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TAXATION

Things to Consider before Withdrawing Funds from Your RRSP

Money withdrawn from an RRSP not only reduces the number of dollars building your retirement fund, but also can create a substantial tax liability.



For most taxpayers RRSP savings will be needed to supplement income from the Canada Pension Plan and Old Age Security. Managing your RRSP to maximize the principal through capital gains and reinvested interest and dividends should be a number one priority for taxpayers. Naturally, life circumstances change and individuals may feel the need to “borrow” from their RRSP.

Although funds can be withdrawn from an RRSP at any time, a taxpayer weighing that option should consider the following:

Withdrawal of Funds Will Trigger a Tax Deduction

Withdrawal of funds will trigger a deduction for federal income tax:

- 10% (5% in Quebec) on any amount withdrawn up to and including \$5,000;
- 20% (10% in Quebec) on amounts over \$5,000 up to and including \$15,000; and
- 30% (15% in Quebec) on amounts over \$15,000.

In addition to the federal tax deducted at source Quebec withholds a provincial tax.

The gross amount withdrawn is added to income in the year of withdrawal and a credit is received for the tax deducted at source. If the withdrawal will move you into a higher tax bracket, you should consider whether the tax cost is worth it. A review of this year's taxable income plus a look forward to next year's potential taxable income may suggest that splitting the withdrawal between two years may be beneficial. Not only could the actual amount of tax withheld at the source be less, but, more importantly, the effect on your overall tax liability for the 2010 tax year may be less if you stay within the lower tax bracket. The lower tax bracket will mean you will have more useable cash.

Withdrawals Can Be Very Expensive

Withdrawal of RRSP funds will have a definite impact on your retirement nest egg. For example, if your goal at the age of 45 is to retire at 65 and your existing RRSP is \$200,000 with a return on investment of 4%, a cash withdrawal of \$20,000 on your 45th birthday will cost you \$44,452 in lost interest over those 20 years. Extrapolate that amount until the age of 70 and the lost retirement income approximates \$142,689. Sobering to say the least.

You should review your RRSP contribution room before withdrawing RRSP funds. If you contributed your maximum eligible amount, you will not be able to replace the \$20,000 by simply writing a cheque to pay back the withdrawal. The only means you have of "putting the loan back" is by making up your undercontribution. Thus, if your contribution room is insignificant, the ability to earn tax-deferred RRSP investment income will be lost forever.

A Withdrawal Plus Unemployment Equals a Double Whammy

Future earned income should also be considered before withdrawing RRSP funds. Under current tax law if you earn no benefits under a Registered Pension Plan or a Deferred Profit Sharing Plan, your maximum deduction will be the unused RRSP deduction room carried forward from previous years plus the lesser of \$21,000 or 18% of your previous year's earned income. If, however, you have no contribution room and were unemployed during 2009 but fully employed in 2010, you will not be able to make contributions in 2010 to offset taxable income as there was no income in 2009 when you were unemployed.

Thus, you would pay more income tax in 2010 than a taxpayer who was gainfully employed in 2009 and had carried forward RRSP contribution room. The result is that not only would you pay tax on the withdrawn funds at the time of withdrawal, but you would also pay more tax on the income earned in 2010 because you would have no eligible contribution amount from 2009 and no unused contribution room carried forward from previous years.

Just because you turn 71 in 2010 does not mean you cannot make RRSP contributions. You can still deduct the contributions made in 2010 against your earned income up to the RRSP deduction limit. And, although taxpayers turning 72 in 2010 can no longer contribute to their own plan, as long as they continue to have earned income, they can continue to make contributions to their spouse's plan provided the spouse has not attained the age of 72 in 2010.

Really Borrowing (Rather than Withdrawing) from Your RRSP

Your RRSP can lend you funds if it takes back a mortgage against real estate you hold, such as your residence. One of the catches, however, is that the RRSP must obtain mortgage insurance for such non-arm's length mortgages. If the mortgage is a second mortgage, both the first and second mortgages must be insured. Generally, the amount you borrow from the RRSP must be large enough to make this an economical proposition.

