

Business Matters

DECEMBER 2014

VOLUME 28 | ISSUE 6

MONEYSAVER

The Legacy of Credit Management



“The creditor hath a better memory than the debtor.” (James Howell 1594-1666)

Manage your credit cards carefully when you are young to avoid credit problems later on.

When young people enter the workforce, the first thing they often do is get a credit card. Unfortunately, they frequently don't understand credit and can easily and quickly get into trouble. Many do not realize that making credit mistakes can affect their credit rating and create problems when they want to buy a house or car.

Let's look at a problem that can easily arise. A smart phone is probably one of the first things a young adult wants to buy. Usually a two-year contract is agreed for a set monthly fee. If the monthly payments fall into arrears, the provider will send invoices, emails and make telephone calls until the account is sold to a collection agency. Being remiss on \$400-\$500 may seem trivial and easy to rationalize; failure to pay, however, could create an insurmountable obstacle later on when credit is needed most.

Credit Agencies

Most creditors rely on the data gathered by Equifax Canada or TransUnion Canada when processing a credit application. Both agencies obtain information from sources such as banks, department stores and collection agencies as well as public records that record judgments or wage garnishments for failure to pay debts. In essence, every time credit is used or abused, these agencies may be able to access the information to determine your credit worthiness.

Credit scores are determined on a point scale that ranges from 300-900. A score of 300 means obtaining a loan will be almost impossible. A score above 650 is a realistic target to obtain and maintain. About 86% of Canadians are in that range, according to the Financial Consumer Agency of Canada. To put this in perspective, the Canada Mortgage and Housing Corporation refuses to insure a mortgage if the prospective buyer cannot put down a minimum of 20% of the purchase price. Thus, if a first-time homebuyer is unable to come up with \$60,000 on a \$300,000 condominium because of a credit score below 600, it is unlikely any financial institution will issue a mortgage.

A Good Place to Start

Check with the credit agencies to determine whether a false credit report has been opened in your name. Many individuals between 18 and 21 have had cell phone contracts opened in their name because someone stole their identity by taking pictures of their driver's licence or Social Insurance Number (SIN) card. With this information, it is extremely easy to open an account and run up a large balance. Because young adults often move for work or education, they may not even know that an outstanding bill exists in their name.

Establishing and Maintaining a Good Credit Rating

There are three main ways to stay out of trouble:

1. Maintain bank accounts with a reasonable balance and avoid using any overdraft facility. Lenders will request information about both chequing and savings accounts.
2. Maintain steady employment and constant income. Lenders need to know you have the ability to pay.
3. Pay all your bills on time. Lenders need to establish that you are reliable and conscientious.

Young adults may need a co-signer for a credit card or loan application. This benefits the borrower because:

- the lender will not have to make a credit decision based solely on a limited credit history
- the young borrower may be able to obtain a lower interest rate since the guarantor has an established credit history. Family members are a good bet since the lender can be confident the guarantor will be reachable and accountable.

Multiple Cards

It does not hurt to apply for a credit card from the larger retailers or gas companies. Usually these starter cards offer a \$500 maximum borrowing limit. Do not apply for more than a couple of cards since the lender may become nervous about 10 cards with \$500 limits creating a potential debt of \$5,000. Pay on time and in full.

It is best if the balance never exceeds 30% of the credit limit.

Avoid using a card from one institution to pay off a card from another. Fifteen per cent of your credit score is based upon the length of time the card carries the debt. Creditors become nervous when a borrower starts flipping debt from one institution to another.

Student loans are non-dischargeable through bankruptcy within seven years of graduation.

Student Loans

Ignore student loans at your peril. Once it is time to start repayment, stick to the schedule. Once payments are missed, your credit rating will be in jeopardy.

Student loans are non-dischargeable through bankruptcy if the bankruptcy is declared within seven years after studies end. This means that, even if all your other debts have been discharged, you must still repay the student loans.

Employment History

Creditors look to a history of stable employment as well as the consistency of salary or wages. For the young adult, job history is problematic. Young adults may have difficulty finding employment and, in any case, employment history will be short. Nevertheless, your credit score is better if you can remain with one employer.

Non-Payment of Rent

Eviction for non-payment of rent will not only impact your credit rating but may make it difficult to find a new place to rent. Don't jeopardize your credit rating by not living up to the rental agreement.

Bankruptcy

Because bankruptcy stays on your credit rating for at least seven years (more if you have multiple bankruptcies), it may be impossible to get vehicle loans, mortgage loans or lines of credit in the future. Even if loans are granted, the interest rates will be higher according to how you are perceived as a credit risk.

