Numekevor & Associates Inc.
NewsForum

January 2003

MAB Industries Ltd.

An Industrious Family Business

MAB Industries Ltd., a Waterloo-based machine components company, has been in operation since 1979 and today operates as a family-owned business employing 40 people. Owned by the Binning family, MAB Industries Ltd. (the acronym jokingly referred to as Mike and Boys) manufactures machined products and serves the automotive (on a tier 2 level), furniture, and medical industries, to name but a few.

From left to right: Gurmale (Gilly), Manjit (Mike), Kal, and Hardip

MAB industries occupies 40, 000 square feet and houses 45 machines at their new location on Dearborn place. But at a growth rate of 15% per year, they may be looking for larger accommodations in the near future. What has accounted for their steady growth and growing success? Manjit (Mike as he is more commonly called) says that their competitive edge has been in offering their customers machines that are faster than manual machines in the industry. Of course, good old-fashioned attention to customer service is central to their success, as is reflected by their mission statement found on their website: "commitment to improving their product to satisfy the needs of their clients and to deliver to them on time every time."

At its infancy, MAB industries was one young man and one old machine! Mike, the father and owner of this family-owned business, emigrated from England in 1972, where he underwent his mechanical engineer apprenticeship while working for Chrysler. In 1979, while still working full-time at his other job at Joy Manufacturing, Mike started MAB Industries. 1981 saw him incorporate his business. When Mike's three sons were old enough to enter the workforce, they, too, came into the business.

Inside This Issue

Gurmale, Mike's eldest son (also known as Gilly), went to work for him for a short time, but decided his father's passion was not his and he left to pursue his own goals. Hardip, whose formal education is actually accounting, was the next to join Mike at MAB. He is now in charge of quality control at their plant. Kal, the youngest of Mike's three boys, started on the floor like all the rest, but is now responsible for the company's marketing. Although his apprenticeship was spent in wood-working, Kal believed (a belief Hardip encouraged) that if he was going to make a commitment to something, it should be to the family business. Together with his brother, Hardip, the brothers convinced Gilly to give, what was now the family business, another chance. Eleven years later, they are all still working together to grow the business. Gilly (now production manager), his brothers, father, and 40 employees continue to grow MAB Industries by exporting to the States and Mexico, in addition to serving their numerous customers across Southern Ontario.

What makes a family business successful? According to the Binnings, a good upbringing and a strong family bond is essential to any business' success. You have to have respect for the father and an appreciation for each other's unique strengths. A willingness to work hard is also important to [their] continued success, as is the ability to talk problems out. They all credit each other for the success they achieved. Mike acknowledges the boys' long hours and commitment to the business. The boys, likewise, credit their father's guidance and support. And they all expressed, quite emphatically, that Gurdial, their mother, has been central to the success of this close-knit family operation.

In fact, family life is so important to the Binnings that despite the fact that they are all busy raising their own young families, they still spend their down time together. When not at the office, they enjoy golfing, volleyball, and working out at the gym.

For more information on MAB Industries you can log onto their website at www.mabindustries.com or email them at mabindst@execulink.com.

Pam Lucier, Final Draft Publications

Income Splitting Opportunities

Over the years, opportunities for income splitting within a family have been curtailed. In general terms, if capital is gifted or loaned at zero interest, then the investment income is attributed back to the originator of the capital. The rules catch direct as well as indirect transfers (such as those interposing a trust).

If a parent transfers capital to a child under the age of 18, then the interest and dividend income is attributed back to the parent and taxed in his or her hands. However, capital gains realized by the child are not attributed back to the parent, but are taxed in the child's hands.

If one spouse transfers property to the other spouse, the interest and dividend income, as well as any capital gains or losses, are attributed back to the originating spouse.

An important exception to attribution is allowed for loans of value. If the transfer is a bona fide loan, then there will be no attribution of income (i.e, interest and dividends) or capital gains (in the case of spouses) to the originating party. A bona fide loan is one that bears interest at least equal to the lesser of the prescribed rate at the time the loan was incurred, and an open-market interest rate that would have been agreed to by arm's-length parties. In addition, the interest must be paid at least annually and within 30 days of the year-end, every year. Failure to meet either of these two criteria voids the exception to the attribution rules.

The prescribed interest rate is established each calendar quarter. It is the average rate on 90-day Government of Canada treasury bills issued during the first month of the preceding quarter (rounded up to a whole percentage). Therefore, the prescribed rate applicable to any given loan will be based on interest rates that were in effect between two and five months before the date of the loan.

