Chartered Accountants of Nova Scotia and chair of the member relations task force that oversees the survey. “We have a more stable growth pattern; we’re in a more moderate band of change.”

“We don’t see any reduction in salary rates,” says Michael Casey, partner with Hemming Weir Casey Inc. in Halifax. “We’re paying people well and there’s still good demand for CAs in Halifax-Dartmouth.” Casey notes that the large practices have been hit by the fact that a lot of initial public offering work dried up. But for small and midsized practices, owner-operated business clients in Atlantic Canada are thriving. “Our firm is growing, our revenue is growing. Our problem is finding good people to

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<th>Compensation by province</th>
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<tr>
<td><strong>2009</strong></td>
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<tr>
<td><strong>Total compensation (owners and nonowners)</strong></td>
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<tr>
<td>Count</td>
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<tr>
<td>British Columbia</td>
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<tr>
<td>Alberta</td>
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<td>Saskatchewan</td>
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<td>Nunavut/Yukon/NWT</td>
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<tr>
<td>Outside Canada</td>
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<tr>
<td>Total</td>
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| **2007** |
| **Total compensation (owners and nonowners)** |
| Count | Mean | Median | Percentile 25 | Percentile 75 |
| British Columbia | 154 | $279,063 | $250,000 | $170,000 | $325,000 |
| Alberta | 168 | $297,871 | $250,000 | $175,000 | $378,571 |
| Saskatchewan | 31 | $246,832 | $208,000 | $160,000 | $280,000 |
| Manitoba | 53 | $211,156 | $180,000 | $130,000 | $251,000 |
| Ontario | 524 | $297,506 | $237,500 | $158,249 | $350,000 |
| Quebec | 257 | $236,222 | $180,000 | $125,000 | $285,000 |
| Newfoundland | 7 | $238,647 | $205,532 | |
| New Brunswick | 16 | $184,094 | $177,500 | |
| Nova Scotia | 19 | $223,513 | $180,000 | |
| Outside Canada | 48 | $787,605 | $630,500 | $500,000 | $1,050,000 |
| Total | 1,282 | $293,349 | $225,250 | $150,000 | $350,000 |
In the Prairie provinces, there’s been slight growth (less than 1%, except Manitoba, which has 1.02%), but that’s a big drop from the boom-time numbers captured in the 2007 survey, which reflected the runup in oil and gas and potash prices.

Evidently, economic diversification has provided a counterbalance to the volatile resource sector. “Manitoba is doing quite well compared to other parts of the country,” says Gerald Peterson, a partner with PPW Chartered Accountants LLP in Winnipeg. He’s expecting to increase compensation in his firm by 5% to 10%, although there’s still a sense of caution among his colleagues and client organizations. “Everyone [in Manitoba] is looking at the future with some concern. But companies are being proactive. We’re not seeing a lot of red ink, just smaller profit margins.”

Alberta’s average compensation tally remained the highest in the country, at $213,850, up about 0.7% from 2007. Yet that pace of growth has slowed markedly, says Jane Halford, CEO of the Institute of Chartered Accountants of Alberta. “That's truly reflective of the business here in Alberta,” she says. Despite the slump in the energy business due to the collapse of oil prices, Halford says the profession remains recession-proof. “Our experience anecdotally is that CA's who get laid off due to economic reasons are finding other positions fairly quickly.”

The story isn’t as upbeat in Canada’s three most populous and economically powerful provinces, as numbers dropped. Ontario, British Columbia and Quebec all experienced falling compensation averages, with Quebec dropping the furthest, for a 5.3% decline to $139,855.

London, Ont., sole practitioner Amy White has heard that there have been layoffs at some of the Big Four and midsized firms in southwestern Ontario. That hasn’t happened in eons, she says. (KPMG, Ernst & Young, PricewaterhouseCoopers and Grant Thornton declined to be interviewed for this feature.) But, White says, the dramatic manufacturing downturn hasn’t affect-

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### Compensation by area of practice

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The average pay for a new CA is a respectable $71,817, and such figures rise steadily in the first five years.
Public practice accountants have seen their average total compensation rise steadily from 2005 to 2009.

...
other top financial posts experienced a contraction since 2007. Those changes reflect ongoing media coverage of executive pay, increasingly cautious compensation governance practises for top-level financial managers in large organizations, and the long-term move away from stock options and other incentive plans that stress short-term results rather than long-term growth.

Among top financial executives generally, Ian Mason, a principal at Hugessen Consulting in Toronto, has seen flat pay and scaled back bonuses in the past 12 to 18 months. Some firms have opted to change their profit-sharing plans by targeting most of the funds in the bonus pool to top performers, Mason says. “That person will get much more than others this year but will get the same as typical increases for previous years.”

Indeed, while firms in economically stable regions such as Manitoba or Atlantic Canada have been able to maintain their profit-sharing plans, the survey shows a sharp 16.2% drop in nonbase compensation nationally, a clue that at the end of last fall’s market roller coaster, many firms retrenched in anticipation of a recession.

“A lower increase, say 2% or 3%, is not unusual,” says Susan Maynard, audit partner with Collins Barrow in Toronto. As Mason has seen among his compensation clients, Maynard says the only employees receiving bonuses these days are those who “far exceeded expectations. That could be a source of frustration for some people, and hopefully it won’t be long lived.”

The scaling back of bonuses is magnified by the fact that nonbase compensation jumped 34% between 2005 and 2007, so the total change from mid-decade is almost 50%. Long points out that nonbase compensation is more easily adjusted than salary packages.

What also seems to be taking place is a reconsideration of the nature of bonuses. For much of this decade, bonuses were broadly distributed, reflecting an organization’s growth. But Mason says some firms are moving to tie bonuses for financial executives to achieving compliance goals. Graham Dodd, senior manager for Deloitte Consulting’s human capital practice in Vancouver, says many companies are managing their bonus plans much more closely, with an eye to rewarding individual performance. “That means building a stronger understanding of what different levels of performance look like for various roles, in terms of output and behaviour with clients or colleagues,” he says.

As for benefits, the survey indicates that for both owners and non-owners there has been a slight decline in the proportion of respondents receiving virtually every category, including health, life insurance and pensions, as well as a range of perquisites such as out of country travel and parking. The trends reflect a general belt tightening in the face of a diminished economy, as well as the ongoing problems facing defined benefit plans in large companies.

As Cullwick points out, the plight of organization pension plans has led to some upward pressure on firms’ base salaries.

Maynard, audit partner with Collins Barrow in Toronto. As Mason has seen among his compensation clients, Maynard says the only employees receiving bonuses these days are those who “far exceeded expectations. That could be a source of frustration for some people, and hopefully it won’t be long lived.”

“There’s a lot more good candidates becoming available,” says Maynard. When a firm puts out a salary offer these days, she says, there isn’t much push back by applicants, in terms of perks, bonuses or higher pay packets. But, Maynard says, “you’re still paying well for the strong performers.”

In some parts of the country, such as Alberta, education officials have added university spaces to generate a larger flow of accounting graduates as a means of ameliorating labour shortages. Ontario, likewise, has seen record numbers of new accountants joining the profession.

Elsewhere, the ebb and flow of Canada’s regionalized economy has brought new recruiting advantages. Casey says his firm has been able to attract Maritimers who went west to take advantage of the prosperity from the oil/gas sector but have been coming back to Atlantic Canada.

