



# FORESIGHT

CONTEMPORARY IDEAS FOR BUSINESS MANAGEMENT

SPRING/SUMMER 2023

## REMINDER – Bill 27: Working for Workers Act Policy on Disconnecting from Work

The Government of Ontario passed Bill 27: Working for Workers Act on December 2, 2021. The legislation includes among other things, the requirement that Ontario employers with 25 or more employees prepare a written policy on disconnecting from work by June 2, 2022.

Disconnecting from work under the Employment Standards Act, 2000 (ESA) is defined as not engaging in work-related communications, including emails, telephone calls, video calls, or the sending or reviewing of other messages, so as to be free from the performance of work. However, the ESA does not require an employer to create a new right for employees to disconnect from work and be free from the obligation to engage in work-related communications in its policies.

In developing a written policy, employers should ensure that the policy meets the following requirements:

- pertains to disconnecting from work as defined in the ESA
- includes the date it was prepared and where applicable, the date of any changes to the policy
- covers all employees however you may have different policies for different groups of staff
- is in place by June 2, 2022

Employers must provide a copy of the written policy to all employees within 30 calendar days of:

- the policy being prepared



- the policy being changed (if any changes have been made)
- a new employee being hired

The employer may provide the policy to employees as:

- a printed copy
- an attachment in an email if the employee can print a copy
- a link to the document online if the employee has a reasonable opportunity to access the document

Guidelines for the content of the policy have been left open-ended and are subject to the employer's discretion. The Ontario Ministry of Labour provides some examples of what the policy may address related to employer communication with employees:

- time
- subject
- who is contacting the employee
- employer requirements regarding out of office notifications or voicemail messages

Applicable employers are encouraged to consider the circumstances surrounding their own workplace and ensure that an appropriate policy is implemented prior to the government deadline.

### Need Further Assistance?

Contact [djbhr@djb.com](mailto:djbhr@djb.com) to connect with one of our HR Professionals to discuss this new Act and how it may apply to your business.

Article written by: **Michelle DeLuca**, Manager, Human Resources Advisory

# On Again Off Again – A Review of the Immediate Expensing Rules upon Coming into Force

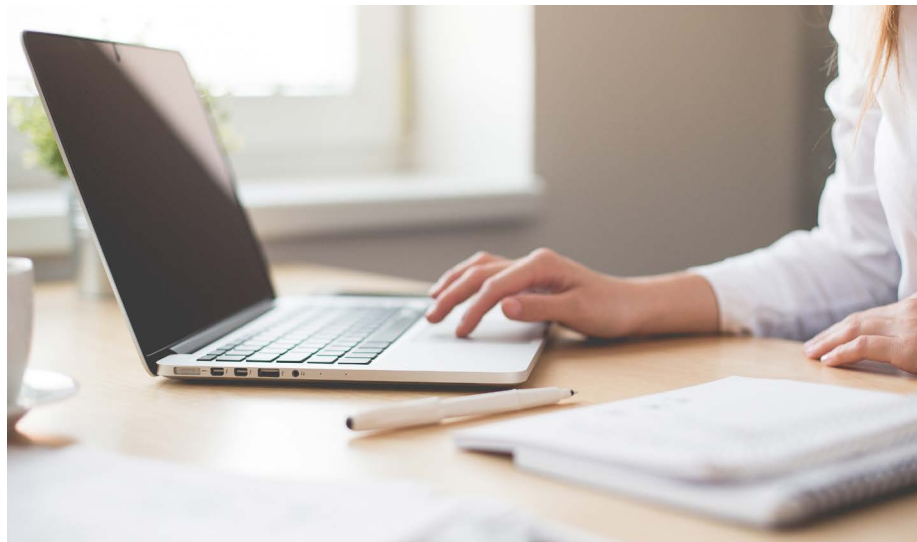
**O**n April 18th, 2021, the Minister of Finance announced measures that would allow businesses to immediately write off the full cost of capital assets purchased in a given tax year, starting with the 2021 tax year for Canadian Controlled Private Corporations (“CCPCs”).

