

# ADVANCING *Issues*

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## The Sanctity of Privacy

By David Vicic ASA, CFP, TEP, Chief Privacy Officer, Senior Vice President

Over the last few months, you have probably been inundated by paper from various sources, spelling out the privacy policies that they have in place. Companies from drug stores to auto insurers to CPA itself have forwarded copies of their privacy policies, in order to comply with federal privacy legislation. You may have also seen the term PIPEDA plastered all over the documents that you received. In this article, I will attempt to outline what the fuss is all about but perhaps more importantly, discuss how CPA protects the privacy of all its clients.

First, let's deal with the PIPEDA or the *Personal Information Protection and Electronics Documents Act*, as it is known in its official government lingo. This Act outlines the rules for protecting the privacy of personal information and was introduced to Canada on January 1, 2001. It has been implemented in various stages over the last few years and effective January 1, 2004, the Act began to cover the collection, use and disclosure of personal information in the course of any commercial activity. Hence, the tidal wave of PIPEDA-related correspondence over the last few months.

The Act requires that all organizations, who fall under its jurisdiction, obtain an individual's consent when they collect, use or disclose the individual's personal information. (*Note: This consent need not be in writing – it may be provided verbally, electronically or can even be implied*). The individual has the right to access the personal information held by the organization and to challenge its accuracy. Information collected from an individual can only be used for the purposes for which it was collected. If this information is going to be used for a different purpose, the individual must provide their consent again for this new purpose. The Act also requires that appropriate safeguards be put in place to protect the information held by the organization.

Business organizations have, for the most part, dealt with the PIPEDA by establishing their own privacy policies. The basis of these policies are the following ten principles:

1) **Accountability**

- Chief Privacy Officer must be appointed
- Personal information policies and practices must be implemented

2) **Identifying purposes**

- Advise why information is being collected
- Identify any new purpose for the information and obtain consent

3) **Consent**

- Individual must provide consent before or at time of collection

4) **Limiting collection**

- Information must not be obtained by deception
- Information should not be collected indiscriminately

5) **Limiting use, disclosure and retention**

- Information to be kept only as long as is necessary
- Policies for retaining and destroying information should be put in place

6) **Accuracy**

- Information should be as accurate, complete and up-to-date as possible

7) **Safeguards**

- Information must be protected against loss or theft
- Safeguard the information from unauthorized access

8) **Openness**

- Clients and employees to be advised that policies are in place

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# Personal Medication Info Cards

By Ken Borden, *Personal Medication Info Card Company Inc.*

If you are dependent on pills, you need the Personal Medication Info Card. It could save your life! It's a new method of keeping track of all of your vital medications and more. Never leave home without it!

If you are now involved on a day-to-day basis with the health care community, you know before you receive any treatment, the health care professional needs to know your medication history. Do you know the drugs you are currently taking? Can you relate your dosages? Can you recite this vitally important information quickly in an emergency situation? What if you are in severe trauma? What if you cannot speak? What if you are alone at the time? You do not

want any part of this scenario. No one does, or has to, thanks to the Personal Medication Info Card. Here's how it works and how you can get one for yourself or for a loved one. The Info Card is a very attractive, professionally designed, easy-to-read, credit card sized card. It's laminated for durability and contains all of the information required by the health care community. It shows who you are, where you are, who to call in an emergency, your allergies, your prescribed medications, dosages, your complete medical team of doctors and practitioners, complete with telephone numbers, Health Card number, and personal health plans if applicable. It reveals your complete

medical profile in an instant, very important when seconds count. That is why we say "It could save your life". The Personal Medication Info Card took over three years to develop, and it does work!

The reception from the medical community at large has been very positive with requests for additional information about the Info Card occurring almost daily.

*To get one for yourself, simply fill in the application form in the PMIC (Personal Medication Info Card Company Inc.) brochure, and mail it as directed, or call PMIC direct at (416) 590-8906.*

# Canadian Controlled Private Corporations (CCPC's) and the Tax Concept of Integration

By Paul Nurmi, CA, *Vice-president, Taxation and Finance*

Integration as a tax concept is different than the integration as a social concept that we're all familiar with. If you look in the dictionary, "integrate" is defined as: (a) to make into a whole by bringing all parts together; unify. (b) to join with something else; unite. From a tax perspective, it is important to analyze how different layers of taxation, when joined together, contribute to the overall tax burden of the individual taxpayer.

The theory starts by comparing how much total income tax is paid by earning the exact same income through two different channels. If integration is working perfectly

(as it always does in the textbooks) the cash remaining in the pocket of the individual, after all taxes have been paid, should be the same under either method.

The first method is simple because the income is earned directly by an individual. The individual could be a sole proprietor, partner or investor. The cash left over after the personal taxes have been paid represents the final after tax earnings. The second method has the income being earned initially by a corporation (specifically a Canadian Controlled Private Corporation (CCPC)) which is then paid out to the individual (who is also a shareholder) in the form of a dividend.

In this case, there are two layers of taxation: the first layer is paid by the corporation; the second layer is paid by the individual on the dividend that is received. Therefore the total tax burden consists of tax from the two layers. Again, if integration is perfect, the total tax paid under this method should be the same as the first. As mentioned in the definition, the analysis brings together, ("unifies"), all levels of taxation.

If I haven't put you to sleep yet, it only gets more complicated from here. Since we all live in the real world, integration is not perfect. The federal and provincial governments have tried over the years

to design their tax policies to more or less stick to the concept of integration, but in reality, they have deviated. This means that sometimes integration may favor flowing income through a corporation or sometimes earning it directly. To know for sure which way is best, pro-forma calculations have to be done. In fact, these calculations have to be done each year for the province that both the corporation and the individual reside in. This is because federal and provincial tax rates are constantly changing.