Take Care before Withdrawing from a Spousal RRSP

An interesting twist on RRSP contributions occurs when the contributor (the registrant) to an RRSP makes a contribution to a spouse's plan. Naturally, the contributor is entitled to deduct the amount contributed in computing income. But what happens if the spouse withdraws the contribution within days of the contributor's deposit to the spouse's plan? Normally, the owner of the plan is required to claim the income from any RRSP plan, but the Income Tax Act (ITA) 146(8.3) contains an income attribution provision of which both parties to this type of transaction should be aware.

If a withdrawal is made from a spousal RRSP and the registrant's spouse or common-law partner has made a contribution to the plan, either in the current year or in the two preceding calendar years, the withdrawal will be taxed to the contributing spouse or common-law partner, not the registrant of the plan.

Fortunately this ITA attribution rule applies to withdrawals only to the extent of the relevant contribution. Tax on any excess withdrawals is the burden of the individual withdrawing the funds. If the contributing spouse made the contribution but has not yet deducted the spousal contribution, the attribution rule applies. As well, even if the recipient spouse has not made any RRSP contributions to his/her plan, the ITA requires the original contribution to be taxed in the hands of the contributor.

The good news is that the ITA does not kick in if the contributing taxpayer and spouse or common-law partner are living apart due to a marital breakdown at the time of the withdrawal.

Take Care before Contributing to a Spousal RRSP

Given that the contributor cannot control what happens to RRSP contributions once they are in the recipient's RRSP, consideration should be given to the impact of contributing to an RRSP if there is any possibility of marital breakdown.

The Case of the RRIF

Any RRSP holder who will turn 71 in the year should generally acquire a Registered Retirement Income Fund (RRIF) unless, of course, they wish to withdraw some or all of their RRSP. In that case they would create a considerable tax liability since the withdrawal would be considered income. Although the rollover from an RRSP to a RRIF does provide deferred tax benefits, RRIF regulations require that a specified percentage of the fair market value of the RRIF assets must be withdrawn each year commencing with the year that the annuitant turns 72. At 71, this percentage is 7.38 and rises to 8.99 percent at age 81, and 14.73 percent at age 91. At age 94, the amount of withdrawal is 20 percent of the fair market value and remains at that level until the registrant dies.

If the holder of a RRIF is married or living common law, it is possible to irrevocably elect to use a spouse's age to calculate the minimum RRIF withdrawal. This could have significant tax advantages if the spouse is younger since the lower minimum amount provides the ability to defer the tax effect of the withdrawals.

Special Considerations for Withdrawals

There are special considerations for withdrawals for the Home Buyers' Plan (HBP) and Lifelong Learning Plan (LLP) that are not covered in this article. Taxpayers interested in the tax impact and conditions attached to these types of withdrawals from their RRSPs should contact their Chartered Accountant for guidance.

Think Twice before Deciding

Borrowing from your RRSP for personal needs, to purchase a home, or to further your education is certainly an individual choice. However, before making that choice review the long-term impact of such a decision and determine whether short-term personal or financial gains outweigh the long-term benefits of maintaining an asset that will provide tax deferred income growth and security for you and your spouse in your sunset years. ■

MANAGEMENT

We Need Good Bookkeepers

The often-neglected bookkeeper can be the key to important cost savings and compliance.

The underpinning of any successful business is the knowledge and experience employees bring to their jobs. Without that, a business must be doomed to failure from the start. For exceptional abilities, owner/managers are willing to seek out and pay top dollars to the best in the field. Unfortunately, not all owner/managers see record keeping as a job requiring the same high level of skills; instead, they underestimate the need for knowledgeable and experienced bookkeepers.

The Bookkeeper's Role

According to Wikipedia "A bookkeeper (or book-keeper), also known as an accounting clerk or accounting technician, is a person who records the day-to-day financial transactions of an organization. A bookkeeper is usually responsible for writing the "daybooks." The daybooks consist of purchase, sales, receipts, and payments. The bookkeeper is responsible for ensuring all transactions are recorded in the correct daybook,



suppliers' ledger, customer ledger, and general ledger. The bookkeeper brings the books to the trial balance stage. An accountant may prepare the income statement and balance sheet using the trial balance and ledgers prepared by the bookkeeper."

Bookkeepers Are Often Highly Underrated

This definition of a bookkeeper also underrates the qualifications and experience that should be basic requirements for a bookkeeper in today's increasingly rule-driven society. Without reliable and correctly recorded financial data almost every aspect of decisions based on this data could be disastrously wrong.