Criminal Record

Criminal convictions stay on the credit report for seven years. A criminal record will hurt any attempt to get a job that requires bonding. Travel may also be restricted as many countries bar travellers with a criminal past. A lack of mobility may affect your employment opportunities and thereby impact your credit rating.

Unpaid Taxes

Pay your taxes as you go. The nonpayment of taxes stays on the credit agency files for seven years.

A Good Credit Rating Is a Necessity of Life

At times, credit is needed to obtain some of the expensive necessities of everyday living such as a vehicle for work or a home to live in. Good money management combined with the understanding that building a solid credit rating will enhance their life should be a priority for the young adult working toward building a solid and secure future.

TECHNOLOGY

Brrrrrrr



Electrically heated clothing helps workers remain efficient when temperatures drop.

As much as we complain about the weather, Canadians embrace winter for the beautiful landscapes, delicious hearty food and the excitement of sports on ice and snow-covered slopes. From an employer's point of view, however, the bone-chilling winter weather has a negative impact on productivity for those who work outside.

Low Temperatures Affect the Body

Worker efficiency and productivity plummet as wind and lower temperatures creep into the workplace and the brain redirects heat from the extremities such as the fingers and toes to the core organs in order to maintain the body's necessary life-supporting temperature. While it may sound like common sense, several studies have established that lower temperatures negatively affect the mental agility and physical capability of workers:

- A Cornell University study established that office workers made 44% more mistakes when the office temperature was below 20°C.
- A U.S. Army Cold Regions Research and Engineering Laboratory paper concluded that maximum productivity for outside workers is reached between 10°C -15.5°C.

Working Outside in the Cold

While office workers can simply crank up the thermostat to 20°C or more, this isn't an option for people who work outdoors. The answer for employers and employees in outdoor operations may be found in the rapidly developing world of heated jackets. (Soft-shell vests, gloves and socks are also available, but the focus of this article is jackets.)

Heated Jackets

The heated work jacket has, in some respects, evolved as a result of cordless tools that use high-end rechargeable lithium ion battery packs. Many cordless power-tool brands also offer a selection of battery-powered heated jackets and other garments.

How They Work

Although styles, colours and other features may vary, the underlying methods of heating the jackets are similar. A rechargeable battery stored inside the jacket connects to a heating element made of carbon fibre, wire or small panels. As the energy flows through the system, it meets resistance and creates heat. The heat is transferred through the material and warms the body.

Features

Manufacturers have built in a variety of features.

- A 12-20 volt battery ensures continuous heat (typically six to seven hours on the lowest setting) for long work days in the cold. It is possible to purchase extended-capacity batteries that last longer and can be charged more times than a standard battery.
- Temperature settings are usually low, medium and high. Naturally, the jacket can provide heat longer on lower settings.
- Rapid recharge capability usually means the battery will be ready to be used again in 30 minutes.
- Heating elements are usually located at the lower back and in the left and right chest area, although some manufacturers also provide elements to warm the pockets.
- The jacket's outer shell tends to be made of a tightly woven wind-and-water-resistant fabric.
- Most manufacturers provide a one-year warranty.
- Automotive adapters may be available for easy recharging.
- Most jackets weigh about half a kilogram.
- Some manufacturers even include a USB port for charging cellphones.
- LED monitors let the wearer know how much electricity remains.

Heated coats are less bulky than traditional coats.

Important Considerations

Users indicate that fit is important. If the jacket is too big, the heat produced will be lost; a T-shirt alone should be sufficient between the jacket and the wearer. Extra layers, if needed, should be worn over the jacket.

In addition to keeping the wearer warm, heated coats also have the advantage of being less bulky than traditional coats. Thinner work attire gives better all-round mobility and enables workers to enter small spaces when necessary.

People in outdoor occupations such as the construction trades or sanitation often face muddy or grimy work sites. All of the jackets can be hand cleaned; a couple of manufacturers claim their product is washing-machine and dryer safe provided the batteries and electronics have been removed beforehand.

Cost

The suggested retail price for most jackets and hoodies is about \$200-\$300. If your business already has compatible batteries and charge packs from existing power tools, for example, it may not be necessary to purchase more. Otherwise, an additional \$100 to \$200 may be required for batteries and the charge pack.

Something to Think about

Research proves that low temperatures can impede agility and reduce the ability to make intelligent decisions, so the problem with cold weather goes far beyond workers simply feeling uncomfortable. For a relatively small investment, heated work wear may be a positive means of increasing productivity and minimizing errors on the job.

MANAGEMENT

Oops, I Didn't Mean to Say That



*“Words are the source of misunderstandings.” — Antoine de Saint-Exupéry, *The Little Prince**

Your emails carry more than just your message; your reputation is at stake. Be careful what you say and how you say it.