The rules, while announced, had not been drafted into a notice of ways and means. The tax community anticipated that the law would be implemented as announced and tax software providers implemented the changes into their software for the 2021 tax returns. There is

a general understanding with Canada Revenue Agency (CRA) that returns can be filed on the basis of proposed legislation. However, due to the lack of a notice of ways and means being tabled, and said legislation not being tabled in the house for a first reading, the CRA did not allow the immediate expensing to be utilized. This prompted some backpedalling in the tax community, and returns were henceforth filed without immediate expensing, and software providers removed the ability to apply the immediate expensing rules.

This changed on April 28, 2022, when proper legislation was tabled in the House of Commons, and Bill C-19, which included the immediate expensing measures, received its first reading in the House of Commons. Since then, taxpayers were able to file based on the tabled and proposed legislation and tax software providers have responded by adding the ability to make an immediate expensing claim on tax returns for 2021 and later years.

Bill C-19 received royal assent on June 23rd, 2022. Now that taxpayers have the ability to use the immediate expensing rules announced back in April of 2021, it is worthwhile to revisit how they apply.



The rules provide that, for capital properties that became available for use after April 18th, 2021, for CCPCs, or for purchases of capital properties that became available for use after December 31, 2021, for individuals and partnerships, the full cost of the capital asset can be expensed if it is property of a prescribed class. However, capital cost allowance (“CCA”) classes 1 to 6, class 14.1, class 17, class 49, and class 51 are not eligible for immediate expensing. The class 1 exclusion is understandable as allowing buildings to be immediately expensed would add fuel to the hot real estate market, and buildings in general are long-lived assets that tend to appreciate in value. The exception for the other classes are due to their very low CCA rate as they are also long-lived assets.

The property must be previously unused by the eligible person, and the property must not have had CCA claimed in respect of it by any other person for a tax year prior to the year it was acquired by the eligible

person (in general new property even if purchased from a related party). Or, if the property was previously used, it cannot have been obtained on a rollover basis (section 85) and cannot have been obtained from or previously used by a non-arm’s length person.

These rules are intended to prevent abuse where existing properties are sold to members of a related group to try to get an immediate write-off, or where there is a sale and buyback from a third party to get an immediate write-off of an existing asset. The immediate expensing option

ends for assets that became available for use after December 31, 2023, for CCPCs and after December 31, 2024, for individuals and partnerships.

The amount of capital property that can be immediately expensed is limited to \$1.5M for any given tax year. A short tax year will see this limit prorated accordingly. If the taxpayer is a person or partnership that is associated with other eligible person(s) or partnership(s), the annual limit of \$1.5M must be shared and allocated amongst the associated group. For the purposes of these rules, the concept of association is extended to include partnerships and individuals, as well as corporations. For example, a sole proprietor with their own business would be required to share the limit with a CCPC of which they are only a 30% shareholder, where a family member such as a parent or sibling controls the corporation, even if the sole proprietor is not active in the affairs of the corporation.

The ability to immediately expense a 'luxury' passenger vehicle has prompted some unique rules around immediate expensing designed to deal with the way such vehicles are handled for purposes of capital cost allowance (CCA). Passenger vehicles with a capital cost of \$34,000 or higher are restricted in the amount of CCA that can be claimed and are referred to class 10.1 vehicles referring to the CCA class to which they belong. The addition to the undepreciated capital cost pool is limited to \$34,000 plus HST. A unique aspect of the class 10.1 is that in the year of disposal, a ½ CCA claim is allowed, and any remaining undepreciated capital cost ("UCC") is Nil and no further deduction is allowed. Class 10.1 does not have the recapture and terminal loss rules that apply to most other CCA classes.

