SUCCESSFUL BUSINESS GUIDE

Financial, Income Tax, Harmonized Sales Tax,
Financing & Accounting Considerations
to Starting & Running a Successful Business

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Table of Contents

CHAPTER 1: SELECTING A LEGAL STRUCTURE

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SELECTING A LEGAL STRUCTURE

One of the first major decisions you will have to make as you start your new business is the form of legal entity it will take. To a large degree this decision may be dictated by the way you have organized your operations and whether you intend to work on your own or in conjunction with others.

The form of entity you choose can have a significant impact on the way you are protected under the law and the way you are affected by income tax rules and regulations. There are five basic forms of business organizations. Each has its own benefits and drawbacks and is treated differently for legal and tax purposes.

Sole Proprietorship

A sole proprietorship is typically a business owned and operated by one individual. A sole proprietorship is not considered to be a legal entity under the law, but rather is an extension of the individual who owns it. The owner has possession of the business assets and is directly responsible for the debts and other liabilities incurred by the business. The income or loss of a sole proprietorship is combined with the other earnings of an individual for income tax purposes and is reported directly on a personal tax return on a calendar year basis.

A sole proprietorship is perhaps the easiest form of business to own and operate because it does not require any specific legal organization, except of course, the normal requirements such as licenses or permits. A sole proprietorship typically does not have any rules or operating regulations under which it must function. The business decisions are solely the result of the owner's.

Points to Consider

1. You must apply for a GST/HST number if the business and anyone associated with the principal has worldwide annual sales of $30,000 or more in the last four quarters.
2. You may operate the business under your legal name but that name must appear on all invoices. Cheques will be made out to the name of the sole proprietor.
3. You may choose to register a commercial business name; in which case all invoices must bear the business name and cheques must be made out to the business name.
4. It is recommended you open a bank account in the business name.
5. The Canada Revenue Agency (CRA) now requires all year-ends to be on a calendar year basis and thus end on December 31st

Partnerships

Partnerships can take two legal forms, "general" or "limited liability".

General Partnership is comprised of two or more individuals, corporations, partnerships or trusts who join together to run the business enterprise for a profit. The partnership owns the assets, each individual partner could be held jointly responsible for liabilities, and each partner has the authority to run the business. The authority of the partners, and the way in which profits or losses are to be shared, can be modified by a partnership agreement. The responsibility for liabilities can also be modified by agreement among the partners, but partnership creditors typically have recourse to the personal assets of each of the partners for settlement of partnership debts.

Limited Liability Partnership is comprised of one or more general partners who are personally liable for partnership debts and one or more limited partners who contribute capital and share in the profits or losses of the business.

Limited partners do not take a part in running the business and are not liable for the debts of the partnership. If a limited partner takes on a more active role, he may lose his limited liability status.

The rights, responsibilities, and obligations of both the limited and general partners are typically detailed in a partnership agreement. It is a strongly suggested to have such an agreement for any partnership, whether limited or general and it should be created and executed at the earliest stage possible.

A partnership is a separate legal entity recognized under *provincial law* and as such it has rights and responsibilities in and of itself. A partnership can sign contracts, obtain trade credit, and borrow money. When a partnership is small most creditors require a personal guarantee of the general partners for credit.

Partnership income or loss is reported for income tax purposes as part of each individual partners T1 personal or T2 corporate return identifying all partners, their social insurance numbers and the allocation of net income or loss for the year.

If there are more than five (5) partners, a special partnership information return must be filed with CRA on an annual basis.

Corporation

A corporation is a separate legal entity, which exists under the authority granted by provincial or federal law. A corporation has substantially all of the legal rights of an individual and is responsible for its' own debts. It must also file income tax returns and pay taxes on income it derives from its operations. Typically, the owners or shareholders of a corporation are protected from the liabilities of the business. However, when a corporation is small, creditors often require personal guarantees of the principal owners before extending credit. The legal protection afforded the owners of a corporation can far outweigh the additional expense of starting and administering a corporation.

A corporation must also adopt and file articles of incorporation and by-laws, which govern its rights and obligations to its shareholders, directors, and officers. The corporation does not come into existence until it files its *articles of incorporation* and they are stamped by the applicable federal or provincial government ministry. If your company will be operating across Canada, consider whether a *"federal" incorporation* makes sense, instead of a provincial incorporation.

If there is more than one shareholder in a company, it is very strongly recommended that a proper legally drafted shareholders' agreement be drawn up at the inception of the company. This will govern the affairs of the company and indicates what happens in the event of a dispute etc. It is well worth the cost of having one drafted up at inception of the company rather than at a later point in time when there is a dispute that can result in very costly and lengthy litigation.

Corporations must file annual income tax returns with the both the CRA and the provinces in which it does business. In the province of Ontario, the Ontario income tax is administered by CRA and hence there is only one income tax return to be filed. Certain other provinces in Canada (i.e. Alberta and Quebec) administer their own income taxes and hence these returns must be separately filed with them.

Incorporating a business allows a number of other *advantages* such as the ease of bringing in additional capital through the sale of equity, or allowing an individual to sell or transfer their interest in the business. It also provides for business continuity when the original owners choose to retire or sell their interest either to family members or outsiders.

An incorporated company also enjoys special low rates of income tax on active business income that can help the company grow. Because of the fact that a company is a separate legal entity, there is typically a deferral of income taxes until the funds are withdrawn to the personal level.

Should you decide to incorporate your business venture, you should seek the advice of competent legal counsel and business-oriented accountants, like **Cusimano Professional Corporation**.

CHAPTER 2: REGISTERING WITH THE TAX DEPARTMENT

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REGISTERING WITH THE TAX DEPARTMENT

A significant task for the new business owner is assuring that the business is properly complying with the extensive tax and information filing requirements imposed by various governmental agencies. Stiff penalties are commonly assessed if the required forms and returns are not properly prepared and timely filed. There are several forms required to be filed when the business is started. While this chapter is not intended to be an all-inclusive list of the filing requirements, it summarizes some of the more prominent requirements common to most businesses. Many industries have specific filing requirements, which are not part of this text, but which nevertheless, must not be overlooked.

Canada Revenue Agency (CRA)

All tax forms filed with the Canada Revenue Agency (CRA) require the use of a Business Number (BN). This number is usually mailed to the address on the articles of incorporation shortly after the company is incorporated. If not automatically mailed to the company a BN can be obtained by filing a *Form RC1* with the Canada Revenue Agency. The RC1 is also used when applying for a Harmonized Goods and Services (HST) account (RT), Payroll account (RP), Information return (i.e. if paying dividends) (RZ) or import/export (RN) number. An example of Form RC1 is below.

Register your Business Number:
https://www.canada.ca/content/dam/cra-arc/migration/cra-arc/E/pbg/tf/rc1/rc1-17e.pdf

Cusimano Professional Corporation can help you register with and handle CRA filings.

Most filings with the Canada Revenue Agency come under the headings of income and payroll taxes. Payroll tax requirements are detailed in Chapter Four. Income tax filing requirements and tax planning are discussed in Chapter Six.