But the sense of recruitment equilibrium may not be long-lived. “As we start to emerge from the recession, it’s really a time for organizations to pay attention to keeping talent,” says Dodd. “There’s a historical pattern that retention risk is greater in the aftermath of a downturn.”

Back in Winnipeg, Lazer has seen his steadily growing firm come through a period of uncertainty with a poise that underscores the accounting profession’s claim to be recession-proof. And a generous helping of managerial smarts, in the form of a well-executed incentive system, certainly hasn’t hurt either. “It’s why we have everyone so energized around here. Everyone feels ownership of the company.”

John Lorinc is a freelance writer based in Toronto

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Organizing the Olympics may not be a sport unto itself, but it still takes buckets of sweat. Meet the CAs behind the Games

By Roberta Staley

Going for GOLD

Of the gazillion things clamouring for Terry Wright’s attention, the one topping today’s list is food — lots of it — enough for 1,200 hungry athletes at a time, three times a day, every day, for more than two weeks. Wright, a CA and the executive vice-president of services and games operations for the Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games (VANOC), is snowed under a daily avalanche of to-do lists. With a day as tightly wound as a Victorian lady’s corset, timing is everything and, at this moment, food has top priority.

The dining room at the athletes’ village, located on the Vancouver waterfront, is set up, the kitchen is firing, and the VANOC executive team is coming down for a gourmet test run. They will be served an evening meal in the exact proportions the athletes will receive in February.

Photography by DARRELL LECORRE/KLIXPIX

VANOC’s trio of CAs (from left): Terry
VANOC’s trio of CAs (from left): Terry Wright, executive vice-president; John McLaughlin, vice-president and CFO and Dave Cobb, executive vice-president and deputy CEO

Wright, executive vice-president, John McLaughlin, vice-president and CFO and Dave Cobb, executive vice-president and deputy CEO
Wright, but by two fellow chartered accountants who are part of VANOC’s 10-member senior management team.

Wright and CAs Dave Cobb, executive vice-president, revenue, marketing and communications and deputy CEO, and John McLaughlin, vice-president and CFO, have shown that, while organizing the Olympics may not be a sport unto itself, the endeavour can have as many heart-stopping moments as a gold-medal match between long-standing rivals. It is due in large part to Cobb’s, McLaughlin’s and Wright’s ability to overcome great challenges that the 2010 Olympics are going ahead with a pomp and pageantry that belies the fiscal prudence forced upon them by the global economic crisis since the Second World War.

Cobb, McLaughlin and Wright had to overcome great challenges for the 2010 Olympics to go ahead with a pomp and pageantry that belies the fiscal prudence forced upon them by the global economic crisis

Cobb acknowledges the situation could have been worse. When he started in August 2004 as executive vice-president, after 40 trips to Toronto in the past few years to sign more than 50 national sponsors such as General Motors and Cold-FX. He is also VANOC’s go-to communications guy, giving journalists from around the world the latest updates during interviews and media conferences.

Until about a year ago, it was mainly good-news reporting. Then, in late 2007, the subprime mortgage crisis shook the US. The ripple effect, felt first in the residential real estate market, lapped onto the financial and retail sectors, triggering a worldwide tightening of credit. VANOC found itself facing a multimillion-dollar shortfall, and the sweet, endearing smiles of Olympic and Paralympic mascots Quatchi, Miga and Sumi seemed, suddenly, slightly naive.

Six months before the Games were to begin, the IOC, based in Lausanne, Switzerland, had signed only nine international sponsors due to the recession. Eleven sponsors had been budgeted for. VANOC’s share of each sponsor was $15 million, leaving it $30 million short, Cobb says. VANOC had also failed to sell $12 million worth of billboard advertising it had bought up.
VANOC CEO John Furlong convinced him to join the management team, Cobb bolted out of the starting gate. “We had success early and rode the wave of interest and excitement early and secured the majority of our revenues before the recession hit,” he says. “We were very fortunate.” Furthermore, VANOC avoided the scandal afflicting past Games, such as the 2004 Summer Olympics in Athens, Greece, which saw overruns climb into the billions of dollars due in large part to frenzied last-minute construction. Cobb says VANOC worked “really hard learning what we could about previous Games, what went well and what didn’t go well, doing everything we could not to repeat the mistakes previous organizations had made.”

Construction of new facilities and upgrades were completed one to two years before the start of the Games, at a cost of $580 million, a tab that was picked up by the BC and Canadian governments. Finishing early saves you money, says Cobb. “You’re not paying overtime and you’re not vulnerable to the market to get things done.”

Having the facilities ready early also had two other big advantages, says Cobb. Not only did it allow time to train the people who will be operating the facilities, but it gave the Canadian athletes the opportunity to train where they will compete, giving them home field advantage. This complements the national Own the Podium 2010 strategy to see Canadian athletes win a record number of bronze, silver and gold medals. The target is 35 medals, projected to place Canada in the top three participating nations. At the last Winter Games in Turin, Italy, in 2006, Canucks brought home 24 medals, seven of them gold. Canada’s performance as a host nation, however, has been tarnished; gold eluded our athletes at both the 1976 Montreal Summer Olympics and the 1988 Calgary Winter Games.

Staying focused and training hard to secure an Olympic medal has certain similarities to trying to balance the Olympic budget. Every improvement in performance, every progression, is the result of buckets of sweat. “When the economy turned in the fall of 2008 it was a big change for us,” says Cobb. “We are fighting for every dollar. Delivering on a balanced budget is our commitment, but it has become a much bigger challenge so we have to work much harder for every dollar than we used to.”

The IOC allowed VANOC to make a few changes in response to economic pressures, but nothing that “was defined when we put our bid in was compromised,” says McLaughlin, who was the chief architect of the Bid Corp.’s financial plan, drawing upon his experience helping balance the books at Vancouver’s 1986 World Exposition on Transportation and Communication world fair (Expo 86), as well as MUSIC ’91 and the 1994 Commonwealth Games.

McLaughlin’s light and airy office, like Cobb’s, has glass walls that sport the VANOC motif, graceful intermingling waves of pale blues and greens. Seated straight-backed at a table, McLaughlin muses that a huge part of the challenge he and his team faced came from the lack of flexibility in putting on the Games. In
other words, the show must go on — ready or not. Adaptability, imagination and compromise have been key to ensuring the planning for the Games has gone as smoothly as it has, he says.

McLaughlin, 53, has relied upon a top-notch finance department, including 10 “flexible, smart and hard-working” CAs to handle revenue and costs, as well as any tax peculiarities that have arisen since he became vice-president in 2004. “We’re doing some things nobody has really done before,” says the blue-eyed, bespectacled McLaughlin. Managing VANOC’s elaborate lattice-work ledger means falling back on his solid CA training, while using his imagination and ingenuity to adjust to anomalous circumstances. VANOC, McLaughlin says, has 30 very different revenue streams, including income from merchandise and ticket sales and contributions from broadcast rights and sponsorship.