### Consider the Following Scenario

In year one a passenger vehicle costing \$70,000 is purchased. The taxpayer disposes of the vehicle for \$34,000 in year five. Using the special rules for class 10.1 assets, the following would result. A total CCA of \$25,574 would have been claimed. The remaining UCC of \$8,425 at the end of year five would be deemed to be nil at the end of year five. The net deduction to the taxpayer is \$25,574.

If recapture applied to class 10.1 assets as it does to most other classes, the taxpayer would report proceeds of \$34,000 (being the lesser of cost and proceeds) and the result would be full recapture in year five of \$25,574, completely reversing all prior deductions for the automobile. This would be an unfair and illogical result, so as a compromise, the legislation does not provide for terminal losses or recapture on disposals of class 10.1 vehicles, but any remaining UCC is lost.

This can cause problems with the immediate expensing rules. Using an extreme example, assume a passenger vehicle costing \$70,000 is purchased in year one but sold in year two for \$50,000. Without adjustments to the immediate expensing rules, the taxpayer will be able to claim CCA of \$34,000 in year one while only

selling the vehicle for \$20,000 less than the original purchase price. This result allows the taxpayer to expense \$34,000 even though the actual economic cost was only \$20,000. This scenario, while once considered unlikely, is more common in the post-COVID used vehicle marketplace, where used vehicles are sometimes selling for the same price or more than new vehicles due to extreme constraints on the supply chain.

In order to address this undesirable result, the rule that restricts any resulting recapture on a class 10.1 vehicle from coming into the taxpayer's income is deemed not to apply where the automobile was designated as immediate expensing property in the year. Instead, the proceeds on the sale of the vehicle are deemed to be a prorated amount in the proportion that the deemed capital cost is of the purchase price adjusted for government assistance. So in our example \$50,000 multiplied by \$34,000 divided by \$70,000. This will yield a result of \$24,286 which would be the lesser of capital cost or proceeds. The recapture would work out to be \$24,286. The result is a net CCA claim to the taxpayer of \$9,714 which is a more fair and logical result.

Note that where the sale is to a related person, the proceeds are not prorated, and instead are deemed to be the actual proceeds received on the disposition. In most cases, the lesser of capital cost and proceeds will be the deemed capital cost, and full recapture will result. However, the related party will have a class 10.1 addition at \$34,000. This result is unavoidable when selling to related persons and occurs even where the sale is conducted at fair value and using arm's length terms.

It is important to remember, that while there has been much talk about immediate expensing in the tax community, the immediate expensing rules are not providing any actual tax savings over time. It is merely an acceleration of deductions that would have been claimed in the following years. Using the immediate expensing option will mean that

deductions for CCA claims in the future will be reduced, resulting in more tax in the future. The benefit is a deferral of tax.

The opportunity for true savings might exist in the following scenario. There are new rules to adjust the upper end of the taxable capital grind to the Small Business Deduction (SBD) for CCPCs from \$15 million to \$50 million. Some CCPCs whose taxable capital is hovering around \$15 million to \$30 million may find themselves in a position where they are not able to claim the SBD in 2022 but may be able to claim the SBD in future years once the changes to the SBD grind are effective. In this scenario, using the immediate expensing in 2022 will save tax at the general rate; while a reduced deduction in future years could mean higher taxable income in years where the SBD is available.

Similarly, the opportunity for a true tax cost is also possible. Tax rates might not remain the same. The government spent a lot of money providing assistance to Canadians during the COVID-19 pandemic. It is not hard to imagine that in an effort to balance the budget, the Minister of Finance could consider increasing corporate tax rates, which are currently at historical lows. If corporate tax rates were to go up in future years, using the immediate expensing option in an earlier year could be to the taxpayer's long-term detriment.

After waiting for the immediate expensing legislation in Bill C-19 to receive royal assent, it is now in force and despite a long time span from when the measures were announced, taxpayers can now use the immediate expensing option for capital properties acquired over the next couple of years.