Tax Calendar

The following summarizes some of the more significant filing dates for a corporation using a calendar year-end. Many of these requirements also apply to partnerships and sole proprietorships. Naturally, if a year-end other than December 31st is used (see Chapter Five) some of these dates will vary.

DATE	***RETURNS (assuming a December year-end)***
January 31st	Quarterly HST returns due
February 28th	Form T4 (for wages) filed with CRA
March 31st	Estimated corporate income tax returns liabilities due
April 30th	Individual income tax returns Quarterly HST returns due
June 30th	Corporate tax returns due
July 31st	Quarterly HST returns due
October 31st	Quarterly HST returns due
November – December	Year-end tax planning

There are also various deadlines for payroll deductions and HST returns depending on the size of the corporation.

- Larger companies may have to file HST returns on a monthly, quarterly or semi-annual basis. If they do not meet the thresholds, they can also elect to have a more frequent filing frequency.

Harmonized Sales Tax & Provincial Retail Sales Tax

The Ontario Retail Sales Tax (ORST) was eliminated for most sales when it was harmonized with the Federal Goods and Services Tax on July 1, 2010. It is now called "harmonized goods and services tax". The provincial sales tax is combined with the federal sales tax. The only other provinces in Canada with "harmonized sales tax" are: New Brunswick, Newfoundland and Labrador, Nova Scotia and Prince Edward Island. All other provinces collect and administer their own sales tax.

There is still an *Ontario retail sales tax on all insurance* except auto insurance. This is an absolute cost to all consumers with no input tax credits allowed.

Input Tax Credits (ITC's)

In filing an HST return, CRA allows a registrant taxpayer to deduct any HST paid on purchases etc. – referred to as "input tax credits" (ITC's). Subtract all ITC's on all supplies and any related expenses from the HST charged on sales to calculate the net HST amount owing. You only remit

the net amount owing or claim a net refund. ITC's can be claimed on any return that is due within the last four years; so any input not claimed in one period can be claimed in a future period. Once an account has been *created online* with CRA, you can *file your HST return online*. An example of the HST return can be seen on the below link.

CRA HST Return link: http://www.cra-arc.gc.ca/tx/bsnss/tpcs/gst-tps/bspsbch/rtrns/rtrnwkcpy-eng.pdf

Electing an HST Reporting Period:

CRA will allow you to elect a reporting period (monthly, quarterly, annual), based on your and any associated entity's worldwide revenues. If revenues are over $6 million, the CRA will mandate a monthly filing requirement. Taxpayers should consider monthly reporting, even if their sales are under the annual threshold, if they are in a startup capital intensive phase with a lot of ITC's before generating any revenue (i.e. a house builder). If an HST is filed late with amounts owing, penalties will be charged. CRA allows a change in a reporting period, if done timely.

CRA electing a reporting period:
https://www.canada.ca/content/dam/cra-arc/migration/cra-arc/E/pbg/gf/gst20/gst20-15e.pdf

Quick Method of Accounting (HST):

If worldwide revenues of associated companies are under $400,000 and you are not in the following types of businesses: legal, accounting, bookkeeping, tax preparation service, listed financial institutions, public colleges, universities, hospital authorities, charities, public institutions, non-for profit, then you may be eligible to report your HST under the *Quick (or Simplified) method of accounting*. An *election* is required to be filed with CRA.

The quick method allows you to remit HST at a reduced rate (depending on the nature of your business) of net sales. The only ITC allowed is up to $300 (equivalent of up to 1% of the first $30,000 of sales). This method may be beneficial to your business and should be evaluated before electing. **Cusimano Professional Corporation** can help you in this decision.

Election to report under quick method:
https://www.canada.ca/content/dam/cra-arc/migration/cra-arc/tx/bsnss/tpcs/gst-tps/bspsbch/rtrns/wrkngcp-eng.pdf

More information regarding the quick method:
https://www.canada.ca/content/dam/cra-arc/migration/cra-arc/E/pub/gp/rc4058/rc4058-17e.pdf

CHAPTER 3: ACCOUNTING AND BOOKKEEPING

CHAPTER 3

Accounting and Bookkeeping

Most operators of a new and growing business have a flair for the environment in which the business operates. They may be a great salesperson, an outstanding mechanic, carpenter, lawyer, or inventor. Unfortunately, most people do not like to keep the books. As an owner of a business you must remember that your company's books and financial statements represent a score sheet which tells how you are progressing, as well as an early warning system which lets you know when and why the business may be going amiss.

Financial statements and the underlying records will provide the basis for many decisions made by outsiders such as banks, landlords, potential investors, and trade creditors as well as taxing authorities and other governing bodies. The necessity for good, well-organized financial records cannot be over-emphasized. One of the greatest mistakes made by owners of small businesses is not keeping good financial records and making improper or poor business decisions based on inadequate and/or untimely information.

Quality financial information does not necessarily translate into complicated bookkeeping or accounting systems. Far too often owners of businesses become overwhelmed by their accounting system to the point where it is of no use to them. An accounting or bookkeeping system is like any tool used in your business; it needs to be sophisticated enough to provide the information you need to run your business and simple enough for you to run it (or supervise the bookkeeper). Questions you should ask in developing an accounting and financial reporting system are:

1. Who will be the users of the financial information?

2. What questions do I need answered to manage the business?

3. What questions should be answered for government or regulatory taxing authorities?

As your business grows, you should work closely with your accountant to ensure that your accounting system is providing you with appropriate meaningful and timely information. **Cusimano Professional Corporation** has the experience to help you in this area.

Chart of Accounts

The basic road map into any accounting system is the *chart of accounts*. It is this chart, which helps establish the information, which will be captured by your accounting system, and what information will subsequently be readily retrievable by the system. This tool, like the rest of the accounting systems, needs to be dynamic and should grow as the size and needs of your business changes. From management (i.e. internal perspective) information, it is best to have as much detail in the chart of accounts (i.e. various categories of sales, costs, marketing etc.). Accounts can always be combined for "external reporting" to outsiders.

To help establish a good working chart of accounts you need to answer some questions, in conjunction with your accountant, as to how your business will operate, and what is important to you. Some of these considerations might be:

1. Will your business have inventory to account for? If so, will it be purchased in final form or will there be production costs?

2. Are fixed assets a significant portion of your business?

3. Will you sell only one product or service or will there be several types of business?

4. Will you have accounts receivable from customers, which you will need to track?

5. Are you going to sell in only one location or will you do business in several locations?

6. Are the products you sell subject to sales tax?

7. Do you need to track costs by department?

8. What type of government, regulatory, union or other third-party reporting are you subject to?

Each one of these questions can have several answers and will probably generate more questions. Each answer will have an impact on how the chart of accounts is structured. It may seem that developing a chart of accounts is not particularly high on your list of things to do as you start a new business; however, a well thought and properly organized accounting system will save you significant time and expense and insure valuable meaningful information to help make strategic decisions. An example of a basic chart of accounts follows this section.