Certainly a bookkeeper should be able to journalize, post to the ledger and produce an adjusted trial balance. Indeed, with the assistance of today's accounting software most bookkeepers can provide income statements and balance sheets as well; however, even the best accounting software cannot protect a company from the effects of improperly trained users of the software. Thus a bookkeeper's ability needs to stretch beyond the historical fundamentals of data entry and incorporate the following attributes.

1. High proficiency in the accounting software now used to record transactions. Proficiency should go beyond the ability to know where to record sales, payroll, journal entries and the like and should extend to an understanding of how the system interacts to allow tracing of source document entries and how to correct errors on the system that is used.
2. Good bookkeeping skills go far beyond simply entering data from a source document into the accounting system. Automated systems will, for instance, reduce the general ledger bank account by the amount of a cheque, but cannot necessarily determine whether the offset is to be allocated to capital assets, inventory, owner draw, loans to employees, or payment of an account payable. Thus, if a bookkeeper does not understand the intricacies of his or her specific business, the bookkeeping program may record and allocate incorrectly. As a result, many financial and operation decisions will be wrong.
3. Bookkeepers should know not only how to do the payroll and make the correct source deductions, but also they need to understand the employment law governing statutory holidays, vacation pay, overtime, workers' compensation, premium requirements for provincial or private health plans, as well as the filing requirements for the Canada Revenue Agency.
4. Bookkeepers must understand how suppliers' invoices are allocated in their particular business. Entering or posting invoices may seem like a "slam dunk", but the incorrect identification of an invoice will allocate funds to the incorrect expense account, misallocate a capital expenditure to an expense account or visa versa, incorrectly allocate a business expense to the draw account of a shareholder, or allocate funds to an expense account instead of to inventory.
5. Bookkeepers must understand the importance of sales invoices to clients. Failure to allocate invoices correctly could result in misleading sales figures by product line or improper reduction of inventory.
6. Bookkeepers should possess the experience to understand the difference between deposits for sales and deposits for other reasons. Loans to the company by the shareholder or financial institution or sale of equipment, for example, should not end up as sales figures on which the corporation would ultimately pay income taxes.
7. Bookkeepers know how to comply with the rules of many regulatory agencies and government departments. Today's bookkeepers must know how to enter data such as payroll source data so that it fulfills a multiplicity of reporting requirements. Data must be developed and recorded to comply with union agreements, the employee health tax, GST/HST, various employee tax issues including termination information on records of employment and, at the end of the year, to provide adequate supporting documentation to employees, employers and governments.
8. A bookkeeper must have an appreciation of what the Chartered Accountant requires to complete the year-end corporate financial statements and corporate tax returns. Lack of communication with the CA about reporting needs could result in delayed production of the corporate tax returns or financial statements because the information is not readily obtainable and must be rebuilt.
9. Bookkeepers must have the ability to address employees of the government using the terminology with which they are familiar. Whether addressing issues of source deductions, withholding taxes or injury claims, the ability to address the issues in the language of the regulatory employee ensures that mistakes due to interpretation are avoided and that a resolution is arrived at without conflict. Tact is always necessary.
10. The ability to use the Internet for online banking is a must for bookkeeping staff. The ability to provide owner/managers with up-to-date details on the cash account combined with the ability to transfer funds between various corporate bank accounts not only saves the time required to go the financial institution but also avoids those embarrassing NSF calls from the bank or, worse, the client. The ability to clarify regulatory requirements over the Internet reduces the time needed to resolve uncertainties about the treatment of corporate or employee matters.
11. Communication skills should be top of the list of soft skills required of any bookkeeper. For many owner/managers the bookkeeper is the only source of knowledge that allows management to address financial issues with employees, government, clients and suppliers. While the owner/manager is looking after the operational side of the business the bookkeeper is often taking care of business.

The Perfect Choice

Locating an ideal bookkeeper with all of the above skill sets is not an easy task. Résumés and referrals may provide you with a starting position but what is on paper may not translate into the skills actually needed at your business. To narrow the field:

- Look for a résumé that indicates continuous experience at one or two employers, rather than one showing a long list of jobs with different employers in different industries.
- Enquire as to whether the bookkeeper was responsible for the full array of software functions rather than just one function such as accounts payable.
- Ensure the accounting software with which the bookkeeper is familiar is the same as yours.
- Find out whether the individual's experience is in a similar business.
- Confirm the individual is bondable for insurance purposes.
- Determine whether the work experience demonstrates the ability to deal with constant change.
- Assess whether the individual has sufficient self motivation to find answers to problems by researching or addressing the issues with management or the company's Chartered Accountant.