Sponsorship is especially complex; it entails contributions in kind — products and services as well as cash to VANOC — in a complicated form of barter. For example, General Motors is donating vehicles, while Petro-Canada is providing fuel. “You have to have good internal controls so you know where the money is coming from and how it is coming,” says McLaughlin. “Then we have to make sure that we collect what’s owing us.” And there is nothing straightforward about the GST, he adds, with some of the supplies for the games falling under the “temporary importation” category. This refers to foreign goods brought into Canada for use only for the Games, then immediately returned to the owner. Because some importers are not registered for the GST and cannot claim credit for GST paid, certain remission orders reduce the payable taxes, he says.

Alan Peretz of Deloitte, the official supplier of professional services at this year’s Games, is the firm’s lead client service partner for Deloitte’s sponsorship of VANOC. Peretz has worked closely with McLaughlin on various financial aspects of the Games, including risk. Late in 2008, as the world economy was crashing and burning, McLaughlin was understandably concerned about the ability of sponsors to deliver on promises, says Peretz, director of operations for Deloitte’s enterprise practice in BC. Peretz helped McLaughlin analyze three key risk queries: was the sponsor financially viable? Could sponsors deliver by the opening ceremonies? How secure were their suppliers? General Motors was closely eyeballed. As at other North American auto giants, record-high gasoline prices had battered vehicle sales at GM and the company was seeking government bailouts on both sides of the border. And a Tennessee company that was the supplier for a key product — tents — was also scrutinized. “We used publicly available information to make an assessment,” says Peretz.

VANOC found things were in pretty good shape on the supply side and where there were some questionable areas, good dialogue and good action plans were put in place, says Peretz, who gives kudos to McLaughlin for keeping the ride as smooth as possible over the bumpy road. “He is a great team builder; he gave the team responsibility and accountability and let it do its job.”

CAS HAVE LONG INSISTED — unconvincingly to some — that there is a fun side hidden behind their earnest public demeanour. Wright, a man perpetually wired on his own enthusiasm, certainly repudiates the cliché, sitting poised on his office chair like a snowboarder ready to launch from the starting gate. “We’re a bit busy,” he beams, as if catering to the needs and whims of heads of state, members of the British Royal Family, 5,500 athletes and team officials and 10,000 members of the media is as thrilling as winning a gold medal.

Wright, 52, is responsible for “the big functions.” These include the Olympic village where the athletes will reside, as well as transportation, logistics, accommodation, snow management, cleaning and waste management, press and broadcast operations, temporary construction, secondments and, of course, food services. He must make sure all the athletes are well fed and well housed. There must be controls in place to ensure the athletes arrive on time to their events, which are scattered across 10 venues in Richmond, Vancouver, Cypress Mountain in West Vancouver and Whistler, 120 km north of Vancouver along the Sea to Sky Highway.
Oh, and pray for snow.

Nothing that Wright can’t handle. “I have a lot of energy and I love this work,” says the CA, who worked at Expo 86 after he finished articling, acting as the bridge between finance and operations and entertainment.

Keeping the VIPs happy and the athletes well fuelled is a cakewalk in comparison to the problem of transportation — long Vancouver’s bane. As any commuter will attest, traffic is a never-ending headache, with bottlenecks at key linkages between the urban centres that make up the Greater Vancouver Regional District, with its 2.2 million population. “We have to get 30% of the cars out of downtown Vancouver,” says Wright, who stays at a Vancouver apartment during the week and takes the 40-minute flight home to Victoria on weekends. Commuters into downtown will be encouraged to telecommute, walk, cycle or take public transit to work. Not an easy pill to push in February when Vancouver is soaked by bone-chilling winter rains.

This is but another minor hillock in the mountain range of challenges that Wright has scaled in the past dozen years. Tourism Vancouver first approached him in 1997 to do a feasibility study on the potential for Vancouver and Whistler to host a Winter Olympics. He prepared a business plan for the domestic bid committee and, in 1999, was contracted to lead the development of the technical aspects of the bid while overseeing the bid’s finances. At the time, Wright’s now 19-year-old son was in Grade 2. After such a lengthy gestation period, do the Vancouver Olympics feel like Wright’s baby? “It kinda does — and I want it to be delivered,” he says.

Now that VANOC is in the home-stretch of Games preparation, Wright has the luxury of looking back at a journey that he compares to trekking the Himalayas. “One of the challenges on a project as big and as complicated as this is that you get to the top of the mountain that you slogged your way up to get something done and before you can celebrate you look ahead and you see a bigger mountain,” he says.

It’s hard for Wright to believe that the Olympics — once only a dream — are mere weeks away. It has been a long haul for him, McLaughlin and Cobb. But when given accolades by men such as Chambers, the three downplay their contributions, preferring to deflect credit onto the VANOC team and the host of volunteers. Nothing will make these men happier than to see the Games go ahead without a hitch, allowing the athletes to finally take centre stage.

While it may be time for the athletes to shine, it can also be said that the commitment, ingenuity and endurance of Cobb, McLaughlin and Wright show that the spirit of an Olympic champion rests not only with the athletes, but with those who have worked to ensure the Games are an unforgettable experience for participants and viewers alike.

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Offshore trusts under attack

As the CRA challenges offshore trusts, many cases and appeals are working their way through the judicial system.

In the Canadian context, the expression “offshore trust” generally denotes a trust whose primary beneficiaries are resident in Canada and a trust that has been formed under and subject to the laws of another country, usually a low-tax jurisdiction. Both the Department of Finance and the Canada Revenue Agency (CRA) have taken steps to prevent the use of such trusts to defer or eliminate Canadian income tax. Finance has developed proposed tightening amendments to the non-resident trust rules in Sec. 94 of the Income Tax Act and is negotiating tax information exchange agreements with a number of jurisdictions. The CRA has attacked offshore trusts using a variety of approaches, including the general anti-avoidance rule (GAAR). These complex cases are beginning to work their way through the judicial system, and so far the CRA is ahead, 2:1. The cases are of interest not only because of their impact on offshore trust arrangements but also because of the myriad of legal issues they address.

In Garron et al v. The Queen, 2009 TCC 450, the Tax Court of Canada held that the trusts in question were not resident in Barbados because their “central management and control” was in Canada, even though the trustee for both was resident in Barbados. As a result of this decision, two Barbadian trusts were denied the exemption provided in Article XIV(4) of the Canada-Barbados Treaty. This case involved a typical offshore freeze. While Barbados is not a low-tax jurisdiction per se, it does not impose tax on capital gains realized by Barbadian residents. This fact, in combination with the treaty exemption, has made Barbados an attractive jurisdiction for offshore freeze transactions. The CRA has listed Barbadian trusts on its items under review for the potential application of GAAR. However, GAAR was just one of several grounds of assessment in the Garron case, and did not form the basis of the decision.
In 1998, the owners of common shares of PMPL Holdings Inc., a Canadian corporation, converted their shares to fixed value preference, or freeze shares, with a redemption amount of $50 million. Two trusts with Canadian resident beneficiaries were settled by an individual resident in St. Vincent. The sole trustee of each trust was a corporation resident in Barbados. The trusts subscribed for shares of newly incorporated Canadian holding corporations, making them wholly owned. These corporations then subscribed for common shares of PMPL for nominal consideration, no doubt on the basis that the freeze shares represented the then current fair market value of PMPL.

Two years later, in 2000, the trusts disposed of most of the shares in the holding companies in an arm’s-length sale, realizing capital gains of more than $450 million. The trusts claimed the exemption in Article XIV(4) of the treaty, which provides that only the contracting state of which the vendor is a resident has the right to tax gains from the sale of certain property. This would mean that if the trusts were resident in Barbados, there would be no tax on the realized capital gain in either Canada or Barbados.