The most common accounting programs like *Quick Books* and *Sage* have templates for many different industries to help you get started.

Cash or Accrual Accounting

One of the decisions to be made as you start a business is whether to keep your records on a cash or accrual basis of accounting.

The cash basis of accounting has the advantage of simplicity and almost everyone understands it. Under the cash basis of accounting you record sales when you receive the money and account for expenses when you pay the bills. The increase in the money in "the cigar box" at the end of the month is how much you made.

Unfortunately, as we all know, the business world is not always so easy. Sales are made to customers and you sometimes must extend credit. Your business will incur liabilities which are due even though you may not have received the invoice or have the cash available to pay them.

Most users of financial statements such as bankers and investors are accustomed to **accrual basis** statements and expect to see them. Once you become familiar with them, they provide a much better measuring device for your business operations than cash basis statements.

Whether you use the cash or accrual basis, it may possible to keep books for income tax purposes on a different basis than for financial statements – although the Income Tax Act of Canada generally requires the accrual basis. **Cusimano Professional Corporation** can advise you on the advantages and feasibility of doing this in your particular circumstances.

Accounting Records and Record-Keeping

Another question, which the owner of a business must answer, is "Who will keep the books of the business?" Will you do it yourself, will the receptionist or a secretary double as a part-time bookkeeper, will you have a bookkeeper that comes in periodically, or will the volume of activity be such that a full-time bookkeeper will be required?

Very often the owners of a business decide to keep the books themselves and underestimate the commitment they have made to other phases of the operation and the time required to maintain a good set of financial records and books of account. As a consequence, the record keeping is often low priority and must be caught up later. This approach, though rarely planned, can require a substantial expenditure of time and money. While it is important for the owners of a business to maintain control and stay involved in the financial operations of the enterprise, maintaining close control over the cheque signing function and scrutinizing certain records can achieve this. Your company's accountant can help develop a good program of record keeping duties for you, your employees and any outside bookkeepers you may engage.

A Word about Computers and Computer Software

The computer is the single most valuable invention for bookkeeping and accounting since the advent of double entry bookkeeping. Computers and appropriate computer software solve problems of:

1. Many repetitious or routine tasks

2. Lots of paperwork; i.e., payroll checks, invoices, purchase orders, mailing labels.

3. Lots of general correspondence

4. Written reports, contracts, newsletters, catalogues or brochures.

Cusimano Professional Corporation is familiar with many types of businesses as well as *computer software* and can take much of the confusion out of the selection process by assisting you in the purchase and installation of your computer hardware and software.

There are a number of very good, easy to use *accounting software systems*, which are commercially available, but none of them will solve the problems of inaccurate or poor quality financial records. All they will do is generate bad information faster. This is one of the reasons that the computer has also probably caused more headaches for the owners of modern businesses than any other single cause. If you want to use a computer-based accounting package, either in your own business, with a service bureau or through your accountant, it is imperative that you generate accurate information to be entered into the system. Some of the more common software packages for small businesses in Canada include: Quick Books, Sage (formerly "Simply Accounting"), Zero and Fresh Books.

The real value of the computer becomes apparent once it is running smoothly in your business. **Cusimano Professional Corporation** can act as your business advisor, consultant, and strategist. Both of us can focus not only on producing reports for various regulatory agencies but also on analyzing your business to make it more profitable.

Internal Control

What is internal control? It is the system of checks and balances within a business enterprise, which helps to ensure that the company's assets are properly safeguarded and that the financial information produced by the company is accurate and reliable. When you're operating as a "one-man shop" or at least handling all of the company's financial transactions, maintaining good internal accounting control is relatively straightforward.

However, when your company grows to the size where you must delegate some of the functions it becomes more difficult to ensure that all the transactions are being accounted for properly.

No matter the size of your business, you should always be able to answer "yes" to the following questions:

1. When my company provides goods or services to our customers, am I sure that the sale is recorded and the revenue is recorded in accounts receivable or the cash is collected in the correct period?

2. When cash is expended by my company, am I sure we received goods or services?

The methods used to ensure that these two questions can be answered affirmatively will vary widely. The solution in your particular instance may be as simple as numbering the sales tickets and being sure *all tickets are accounted* for or reviewing all invoices and timecards before signing company checks. These are fundamentals in a well-run business. As the company grows you will need to consider concepts such as segregation of authority as well as employee fidelity bonds or controlled access storerooms. These are essential stepping-stones to maintaining good control in your business.

No matter what the size of your enterprise, you should consider controlling your business and safeguarding hard earned assets as a priority from the outset. **Cusimano Professional Corporation** has experience in setting up chart of accounts and internal controls to ensure *meaningful and accurate reporting of management information* and *setting up and evaluating proper internal controls* to safeguard the assets of your company.

Illustrative Sample - Chart of Accounts

Current Assets:

1000 Cash
1120 Accounts Receivable
1125 Allowance for Doubtful Accounts
1130 Inventory
1140 Prepaid Rent
1150 Prepaid Expenses

Capital Assets:

1310 Equipment
1320 Furniture and Fixtures
1330 Automobile
1340 Leasehold Improvements
1350 Accumulated Depreciation

Intangible Assets:

1410 Goodwill
1420 Organizational Costs
1430 Accumulated Amortization
1440 Deposits

Current Liabilities:

2100 Notes Payable
2110 Accounts Payable
2120 Interest Payable
2130 Salaries Payable
2140 Income Tax Payable
2150 Sales Tax Payable
2160 Federal Payroll Withholding Tax Payable
2170 Provincial Payroll Withholding Tax Payable
2180 Unemployment Insurance Premiums Payable
2190 Canada Pension Plan Premiums Payable
2200 Advances from Customers

Long-Term Liabilities:

2410 Mortgage Payable
2420 Term Loan Payable

Stockholder's Equity:

3510 Capital Stock
3650 Retained Earnings

Illustrative Sample - Chart of Accounts

Revenue:

4000 Sales
4100 Returns and Allowances

Cost of Goods Sold:

5100 Opening inventories
5110 Purchases
5120 Freight in
5130 Direct Labor
5140 Closing inventories

Expenses:

6010 Advertising
6020 Bank Charges
6030 Contract Labor
6040 Depreciation and Amortization
6050 Dues and Subscriptions
6060 Employee Benefits
6070 Insurance
6080 Interest Expense
6090 Janitorial
6100 Legal and Professional Fees
6110 Meals and Entertainment
6120 Office Expense
6130 Payroll
6140 Postage and Shipping
6150 Rent
6160 Repairs and Maintenance
6170 Supplies
6180 Telephone
6190 Travel
6200 Utilities
6300 Provision for corporate income taxes

Other Revenue:

7010 Interest Income
7020 Other Income

CHAPTER 4: PAYROLL TAXES

CHAPTER 4

PAYROLL TAXES

Irrespective of the form of business in which you operate, if you are going to have employees then you will have to deal with deductions for Canada Pension Plan (CPP) contributions, Employment Insurance (EI) premiums and income taxes from remuneration. You must remit payment to the CRA and report payroll information on applicable slips (PD7A), which are either sent into CRA, paid at the bank or filled out on line when paying with "online banking". The brief summary, which follows, will give you some guidance on the rules and regulations of the various taxing authorities.