	1st Q	2nd Q	3rd Q	4th Q
2000	5%	6%	6%	6%
2001	6%	6%	5%	5%
2002	3%	2%		

The opportunity

The income splitting opportunity arises from the recent low prescribed interest rates. Money can be loaned to a spouse or children at the current prescribed rate and the borrower can earn some net investment income, provided the interest on the loan is paid within 30 days of the calendar year-end. There will be no attribution of the resulting investment income. For example, if the borrowed funds can be invested at 5% and the loan interest rate is set at 2%, then 3% has been effectively moved from one taxpayer to another. It should be noted that the 2% interest on the loan would have to be reported as income to the originating person. The borrower will report gross income of 5% and should be eligible for an interest expense deduction of 2%, resulting in a net 3% income.

Example of a $100,000 loan	
Borrower	
Interest Income	
5% of $100,000	5,000
Interest Expense	
2% of %100,000	2,000
Net Income	3,000
Lender	
Interest Income	
2% of $100,000	2,000

The $5,000 of investment income on the $100,000 of capital has been split; $3,000 to the lower income taxpayer, and only $2,000 to the higher income taxpayer.

While the Income Tax Act contains many rules to curtail income splitting, there is an opportunity today to get some value from the exercise. Documenting and following procedures is the key to realizing the tax savings form income splitting.

Employees are generally taxed on the value of all benefits they received by virtue of their employment. The Income Tax Act requires an income inclusion for the value of a benefit "of any kind whatever" that is received or enjoyed in the year. But what happens when an employer gives a gift to an employee? Is the value included in income? Are there different types of "gifts"? How much is included in income? Are there exceptions? Are there limits?

As noted above, the value of every benefit, of any kind, must be included in an employee's income. However, the CCRA's administrative policy includes the value of non-cash gift *only if* they exceed a specified threshold. Revenue Canada will allow up to two gifts per year, totalling no more than $500. This means that the employer is entitled to deduct the cost of the gift and the employee does not have to recognize the value of the gift(s) as a taxable benefit. If any single gift exceeds $500 in any one year, the full amount is included in the employee's income with no allowance for the threshold amount. If several gifts are made and their aggregate value exceeds the $500 limit, then the employer can select which gift(s) will be treated as non-taxable; One or more of the gifts will be taxable.

Revenue Canada also allows another $500 threshold for up to two non-cash awards. Awards can be described as mementos marking special occasions, such as length of service or the achievement of safety targets. Revenue Canada has stated that it does not expect the same employees to receive $500 awards on a consistent, annual basis. In such a case, the rewards will be re-characterized as disguised compensation.

It is important to note that gift certificates, items readily convertible to cash, and cash itself, do not qualify for these exceptions and would be fully taxable to the employee. Gifts and awards are to be valued at the cost to the employer (including all taxes and ancillary expenses) to determine if the $500 threshold is crossed. However, where a gift fails the threshold test, it is the fair market value that must be reported in the employee's taxable income. Note that if the gift or award is marked with the employer's name or logo, the fair market value of the gift can be reduced accordingly.

There is great joy in giving, but ... if such a gift or award of invitation causes a tax liability, the joy may be short-lived

Lastly, an employer may host up to six parties and social events per year for employees without triggering a taxable benefit, provided the cost is contained to a maximum of $100 per employee for each event. Such social events must be available to all employees in the particular location.

There is great joy in giving, but sometimes there may be a cost in receiving. Every employee should be happy to receive a gift, an award, or an invitation to a social event. However, if such a gift or award of invitation causes a tax liability, the joy may be short-lived.

Throughout the Income Tax Act (the "Act"), the phrases *arm's length* and *non-arm's length* are used to differentiate the tax treatment of certain transactions. An example in which the tax treatment differs is the valuation under a buy-sell arrangement in a

Continued on page 3

RRSP Concepts That Lead to intelligent RRSP Investing

RRSP contribution room: Deductible RRSP investments can only be made based on contribution room, which is created first by making a qualifying "earned income" and then by filing a tax return to report it. The maximum contribution room is calculated as 18% of earned income and capped at a ceiling of $13,500 for 2002 and 2003. This will rise to $14,500 for 2004 and $15,500 for 2005. Thereafter, the ceiling level will be increased according to increase in the industrial wage.

Age eligibility: In the year the taxpayer turns 70, no further contributions can be made to that person's own RRSP, although if the taxpayer is living with a spouse or common-law partner who is under 70, a spousal RRSP contribution can be made, provided the required RRSP contribution room exits.