The Minister took the position that the treaty exemption did not apply and issued assessments to each of the trusts in respect of the gains. In addition to assessing the trusts, the Minister also assessed the preferred shareholders of PMPL (the other appellants) with respect to the same gains pursuant to subsection 75(2) of the Income Tax Act. These latter assessments were a protective measure only, there being no intent to tax the same gains more than once. The Minister based his assessments on the following alternative arguments: (i) the trusts were resident in Canada under general principles; (ii) the trusts were resident in Canada by virtue of Sec. 94 of the act; (iii) subsection 75(2) of the act applied to the other appellants; (iv) the GAAR applied; and (v) the sale proceeds should be reallocated from the trusts to the other appellants by virtue of section 68 of the act.

The tax court judge, Justice Woods held that the exemption in Article XIV(4) of the treaty did not apply because the trusts were resident in Barbados. Although the corporate trustee of each trust was acknowledged to be a resident of Barbados, Judge Woods concluded that the central management and control of each trust was in Canada based on the evidence as a whole. She found that the corporate trustee’s role was limited to executing documents as required, and providing incidental administrative services. It was not expected to have responsibility for decision-making beyond that. In her view, “more likely than not,” the corporate trustee had agreed from the outset that it would defer to the central management and control test to avoid an anti-avoidance rule such as Sec. 94. Judge Gibson’s obiter in Thibodeau appeared to reject the central management and control test on the basis that the fiduciary duties imposed upon trustees would not permit them to take direction from a third party.

Judge Woods found the Thibodeau decision to be insufficient authority for rejecting a central management and control test to determine trust residence. In her view, “adopting a similar test of residence for trusts and corporations promotes the important principles of consistency, predictability and fairness in the application of tax law” (Para. 160). This aspect of the decision is bound to be somewhat controversial, and could well form the basis of the appeal to the Federal Court of Appeal.

The decision that the trusts were resident in Canada was sufficient to dispose of the appeals, but Judge Woods went on to address some other issues raised. For purposes of this article, space permits us only to summarize her conclusions:

Sec. 94 did not apply to deem the trusts to be resident in Canada, since the trusts did not “directly or indirectly” acquire property from the Canadian principals. However, even if Sec. 94 had applied, this would not have affected the availability of the treaty exemption if the trusts were resident in Barbados. The test of residence in the treaty requires that the person or entity claiming treaty benefits be “fully taxable” in the residence country (see Queen v. Crown Forest Industries Ltd., 95 DTC 5389 (SCC)). Sec. 94 only applies to income from certain sources and does not make the trusts “fully taxable” in Canada.

Subsection 75(2) is an attribution provision that is applicable to reversionary trusts. It was held not to apply because there was no “acquisition of property” from the Canadian principals. Further, the exemption in Article XIV(4) takes precedence over the application of subsection 75(2).

With respect to the application of GAAR, the existence of a tax benefit and an avoidance transaction were conceded, so the only question was whether there was a misuse or abuse within the meaning of subsection 245(4). The Minister submitted that it was an abuse of the treaty to use the exemption in Article XIV(4) to avoid an anti-avoidance rule such as Sec. 94. Judge Wood disagreed, stating this approach would be contrary to that suggested by the Federal Court of Appeal in The Queen v. MIL (Investments) S.A., 2007 DTC 5437. “It does not make sense that a transaction that is subject to tax under the Act by virtue of an anti-avoidance provision necessarily constitutes a misuse or abuse of the Treaty” (Para. 373). If it had been intended that Sec. 94 should override the treaty, this should have been specifically mentioned in the treaty.

The Minister submitted that Sec. 68 should be applied to...
reallocate a portion of the sale proceeds to the other appellants, because the fair market value of the shares of PMPL at the time of the freeze was substantially greater than the value attributed to them. However, Judge Woods did not address the quantum that should have been allocated to the other appellants, stating that “in all the circumstances it would be preferable to defer a consideration of section 68 for another day” (Para. 399).

The final result is that the appeals of the trusts were dismissed and the appeals of the other appellants were allowed. The case is again being appealed.

Other recent offshore trust decisions

There are two other recent offshore trust decisions both of which are under appeal. In Antle et al v. The Queen, 2009 DTC 1305 the CRA successfully challenged a spousal trust arrangement whereby property was transferred by the taxpayer to a Barbados spousal trust tax-free and sold back to the taxpayer’s Canadian spouse in order to create a bump in the cost of capital property, relying on the capital gain exemption in the treaty. The tax court found that there was no validly constituted trust, and that, in any event, GAAR applied to the series of transactions undertaken by the taxpayers.

In the case of Morris et al v. MNR, 2009 DTC 5127, the Federal Court considered the withholding tax requirements under section 116 and came to the conclusion that when no tax is owed because of a tax treaty, the CRA has no discretion to refuse to issue a clearance certificate. In reaching this result, Justice Simpson concluded that the trust in that case was resident only in Barbados. In her view (at para. 38), a finding of dual residence “must be based on actual physical factors and there are no such factors linking the Barbados Trust to Canada.”

Conclusion

We can expect to see more offshore trust cases in the coming years, as well as appeals from the cases that have already been decided. These cases address a number of tax and legal principles, so their ultimate outcomes will be important to follow. For example, if the Garron decision is upheld, it will be necessary to examine, in each case, where the central management and control of a trust is exercised. This could prove to be an impediment to the use of trusts as tools in international and interprovincial tax planning. In addition, if the tax court’s interpretation of Crown Forest is correct, Finance’s proposed amendments to Sec. 94 will not be entirely effective.

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Getting the evasive PEARL

Engineering is usually required to create cultured pearls; similarly intervention is needed to achieve a PEARL system.

Have you wondered how a costly accounting information system (AIS) can become a productive and indispensable tool? How can AIS support operations and be an integral part of the business to the extent that senior management encourages the pervasive use of it throughout the organization? The answer lies in turning the traditional AIS into a process enabling accounting and reporting linked (PEARL) system. Large enterprises have undertaken this transformation using enterprise resource planning (ERP) systems. For small and medium-sized enterprises (SME) this may be an opportune time to pursue a PEARL system because of the availability and affordability of configurable ERPs. Most, if not all, SMEs have AIS that meet their internal and external stakeholders’ needs; however, not all SMEs have put their AIS under the microscope with the intent of moving it along a continuum from the traditional AIS to a PEARL system. The evasive PEARL system represents an ideal achievement. This move along the continuum is a difficult journey and not always successful; however, by paying attention to the top five critical success factors outlined in this article, there is a greater probability of success.

Traditional AIS shortcomings

Traditional AIS is set up to capture legally binding commitments and completed transactions with a typical workflow in the procure-to-pay cycle illustrated in “Traditional accounting information system” on page 37. Such systems do not capture information on processes and do not assist in the coordination of these processes resulting in the following shortfalls:

- resources are required to create, maintain and retrieve documentation on processes;
- processes that cross departments have to be coordinated.
and completed by administrative departments (e.g., purchasing or accounting), resulting in additional transaction processing costs; and
• access to information on process performance is not readily available for management decision-making and accountability.