The advent of email some 30 years ago was a technical revolution that has allowed a means of communicating with one person or thousands simultaneously. Unfortunately, the ability to communicate has not necessarily created better communication.

Traditional letter writing evolved protocols for writing all kinds of letters, including business letters. The immediacy and constancy of email contact today, however, allows, even encourages, a much less formal writing style. Such casualness can often create misunderstandings and stand in the way of establishing a positive relationship between communicating parties. The fact that so much communicating is done by email rather than person to person, over the phone, or even face to face across an office desk suggests that a few guidelines may be in order if you want to create and maintain any kind of decorum in your business communications.

Do not insert the recipient's email address until you are ready to push Send.

To improve email communication consider:

1. To avoid the embarrassment of sending an email before it is finished, do not insert the recipient's email address until you are ready to push *Send*.
2. Make sure the subject line summarizes the content. If your recipient receives scores of emails every day, the subject matter of your email must be obvious at first glance or it may be left unread. The subject line should always be filled in to reduce the possibility that the email will be identified as spam by the recipient's antivirus software.
3. Start the body of your email with a courteous salutation to avoid appearing demanding or abrupt.
4. Keep the body text as short as possible. No one has the time to read all the details of something that is better expressed in an attachment.

5. Use a measured level of formality. Clients usually prefer traditional greetings. When addressing anyone with a title (e.g., Assistant Vice-President, Sales), use it. People have worked hard for those titles and love to see them used. If you are not sure, check the company directory or call the main switchboard.
6. Using *Smiley* icons is not appropriate.
7. Always double check to ensure the name, initials, title and gender of the recipient are correct (e.g., is it McDonald or Macdonald?). Many last names are now used as first names for both men and women (i.e., Mackenzie, Cameron). With people from so many diverse cultures working in business today, you may not be familiar with many naming protocols. If in doubt, check the spelling of the name in the office directory and ascertain the gender of the recipient.
8. Ms. is probably the safest way to address a woman recipient. "Miss" seems to have dropped out of business language as a form of address and Mrs. should not be used unless you are sure of the woman's marital status, that she is using her married name and that she prefers to be addressed in that way.
9. Never send an email without checking the spelling. Do not rely on spell check alone. Spell check will sometimes accept a word that is correctly spelled but is incorrect in the context. You never know who all will read your email and correct spelling gives an impression of care and professionalism to those whose first encounter with your name is through this email.
10. Punctuation, capitals, full sentences and all other writing protocols should be followed.
11. When you read the proposed email does it answer the "Who, What, Why, When, Where" criteria? This approach will reduce the annoying back-and-forth emails seeking answers to the initial enquiry.
12. Ensure that your carrier can support the file size of any attachments. Better yet, compress the file before attaching. This avoids fractured files and wasted time.
13. Always check the email address before the email is sent to avoid the embarrassment of sending the data to the wrong individual.
14. *Never* forward emails received if there is any possibility the attachments may contain viruses. *Ensure* your antivirus software scans for data received from third parties to reduce the risk of forwarding infected correspondence.
15. If there is a possibility that a virus was forwarded, contact the recipient at once.
16. Confirm the recipient has the appropriate software to open the attachment. If secured by passwords, phone the password to the recipient.
17. Always identify the software used for the data. This saves the recipient time trying out various softwares.
18. Limit the details in the email and place them in an attachment. Scan and attach your hard copy letter or use your computerized letterhead and attach.
19. When responding to emails, always remove the addresses of those who do not need to receive the reply.
20. If you need a response to an email, request it in the body. If a response has not been received, check your *Trash* bin before you contact the recipient from whom you are expecting a response. This ensures the message was not directed there by your antivirus software.
21. Save important business correspondence to a client file. Relying on *Sent* or *Deleted* for recovery does not work if those files are erased either intentionally or accidentally.
22. Review each email before hitting *Send*. Ensure the message is clear and the tone is appropriate to the content and the recipient. Open the attachment before sending to check that it is the correct one.
23. Take time between receiving an email and responding. If the issue requires research, respond to the sender with an estimate of when a response can be expected.
24. Privacy laws in Canada and other countries require businesses to safeguard personal information such as a person's name and date of birth. Use an encryption program for all emails that contain any personal or corporate information.
25. If a misunderstanding seems to have been created in an email communication, pick up the telephone and call the recipient to discuss the issues.
26. End emails politely with the tried and true "*Sincerely*," "*Regards*" or "*Thank you*."

27. Providing name, address and alternate means of contacting you with telephone or Skype is an excellent means of ensuring communication lines are open in the event of Internet failure.
28. Never write and send an email that is emotionally charged. Always reflect on how the expression of emotion may impact the recipient's view of your business or others to whom it may be forwarded.