If you operate as a proprietorship or partnership your draws are not considered salary and accordingly deductions for Income Tax, CPP and EI are not required. However, if the proprietorship or partnership employs your spouse and any other family members who are not partners, they are considered employees for Payroll Deduction purposes.

If you operate as an incorporated entity, i.e. limited company, and you take a salary then you are considered an employee. The same applies if you employ your spouse and any other family members.

Available Publications

Form T4001, Employer's Guide to Payroll Deductions, covers the payroll tax reporting and remittance requirements and can be obtained through the local office of the Canada Revenue Agency or their website at *www.cra-arc.gc.ca.*

Source Deduction Payment Requirements

As a new remitter, you are considered a *Regular remitter* for the first calendar year.

You must remit all employee source deductions on or before the 15th day of each month following the month of actual deduction. Your first payment may go to any tax center (found on the website with a cheque or money order made payable to the Receiver General and include a letter stating:

- that you are a new remitter;
- the period your remittance covers;
- Your complete employer name, address, and business telephone number; and
- Your Business Number, if you have one.

After the first remittance is received, CRA will send you a remittance form in the mail each month four future remittances.

For complete information on an employers' responsibility for remitting payroll deductions visit www.crs-arc.gc.ca and click on form RC4163.

Canada Pension Plan (CPP)
You have to deduct CPP contributions from an employee's remuneration if the employee is 18 or older and younger than 70. The employment must be pensionable during the year, and the employee cannot be receiving a CPP retirement or disability pension.

You have to contribute the same amount of CPP that you deduct from your employee remuneration. For 2018, the maximum you deduct is $2,593.80 and remit $5,187.60 per employee. The basic percentage contribution rate is 4.95% for the employee as well as the employer.

You stop deducting CPP contributions when you reach the maximum employee contribution for the year. In 2018 the maximum is reached at $55,900. This limit is increased each year by CRA.

Employment Insurance (EI)
Once you have employees you must also deduct EI premiums from the employee's pay on every dollar of insurable earnings up to the yearly maximum. As an employer, your EI premium is 1.4 times the EI premium withheld for each employee. For 2018 the maximum you deduct is $858.22 and remit $2,059.73 per employee (i.e. employee portion of $858.22 and employer share of $1,201.51). You stop deducting EI premiums when you reach the yearly maximum employee contribution, which is $51,700 for 2018. Again, this limit changes each year as determined by CRA. Recently they have provided EI 'hiring credits" to encourage companies to hire more employees.

If you someone who is *related to you* as defined in the income tax act of Canada, i.e. your spouse and other family members, then they are *not covered under EI* and thus no deductions are required.

Note: This is a very complex area and you should seek advice from your professional accountant to determine whether you are exempt from EI.

There is no age limit for deducting EI premiums.

Simplifying Payroll Remittances
The payroll tax requirements and the work related to compliance are quite cumbersome and complicated. Once a business employs more than a few people, we recommend using, either a payroll package such as those that integrate with Simply Accounting® and QuickBooks® or use an external payroll service.

Payroll Tax Rates

The following charts contain tax rates and the taxable wage basis for employers and employees. The limits and maximum contributions for 2018 given are per employee.

CPP and EI Tax Rates

	CPP	EI	Total
Tax rate for employer	4.95%	2.324%	7.27%
Tax rate for employee	4.95%	1.66%	6.61%
On wages not to exceed	$55,900	$51,700	
Basic Yearly exemption	$3,500	-	
Maximum employer contribution	$2,593.80	$ 1,201.51	
Maximum employee contribution	$2,593.80	$ 858.22	

Workplace Safety and Insurance Board

Most businesses in Ontario that employ workers (including family members and subcontractors) must register with the Workplace Safety and Insurance Board (WSIB) within 10 days of hiring their first full-or-part-time worker. It is the law! See www.wsib.on.ca

There are a few industries that **do not** have to register. These include:

- Banks, trusts and insurance companies
- Computer software developers
- Private health care practices (such as those of doctors and chiropractors)
- Trade unions
- Private day cares
- Travel agencies
- Clubs (such as health clubs)
- Photographers
- Barbers, hair salons, and shoe-shine stands
- Taxidermists
- Funeral directing and embalming

An employer can still choose to insure their workers through WSIB, even if they are in the above categories. Principals of companies can also choose to *self-ensure* themselves outside the WSIB regime.

CHAPTER 5: SELECTING A YEAR-END

CHAPTER 5

SELECTING A YEAR-END

If the new business is a sole proprietorship or a partnership with individuals, the business will be required to use a calendar year-end. However, if the business is incorporated, the corporation is often allowed to select a fiscal year-end using a month end other than December. Here, the first-year end chosen cannot extend beyond twelve months after the incorporation date. Year ends usually end on the last day of the month. The business should ensure that their bank statements also are "cut off" as of the last day of the month.

Which Month to Choose

The selection of a year-end involves several considerations. The most important factor is the ease by which data is accumulated. For this purpose, most companies prefer to use a quarter-end as the last day of the fiscal year (e.g. March 31st, June 30th, September 30th, or December 31st). Many companies not using a quarter-end date find that it complicates several government filings and can be confusing to shareholders and others when disclosing quarterly data.

A second consideration involves the nature and seasonal fluctuations of the business. As a general rule, the year-end causes a disruption to the normal course of business, especially if a physical inventory is required. It is usually better to have this disruption occur during the off-season. Also, since the periods just before and just after year-end often involve an additional time commitment by the key officers, a year-end that does not conflict with normal vacation schedules is preferable.

There are also tax reasons to select a year-end other than December 31st. If the company has, for example, a June 30th year-end, it is possible for the corporation to pay bonuses in June and obtain a tax deduction. Alternatively, the company can *accrue* the bonuses at June and have until 183 days after the year end to pay the bonus and corresponding income taxes to CRA. CRA will hence either get their taxes on corporate profit within six months or the income tax sourced deductions on bonuses accrued but not paid, within six months. If a July year end is taken, bonuses can be accrued to be paid in the following calendar year. This could be an important factor in the event of parental or sabbatical leaves.

Proper planning in selecting a year-end can also defer the payment of taxes at the corporate level. Suppose the company incorporated in July and operated at break-even through the next April, but expected May and June to be big income months. By selecting a March or April year-end, the company can delay for ten months the payment of taxes on the

May and June income. Since cash is often scarce for a start-up company, this deferral can be of significant benefit.