- Look for signs that confirm the applicant likes working with detailed information.
- Determine whether the applicant has demonstrated a penchant for bookkeeping by taking courses in high school or community college.

Professionalism

Although bookkeepers have not organized and become "sanctioned" as have paralegals in some provinces, there are organizations seeking to bring a sense of professionalism to the bookkeeping field by increasing the level of excellence. Two such non-profit organizations in Canada are The Institute of Professional Bookkeepers of Canada and The Canadian Bookkeepers Association. Membership in such organizations does not necessarily guarantee the applicant is the ideal client for your business, but enrolment is one indicator that he or she is interested in belonging to a collective that works toward improving the skills of its members.

Don't Pinch Pennies When Hiring a Bookkeeper

In an age where government regulations, rules and filing requirements for regulatory agencies, obtaining bank loans, and the future survival of your company are dependent upon information supported by qualitative and quantitative measurement of financial data, hiring competent individuals and paying top dollar to ensure their loyalty is a true money saver. ■

TECHNOLOGY

Good Things Come in Small Packages

The new handheld pico projectors will enable you to make a presentation using a device you can carry in your pocket.

Sales staff, instructors or technicians who need to travel to make presentations know the frustrations of lugging a laptop and projector to a client's location. If they fly, the risk of damage en route or lost luggage is a constant concern. Pico projectors are small enough to take in your carry-on luggage or your pocket!



Pico Projectors Offer a Solution

Pico projectors — a pocket-sized, portable projector that works with cell phones, digital cameras and other devices, including your laptop — have solved this problem.

The innovative new projectors have miniaturized electronic components that use LED or laser light to project digital imagery onto almost any surface.

Small and Mighty

These handheld projectors are truly a wonder of miniaturization. Most are smaller than the wireless modem used in your office and they have some amazing features and capabilities.

Most pico projectors currently use an LED light source instead of a hot and usually short-lived projection lamp. The LED source light has some limitations in that it does not produce the crispness and the bright colours we have come to expect with the traditional projection lamp. Newer models use laser light rather than an LED to help overcome this shortcoming.

The use of energy-efficient LEDs in pico projectors allows removable, rechargeable batteries to act as the power source for most of these units. This is a great feature that eliminates the need for power cords and power sources. As can be expected though, the user should have spare batteries available as the pico projectors will only run for about an hour or two on a single charge; typically the batteries take about four hours to recharge.

The newer and perhaps more forward-designed pico projectors have a built-in multi-media player and internal memory that permit using the projector without having to plug in a video source. Most, if not all, pico projectors use composite video input to allow almost all DVD players, digital cameras, camcorders and, in some instances, iPods.

A pico projector that offers direct VGA analogue input from your computer allows sharper images for business presentations. Most computers have VGA connectivity; newer computers that use digital DVI, HDMI or DisplayPort are backwards-compatible with VGA via a simple adapter. This is a “must-have” feature if you intend to connect your laptop.

How many times has your projector lamp burned out just before, or during a presentation? It is unlikely this will happen while you own a pico projector. The lifespan of the LEDs vary from 10,000 to 20,000 hours or 1,428 to 2,856 seven-hour days. That's an incredible 3.91 to 7.82 years of everyday presentations. Undoubtedly, the unit will be a collector's item by the time the LEDs burn out!

Users may wish to stay away from the models lacking on-unit controls; more advanced models have buttons and a menu system allowing the user to adjust brightness, contrast, other image settings, as well as the capability to select either removable or internal memory. These units offer greater versatility to access data and provide the capability to change controls depending upon the environment of the presentation.

There Are Limitations

Is it time to replace your standard projector with the new pico projector? There are some drawbacks to consider:

Brightness: For the units currently available, more brightness is necessary if these projectors are ever going to be used for large audience presentation. At the present moment they put out a meagre 8-to-12 lumens. This may be bright enough in a darkened area with a handful of people but cannot compete with the mini-projectors that put out between 25 and 40 lumens or business projectors that push close to 1,000 lumens.