*Should you wish to know more about the immediate expensing rules and how they may affect you or your business, please contact one of our tax professionals.*

Article written by: **Shawn Rusan**, CPA, CA



# Inheritance Planning

John and Mary have worked hard throughout their lives to build a successful business. Each of their three children have worked in the business in different capacities over the years, but they've followed their own interests, which have lead them away from the family business. John's plan was always to keep the business in the family, passing it on to one of his children when they were ready. Mary, on the other hand, wasn't as sure about John's plan, as she had watched her oldest brother take over her father's business, knowing that he was never really happy about it. Mary wanted her children to follow their own passions, wherever it took them. As a result, John and Mary are contemplating selling their business as they near retirement. Realizing that it will leave them with a very healthy sum of money, they want to leave each of their children an inheritance – but don't want to leave themselves short either. They are also fearful of creating trust fund babies, which they've heard disaster stories about.

## What is the Purpose?

First and foremost John and Mary need to determine what the purpose of the inheritance will be. Is it to:

- enhance their children's lifestyle;
- protect the assets from marital breakdown or litigation;
- provide education funding for their grandchildren; or,
- perhaps the intent is to create multi-generational family wealth?

They will have to decide if they want to gift some of the money now or maximize the inheritance to their heirs after their deaths. Whatever they decide, they will need to be clear about exactly what the purpose is to ensure their inheritance plan is properly structured.

## Commit to a Plan

Secondly, they need to commit to a plan. Inheritance planning requires very careful strategizing, with

specialized knowledge; which is why they need to build a team of professionals to work with to achieve their goals.

- The Lawyer will draft the documents needed, such as Wills, Trusts, Powers of Attorney, etc.
- The Accountant will ensure the plan is structured in the most tax-effective manner possible and with in-depth knowledge of their business, will ensure a smooth and effective transition of their business as they convert their lifelong working capital into cash.
- A Certified Financial Planner will help John and Mary create a comprehensive financial plan to determine how much of the proceeds of the business will be necessary to fund their lifestyle during their retirement and how much can be immediately allocated to the inheritance plan.
- Inheritance planning is not so rigid that it's carved in stone but it can be costly in the future if it's not structured well in the beginning.

## Take a Disciplined Approach

Taking a disciplined approach will help John and Mary avoid the many nightmares that sometimes come with managing family wealth. We've all heard the stories of elder abuse as one child exerts undue influence on the parents, convincing them to pay their debts, buy them a car or provide money for a lifestyle they've not earned, all at the expense of the parents and other inheritors. Having a disciplined inheritance strategy in place can protect John and Mary's wealth to ensure that it's used for the purposes that they initially outlined in a fair and structured manner.



## Practice Open and Honest Communication

The most important issue in inheritance planning is having open and honest communication between those who are passing the wealth on and those who are to receive it. In this case, John and Mary should involve their three children in the process so they understand the goals they have for their wealth, what they are committing to and how their wealth will be distributed. This open communication provides a platform for the children to ask questions and better understand their parents' wishes to ensure that everyone is on the same page or at least knows what to expect. Having an open communication strategy can have a tremendous impact on maintaining family harmony and minimizing discourse between the inheritors.

Once John and Mary have created their inheritance plan and communicated their intentions to their children, they can get on with enjoying their freedom in retirement. They can spend their days enjoying the fruits of their many years of labour. Instead of worrying if they are spending their children's inheritance they can rest assured that they have a plan in place to achieve their retirement goals and pass on their wealth in a strategic and meaningful way.

*Our Wealth Management Advisors are able to assist you in the development of a customized inheritance plan.*

Article written by: **Brad Giroux**, CFP®, CLU, CH

# Working Capital in Business Transactions



## Defining Working Capital

“Working capital” is the capital of a business which is used to fund day-to-day operations and meet short-term obligations. In its most basic form, working capital is calculated as a business’ current assets, less its current liabilities.

