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NEWSLETTER

December 2011

President's Corner: You may have arrived already...

Azam Foda, President, FEI Canada SGH Chapter

The year 2011 is almost over and out of many an e-mail that landed in my inbox, there is one that has been very relevant and enlightening. I thought it best to share it with you as you set your goals for 2012 and make your new year resolutions.

A boat docked in a tiny Mexican fishing village. A tourist complimented the local fishermen on the quality of their fish and asked how long it took him to catch them. "Not very long," they answered in unison. "Why didn't you stay out longer and catch more?" The fishermen explained that their small catches were sufficient to meet their needs and those of their families. "But what do you do with the rest of your time?" "We sleep late, fish a little, play with our children, and take siestas with our wives. In the evenings, we go into the village to see our friends, have a few drinks, play the guitar, and sing a few songs. We have a full life."

The tourist interrupted, "I have an MBA from Harvard and I can help you! You should start by fishing longer every day. You can then sell the extra fish you catch. With the extra revenue, you can buy a bigger boat." "And after that?"

"With the extra money the larger boat will bring, you can buy a second one and a third one and so on until you have an entire fleet of trawlers. Instead of selling your fish to a middle man, you can then negotiate directly with the processing plants and maybe even open your own plant. You can then leave this little village and move to Mexico City , Los Angeles, or even New York City! From there you can direct your huge new enterprise." "How long would that take?" "Twenty, perhaps twenty-five years," replied the tourist. "And after that?" "Afterwards? Well my friend, that's when it gets really interesting," answered the tourist, laughing. "When your business gets really big, you can start buying and selling stocks and make millions!" "Millions? Really? And after that?" asked the fishermen. "After that you'll be able to retire, live in a tiny village near the coast, sleep late, play with your children, catch a few fish, take a siesta with your wife and spend your evenings drinking and enjoying your friends."

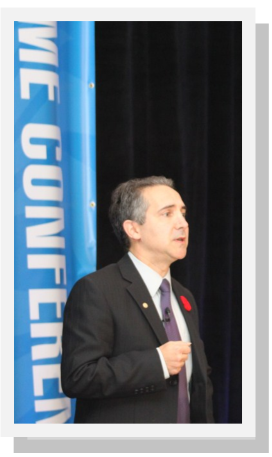
"With all due respect sir, but that's exactly what we are doing now. So what's the point wasting twenty-five years?" asked the Mexicans. And the moral of this story is: Know where you're going in life.... you may already be there.

Well it's time to do some Christmas shopping for the family and friends. Wishing you all a Merry Christmas and a Happy New Year.

Regards,
Azam Foda, SGH Chapter President

The SME Conference 2011

A big thanks goes to the organizers, speakers and sponsors who made this year's Conference a success.



On November 10, 2011 the annual conference dedicated to the Small and Medium Enterprises (SME) segment was held at the Mississauga Convention Centre.

Conceptualized in 2008 by the SGH Chapter and organized in association with the Toronto Chapter this conference is an annual homage paid to the SME segment, which forms a large and integral part of the Canadian economic activity. The theme **"Driving Growth and Expansion"** was aimed to giving the participants from the SME segment insights into planning for their business's growth in today's uncertain times.

The Conference Committee worked hard to put together compelling content that attracted over 120 registrants to listen to a galaxy of speakers. **Tom Evans**, the Sponsor Chair for the conference, did an outstanding job in bringing together the best names in business to be financially associated with the program. Tom outdid himself and made this a blockbuster year in terms of sponsorship participation. Included in this list of sponsors were BMO Financial Group and KPMG Enterprises who were the platinum sponsors.

The program had a slew of eminent speakers to share their knowledge and wisdom on a variety of topics that were chosen for their contemporariness in today's challenging business landscape. These included **Sal Gautieri** , Vice President and Senior Economist of the BMO Financial Group and **Rick Powers**, National Academic Director for the Rotman School of Management. They joined a list of business personalities who covered areas from law, finance, technology and succession planning. The end note was provided by an expert panel of CFOs/ CEOs who also act as Executive Mentors for a variety of small and medium businesses.

For a look at the detailed agenda of the conference and presentation materials, please click on the link. [http://www.feicanada.org/page/events/sme-conference-2011/agenda]

The overall feedback from the participants was very positive and the attendees did get full value for the registration money they paid.