Ideal PEARL system
An ideal PEARL system on the other hand, in addition to capturing the necessary accounting information, will capture information on process activities from the start of the process, allow for the electronic flow and capture of subsequent activities with minimal manual effort and provide reporting on all of the captured data elements. Typical procure-to-pay cycle workflow in a PEARL system is illustrated on page 37, with the functionality details as follows:

Process-enabling functionality should:
• allow for the capture of information on process activities in the system, by the area that is performing the activity, from the very first task in the process;
• enforce organizational policy by both sequencing process steps (i.e., workflow) and only allowing the process to proceed after the organizational requirements are met;
• increase productivity by: offloading as many administrative tasks as possible to external entities; facilitating the sharing of information between different departments within the organization and with external entities; and allowing for the electronic completion of administrative tasks such as approvals, communication and process status reporting.

In a scenario where an employee requires goods or services that have not been presourced and the business policy requires competitive bids, a process enabling purchasing system will require authorized employees to create online requests for goods or services. Before any action is taken on an online request, a predefined workflow in the system will enforce the business’ procurement authorization policy and obtain the necessary online approval. Approved request is electronically forwarded to the purchasing area for adding purchasing information and posting a request for quote or request for proposal on the business’ extranet site (approval requirements for posting, if any, are enforced by the system). Purchasing may specify potential vendors that should receive alerts (faxes or e-mails) about the posting. Interested vendors are required to submit their quotes or proposals online with the system enforcing both submission requirements and deadlines. Online evaluation matrices are filled

The PEARL system is an optimal achievement. The journey is difficult and not always successful, but with attention to critical factors there is a greater probability of success

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purchasing department’s processes while enforcing organizational policies, provides online status/progress information, creates an audit trail, and provides reporting for decision-making as described below in the reporting functionality section.

**Accounting functionality** will capture legally binding commitments, completed economic transactions, and support internal controls by both enforcing segregation of duties and providing an online audit trail. In procurement systems there is a complete online audit trail of the requisition and its approval, sourcing activities undertaken to obtain best value, and the purchasing commitment with its approvals. Completed economic transaction is recorded in the system upon the online receipt of goods or services. A PEARL system will automatically accrue a liability based on purchase order unit price and the receiving that is done in the system. Vendors’ invoices are imported electronically and approved by the system for payment based on the match to purchase orders and receiving. Alternatively, vendors are requested not to send invoices, as payment will be processed in accordance with the payment terms on the purchase order after receiving is done in the system on the premise that invoice processing costs exceed the additional benefits from invoice matching. Vendors are paid through electronic fund transfer (EFT) and advised of their payments electronically (fax, e-mail, or portal). Internal controls are evident through online authorizations and segregation of the requisition, purchasing, receiving, and payment duties.

**Reporting functionality** A PEARL system will have the following types of reporting functionality on the process information in the system along with the associated system information such as user, date and time of activity:

- key indicator reporting may include items such as average time it takes to convert an approved requisition to an approved purchase order categorized by the sourcing type (noncompetitive, quotes and proposal) or percentage of competitively sourced versus noncompetitively sourced purchases over specified reporting periods;
- standard reporting may provide information reports such as outstanding approved requisitions by departments or provide exception reports such as approved requisitions outstanding for more than an acceptable period of time by requisition approver and/or creator; and
- ad hoc reporting may include not only activities with successful vendors, but also unsuccessful bidders such as bidders that have less than 50% success rate over specified reporting periods.

**Linked functionality** refers to the interfaces between the different accounting modules, with internal operational systems, and with external entities. See diagram on page 38 for typical linkages in AIS and PEARL systems for the procure-to-pay cycle. In addition to the standard AIS linkages between the purchasing, payables, inventory and general ledger modules, a PEARL system will have linkages with:
The need for administrative support to vendors.

In addition, the payroll module linkage allows for procurements from employees and for processing employee travel expenses in accounts payable with minimal effort to set up employees as also having a vendor relationship with the business;

- sales module linkage to provide purchase requirements based on sales orders and to provide current or projected cost information for sales quotes or sales order pricing. In addition, for the strategic partnership model of doing business, it is essential that each external legal entity is set up once and given the relationship of customer and/or vendor to provide comprehensive reporting of sales and purchases with each entity; and

- contracts module to facilitate contracting processes and to provide information on contract terms including rebates or volume discount entitlements, if any.

Linkages with internal operational systems such as a customer relationship management (CRM) system can automatically flag inventory items with unacceptable return rates or customer issues. Alternatively, linkages can allow purchasing to view customer issues and the amount of after-sale support required for vendor products to assist in sourcing and/or negotiations, and production scheduling system to automatically initiate purchase requisitions or purchase orders to pre-approved vendors for the required goods and services.

Linkages with external entities will allow for two-way electronic transfer of information such as purchase requirements, quotes/proposals, purchase orders, shipment information and invoices. Also, in a PEARL system, vendors are provided secured online self-serve access to their information (address, bids, orders, shipments and invoices) to minimize inquiries from vendors and the need for administrative support to vendors.

**Typical linkages in AIS and PEARL systems for the procure-to-pay cycle**

**Success factors in achieving PEARL**

The majority of information systems projects do not achieve their original objectives; however, the risk of failure can be mitigated by identifying and focusing on the success factors. In a project to transform the existing AIS or to implement a PEARL system, the top five of the critical success factors are:

1. clear vision of the PEARL system and its objectives with senior management buy-in and funding (including a 10% to 20% contingency budget);
2. before undertaking a PEARL system implementation or transformation, review current procedures and processes with the intent of standardizing and documenting them. This will ensure readiness for a PEARL system, which requires adherence to well-defined processes. Also, documenting current processes will help define systems requirements;
3. detailed documentation of technical requirements and functional requirements with scenarios. Documentation should have sufficient depth and detail to evaluate and rank sales presentations that generally promise the world;
4. strong project management with clearly defined project roles and responsibilities, including a project sponsor (usually from senior management) who has a direct stake in the success of the PEARL system, steering committee that represents major stakeholders, project manager with extensive change management experience, and adequate internal staff on the project team who are free to concentrate on the project;
5. conscious management of change including timely decisions by steering committee, frequent general and targeted communications to internal and external stakeholders, use of champions to get buy-in from resistant employees, and documented processes that are well communicated and used in training employees.

**Conclusion**

In nature, naturally created pearls are rare; human intervention or engineering is required to create cultured pearls. Similarly, in systems, senior management needs to engineer or intervene to achieve a PEARL system. AIS can turn into a PEARL system with vision, design and support. Implementation or transformation of systems is a difficult and risky journey with obstacles such as technology/software limitations, unique business processes that cannot be easily adapted to a PEARL system, gaps between organizational capability and technological feasibility and resistance to change. However, with diligent undertaking of the top five critical success factors, the chances of success increase. With the current economic downturn, where all expenditures need to be justified and competitive advantage is essential for survival, businesses can’t afford not to seek the evasive PEARL system.

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Arthur’s Fresh was founded by its namesake’s son, company president Travis Bell, a fifth generation fruit farmer from Goderich, Ontario. The Bells have been growing fruit and pressing cider on the original family homestead, and surrounding areas, since 1893. “Having grown up on a fruit farm,” says COO Scott Bell, “all we do is put fresh fruit and vegetables in bottles. We never dilute our fruit with added sugar, water, concentrates, preservatives or additives.”