However, in open market transactions and notional business valuations certain current assets and liabilities are often excluded when assessing the “operating” or net trade working capital of a business, such as cash, shareholder/related party loans, and other non-operational amounts. Cash is generally excluded from net trade working capital of privately held businesses unless the cash is used directly in the operations of the business, such as cash kept in cash registers in a retail business. This is because in most cases, the cash held in a business accumulates as a result of operations (i.e., through net income earned), and that cash is available to be either reinvested in the business or to be withdrawn by the owners, and is therefore not necessary in order to maintain the existing operations. In simple terms,

net trade working capital is related to the operating activities of a business (excluding cash) such as accounts receivable, inventory, prepaid expenses, accounts payables, and accrued liabilities.

## Calculating Working Capital

Determining which line items should be included in working capital may involve some judgment and is not always simple because the makeup of working capital can vary widely across different industries and even from business to business. This is why it is important to consider the specific nature of the operations of a business that impact how it employs working capital, as well as broader working capital issues that are common in the industry. Additionally, each component of working capital may need to be examined further to ensure all balances within the account are up-to-date, are operational and belong in working capital, and that the value reflected in the financial statements does not over or under-represent the asset or liability. Finally, the accounting standards used in the source financial statements should

also be considered when calculating working capital, as balances on the balance sheet may be calculated differently depending on the accounting standards applied (i.e., GAAP, ASPE, IFRS).

## Normalized Working Capital

In cases when the value of a business is determined based on its ability to generate future cash flows (i.e., using an income/earnings based methodology as opposed to an asset based methodology), the working capital that is required to operate the business is included in this value, and is not added to the value of the business. This is because the business requires the working capital to fund its continued operations and generate the level of income that this value is based. The amount of net trade working capital required to maintain ongoing operations is commonly referred to as the “normalized” net trade working capital amount.

## Working Capital in a Business Sale

When a business is sold, it is common for the letter of intent between the buyer and seller to include general terms stating that the business will be sold with a sufficient level of working capital for the new owner to maintain operations. As the transaction advances, a specific amount of “target working capital” is usually agreed upon by both parties with corresponding definition on how the target working capital is to be calculated. This represents the amount that the buyer and seller agree is required to maintain operations, and that is expected to be left in the business at the time of closing. This target amount is based on an analysis of the company’s historical financial results, industry norms, ratio analysis, and benchmarks, and is ultimately determined through negotiations between the buyer and seller.

Working capital in a business

at any one point in time is not always representative of the ongoing amount required. In some businesses and industries, the working capital required changes dramatically due to timing, such as large projects completed and invoiced, from month to month or year to year, such as businesses that experience seasonality or are in cyclical industries. For these types of businesses, it may be necessary to examine the average working capital requirement across different periods. Working capital balances may also be higher or lower than the required amount simply due to management's own preferences. For these reasons, it is important to determine working capital requirements for a business on a normalized basis, which includes adjustments for seasonality or irregular changes that are not related to normal operations.

### Implications on Price

When the amount of working capital left in the business on the day the sale of the business closes is different from the previously agreed upon target working capital amount, there is usually an adjustment made to the sale price to reflect this difference. In transactions where the actual working capital is less than the target, this negatively impacts the seller because the sale price is usually reduced by this amount. When the actual working capital is greater than the target, an increase to the sale price may be warranted. In a notional valuation context, a similar adjustment should also be considered if the working capital of the subject business is higher than or below what would be considered "normal" on the valuation date with a corresponding adjustment to the valuation conclusion of the shares.

The process for negotiating working capital in a business sale usually follows these broad steps:

- A letter of intent is developed, outlining the broad terms agreed to by the buyer and seller. This

usually includes an agreement that there will be a "normal" level of working capital in the business.