Over contributions: Taxpayers may contribute up to $2,000 over and above their RRSP contribution room, except if the taxpayer is under 18. Contributions that exceed $2,000 are subject to a 1% per month penalty tax.

Non-deducted contributions: Taxpayers need not deduct the contributions they make during the year. Instead, they can carry forward non-deducted contributions to a year in which the best tax benefit results, being carefully not to exceed age limitations. For example, if the taxpayer makes RRSP contributions, but due to an unforeseen business loss did not require the RRSP deduction to reduce net income, the non-deducted contributions can be carried forward.

Note: This chart shows the tax penalty for earning one more dollar and the tax savings for each dollar of deduction.

RRSP Savings Rates

THESE NUMBERS INCLUDE TAX REDUCTIONS AND INCREASED REFUNDABLE CREDITS

	Additional Savings				
Net and Taxable Income	Federal Tax Savings	Provincial (Average)	CCTB Clawbacks	GST Clawbacks	Total Savings
$0-$7,634	0.00%	0.00%	0.00%	0.00%	0.00%
$7,635 to $22,397	16.00%	9.00%	0.00%	0.00%	25.00%
$22,398 to $27,749	16.00%	9.00%	22.50%	0.00%	47.50%
$27,750 to $31,677	16.00%	9.00%	22.50%	5.00%	52.50%
$31,678 to $32,975	22.00%	12.00%	22.50%	5.00%	61.50%
$32,976 to $40,749	22.00%	12.00%	5.00%	5.00%	44.00%
$40,750 to $63,354	22.00%	12.00%	5.00%	0.00%	39.00%
$63,355 to 79,000	26.00%	15.00%	5.00%	0.00%	46.00%
$79,001 to $103,000	26.00%	15.00%	0.00%	0.00%	41.00%
Over $103,000	29.00%	16.00%	0.00%	0.00%	45.00%

From Advisor's Edge, November 2002

Income Splitting Continued from page 2

shareholders' agreement. The sale of property between siblings, or between a parent and a child, is another example where the term "non-arm's length" arises.

In non-arm's length situations, Revenue Canada reserves the right to determine the value at which a transaction takes place, not withstanding a fixed price set out in a signed agreement between the parties. This differs from an arm's length situation, where Revenue Canada will generally accept the negotiated price.

Generally speaking, arm's-length individuals are related by blood, adoption, marriage, or common-law partnership. It is also possible for unrelated persons to be deemed to be non-arm's-length for the purposes of the Act. This depends on the facts of their relationship and interactions. For example, two individuals who act together for a common purpose may be deemed to be acting at non-arm's length.

Essentially, the Act assumes that non-arm's-length individuals are not dealing in a normal, commercial manner, and may complete a transaction in such a way that income tax is artificially minimized. While the Supreme Court has said that individuals can arrange their affairs to minimize tax, they cannot improperly do tax planning using non-arm's-length transactions.

In essence, the only variation in tax treatment is that the Revenue Canada reserves the right to review the transaction to ensure that it is taxed similarly to an arm's-length. They must ensure that any transaction is reasonable and well documented.

- Article reprinted from CAIFA Comment May/June 2002

Health Clinic

Water Wise

Do you wait until you're thirsty to drink water?

Thirst isn't an early signal of water needs; it's a warning sign that you're dehydrated and need to drink up – and fast! By the time you feel thirsty you have already lost over one per cent of your total body water. Subtle signs of dehydration include dry lips, muscle or joint soreness, headaches, crankiness, fatigue, and constipation.

Milk, juice, and soup also count toward your daily fluid intake because of their high water content. Avoid alcohol, coffee, tea, and soft drinks that contain caffeine as they may have a mild diuretic effect. Caffeine can hold backwater from the tissues that need it.

Source: About.com

Fight Back Against Migraine Attacks

Having a migraine attack? A simple change in your lifestyle can help you avoid personal triggers and minimize migraine frequency. Potential dietary triggers include alcoholic drinks (especially red wine), chocolate, dairy products, or caffeine. Other lifestyle factors, such as a change in sleep habits and an overuse of headache medicines, may sometimes provoke migraines, as can environmental factors, such as a change in weather (often the approach of a low-pressure weather front), bright or fluorescent lights, sunlight, loud noise, and strong odours.

Nutritional supplements containing calcium, magnesium, and vitamin D are an excellent supplement that helps in reducing the occurrences and strengths of migraines.