How to Make the Year End Election

The election of a year-end is made on the T2 tax return of the corporation. Even though the corporate by-laws disclose the fiscal year and the request for Business Number asks for the year-end, a final election is not made until the first corporate income tax return is filed. There is not a separate form for making the election. The corporation merely states the fiscal year on page one of the T2. The first year-end must be no more than 53 weeks after the date of incorporation. The return must be filed six months after the first year-end (and this includes non-end of month year-ends such as March 15. This return is due on September 15).

Changing the Year-End

Unless you have received approval to change the fiscal year end, the corporation's fiscal year end is the same from year to year.

To change an established fiscal period, write a letter to your Tax Services Office asking for approval and explaining the reasons for the change. CRA requires the "business reason" before approval of any year end change. The Tax Services office is determined by the "postal code" of the company.

Upon the "amalgamation" of a company with any other company there is an "automatic" year-end change the day immediately before the "date of amalgamation" – as stamped by the applicable Ministry.

CHAPTER 6: INCOME TAXES

CHAPTER 6

INCOME TAXES

Eventually you will have to deal with income taxes. The income tax laws are extensive and can be confusing for an individual starting a business. This chapter does not cover all the tax ramifications of a new business; however, it provides some guidance on complying with the laws. A qualified accountant or tax lawyer should be consulted when you are dealing with income taxes. Income taxes have a direct result and a potentially significant impact on the cash flow of your business.

Income Tax Return Submission

Each type of business entity is required to file a different type of income tax return.

Corporation
A corporation is considered a taxable entity and is required to file a Federal T2 return and potentially a separate provincial income tax return as well if the provincial filing is not administered by the Federal government (i.e. Alberta or Quebec).

Partnership
A partnership is not a taxable entity. It is treated as a conduit through which taxable income is passed to the individual partners for inclusion in their respective tax returns T1. If there are more than five partners, a partnership information return (T5013) is required to be filed. – see Guide T4068.

Sole Proprietorship
A sole proprietorship is considered to be a component of the individual's personal tax situation. The tax form required becomes a supporting schedule on that individual's T1 return. Professionals report their revenues and expenses on form T2032, while other self-employed individuals use form T2124. These forms are readily found on the CRA website and form part of most electronic filing software.

Estimated Installment Tax Payments

Corporations

Corporations have to pay income tax in monthly installments when the total taxes payable for either the previous year or the current year is more than $1,000.

Interest and penalties apply to late payments. To be on time, you have to make installment payments and other payments on or before the due date either by mailing a cheque payable to the Receiver General for Canada, or by paying directly through a Canadian financial institution.

CRA considers the payment to have been made on the day they receive it, and not on the day you mail it. Your payment due date may fall on a Saturday, Sunday, or a statutory holiday. If so, CRA will consider the payment as being received on time for calculating installment interest and penalty, if they receive the payment on the first business day after the due date.

Installment Due Dates

Installment payments for tax are due on the last day of every complete month of a corporation's taxation year. The first payment is due one month minus a day from the starting date of the corporation's taxation year. The rest of the payments are due on the same day of each month that follows.

Balance due date

Generally, all corporation taxes are due **two** months after the end of the taxation year. However, the tax is due **three** months after the end of the taxation year if the corporation is considered a small business for tax purposes (consult your accountant for this definition).

Individuals

Personal income taxes are due and payable on April 30 of the following calendar year. In most cases this is the filing deadline for T1's with the exception of self-employed individuals who must file their returns by June 15 of that same year. Note that self-employed individuals must still pay their estimated tax liabilities by April 30.

Personal Tax Installment Due Dates

Installments are periodic payments of income tax that you have to pay to cover tax you would otherwise pay on April 30 of the following year. These are paid quarterly on March 15, June 15, September 15 and December 15. CRA will mail you the forms to make these payments based on your prior year's tax return. You may choose to alter these payments based on expected income taxes payable. However, please

consult **Cusimano Professional Corporation** before doing so to avoid any unnecessary and unpleasant penalties and interest.

Most people pay their tax by having tax withheld from their income throughout the year. However, if you receive income that has no tax withheld, or does not have enough tax withheld, you may have to pay tax by installments.

This can happen if you receive:

- Rental income;
- Investment income;
- Self-employment income;
- Certain pension payments; or
- Income from more than one job.

If you owe more than $3,000 (Federal) (or $1,800 in Quebec) when filing an individual income tax return, you be liable to remit quarterly in the following year, if you anticipate reaching the same threshold levels. For more detailed information please visit www.cra-arc.gc and search Personal Tax Installments.

Tax Planning

Proper tax planning is essential in order to make the most of the income tax laws. You will probably need to develop a relationship with a qualified professional who has experience with the taxation of your type of business. Tax planning is not a one-time shot right before the return is due. Tax planning is a year-round endeavor requiring communication on both sides – you and your trusted professional accountant. Proper planning ensures that there are no surprises when the return is filed.
The best planning occurs when one takes a "holistic approach" i.e. taking into account the company, the shareholder and other family members.

Provincial Returns

Only the province of Quebec requires an individual to file a separate provincial return.

Conclusion

Income tax laws are quite complicated. The amount you may save by attempting to tackle your own taxes, particularly as they relate to a business, can be greatly overshadowed by the expense you may incur if you make a mistake. This axiom takes on greater significance when the return is for a corporation. However, a far greater consideration than potential mistakes is missing opportunities, which may be available to you and your business. **Cusimano Professional Corporation** can help minimize your income taxes.

CHAPTER 7: CASH PLANNING AND FORECASTING

CHAPTER 7

CASH PLANNING AND FORECASTING

CASH IS KING! The lifeblood of any business is its ability to collect cash and pay bills as well as pay its employees, particularly its owners. Far too often small businesses are profitable, but they do not have enough operating capital to meet their current needs.

Lack of operating capital happens at start up, happens in growth periods and can happen at other times as well. If not addressed directly, it can ultimately force businesses to sell out to a stronger competitor, sell a portion of the company to investors at an undesirable price or close the doors, and put the company out of business. None of these alternatives are typically what the owner's intended when starting the business.

The ability to forecast cash resources and uses is an art and is by no means a well-defined science. None of us have a crystal ball and any cash forecast which the management of a company prepares or an outside consultant can be no more than a guess as to when the customers will pay and when your business will pay its obligations. Hopefully, the more effort that is put into cash forecasting the better will be the educated guess and the more accurate the resultant picture of the future operations of your business. It is very important to give serious thought to the "assumptions" that will form the basis of the revenues (cash inflows) and well as the expenditures – for current expenses as well as capital asset purchases.

Starting the Analysis

One of the most significant factors to be considered in your cash flow forecast is the volume of sales, which will be generated, in the next several months and for the rest of the period for which you intend to forecast. Your sales forecast must be as fine-tuned as possible and be broken down by major product lines, if they so exist. A sales forecast needs to be based upon specific facts and assumptions. These might include your sales history or the history of similar businesses you have owned or operated or the competition. In your area of industry, what has been the experience of similar operations?

