

When Cash is Short

Times are tough, cash is tight. However, this is not the time to cut costs in an effort to reach short-term goals. You may inadvertently create unforeseen difficulties that may surprise you later.

The following list outlines what NOT to do when cash is short:

DO NOT Sign Your Life Away

Prudent debt management suggests that debt incurred for business purposes should be the only debt at risk when operating your business. When times get tough and small businesses need operating capital, financial institutions often ask for personal guarantees from the owner/manager. When one signs as an agent on behalf of a corporation, only the company assets are at risk in the event of bankruptcy. If however, the owner/manager signs a personal guarantee for the corporate debt, he or she may be subject to unlimited liability. Limit exposure to personal guarantees as much as possible.

DO NOT Postpone Paying Government Withholding Taxes

All personal income tax withheld from employees for remittance to the government, Canada Pension Plan, Employment Insurance, as well as the GST or HST collected from customers are collected in trust for the government. With the current HST rate at 13% (in British Columbia, Ontario, New Brunswick, Newfoundland and Labrador but 15% in Nova Scotia) the amount collected can grow quickly. Using the GST or HST collected or employee deductions to augment current cash flow between collection and the remittance deadline is undoubtedly a widespread practice. Be aware, however, that failure to remit by the deadlines set by the various regulatory bodies will result in stiff penalties regardless of the unremitted dollar amount. Penalties increase with each missed deadline. In addition, if your business declares bankruptcy, corporate officers and directors could be held accountable and required to repay the delinquent amounts out of their own pockets.

DO NOT Delay Opening the Mail

Many owner/managers have had times when cash flow was so tight and reminders in the mail so numerous that the mail was ignored. Failure to open the mail to at least find out what has to be dealt with can create additional problems even more onerous than owing money. Consider that your insurance company may cancel its coverage; the Canada Revenue Agency and other regulatory

authorities may freeze your bank accounts; regulatory authorities or creditors may notify your business that a sheriff will lock the doors and seize all assets. Now you have even worse time-consuming and expensive problems that must be dealt with by your lawyer and Chartered Accountant.

DO NOT Cash Personal RRSPs to Fund the Business

Using your RRSP to keep your business afloat may be available as a last resort but, before you take that step, realize the initial cost in personal-tax liability is high. If, for example, you need an additional \$30,000 for the business, current legislation requires you to withdraw about \$37,500. Assuming you paid yourself taxable income of \$39,000 for the year, the additional \$37,500 would push you into such a high tax bracket that cash-flow problems could be exacerbated later when you have to withdraw more capital to pay your higher income taxes. You may now be in the unenviable position of not only losing the capital gains and investment income that could have been generated from the withdrawn funds, your future annual allowable contribution levels may not permit you to make up the losses.

DO NOT Cut All Promotion

Advertising and promotion are often seen as expenses that can be slashed out of operating costs. Indeed, you should ensure that frivolous advertising is eliminated. No advertising or promotion, however, removes your voice from the market place. You also need to keep existing clients informed of any changes that might affect the products they buy. This may be an opportunity to review the effectiveness of your advertising expenditures and see where it is most and least effective.

DO NOT Cut Insurance Coverage

Reducing insurance coverage is another road to short-term savings. Before taking this route, however, consider the consequences. Do any loan covenants require a specific level of coverage for the assets securing the loan? If vehicles are leased, are they subject to any insurance conditions? Failure to maintain adequate insurance may be a breach of contract that forces loans to be called or vehicle leases to be cancelled.

DO NOT Stop Paying Premiums

Eliminating expensive life insurance premiums on key personnel, especially on you, the owner/manager, is another short-term solution that could become a long-term problem. Before taking this tactic, you should consider how stressful times can create health problems. If you are unable to continue working, you could be placing your business, your shareholders (partners), and your family in

jeopardy, particularly if buyout insurance becomes inadequate as a result of a short-sighted cutback in the premiums. If you try to renew the insurance, medical examinations and/or higher costs may prevent you from reinstating the policy at its former level.

DO NOT Reduce Your Take-Home Pay

Reducing your own remuneration is certainly one more method of maintaining cash flow. But keep in mind that a certain level of remuneration is required for day-to-day living. Often reduced remuneration is offset by increased draws by owner/managers. At some time in the future the owner/manager must record these draws as personal taxable income with the risk of moving into a higher tax category. Perhaps personal and family income requirements should be reviewed to consider whether hiring family members would provide the necessary family income without raising your personal tax rate.

DO: Seek Advice

Maintaining control over business costs is essential in any business. The secret to controlling costs without creating higher future costs is to carefully analyze the specifics of cost cutting and determine with the assistance of your Chartered Accountant whether your current plans will be detrimental to your business in the long run.

This'n That at Logan Katz

On February 6th, Logan Katz hosted a Super Bowl Bash at Dooly's, the event was a huge success and we raised \$640.00 for both the Youth Services Bureau and Ottawa Regional Cancer Foundation. Thanks to everyone that came out that night – we look forward to making this an annual event!!!

New Faces at Logan Katz

Logan Katz welcomes aboard Megan Ni to our Accounting and Tax Services division. Megan is attending the University of Toronto Master of Management and Professional Accounting (MMPA) program and is presently working on her co-op placement with us. She is fluent in English and Mandarin.

... and a Fond Farewell

To Martin Rancourt who is relocating to Timmins at the end of this month. Martin started with us as a co-op student from the University of Ottawa in February 2009. Many of you had the pleasure of working with Martin and we believe you - like us - will miss his professional and caring approach. We wish him the very best.

Logan Katz in the Community

Jason Valente and Yusuf Abdi spoke to a group of individuals at OCRI earlier this month on preparing income tax return which is a must for any business, regardless of the business structure. The workshop covered the basics of preparing a tax return for two types of business structures: the sole proprietorship and the partnership.