Sources: healingwell.com; Alternative medicine Review, 6:5, 2001

President's Corner

Fulfilling Our Promise to Eradicate Polio

We were about to go to press with this newsletter when the Rotary Club appointed me as the Area Coordinator for the campaign to eradicate polio, also named, PolioPlus. As someone who, by profession, has dedicated his life to protecting and preserving lives through risk management, I thought it prudent to bring this news to your attention.

What is Polio?

Polio is a highly infectious disease caused by a virus. Initial symptoms are fever, fatigue, headache, vomiting, stiffness in the neck, and pain in the limbs. The disease can cause paralysis, which is almost always irreversible. In the most severe cases, polio paralysis can lead to death by asphyxiation.

How is it transmitted?

The virus enters the body through the mouth and multiplies in the intestine. It invades the nervous system and can cause total paralysis in a matter of hours.

In 1985, the Rotary launched PolioPlus, one of the most ambitious humanitarian programs ever undertaken by a private-sector organization. PolioPlus was the catalyst for the World Health Assembly's resolution in 1988 to eradicate polio.

Status of Polio Eradication

Since 1988, the number of countries where polio is endemic has decreased from 125 to 10! The number of cases worldwide has decreased 99 percent since 1985, from an estimated 350,000 cases to an estimated 600. Unfortunately, the greatest obstacle to victory is adequate funding. A $275 million shortfall must be overcome in the period 2002-05. Up to $25 million of contributions to the campaign will be matched by the Bill and Melinda Gates Foundation. The World Bank will provide further support.

For this reason, the RI Board of Directors and the Trustees of The Rotary Foundation have unanimously decided to launch a one-year campaign to help fill the funding gap. The campaign seeks $80 million in cash and pledges during the period July 1, 2002 through June 30, 2003. (Pledges may be paid over a three-year period.)

The money is needed for vaccine, delivery of the vaccine through National Immunization Days (NID), and the surveillance systems needed to identify remaining pockets of the disease.

The #1 most powerful reason to support this campaign

Eradicating polio throughout the world will prevent the disease from spreading back into countries now free from the disease. We have begun experiencing pockets of post-polio syndrome in North America, even though the region has been certified to be polio-free. This is not a Third World disease—it is right here in our own backyard! Even if it is a disease originating from a different continent, it only takes an immigrant, a tourist, or even one us returning from a vacation to bring back the polio virus.

How can a contribution be justified to a business corporation?

Investment in public health is proven to have a valuable long-term payoff. In short, healthy kids create healthy communities and prospective employees, which are essential to healthy economies. This is the first time in history that the private sector has been given the opportunity to participate in the eradication of a disease. Your company can be associated with this legacy.

Time is of the Essence

Every year's delay in reaching the last child can increase the program costs by $100 to $150 million. The World Health Organization has termed the funding gap the number one obstacle to achieving a polio-free world by 2005. It could not have been put in a better perspective by my countryman and the Secretary-General of the United Nations, Kofi Annan: "Our race to reach the last child is a race against time. If we do not seize the chance now, the virus will regain its grip and the opportunity will elude us forever."

Donations are greatly appreciated and should be made out to The Rotary Foundation-Canada (PolioPlus) and mailed to The Rotary Club of Cambridge Sunrise, The Rotary Centre, 250 Hespeler Road, Cambridge, Ontario N1R 3H3. Or you can mail to or call my office for pick up. I am also available for speaking engagements on this issue. Just ask me.

About the Company

Need help through the insurance planning maze? We at Numekevor & Associates can help your company through business succession planning, disability and health risk management, creative group benefit plan design, and individual estate creation and preservation ideas. **We can be reached at 519 621-4422; 1-800-964-8797; email@numassoc.com, or check out our website www.numassoc.com**

About the newsletter

This newsletter belongs to our clients. We at Numekevor & Associates hope that **NewsForum** will foster an opportunity for discussion which will enrich your business and family lives. Publication dates are January 1 and July 1. We welcome submissions from our readers in the form of original articles, photos, or original artwork. Submission deadlines are the last week of November and the last week of May. Submissions may be typewritten, supplied on disk (saved as a RTF file, please), sent via E-mail to numassoc@golden.net, sent via Canada Post, or sent to the office at 193 Pinebush Rd. Suite 200, Cambridge, Ontario, N1R 7H8. We reserve the right to edit articles for length and clarity.

The Rotary Four Way Test

Of the things we think, say or do:

First-Is it the TRUTH?
Second-Is it FAIR to all concerned?
Third-Will it build GOODWILL and BETTER FRIENDSHIPS
Fourth- Will it be BENEFICIAL to all concerned?

Design layout and editing: Final Draft Publications, 578-4561