An event like this cannot be organized without the joint efforts of several people. A big thanks goes to the following who made this event happen:

1. Michael Conway, National President FEI and the FEI organization for all the general and administrative support provided.
2. Jason Lang, (Toronto Chapter), Chair – SME Conference Committee
3. Ananth Koovappady – Vice Chair – SME Conference Committee
4. Azam Foda, President – SGH Chapter
5. Tom Evans, Sponsorship Chair
6. Norm Col, Evelyn Gowan, Steve Leitch and Bob Rollwagen, Members of the Committee
7. Caroline Spivak (Profile Communications) and Rosemary Petrossi (SGH Chapter Administrator) for their inputs and coordination on marketing.
8. Andrea Cooney, Events Manager FEI for playing the pivotal role of coordinating the various activities of the Committee and piecing things together.

With yet another successful hosting of the SME Conference, the Chapter now looks ahead to another stimulating conference experience in 2012.

Ananth Koovappady
Chair, SME Committee

THE SME CONFERENCE 2011 IN COLOUR

Engaging Speakers

Building Relationships

Deloitte.

Partnership and joint venture tax deferral curtailed

~ Kristina Singer

Partnerships and joint ventures have long been used in Canada as a common vehicle for taxpayers to conduct their business affairs with other parties. Corporations that carry on business through a partnership or joint venture have traditionally been able to defer the taxation of earnings for a period of up to 12 months, or for longer periods where multi-tiered structures have been used.

In recent years, the Canadian Government became increasingly concerned that the use of partnerships and joint ventures by corporations to defer the taxation of earnings unfairly permitted corporations to benefit from an undue tax advantage. The June 6, 2011 federal budget confirmed the March 22, 2011 federal budget proposals that essentially restrict the ability of most corporations to defer the taxation of partnership earnings. The new measures force corporate partners to include partnership income that would have otherwise been deferred by either i) changing the year end of the partnership to coincide with the corporate year end or ii) requiring the corporate partners to accrue the partnership's income up to the corporate partners' year end. Similarly, the Canada Revenue Agency (CRA) released a view on June 6, 2011 indicating that it would not be appropriate to allow an income tax deferral through a joint venture that is not available through a partnership. That is, taxpayers that enter into joint venture arrangements will no longer be eligible to compute income as if the joint venture had a separate fiscal period. The 2011 federal budget commentary provides highlights of the new rules as they apply to partnerships, but the CRA has also announced that similar rules would likely apply to joint venture structures pending consultation with affected taxpayers.

...new measures force corporate partners to include partnership income that would have otherwise been deferred ...

Partnership deferral technique
Prior to the introduction of the new rules, corporations that carried on business as members of partnerships were able to defer the taxation of partnership earnings by staggering year ends. For example, a corporation with a December 31, 2010 year end that was a member of a partnership with a fiscal period ending on January 31, 2011 would not include its share of the partnership income for the fiscal period ended on January 31, 2011 until December 31, 2011, thereby obtaining an 11-month deferral.

Federal budget partnership rules
The new partnership rules apply to taxation years of a corporation that end after March 22, 2011 and generally apply to corporations (other than professional corporations) who, together with affiliated and related parties, are entitled to more than 10% of a partnership's income, and where the partnership's year end is different than that of the corporate partner. Under the new rules, a single-tiered partnership will continue to be allowed to have a fiscal year end that differs from that of any of its corporate partners, but the corporate partners must accrue their proportionate share of partnership income earned to the corporate partners' fiscal year end.

A one-time election to change a partnership's fiscal period will be permitted. This may be the easiest way to avoid the complexity created by the proposed rules (especially if all of the corporate partners have the same taxation year end). The chosen common fiscal period of the partnership must end before the first anniversary date of the federal budget (i.e., March 22, 2012), and must be no more than 12 months in duration.

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Partnership and joint venture tax deferral curtailed

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Partnerships that are members of a tiered partnership structure will be required to have the same fiscal period, but may continue to have a different fiscal period than its corporate partner(s). If no election is made to change the partnerships' year end, a default year end of December 31, 2011 will be assigned to the respective multi-tiered partnerships.

There are two methods permitted to calculating the accrued income: the formulaic approach and the designation approach. Under the formulaic approach, the corporate partner would accrue in its income a proration of the partnership income that ends in the corporate year end based on the number of days from the partnership year end to the corporate year end. Under the designated approach, the corporate partner can estimate its actual allocation of taxable income based on its estimate of earnings to the corporate partner's year end. However, if the designated amount is less than the lesser of the actual pro-rated income of the corporate partner from the partnership for the accrual period and the amount determined under the formulaic approach, the corporate partner will be subject to additional punitive income inclusions. It should be noted that a loss allocation cannot be included as an accrual under the new partnership rules.