This is best illustrated by the following table, assuming both the Corporation and the individual shareholder are Ontario residents and the income is in the form of interest. The 2004 tax rates have been used taking into account the recent changes to Ontario's corporate tax rates and the individual is assumed to be in the top marginal tax bracket. I have also included a column showing the effect of passing income through an Ontario company that is not a CCPC.

If integration were perfect the total tax in the first two columns should be equal. But they are not and as you

can see the direct earnings approach in the first column is favored over the approach in the second column.

The third column shows how much extra tax is paid by income earned through a non-CCPC. The taxation of these companies was not designed to achieve integration. This is the main reason why income trusts have become so popular as the corporate layer of taxation has been removed.

One interesting thing to note in this analysis is that had the Ontario Conservatives remained in power, their corporate tax reductions would have significantly altered the analysis in favor of the second column.

In Alberta, the rates are lower and integration is almost perfect with a small edge in favor of the direct earnings approach (39% vs. 39.9%)

At this point I know some of you may be thinking that it would be a good idea to "park" income inside of a corporation and then pay it out later because the table shows a corporate rate much lower than the top marginal tax rates for individuals. Unfortunately, this idea will not result in a deferral

of any tax because a system of temporary taxes was developed at the corporate level for CCPCs. In fact these taxes are in addition to the 23% shown in the chart and are referred to as "refundable taxes" or "refundable dividend taxes". As the name implies, the corporation pays these taxes up front and then receives a refund once dividends are paid out to the shareholder at a rate of \$1 for every \$3 in dividends.

This tax is tracked in a separate account by CCRA so that they know how much is potentially refundable to the corporation at any given time. The balance in this account grows or shrinks each year depending on the circumstances and the total in this account is referred to as "refundable dividend tax on hand" or RDTOH. The financial statements of the Corporation usually show this tax as a charge directly to retained earnings instead of being used to determine net income.

This tax is calculated at a rate of 26.67% and if we use Ontario again as an example, the total tax rate on investment earnings remaining inside the Corporation would be 49.8%. This is compared to the top personal tax rate of 46.4%.

This is just a brief and simplified overview of one aspect of Corporate taxation. Other taxes to consider are provincial and federal capital taxes on larger Corporations and the lower tax rates on active business income compared to investment income. CCPC's can also be used as part of an estate freeze in order to achieve other tax objectives, but this type of planning does not affect the integration analysis described here. The topic of estate freezes is a significant one and will be the subject of a future article.

	<b>Earned directly by individual</b>	<b>Passed Through a Corporation</b>	<b>Passed Through a non-CCPC</b>
Interest income	N/A	1,000	1,000
Corporate tax (A)	–	(231)	(361)
Net income after tax	–	769	639
Dividend to shareholder	N/A	769	639
Interest income	1,000	N/A	N/A
Personal tax (B)	(464)	(241)	(200)
Net income after tax	536	528	439
Income Taxes Paid (A) + (B)	464	472	561
Corporate "Refundable Tax"			
Paid and not Recoverable <sup>(1)</sup>	N/A	8	N/A
Total Taxes	464	480	561

Note 1: Since integration is not perfect, some of the "refundable tax" paid by the corporation is not recoverable. This is because the dividend paid to the shareholder is insufficient to recover the full amount

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Continued from front page

### 9) Individual access

- Give individuals access to their own information
- Provide copy of the information requested or reasons for not providing access

### 10) Challenging compliance

- Develop simple and easily accessible complaint procedures
- Advise individuals of avenues of recourse

CPA has implemented its own privacy policy (the policy can be viewed at [www.cpafin.com/privacy.htm](http://www.cpafin.com/privacy.htm)) and has appointed me, David Vicic, as its Chief Privacy Officer.

Client confidentiality and the protection of personal information are two things that have been in existence at CPA since the company was formed thirty years ago. While working with our clients, we become privy to large amounts of information, both personal and corporate. If our clients ever thought that this information would be made available to others for the wrong purpose or was not secure against loss, quite frankly, we would be out of business.

An important aspect of our privacy policy that has been in place at CPA for a number of years is our confidentiality agreement. When a new employee commences his/her employment with CPA,

they are required, as a condition of employment, to sign a Confidentiality Agreement. This agreement binds the employee – while employed by CPA and even when they aren't – to keep ALL client information secure. This document is re-signed every January while the employee is employed by CPA, as a reminder of the importance of client confidentiality. Employees are expected to discuss client files with other CPA employees only to the extent that they require their expertise.

CPA employees adhere to a "clean desk policy" – all client-related material must be cleared off an employee's desk and be placed in a locked file cabinet or drawer at the end of every day. All other client information is routinely stored in locked file cabinets, locked file rooms or at secure off-site locations. The computer server that houses our clients' data is located in a locked computer room and computer back-ups are completed every night to ensure data integrity and safety.

Privacy is an important part of the CPA experience and a responsibility that cannot be taken lightly. As we move forward, we will continue to implement the necessary policies and procedures to ensure that our clients' personal information remains safe, secure and private.

## CPA's Marketing Update

By P. Lee Fisher,  
President and  
Chief Executive Officer

It's hard to believe but the first quarter of 2004 is already behind us. Our advertising program continued throughout these months with insertions in both *Luxury* and *NUVO* magazines. Our next ad will run in the Stratford Festival Programme, May issue.

We have had an exciting and busy quarter with fourteen new clients (at seven corporations) joining us. While that may seem like quite a few in three months, there are fourteen CPA staff working with these new clients. Our commitment to first class, one-on-one service is our trademark.

I'll keep you up to date in our next edition. Thank you for your support!

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