Consider all the circumstances that impact the sales bottom line. Some of the questions, which should be addressed would include: what other factions can I control such as adding new product lines, deleting unprofitable operations, adding a new salesperson, or terminating one that is not producing to quota? In preparing a forecast, you must also take into consideration items such as the seasonality of your business, the relative state of the economy, and the period over which you forecast.

Obviously, your ability to forecast sales for the next month is better than it is to forecast three to five years from now. The amount of detail, which must be included in the cash forecast, is really a matter of preference. It can be based on per-unit sales extended out by the sales price of each type of unit or an average sales volume per day, week or month of your type of business in its current environment.

Cash Collections

Once you have determined a reasonable level of sales and you are comfortable with the forecast you have made, you must address questions such as:

- What percentage of my sales are received in cash?
- What portion are credit sales for which I will have to carry accounts receivable?
- For those that are receivable based, what is the timing of the cash collected?
- Do I have to wait for customers to pay me or do third parties such as Visa or MasterCard take the customers account and convert it to cash for me with an appropriate discount?
- If using a gateway for internet-based sales such as Moneris or PayPal; is there a discount?

If you are relying on customer payments for collection of receivables you must determine what portion of the receivables will be collected in thirty days, sixty days, ninety days, and thereafter, and what portion, if any, may never be collected. To assume that 100% of your sales will ultimately be converted to cash is probably unrealistic especially considering the current economic environment and the tight cash situations that may face some of your customers.

Other sources of cash may be available in addition to sales. Do you expect to bring in a partner or other investors, or can you borrow money from a bank? When will you receive the cash and how much will you get? Part of your cash flow analysis may be to determine how much investment money or borrowings will be required to operate your business.

Once you are comfortable with the cash receipt side of your business, and the timing of the collections of funds from your sales and other sources, it is necessary to consider the expenses and other cash needs of your business operation.

Disbursements

Certainly, if your business entails sales of inventory you will have to purchase the merchandise from others or purchase the component parts and pay employees to assemble it. This may require a significant outlay of cash before the first dollar of sales is generated and received. You should consider how often and in what amount your employees must be paid and when their payroll taxes must be deposited.

Additionally, you need to know the credit trade terms your vendors are willing to advance to you. Do you have to pay for inventory items on a cash on delivery ("COD") basis or can you pay for them thirty or forty-five days after receipt?

What expenses must be paid to allow you to convert purchased merchandise to salable inventory? If your production requires utilities to run machines or supplies that are required such as dispensable chemicals or packing materials that must be purchased prior to the sale of the inventory you should factor the timing of payment.

In addition to the cost of manufacturing, you should consider whether your productive capacity would allow you to generate enough inventories to support the level of sales, which you are predicting. If the volume of sales you forecast is above and beyond your ability to produce today, what changes in your operating environment must be made to meet the production levels. Will you need additional employees, if so, how much will they cost? Do you have to acquire additional machinery for your shop operations? What is the cost of the machinery and when will you have to pay for it?

Once you have determined the cost of operating your production or service facilities, you need to consider what other expenses you must pay to keep the doors of your business open. You typically will have to pay rent for your office or manufacturing facility. You must consider how much the monthly payment is and when it has to be paid. Ask yourself if there will be other cash requirements such as a deposit on the last month's rent. If you are opening a new business, you must consider what your cash requirements are to make your facility ready for your specific needs and purposes. Will you have to buy or rent furniture? Will you need to make tenant improvements or pay deposits for utilities and other services?

You also need to consider many of the overhead items and costs to open a new business that will hopefully be one-time expenses. This may be legal fees for drafting partnership agreements or incorporating your business, the cost to obtain business licenses, authorization from the taxing authorities, setting up an accounting system, stationary costs, and costs of signs or logos.

It may seem like the list of costs and expenses to be incurred is endless. It may even discourage you from moving forward with your business endeavor. However, it is imperative to make the list as detailed as possible to ensure that you have sufficient funds to make your operation ready for business prior to running out of cash. The more detailed and realistic the list and the more sufficient information you can provide, the less chance there is of unpleasant surprises as you move down the stream to opening your business.

In addition to determining the amount and volume of expenses and cash outlays you will have to make, it is critical to determine the timing of such payments.

As we have discussed in other chapters, there may be a variety of financing alternatives, which are available to you. Most of the start-up costs, which you incur, can be delayed or deferred until you can generate the cash from your operation to help pay them. This needs to be carefully analyzed and factored into your cash flow analysis. However, a good rule of thumb is to assume that you are going to have to pay your expenses sooner than you think and that you will collect your cash slower than you anticipate. If you work with this attitude, any surprises should be favorable ones.

Cash flow projections can be very slow, time consuming, and tedious to undertake. It is often very tempting to hire someone else to prepare the projections for you. There are a variety of individuals who can help you do this, but the critical factor is that they only help. You as the owner and operator of the business are the only one truly qualified to develop your cash flow projections. The assumptions used are critical and can greatly influence the timing and amounts of cashflows. You know what it takes to open and operate your business. Certainly, a trained professional can offer guidance and ask pointed questions to be sure you are considering all of the necessary and sometimes hidden costs of operating a business. However, the more effort you put into developing the cash flow projections the more accurate they will tend to be. This exercise may also help you to pinpoint areas of potential cash savings, which you had not otherwise considered.

We have included a worksheet following this chapter, which may assist you in developing a cash flow analysis. Bear in mind however, this worksheet does not include all the items that should be considered in preparing **your** cash flow analysis but should help raise many of the questions which you need to ask yourself before deciding how much cash will be required to establish and operate your business and what period of time must elapse before you can expect to pay back the lender or return profits to your investors.

Cusimano Professional Corporation can assist in writing up detailed cashflow statements along with assumptions to help guide and grow your business.

ABC Company Ltd.
Projected Statement of Cash Flow - Example
For the Year Ending December 31, 20xx

	Jan	February	Other months	December	Total
Cash on Hand - beginning of month	-	-	-	-	
Cash Sources - Receipts					
Source #1	-	-	-	-	-
Source #2	-	-	-	-	-
Total Cash Inflows	-	-	-	-	-
Cash Uses - Disbursements					
Advertising	-	-	-	-	-
Operating Lease payments	-	-	-	-	-
Capital Lease payments	-	-	-	-	-
Wages (CPP, EI, EHT, WSB) (net)	-	-	-	-	-
Other employee benefits	-	-	-	-	-
Postage & Courier	-	-	-	-	-
Professional subscriptions	-	-	-	-	-
Insurance (Office)	-	-	-	-	-
IT support	-	-	-	-	-
Telephone	-	-	-	-	-
Loan interest	-	-	-	-	-
Meals and entertainment	-	-	-	-	-
Memberships	-	-	-	-	-
Professional fees	-	-	-	-	-
Subcontractor fees	-	-	-	-	-
Rent	-	-	-	-	-
Other expense #1	-	-	-	-	-
Other expense #2	-	-	-	-	-
Capital asset purchases	-	-	-	-	-
Income Taxes paid	-	-	-	-	-
Total Cash Outflow (excluding debt)	-	-	-	-	-
		-			
Net Cash flow before debt service	-	-	-	-	-
		-			
Loan Principal repayment	-	-	-	-	-
Cash on Hand - end of month	**-**	**-**	**-**	**-**	

CHAPTER 8: OBTAINING CREDIT AND FINANCING FOR YOUR BUSINESS

CHAPTER 8

OBTAINING CREDIT AND FINANCING FOR YOUR BUSINESS

If you are not independently wealthy and perhaps even if you are, eventually you may need to obtain some outside capital for your business. In some instances, you may need to obtain capital for the initial expenses prior to opening your business or for instance, the funds you require may be for expansion or working capital during the off season.