The new rules provide transitional relief for affected taxpayers who are required to accrue partnership income by allowing the corporate taxpayer to recognize the accrued partnership income over the five subsequent taxation years. Effectively, this income is included in the corporation's income at inclusion rates of 0% for 2011, 15% for 2012, 20% for 2013, 20% for 2014, 20% for 2015 and 25% for 2016.

Potential planning opportunities

As the new partnership rules apply to corporations who are members of partnership structures, potential planning opportunities may be available where trusts could be used as opposed to corporations as members of partnership and joint venture structures as a method of flowing out income to beneficiaries who have different fiscal year ends. In addition, given that there is transitional relief for corporate partners that accrue partnership income, to the extent that taxpayers can accelerate the recognition of income that is subject to the transitional rules, this income will be deferred over a five year period.

Action steps

It is critical that corporate taxpayers understand the current structures of their investments and identify all partnerships and joint ventures and their respective year ends. The future income of each partnership should be modeled to determine whether an election to change the year end of the partnership could be beneficial. Affected taxpayers are encouraged to consult with their Deloitte tax advisors to determine the effect of the new rules on their corporate structures.

...taxpayers are encouraged to consult with their tax advisors to determine the effect of the new rules on their corporate structures...

Dramatic Changes Are Set to Shake-Up The Internet in 2012. Is Your Company Prepared?

~ David R. Street

Brand owners beware. Beginning on January 12, 2012 companies may submit applications for new generic top-level domain names to the Internet Corporation for Assigned Names and Numbers (ICANN), which oversees the Internet's domain name system.

For many years there have been only 22 recognized generic top-level domains (gTLDs) such as .com, .org and .net. In addition, there are 150 country code top-level domains such as .ca.

The dramatic and historic changes begin in January when the doors are thrown wide open for applications for almost any name as a new gTLD including for internationalized domain names (IDNs). IDNs are domain names that include characters used in languages that are not written in the 26 letters of the alphabet we know. They will be able to contain characters with accents as well as characters from scripts such as Arabic or Chinese. Internet users anywhere in the world will be able to use their native languages and scripts for top-level domains.

The process of applying for a new gTLD will be nothing like simply registering a second-level domain such as "feicanada". The applicant is applying to establish and operate a registry system, which will support the Internet's domain name system. A successful applicant will be operating a significant part of Internet infrastructure. The application or evaluation fee is U.S. $185,000 and the annual renewal fee will be U.S. $25,000. Commentators suggest that the total costs of applying and establishing a new gTLC will be in the $700,000 to $1,000,000 range.

The initial 90-day application period will close on April 12, 2012.

Shortly after that ICANN will publish a list of all those who have submitted completed applications. All businesses, whether they've submitted an application or not, and whether they're big or small will want to review the list of initial applicants once it's published to determine if anyone has applied for a name that includes or closely resembles their brand or trade-mark. If there is, then there are pre-established dispute resolution procedures in place to be handled by providers who will be independent of ICANN. It is expected that none of the new gTLCs will be operational before November or December of 2012. ICANN has indicated that once the initial round of applicants has been dealt with there will be more opportunities to apply for new gTLDs, but no dates have been established as to when that will occur.

For those companies who do take the plunge and obtain a top-level domain, the exclusive ownership and control should offer many new opportunities for branding and marketing their products and services. They will have complete control over the second-level and third-level domains and should not have to deal with Cybersquatters. They are companies who have exploited the existing system to register second-level domains in the form of a brand or trade-mark with a view to making a profit from their ownership.

Not everyone is in favour of ICANN's proposals. In the United States, a number of national and international business associations have joined with the Association of National Advertisers to vigorously oppose the rollout of ICANN's top-level domain expansion program.

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Internet users anywhere in the world will be able to use their native languages and scripts for top-level domains.

Dramatic Changes Are Set to Shake-Up The Internet in 2012. Is Your Company Prepared? *cont'd*

In their view the cost is excessive. It will be harmful to brand owners and will put pressure on brand owners, including businesses, consumers, charities and not-for-profit organizations to buy and protect new gTLDs and perhaps also second-level domains.