- The buyer will analyze financial information about the business, which is supplied to them in order to better understand the working capital requirement of the business.
- During the due diligence phase, both parties continue to analyze information about the business to determine any potential adjustments to working capital.
- Through negotiations, both parties will eventually come to an agreement on the "target working capital".
- A purchase agreement is drafted, and will further define how working capital is calculated and the target amount agreed to.
- The purchase agreement is finalized, and additional clauses may be added outlining a post-closing dispute resolution process (including working capital disputes).
- Post-closing, the buyer will determine the actual working capital level that was in the business at close and further discussions may take place between the buyer and seller to determine any post-closing adjustments.
- If necessary, the dispute resolution process is initiated as outlined in the purchase agreement to remedy any disputes between the buyer and seller.

*At DJB, our team of specialists have the professional experience to assist business owners and prospective buyers throughout the transaction process. Our trusted professionals can assist in many aspects of business sales and purchases, including assessing the complex issues involved in determining the value of a business and analyzing its working capital requirements.*

Article provided by: **DJB's Financial Services Advisory Team (FSAT)**

## FSAT SERVICES



- Assistance with Business, Acquisitions & Divestitures, Including Due Diligence & Quality of Earnings Reports
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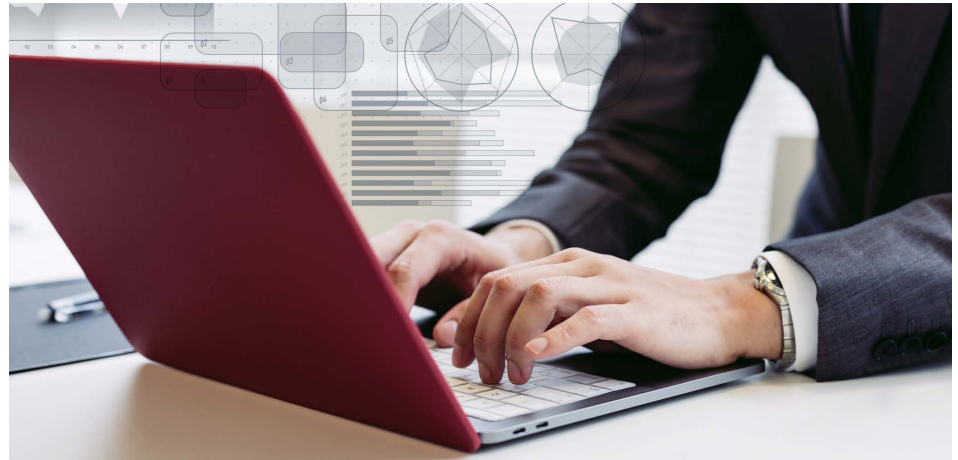
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# Choosing the Right Software



One of the most important things in any business is making sure you have enough money to pay your bills; this is why it is imperative to choose the correct software for your bookkeeping. Take your time choosing the right software because it can be costly having to repeat this process. You need a system that will track all your day-to-day transactions, such as invoicing, recording payments, tracking expenses, HST, payroll, and reconciling transactions. The more accurate the information is, the better the reports will be and the more insight you will have into your business performance.

Choosing the best accounting software for your individual business is challenging. Each program includes a different set of features. Depending on those features and the number of users, will determine the price point. Some of the questions you have to ask is:

- Would you like your program to be cloud based so you can access it from anywhere on multiple devices?
- What kind of features are you looking for?
- What kind of reporting are you looking for?

- Do you need to track inventory, payroll, HST?
- Do you invoice and pay bills out of the system?
- How many users will be using the system?
- What is the price point you would like to stay within?

Creating a list of needs and wants will help you determine which software is best for you. Reach out to other business owners and ask them what they use and what they like and dislike about the system. Check to see if the system has a free version; see if it can do all the things you want it to do. Talk to your accountant or bookkeeper, they will have suggestions as well. Don't be afraid to ask the questions.

Once you have made the decision on the software, make sure that the setup is correct. An incorrectly set-up system can be just as costly as choosing the incorrect system.

**Contact us today to learn more about how we can help!**

Article written by: **Diane Dos Santos, CPB**

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