No USB Ports: Most pico projectors do not include USB ports. Given that USB flash drives are practical and mainstream for so many businesses, it is somewhat of a surprise that pico projectors have not yet incorporated support for these external memory devices. If support for USB flash memory were included, conducting an entire presentation could be as simple as plug and play. Some models do offer support for removable memory cards.

Picture Quality: This is no match for a home theatre or business-class projector. The absence of variable lenses somewhat limits the distance between the projector and the surface on which it is projecting the image. Image size is created by manually moving the unit around until the desired size is projected onto the screen.

Image Size: The size of the image projected varies directly with the distance of the pico projector from the screen. Image size is about half the measure of the distance of the projector from the screen. Thus, if the pico is 40 inches away from the screen, the image size will be approximate 20 inches. Along with this limitation is the issue of resolution. Resolution for most of the units is around the 640 x 480 range although newer models about to hit the showrooms have resolution in the 858 x 600 SVGA range — the same as many DVD players. There is speculation that the next generation will hit high definition resolutions of 1280 x 720.

Potential Distortion: Conventional projectors tilt the lens to project a rectangular image when the projector is level with the bottom of the screen. Pico projectors are not designed with a lens offset or keystone

correction. As a result, if the projector is tilted upward from a table setting the image begins to look like an inverted pyramid, i.e. with the image wider at the top than at the bottom. This distortion can be overcome by placing the projector on a tripod and aiming it straight at the screen. However, the necessity of carrying a tripod to a presentation somewhat offsets the convenience of carrying the projector in your pocket or the corner of your briefcase.

Other Features to Look For

Remote controls are available on some units. The small size of the pico projector makes this an option that should be looked at, especially since the small size of the projector would make changing settings or images rather difficult in a low-light environment. For projectors that do come with remotes, make sure all settings can be changed from the device itself. And don't forget the remote is small enough to be easily lost or misplaced.

Password protected data on pico projectors with internal memory cards should be considered, especially if the data is sensitive or proprietary.

Card slot input that offers a card slot compatible with Secure Digital (SD), CompactFlash (CF) or Memory Stick is a must for those who wish to conduct presentations or slideshows without the need to carry a separate data source, such as a laptop or DVD player.

Built in Speaker(s) and Ear Buds are available on some units but the quality is somewhat less than what comes from most laptop speakers. This is a disadvantage if you are relying on audio to put your presentation over the top.

The Ultimate Convenience

Portability, low maintenance costs, ease of use, combined with the widespread use of personal presentations, suggest that many businesses could find a use for these new projectors.

Whether used by technicians to project diagnostics on the garage wall for easier reading, or by sales staff to project images or prices onto an office wall to encourage discussion with purchasers, these units enhance the workplace environment by focusing the participants on the issues at hand and encouraging discussion that will lead to solutions and higher customer satisfaction. ■

MONEYSAVER

A Greener Tomorrow

Greening your company is not easy. It involves the participation of all stakeholders.

When we hear ads for products and activities to make the world a greener place, we often "tune out". What can we do as owner/managers of small companies to play more of a role in the green community? We do not have the big budgets of major corporations nor do we have access to funds from government agencies to pay for retrofits. As a result, it appears that environmentally conscious owner/managers will not only have to make the time to go green but will have to foot the bill ourselves.

Going green is not going to be an overnight success; it will demand the continuing commitment of management and staff resources to plan the strategies, budget for operational and capital changes, then find the financial resources required.



LEED

Because we are so focused on running our businesses, we have no time to become experts in environmental matters. We need to hire specialists. One such organization that can provide this expertise is the Green Building Certification Institute (www.gbci.org). The GBCI administers the certification program **Leadership in Energy and Environmental Design (LEED)**, a third-party certification program and internationally accepted standard for the design, construction and operation of high-performance buildings with green sustainability.

LEED examines five key areas:

- sustainable site development
- water efficiency
- energy efficiency
- materials selection
- indoor environmental quality.

The LEED approach to new building or retrofitting guides the use of materials both inside and out, energy saving through reduced reliance on fossil fuels, and more eco-friendly landscape design. Among the many benefits of LEED certification is qualification for an increasing number of government green incentives.