ICANN attempted to address these concerns with a much more extensive and robust objection process so that "defensive" gTLD applications would not be necessary. If infringement of legal rights is demonstrated during the application process, it will not be approved. For disputes that arise after an application is approved, there are new processes such as the Trademark Clearinghouse, a Uniform Rapid Suspension system and a Trade-mark Post-Delegation Dispute Resolution Procedure to help protect brand and trade-mark owners. Even for companies who don't intend to apply at this time, there will be a need to monitor for infringement of a brand or trade-mark and to file objections if required. These activities do not come without a cost.

Organizations need to understand the changes and plan their strategy. Applying for a new gTLD won't be right for many small and medium sized organizations but all organizations should consider their current domain name registrations, their online brand monitoring and their enforcement policies to see how they may need to be altered. The new gTLDs are sure to shake-up the Internet. Is your company prepared?

The new gTLDs are sure to shake-up the Internet.

About Lerners

A successful practice since 1929, Lerners' philosophy is that each and every client we have deserves the best representation possible. This was the maxim of our founders, brothers Mayer and Sam Lerner, and it is still true today.

When you choose Lerners as your lawyers, you will receive the full support of:

- Over 110 lawyers renowned as leaders in their fields
- Strong expertise in areas relevant to all aspects of your business and your life: business and contract law, dispute resolution and litigation, estates and succession planning, family and real estate law, and more
- A wide breadth of knowledge and bench strength to draw upon whenever needed
- Offices in London and Toronto that service clients all over Ontario
- Over 80 years of experience

CRA SR&ED Audits On The Rise - Are You Prepared?
~ Carlo Ciaramitaro

KPMG ENTERPRISE

Canada's Scientific Research and Experimental Development (SR&ED) tax incentive program is world renowned for incentives offered to companies investing in innovation - in 2010 alone over 18,000 claims were filed, resulting in more than $4.5 billion in federal funding. However, as the numbers of claims increase so do the number of audits by tax authorities. The most common issues that arise are due to documentation, including:

1. Lack of time tracking systems for personnel involved in SR&ED;
2. No linkage of activities performed to technical documentation; and,
3. Inability to segregate SR&ED from commercial activities.

Implementing processes and systems that track and document SR&ED activities ensure audits go smoothly and result in minimal adjustments to the claim submitted.

Carlo Ciaramitaro is a partner with KPMG Enterprise. He leads the R&D Incentive team of multi-disciplinary professionals that can help business owners and entrepreneurs understand eligibility for tax credit programs in current and prior years. If your company qualifies, you may be able to offset taxes payable and, in some cases, receive refundable cash incentives.

...as the numbers of claims increase so do the number of audits by tax authorities...

Upcoming Events

January 19 Dinner Event
Leadership in Challenging Times
~ Laurie Tugman, FCA
~ Featured sponsor, Cognition
* 6 pm, Burlington Golf and Country Club

February 16 Dinner Event
Leaders of the Professional Accounting Bodies
Merging of Accounting Professions
~ Rod Barr, FCA, President & CEO, Institute of Chartered Accountants of Ontario (ICAO)
~ CMA, CGA (TBA)
~ Featured sponsor, Deloitte
* 6 pm, Hilton Garden Inn

March 22 Dinner Event
Motivational Speaker
~ Tim Cork
* 6 pm, Burlington Golf and Country Club

And mark these dates in your calendar.

April 19 Dinner Event
Tax Update

May 17 Chapter Annual Social
Strewn Winery, Niagara

May 28 SGH Chapter Annual Golf Tournament

June 6 to 8 FEI Canada Annual Conference
St. Johns, Newfoundland

September 20 Dinner Event

****Register for these events at feicanada.org (under the events tab)***

HAPPY HOLIDAYS

FEI Canada Southern Golden Horseshoe Chapter wishes you a wonderful and safe holiday season.

About our Organization

Welcome to the Southern Golden Horseshoe Chapter of Financial Executives International Canada.

Our chapter provides a great forum for peer networking by CFOs and other senior financial executives who want to meet quality people and share with others solutions to the crucial issues that confront them daily.

Financial Executives International—Canada's pre-eminent association connecting financial executives through networking, knowledge exchange, advocacy and ethical leadership.

Our FEI dinner meetings, professional development seminars and informal outings focus on the highest quality speakers and entertainment to facilitate the flow of new ideas, perspectives as well as sound career and business decisions.

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With thanks to our Chapter Sponsors

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