Generally business financing can take two forms, debt or equity. Debt, of course, means borrowing money. The loans may come from family, friends, banks, other financial institutions or professional investors. Equity relates to selling an ownership interest in your business. Such a sale can take many forms such as the admitting of a partner or, if you are in a corporation, issuing additional common stock, options or warrants to investors. It is typically a prudent idea to consult with your lawyer, as there are many significant legal ramifications to such a step.

How Do I Get the Money?

Irrespective of the type of financing you need and are able to obtain for your business, the process of obtaining it is somewhat similar. There are several questions that must be answered during the course of raising money for your business. The ability to answer these questions is critical to your success in obtaining financing as well as the overall success of the business. Remember, in raising capital you have to sell the ability of your business to potential investors in much the same way as you sell your product to your customers.

You need to know the answers to these questions:

1. **How much cash do I need?** To answer this question, you will have to do some serious cash flow planning, which will require estimates of future sales, the related costs, and how quickly you must pay your vendors. You will also have to factor into your planning some assumptions about when you will generate enough cash to pay the money back. However, if you raise cash through equity you probably don't need to pay it back but your co-owners will want to know how the value of the business will grow and how they will benefit through dividends or selling their shares.

2. **What will you do with the money?** One of the most important questions you will have to answer for a potential investor is how the money will be spent. Will you use it for equipment or to hire additional employees or perhaps for research and development for a new improved product? Again, part of the answer on how you spend the money is how it will benefit the company.

3. **What experience do you have in running your business?** One of the primary reasons for business failure is lack of experience and management. You will need to convince your investors that you have the knowledge, experience and ability to manage your business and their money at the level at which you expect to operate.

4. **What is the climate for your type of business and your geographic location?** Few investors will want to put money into your business if you have not done sufficient "homework" to determine that you have a reasonable chance of success. If your business is based on existing economic or legal conditions, which are subject to change, in the near future your risk is substantially increased. Even if your business has great potential, if the local economy is sluggish to the point that it can not support your venture, you need to be aware of this before moving ahead.

Once you have developed concrete answers to these and other pertinent questions, you can begin investigating financing options. One of the first steps is to determine whether to raise funds through debt or equity. There are positive and negative aspects to each type of capital. The cost to your company of each type of funding is different as is the way in which they are treated for income tax purposes.

The interest on borrowed money is deductible by a business for income tax purposes, which reduces the effective cost to your company. Dividends, which you might pay on the same investment in stock, would typically not be tax deductible by your company. In selling stock there usually is no firm commitment by your company to pay the money back but your stockholder will want and generally will have a legal right to have a voice in the management of your company. When you have made the decision as to the type of financing you think is appropriate to fit your desires and needs it is probably a good idea to consult with your accountant as to alternative types of debt or equity financing available.

Financing Alternatives

Whether you determine that debt or equity financing is the best choice for your company, there are a number of alternative types of financing available. Depending upon the nature of your business the financing may be a combination of debt and equity and may be tailored to fit the specific needs of your company. The equity can also be by way of "preferred shares", "common shares" and a combination thereof. Shares have their own particular rights, as specified in the "articles of incorporation" or "articles of amendment" which need to be filed if and when the share structure changes.

In conclusion we will only mention a few of the more conventional methods for a young company to obtain capital, though the possibilities are many. A good business-oriented accountant can discuss these and other alternatives in greater detail.

Debt Financing Sources

Banks

The first source of funds, which typically comes to mind when borrowing money is a bank. In Canada there is the large typical Schedule "A" banks, smaller banks and the "Business Development Bank of Canada (BDC)". Banks typically lend to small businesses on a secured basis using equipment, inventory or accounts receivable. The more liquid and readily salable the assets you have to offer as security the more acceptable they are likely to be to a banker. Bankers will typically ask for personal guarantees from the principal shareholders. Care should be exercised in this area and the guarantee limits should be reviewed annually. Loans from a bank may take several forms such as:

1. A line of credit which renews annually and allows you to borrow up to a predetermined maximum as you need it and pay it back as funds from sales and receivables are collected.

2. A short-term demand notes which is payable in full on a specified date.

3. A term loan for the purchase of a specific asset such as a computer, vehicle, equipment, etc.,

4. Long-term (3-5 years) loan: repaid in monthly installments.

Lease financing

In today's business environment it is quite common to acquire equipment through lease agreements. Leasing packages come in a variety of types through many sources. Typically, a large equipment manufacturer may have its own leasing arm. Leasing companies typically will accept a somewhat higher degree of credit risk because they are looking to the value of the equipment for collateral if your business cannot make the agreed upon payments. For this reason, leasing companies generally prefer to finance new equipment of a general-purpose nature, which can be resold if necessary. Leases often run for a period of three to five years and because of the risk that leasing companies are willing to take, they are somewhat more expensive than commercial bank loans. Typically, in a longer term lease the buyback option is a nominal amount (i.e. one month's lease payment or $1 dollar).

Trade credit

A very important and the cheapest source of financing for your company may be from the vendors and suppliers with whom you do business. Many suppliers will originally ask for cash on delivery or in some instances they want payment before starting on your order, depending on the nature of your purchase. Most suppliers will quickly establish trade credit with you once you have gained their confidence by continuing to do business with them and paying as requested. Establishing good relationships with trade creditors is essential because it allows you to

use the goods and services in your operations and sell your product to your customers, in some instances before you pay for them. Other vendors will rely upon the trade credit you build today as you attempt to establish yourself with other vendors in the future. Trade credit terms will vary depending on the type of purchase you make, the supplier's industry, and the industry you are in. Some creditors may offer *discounts* if their invoice is paid earlier. Assuming you have the cash flow, this can result in significant savings, and should be considered.

Equity Financing Sources
Equity financing usually means selling a portion of your business. This can be accomplished in a number of ways including the sales of common or preferred stock or stock warrants. Equity sales are usually carefully tailored to meet the needs of both the company and the investor.

Venture capital companies
A venture capital company or fund is typically a company that is in the business of taking risks. A venture capital fund is often backed by a group of investors, which may be individuals or corporations. The investors are often represented by a management group, which evaluates potential investments and manages the existing investment portfolio.