Greening on a Tight Budget

The owner/manager of a business who only leases space obviously cannot retrofit the building. Nevertheless, there are many ways the operation of the business can be made greener without incurring large expenditures or requiring major physical changes to the premises.

Purchasing

Encourage staff to ask vendors some or all of the following questions about material and supplies purchased by your company:

- Are parts reusable and interchangeable on different equipment?
- Are products recyclable and manufactured with some recyclable materials?
- Does the vendor stock used material that can be incorporated into your process?
- Is the product repairable and will parts be available for a number of years?
- Is the cost of consumables used in the equipment significantly less than the cost of the product purchased? (In some instances the cost of the part is greater than the cost of the new product.)
- Are shipping containers returnable or reusable?
- Are products energy efficient enough to earn the Energy Star, an international standard of energy efficiency in consumer products?

Challenging vendors to meet some or all of your green initiatives is fair, but don't be surprised if your business is suddenly challenged to meet the same criteria by your customer or client base.

Transportation

Transportation, whether for employees, product receipt or delivery should be evaluated by owner/managers.

Areas to consider:

- **Condense the 35-hour work week into four days.** This can be accomplished by reducing lunch time to one-half hour and adding one-and-a-quarter hours to the workday. Employees will save energy consumed in commuting and at the same time, workplace energy costs will be reduced.
- **Have more employees work from home.** Improved Internet communications have increased the ability to work from a home office. Management may have some concerns about employees maintaining focus at a home office but, with interactive computer communication, call forwarding, as well as email and assignment of projects and deadlines, this concern should soon vanish. For many, working from a home office reduces office interruptions and results in higher creativity and productivity.
- **Establish a TURN IGNITION OFF zone at your bays to reduce harmful emissions.** In colder parts of the country, idling is a traditional means of "warming up the car." Idling, unfortunately, is not only an energy waster but it is harder on a vehicle's motor than starting the vehicle and driving. Many buildings provide exterior plug-ins for block heaters. If you use a block heater, consider a timer to reach the temperature desired while minimizing the energy required to do so.
- **Follow a regular maintenance schedule for your vehicles.** A well-maintained vehicle runs more efficiently, uses less fuel, cost less in repairs and maintenance and is easier on the environment. Small considerations, such as reducing the use of vehicle air conditioners and maintaining correct tire pressure add to improved performance and reduced fuel consumption.
- **Review distribution routes.** If your customers are widely scattered, a fuel-efficient delivery route or timetable may not be possible. It may be cheaper and more efficient to sell the delivery vehicles and subcontract your work to a service that can incorporate your deliveries into its established routes.

Buildings

Energy is one of the biggest costs of running an office, warehouse or factory. Hiring a consultant to review your energy use may pay benefits. You might consider:

- replacing motors to reduce the draw when equipment starts
- constructing building entrances with a space separating an interior door from an exterior door to reduce the loss of heat in the winter and cooled air in the summer every time a door is opened
- installing timers or motion sensors to control lighting
- reducing the number of lights used in work or warehouse areas.

Maintaining your building envelope reduces energy waste. Dr. David Suzuki suggests an energy audit that reviews heat transfer through windows, walls, foundation, basement slab, roof and insulation. Many buildings built 20-30 years ago are of the warehouse style with tall ceilings, and minimal insulation in ceilings or walls. An energy audit will provide guidance on what will be required to reduce energy waste and energy costs.

Tenants may feel they do not have a say in energy savings yet have a vested interest in decreasing energy consumption to reduce current and future costs to their businesses. The landlord also has an interest in improving energy efficiency and reducing costs to attract future tenants and increase the resale value of the property. Encouraging the use of high-efficiency heaters, programmable thermostats or improving R factors provides benefits that reduce the impact on the environment.

Cooperation and frank discussion between the tenant and the landlord should result in cost sharing that is mutually beneficial to both parties.

Keep Up the Energy

As with so many new projects, enthusiasm is high at the outset but fades over time. To ensure your commitment to improving the environment stays the course, review the program at least once a year. A quick and efficient means of determining progress is an informal review of all of your energy bills. If energy costs are lower, you must be doing something right.

Individual employees, management, suppliers and clients all share in the responsibility to work toward and sustain a green planet on which to live. After all, we have no other place to go. ■



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