Growing up on a farm also taught the Bells about environmental responsibility, and the virtues of “buying local.” Arthur’s Fresh purchases six to eight million pounds of produce every year. “We’ll even pay more to get Canadian produce,” says Bell. “We understand the importance of allegiance to Canadian products. And, of course, the fewer miles your food travels to get to your plate, the better it is from both environmental and nutritional points of view.” The company’s signature smoothies, packaged in lightweight, 100-per-cent recyclable containers, are bottled in a HACCP-certified production facility that runs on electricity generated by water and wind.

Scott Bell joined Arthur’s Fresh in 2007. His first job was to manage the company’s transition to a full-fledged enterprise resource planning (ERP) system. Fast-growing and aggressive, the company’s implementation schedule ran to an ambitious timeline. The decision to go with SYSPRO ERP was made in December 2006. Three months later, in March 2007, the system went live.

“Before SYSPRO,” says Scott, “Arthur’s Fresh ran on Quickbooks, Microsoft Access and one brain. My brother was the enterprise system — front office, back office, purchasing, manufacturing and product formulation. Our revenues were about $6 million in 2006, and doubling yearly. The business was quickly becoming complex beyond the ability of one person to manage — we needed to free my brother from his office and factory roles, to let him concentrate on the job of being president. In short, we needed SYSPRO.”

With so much growth in hand, and so much emphasis on nutrition and health, Arthur’s Fresh needed an ERP system that would manage financial complexities, run a factory, guarantee quality, and offer precise control over every aspect of the supply chain. “We partnered very closely with SYSPRO,” says Bell. “One of the things we really liked is their consulting services — that’s key for a small company like ours. We were great in Access and Excel, but none of us had prior experience with an ERP.”

For Bell and Arthur’s Fresh, the initial implementation was only the beginning. “When you implement SYSPRO,” says Bell, “you’re not just doing it for the basics. There are other pieces down the road that you’ll really want to leverage.”

The company’s first “post go-live” implementation was electronic data interchange (EDI). “Costco was our first, but not our last EDI implementation,” says Bell. “It’s a good cost-saving measure for our customers, and a great implementation for us.”

Arthur’s was quick to harness SYSPRO’s system for inter-warehouse transfers. “When you double every year,” says Bell, “you grow out of your physical environment quickly. We had to start using third-party warehouses, so we could maintain our facility solely for manufacturing. It’s not the lowest cost approach, but it’s what we had to do because of the growth we were facing. With SYSPRO’s Goods In Transit system, we’re better able to control our inter-warehouse movements and costs.”

Next came the materials resource planning module. “We wanted the MRP module in a hurry,” says Bell. “We don’t spend our money on marketing, we spend it on product. What we put in the bottle is a large part of our costs — more so than other juice companies, because our product is healthier. That’s one of the areas that swung us to the SYSPRO side, because it manages minimum levels, blanket POs, uses multiple units of measure for pricing and handling, and because it makes MRP recommendations based on forecasts, available stock, and current demand.”

Finally came the Trade Promotions module. “We wanted to get on top of trade promotions with all our various customers,” says Bell. “In prior years the sales team handled promotions, but over time it became increasingly time consuming and complex. The Trade Promotions module is key to our growth.”

Since March 2007, says Bell, each of the company’s ERP objectives has been achieved. “The list of benefits is long. We now have the ability to sustain exponential growth; to trace lots and undergo various stringent audits; manage the P&L; manage very long lead times and undergo various stringent audits; manage the P&L; manage very long lead times for raw materials; do business with Costco, Wal-Mart, Safeway and other EDI companies; control promotional costs; and keep capital costs down — for example, we’ve lowered our inventory levels by 50 percent, without experiencing shortages.”

These days, says Bell, brother Travis has come to trust the data he receives from SYSPRO. “He’s happy now, and he sleeps more. He trusts the clerks to do the jobs he only trusted himself with in the past. SYSPRO has freed him up to go close a new sales account, and that’s a lot more valuable than having him do the accounting.”

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Keeping a bargain a bargain

US real estate is attractive, but a few tax and estate planning strategies can help you avoid tax and probate issues.

With US sunbelt property values having decreased dramatically over the past few years and the Canadian dollar trading at reasonable levels, it isn’t surprising that a number of Canadians are contemplating purchasing a property stateside. To explore the crossborder estate and tax complexities of such a purchase, the following case study considers a Canadian resident couple planning to purchase a condo in Florida.

Brad and Angelina are married and are both Canadian citizens and residents. They have two children: Bonnie, 29, and Matt, 26, also Canadian citizens and residents. The couple plans to purchase property in Boca Raton, Fla., for US$1.5 million. They expect to close on the property with cash but plan to finance between 50% and 60% of the purchase price (between US$750,000 and US$1 million).

Brad’s life insurance policy has a face value of US$2 million; his total estate is worth about US$6.5 million (including a $2-million life insurance policy). Angelina’s estate is worth about US$8.5 million. Their total joint estate is worth US$15 million. They don’t own any shares or bonds of US companies and would like to lower their potential US estate tax liability.

Issues with holding property titles personally
Probate is the legal procedure required to transfer legal title to children or beneficiaries upon your death. As per Florida statutes, probate may cost up to approximately 3% of the value of the Florida estate (US$1.5 million) upon the date of death, which translates into approximately US$45,000 of probate fees and expenses based on the current value of the property. Of course, it is highly likely that the value of the property will have greatly appreciated at the time of death and that probate expenses would be significantly higher.

Other US real estate title ownership issues include an incapacity hearing and guardianship determination if you are deemed to be incapacitated. A guardianship proceeding is a legal proceeding under which a person who lacks the ability to manage certain functions of daily living is declared by a court to be incapacitated and loses the legal right to make certain decisions. The court must make a finding of incapacity then determine whether to appoint a guardian to exercise the decision-making rights that were removed. Guardianship proceedings require legal representation and can be costly.

Since probate and guardianship procedures are also time consuming and freeze the estate, we would like to structure the couple’s estates so they avoid probate and guardianship procedures.

There are specific rules under the Internal Revenue Code and the US-Canada Tax Treaty regarding US estate tax applicability to a Canadian resident who dies owning US assets. Those with less than US$600,000 worth of US domiciled assets avoid the whole US estate tax issue. Even where the US assets exceed US$600,000 on death, there may still be no US estate tax payable by applying the treaty as it provides that should the worldwide value of assets not exceed US$3.5 million (2009 rule, this exemption is subject to change under cur-
rent code legislation and also pursuant to draft bills proposed to
the Senate and Congress. At press time, a legislative clarification
was expected before the end of the year) there will be no estate tax.

However, should the US assets exceed US$60,000 and the
worldwide estate exceed US$3.5 million, there may be estate tax
on death depending on the value and ratios of the US assets as
the numerator and the worldwide assets as the denominator mul-
tiplied by the exemption, to determine the credit. The resulting
credit is then subtracted against what would otherwise be the tax.

With no US estate planning, should Brad die first and in 2009,
his estate faces a potential US estate tax liability of US$219,846
(see table above). This calculation is based on his worldwide
estate of US$6.5 million in 2009 and his potential US$1.5 million
ownership interest in the property. (Sec. 2040(a) of the code, the
Contribution Rule, presumes that where husband and wife own
jointly, the entire value of the property is included in the estate of the first to die.)