Good Manners

Email has changed business communication forever. Nevertheless, it is wise to use courteous email-writing practices that respect the recipient and support good business relations.

TAXATION

Taxation — The Deciding Factor

A six-figure earned income may not have as much spending power as expected after taxes.

Wages, salaries and all other forms of earned income have increased dramatically for those with the required skills who are willing to move to the parts of the country where such skills are in demand. Indeed, it is not unusual to see T4s at year end in excess of \$100,000.

The satisfaction of earning a six-figure income is quickly tarnished, however, after the amount of federal and provincial tax has been calculated.

A \$160,000 annual salary income, for instance, is equal to \$13,333 per month. Based on 2013 personal tax calculations, however, a single person living and working in Ontario, for example, would pay \$56,481 in combined deductions from federal and provincial income tax, Canada Pension Plan (CPP) and Employment Insurance (EI).

Effect of Deductions

Given these figures, anyone in Ontario who earns \$160,000 is going to take home \$103,519 if salaried. On a monthly basis, this amounts to \$8,627, a far cry from the \$13,333 that appears on the payslip. For those who earn or aspire to earn in the six-figure range, consider the tax brackets in the following table.

T4 Income \$	Total Withholding Taxes \$	Average Tax Rate %	Net Income \$	Monthly Take-Home Pay \$	Marginal Tax Rate* %
100,000	29,627	29.7	70,313	5,859	43.4
120,000	38,368	32.0	81,632	6,803	44.2
140,000	47,199	33.7	92,801	7,733	46.4
160,000	56,481	35.3	103,519	8,627	46.4
180,000	65,763	36.5	114,237	9,520	46.4

*The marginal tax rate represents the average additional income tax on the next \$20,000 of income.

It is also important to note that, as marginal tax rates rise with additional income, there are fewer disposable dollars left until the maximum marginal rate is reached.

Base spending decisions on disposable income not gross income.

Gross Income vs. Disposable Income

The realization that gross income *must not* be construed as disposable income should be factored into any spending decisions. Financial decisions should be calculated on the basis of take-home, i.e., *not gross*, income. The following questions should guide any spending and saving decisions:

1. How much are my monthly mortgage payments and utility bills?
2. How much does it cost per month to service my student loans or other debts?
3. If mortgage rates increase will I be able to meet the additional cash-flow drain?
4. What is the price of mortgage insurance?
5. How much are my property taxes?
6. How much do I spend on rental accommodations, condominium or common-cost fees?
7. How much do I need to put aside to accumulate the 20% down payment on a home?
8. How much do I spend per month on food, clothing, repairs and maintenance, entertainment and other leisure activities?
9. Should I purchase an expensive vehicle with payments spread over 84 months?
10. What is the minimum after-tax dollar requirement to support my current lifestyle in the event I lose my job?
11. How much do I need to put aside to cover a short-term layoff?
12. If I need to borrow for an emergency, will I be able to pay down the line of credit?
13. In the event of downsizing, will I be able to quickly find a new position with the same pay scale?
14. Is it worth moving to take a new job that pays more?
15. In the event I am ill, what is the cost of insurance to cover the cost of staying in my home?
16. Can I afford to open an RRSP? What is my contribution limit? Can I afford to contribute?
17. What is the cost of medical and dental insurance?
18. What is the cost of going to and from the job site?
19. Will I be able to help my parents if the need arises?
20. Will increased earnings offset increases in the cost of living?
21. How long will I continue to earn six figures?

Budget Strategically

“I’ve been rich and I’ve been poor. Believe me, rich is better.”

This pithy remark, often attributed to Sophie Tucker, Mae West and others is certainly true, regardless of who said it first. Earning more *is* better than earning less. But the principal factor in determining the amount of money available for lifestyle expenditure remains taxation. Those who already have six-figure incomes should carefully analyze the long-term impacts of a high debt load, future increases in the cost of living, and the risk of layoff in order to determine the best means of managing after-tax income wisely.

Disclaimer:

BUSINESS MATTERS deals with a number of complex issues in a concise manner; it is recommended that accounting, legal or other appropriate professional advice should be sought before acting upon any of the information contained therein.

Although every reasonable effort has been made to ensure the accuracy of the information contained in this letter, no individual or organization involved in either the preparation or distribution of this letter accepts any contractual, tortious, or any other form of liability for its contents or for any consequences arising from its use.

BUSINESS MATTERS is prepared bimonthly by the Chartered Professional Accountants of Canada for the clients of its members.

Richard Fulcher, CPA, CA – Author; Patricia Adamson, M.A., M.I.St. – CPA Canada Editor.

Contact us: patricia@adamsonwriters.ca