The price of venture capital financing is usually very high when compared to borrowing money from a bank, but it must be remembered that venture capitalists are dealing with much higher risk situations than commercial banks will finance. This cost of venture capital is measured in terms of the portion of your company you must sell to obtain the level of financing you require. A venture capital firm sometimes requires a 300 to 500 percentage return on its investment over a four to five-year investment period. While this may seem like an enormously high return, a venture capitalist is in the risk business and the return on a good investment must help offset those companies that do not meet their projections or fail altogether. To determine the price of such financing, a venture capitalist will start with the amount of financing you require and calculate what they must receive at the time the investment will be sold to allow them to achieve the necessary rate of return.

Based upon the operating projections you provide, discounted based on their experience, they will estimate what your company might be worth at the time the investment will be liquidated. This might be at the point of a public offering or a sale to a corporate investor. The last step for a venture capital company in determining pricing is to calculate what percentage of the company they must own to realize the return desired. At this point, the "horse trading" generally begins. As a general rule you will want to retain as much of the ownership of the company as you can. The venture capitalist wants enough ownership to achieve the investment goals and have some control over how the money is spent. This will often be achieved by voting power and representation on the Board of Directors. At the same time a venture capitalist wants to be sure there is

sufficient reward in the company for you and your management team to be motivated and achieve the projections in your business plan.

An individual or group of individuals often manages a venture capital company with a strong background in business and management. They can often provide depth of experience and management assistance in areas where your management team may be weak. A venture capital group can very often provide contacts and valuable introductions in your industry. Remember a venture capital investor becomes a member of your team.

Private individuals
Very often, individuals who are successful in their own right and have accumulated substantial wealth may be looked to for investment in your business venture. Such individuals may believe that the success of your business may enhance theirs as well as help increase their personal wealth. These individuals, like a venture capital company, very often want to participate in the management activities of your firm and help guide your progress through representation on the Board of Directors. The business acumen and contacts of these individuals can often be a valuable asset of your business. An individual investor can often react to opportunity much quicker than a venture capital firm and typically has only their own interests to serve as opposed to a financial backer or group of investors.

Individual investors can be more flexible in the type of investment structure they can deal with, and often have personal, financial and tax motivations to consider.

Cusimano Professional Corporation has relations with a diverse group of bankers, private lenders and investors to help grow your business.

CHAPTER 9: INSURANCE

CHAPTER 9

INSURANCE

Business insurance, like many types of expenditures is one of those items, which business owners typically do not like to pay. You must remember that sufficient insurance can be as critical to the success of your business as a good product or service. Without proper insurance you could lose all of the money, time and effort you put into your company. The types and amounts of coverage you purchase must be evaluated on a cost-benefit basis like any other commodity, which you purchase. Your accountant and insurance agent can help you review the amount of coverage you may wish to purchase for various purposes. Usually, you will want to insure against risks, which could have significant detrimental impact on your business. This normally would include such items as fire, storm damage, theft, general, and product liability.

Depending on the nature and size of your business it is often a good idea to self-insure for all or a portion of certain losses. Not buying coverage for incidental risks or increasing the deductions on policies, which you do buy, can accomplish self-insurance. Often, raising the deductible can have a very favorable impact on policy premiums. The administrative cost to the insurance company to process small claims is quite high; consequently, the rates typically go down substantially if they are relieved of this expense by insuring for losses in excess of a sizable deductible amount. An insurance broker can provide you with comparative costs for various types of coverage with varying degrees of deductible amounts.

Required Policies

Very little insurance coverage is mandatory. The only insurance coverage typically required by law is worker's compensation, which covers injuries to employees while on the job. Your insurance agent can explain the required coverage, the rating systems, and help you purchase a policy.

You must also be aware that the terms of your building, office lease or mortgage may require you to carry certain kinds of insurance coverage in specified minimum amounts. If you have leased equipment or have borrowed money from a bank or other lenders, there will usually be insurance requirements in the agreements relating to these transactions. There are many other types of policies, which you may wish to consider. The specific coverage provided by each and a qualified insurance broker can explain the related costs in depth.

Some of the types of insurance coverage, which you might consider for your business, are listed below:

Business Interruption
This coverage, as the name implies, covers the loss of revenues your business would generate if you were forced to shut down for reasons beyond your control. While this is obviously valuable insurance, the policy premium must be carefully considered relative to the potential profits your business might lose during a short shutdown of operations.

Employee Fidelity Bond
This type of insurance typically covers the risk of loss from theft by employees. If your business deals in large amounts of cash, negotiable securities, or similar types of assets, you may be well advised to consider this coverage. Certain industries are required to carry this insurance by regulatory authorities.

Umbrella Coverage
This type of insurance covers losses above and beyond the limits of other policies, which you carry. Umbrella policies usually pertain to liability of various sorts and are usually valuable if your business or you have a net worth, which requires protection in the event of a catastrophic loss.

Life Insurance
If you have a business partner that is critical to the success of the business, key man life insurance will be a good thing to consider in order to replace key employees in the event of death. Insurance may also be considered for estate planning purposes in the event that a shareholder passes away, the remaining shareholder could buy out the estate of the deceased.

Insurance is like any other product, which you purchase. Before purchasing it, you should consult with more than one broker as to your needs for protection. You should discuss insurance needs with acquaintances in the same or related business as yours. Before buying coverage, you should check out the reputation of the company that is underwriting the policy. The provinces regulate insurance companies and each province will provide you with the information you require to make an informed decision.

Cusimano Professional Corporation has excellent relationships with established general and life insurance agents that can help ensure that you and your company have all the proper types of insurance coverage protection.

CHAPTER 10: SELECTING PROFESSIONAL ADVISORS

CHAPTER 10

SELECTING PROFESSIONAL ADVISORS

Starting your own business obviously entails a multitude of decisions; decisions which can seem overwhelming without the right players on your team. In order to succeed you need to equip yourself with every tool at your disposal.

One of the most cost-effective tools you can utilize is the expertise of a specialist. **Cusimano Professional Corporation** and lawyers, bankers and insurance agents, that we have established relationships with, can eliminate a host of problems and potentially costly errors that you might make as you build the financial foundation of your successful business.

As any coach can tell you, having a first-rate quarterback (i.e. you) will not guarantee a winning team without a first-rate line of defense. The right accountant and lawyer are your best defense. Their expertise can help save you money, which in turn can be used to increase profits.

When enlisting the expertise of an accountant and lawyer you want a specialist suited to meet your specific needs. You want a specialist who will listen to you. More importantly, you need someone you can and will listen to as they devise strategies to help you succeed. **Cusimano Professional Corporation** will do all of the above.

You want to succeed – and you can. By taking the time to make key decisions and enlisting the right players on your team – you will succeed!

We wish you success and welcome you to the wonderful world of free enterprise.

CONCLUSION

You now have a handy reference guide to starting a business. With it you should be able to successfully handle many of the problems encountered in starting and running a business. Always remember to seek professional advice in areas in which you are not sure. They can help increase your chances of success and/or help your business grow and position it for future exit strategies. The benefits will far outweigh the costs.

Best of luck on your venture!

Cusimano Professional Corporation
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