There are two ways to mitigate that
tax if Angelina survives Brad. The first
is a marital credit available under the
code and the treaty. Brad’s asset basis is
such that his estate tax would be elimi-
nated. Upon the second spouse to die
(assuming Angelina dies after Brad), her US estate tax liability
will be US$410,220 (based on US$1.5 million value of the property
and US$15 million worldwide estate), using the 2009 values and exemptions (although there is actually a credit when the second
spouse dies shortly after the first).

If Angelina dies first, there will be a tax of US$42,000 even
after applying the marital credit because of her higher world-
wide estate. In such a case where the marital credit isn’t suf-
ficient to eliminate the estate tax, a second approach would be
for the surviving spouse to roll the US assets of the deceased
spouse into a qualified domestic trust, which will form part
of the crossborder trusts (CBT). In such case, the marital
credit will not apply.

Potential strategies
Purchase of property and CBT
We recommend purchasing the property through two separate
CBTs (one for Brad and one for Angelina). Each trust would own
50%. This would rebut the presumption of IRC Sec. 2040(a) con-
tribution rule, which presumes that where husband and wife
own property, the first to die paid for the property. Each spouse’s
contribution would be the percent of the value used in each of
their estates and not the entire purchase price.

CBTs are structured so that upon the death of the first spouse,
the 50% value of the property does not get added to the surviving

spouse’s half but stays inside the trust of the first to die so that
only 50% of the property is in the estate of the second spouse
to die. Upon second to die, the property in the trusts would be
divided into two equal shares in the trusts for Bonnie and Matt,
providing the children with creditor protection and marital asset
protection if divorced.

With CBTs in place, probate expenses and procedures related
to the property will be completely avoided in the US and Canada.
Aside from reducing or eliminating US estate taxes while pre-
serving foreign credits in Canada under the US-Canada Tax trea-
ty, a CBT structure also protects beneficiaries against their credi-
tors and/or a beneficiary’s divorcing spouse from realizing rights
to the property in the CBT.

Lastly, CBT assets are not generally subject to the jurisdic-
tion of the guardianship court if either spouse were to become
mentally incapacitated. Rather than going through a guardians-
ship proceeding, a CBT enables the successor trustee to step in
to manage assets without court intervention.

In each spouse’s respective CBT, they are the grantor, trustee
and beneficiary, while the spouse serves as a co-trustee. No one
else is involved in the CBT while the grantor is alive. There are no
annual filing requirements either to the IRS or Canada Revenue
Agency (CRA) unless there is rental income. Nor will there be

There are rules under the Internal Revenue Code and the
US-Canada Tax Treaty regarding US estate tax applicability
to a Canadian resident who dies owning US assets

any requirement for an accountant or attorney for annual admin-
istration or maintenance fees. Once established for the first
property, the trust structure is ready to accept any additional
property purchased in Florida without further amendments or
expense. Should the couple no longer own Florida proper-
ties, no dissolution, wind-up procedure, or legal or accounting
services are required. The CBT is basically maintenance free
and revocable should they wish to amend or delete any clauses.

Furthermore, should they ever sell the property, the sale
proceeds would flow to the individual as opposed to the trust.

With regard to US estate tax liability, transferring a US prop-
erty ownership interest into separate CBTs means that upon
death, the deceased's estates will not be subject to the full value
of the property for estate tax purposes.

Valuation discounts
Each CBT will now be able to apply the valuation discount. The
property would be valued at US$600,000 (instead of US$750,000)
for US estate tax valuation for each of their respective CBTs.

The IRS bases its determination of estate tax due on an asset’s
fair market value. Fair market value is defined as the price at
which the asset would change hands between a willing buyer
and a willing seller, neither being under compulsion to buy or
sell. Fair market value is often a gray area, leaving the worth of
the asset and the resulting tax due open to dispute.
Valuation discounts may substantially decrease the value of an asset and therefore lower the tax. They apply to real estate and businesses depending on how title is held. If Brad tries to sell his 50% interest on the open market, he may not be able to find a buyer because buyers rarely want to own something over which they have no control. For example, if the buyer subsequently wanted to sell the property, Angelina, who holds the remaining 50%, may not be interested. Since Brad may have a hard time finding such a buyer, the marketplace would offer substantially less than the 50% pro-rata share of the total value. So why should Brad's estate (or Angelina's if she dies first) pay estate tax on the full 50%? Therefore, the valuation discounts quantify the difference between the pro-rata share of the asset (in this case 50% of approximately US$1.5 million) and the value of the precise interest owned.

Based on our experience and research conducted on the matter, valuation discounts accepted by the IRS where title is restructured into two separate CBTs are between 20% and 33%. Being conservative, we use the 20% mark.

Therefore, with the described valuation discounts, and where title is restructured as hereafter proposed into two separate CBTs, Brad's estimated taxable estate for US estate tax purposes may be reduced to US$600,000 (US$750,000 minus 20%) based on a worldwide estate of US$6.5 million (for simplicity purposes, the available discount has not been reflected in the denominator) if he dies first, resulting in US estate taxes estimated at US$58,418 if he passes away in 2009. Should Angelina survive Brad, a marital credit is applicable under the code, and thus Brad's estate will not owe any tax (see “If Brad dies first,” above). Note that the marital credit doubles up the unified credit.

If Angelina dies first, after splitting the property into the two CBTs and taking the valuation discounts, her estate would have tax of $90,038. However, with the marital credit, there would be no tax (see “If Angelina dies first,” below left).

### Upon second to die (US$)

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Combined worldwide estate</td>
<td>$15 million</td>
</tr>
<tr>
<td>US taxable estate</td>
<td>$600,000</td>
</tr>
<tr>
<td>Estate tax marginal rate</td>
<td>37%</td>
</tr>
<tr>
<td>Estimated estate tax amount</td>
<td>$192,800</td>
</tr>
<tr>
<td>Unified credit amount</td>
<td>$134,382</td>
</tr>
<tr>
<td>Estimated estate tax payable</td>
<td>$58,418</td>
</tr>
<tr>
<td>Tax payable post-marital credit</td>
<td>$0</td>
</tr>
</tbody>
</table>

Upon second to die, however, the estate tax is still problematic as US$134,568 is owed (see table above).

**Florida nonrecourse mortgage**

NRM is a useful estate planning structure to decrease the value of the US taxable estate. It creates a dollar-for-dollar reduction on the US taxable estate upon death. A standard mortgage does not give the estate a dollar-for-dollar deduction for a nonresident. RBC Bank in the US offers this product to Canadian residents.

As described above, we would expect the IRS to allow a 20% discount of the value of the property where title is held by the two CBTs. The discounted value of the property would be US$1.2 million for US estate tax valuation purposes.

If the couple obtained an NRM from a US bank at a rate of 60% loan to value (which is their maximum LTV ratio), in the amount of US$900,000 on the US$1.5-million property, the total valuation of the US property would be US$150,000 for estate tax purposes for each spouse (after applying the valuation discount in the two CBTs).

Each spouse would pay 50% of the purchase price from separate bank accounts. The CBT of each spouse would be deemed to own half of the value of the property. After creating the CBT, applying the discount value and obtaining an NRM from the bank as a refinance after the purchase, there will only be minimal estate tax exposure. Since each CBT will hold title to 50% of the property with 50% of the NRM debt, each spouse's interests in the property would be valued at US$750,000 (US$1.5 million x 20% discount divided by 2, minus 50% of US$900,000 NRM).

Thus, should the couple die in 2009, the estate would have US$242,422 US estate tax liability as opposed to the aforementioned US$134,568.

**Interest deductibility rule**

If they have the available liquidity, it is preferable to pay all cash for the entire purchase price and to then refinance after closing. The resulting loan proceeds are used to fund the purchase of an investment portfolio in Canada. Thereby, they are able to deduct...
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the interest on a US mortgage from the revenue generated by loan proceeds in a Canadian portfolio.

**Worldwide estate value issue**

The larger the worldwide estate value, the lower the unified credit available under the treaty and therefore the higher the estate tax. In other words, if Angelina dies first and leaves her US$8.5 million estate to Brad, his worldwide estate upon his subsequent death would be US$15 million with a tax of US$24,242 even with the above estate plan in place.

**Canadian crossborder spousal trusts in Ontario wills**

To avoid the value of the estate of the second to die being $15 million, amendments to Brad and Angelina’s Canadian wills should be implemented. Each spouse should bequest his/her estate to the other spouse by testamentary crossborder spousal trusts in their respective Canadian Last Will and Testament. From the IRS perspective, the value in such spousal trust (i.e. Angelina's estate value of US$8.5 million left to Brad in her will, as revised), won’t be considered part of his estate on his subsequent death. Therefore, his worldwide estate would be US$6.5 million on death, not US$15 million and the US estate tax would be US$5,205 instead of US$24,242. There are also Canadian estate planning advantages for spousal trusts. For Angelina’s estate as second to die, her worldwide estate will remain at US$8.5 million with tax of US$13,109 instead of US$24,242.

**Private nonrecourse Florida mortgage**

To completely avoid US estate tax on death of both first and second spouse, the couple could arrange a second, private US NRM in the amount of US$200,000 on the property. The US$200,000 loan proceeds are invested in their investment portfolio. The property would be valued at US$100,000 for US estate tax purposes. This value is divided in half, since the separate CBTs would each own half the property. Thus, for US estate tax purposes, each estate would be valued at US$50,000.

Should the couple pass away in 2009, each estate would be liable for $0 US estate taxes on first to die and US$102 of tax on second to die. The advantage of the NRM is an elimination of US estate taxes upon death.

**Alternative estate planning structures**

The following are alternative estate plans that present certain problems and are generally considered more aggressive and may have a higher risk of IRS audit. They include: Canadian corporation; Canadian limited partnership; Canadian family discretionary trust; and Florida limited liability corporation. The objective of such alternative estate plans is to avoid US estate tax.

Some of the issues with these strategies include:

- there is also the shareholder benefit rule with the Canadian corporation that could cause the shareholder who uses the property for personal use to be forced to add the value of the usage to his or her Canadian income;
- US banks generally do not provide mortgage loans to these structures;
- IRS position of looking through these structures for US estate tax purposes and taxing as if individually owned;
- in the Canadian family discretionary trust structure, there is an issue with the 21-year disposition rule;
- note that if the individual had already owned the US property and it had appreciated in value, transferring title to such legal entities would be considered by the CRA as a deemed disposition. This means that an immediate Canadian capital gain tax would be triggered on the gain. However, capital gain taxation may be delayed using rollover provisions in Canadian Tax legislation where applicable;
- where the individual already owns the property and transfers it to either a Canadian family discretionary trust or limited partnership and continues to use the property, the IRS may apply the retained interest rule and look through such entity and tax the individual upon death;

**The Florida nonrecourse mortgage (NRM) is a useful estate planning structure that creates a dollar-for-dollar reduction on the US taxable estate upon death**

- expensive legal fees to set up some of these structures as well as annual filing requirements.

**Conclusion**

Planning to avoid US estate tax and probate issues for Canadians depends on the facts of the particular case. The foregoing example applies sophisticated, but conservative, tax and estate planning strategies that we have applied in client situations. Upon death after the implementations, probate procedures were successfully avoided and IRS Estate Tax Clearance Certificates were obtained with no estate tax payable. Although some aspects can be implemented at the time of first death, establishing and documenting the appropriate structure at the time of purchase is critical to achieving the tax minimization objective.

*(The issues and solutions discussed apply to all states where Canadians typically own a vacation home, including Florida, Arizona, California, Hawaii, etc.)*

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Managing the monster

Every country is facing the challenge of managing its healthcare system. Some have well-structured systems, such as France, which probably boasts the best system in the world and one of the least expensive. In contrast, the US has a system that is the most costly on the planet and far from the highest quality. And even though the Canadian system may be above average, we face the same challenges.

Healthcare is the most important activity in industrialized countries, outdistancing the leisure, housing, food and oil resources industries. According to The Atlantic Monthly, one-quarter of the US economic growth in the past decade has been due to rising healthcare costs, with no corresponding improvement in Americans’ well-being. As President Obama recently pointed out, in the US, better healthcare management is first and foremost an economic challenge.

Canada spends 10% of its GDP on healthcare, a figure that would be acceptable if it remained stable. However, if we don’t want to get bogged down in the same quagmire as the US, which allocates 17% of its GDP to healthcare, it’s time for serious changes.

Good healthcare systems are based on a universal public-health insurance regime, one of Canada’s major assets. But universal systems are often criticized for limiting the scope of private supplementary health plans. Defenders of the exclusivity of the public system argue that introducing supplementary plans would weaken political support for the universal plan. Unfortunately, their unsubstantiated contention carries weight in political circles. Yet our system’s main shortcoming lies elsewhere.

The two pillars of our healthcare system are medical clinics and hospitals and other healthcare institutions. And the way they are managed is a disaster. While our physicians are competent and devoted to patients, the fee-for-service compensation scheme they operate under is dysfunctional. It encourages abuse while discouraging teamwork and delegation of responsibilities. Fee-for-service has brought the frontlines of our system to the level of a cottage industry, a situation unique to this sector of the economy in 2009. That’s where our system fails, the same way as many other healthcare regimes around the globe.

Hospitals are in even worse shape. Despite the good that can be said about public administration, it isn’t designed to manage complex and intense operational activities. In fact, no private-sector activity could be efficient if it had to operate under the systemic constraints, which include the proliferation of employee perks such as job security, executive salary ceilings and the lack of modern management of capital spending budgets plaguing our hospitals. But we can’t blame administrations. It’s the constraints under which these institutions have to operate that are senseless.

We can’t blame hospital administrations. The constraints under which they operate are senseless

Two years ago, I made a small investment in a private surgery clinic, which opened my eyes to the issues that undermine the efficiency of public institutions. One telling example is the regular cancellation of operations scheduled for the last hour of public-sector shifts because a Treasury Board rule prohibits overtime. As a result, hospital resources are regularly underutilized.

I could also point to healthcare technology. In every sector of the economy except hospitals, technology leads to lower costs. But poor management practices in the healthcare sector endure because there are virtually no sanctions against inefficient managers. The problem is ongoing, especially since boards of healthcare institutions have no real authority. In a private one, lenders would take action.

Canada has to overcome the taboos paralyzing its healthcare system. This means ensuring our social values aren’t monopolized by an ideological clique that persists in maintaining in a state of mediocrity a sector that is critical for Canadian society as well as for our economy.

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