

Solutions

President's Message

Welcome to the second edition of our newsletter! We offer you 'Solutions' and key insights from our specialists, strategic partners and expert contributors. In this issue, we explore how Stratos Solutions assists overburdened finance departments—helping them restructure their businesses to achieve maximum human resource and fiscal results.

We study the impact the Administrative Monetary Penalty System (AMPS) is having on the importing and exporting community, providing relevant information to help reduce your penalty exposure. We provide you with a tip sheet filled with timely and essential provincial tax legislation updates. Finally, we share an in-depth case study illustrating how we retrieved for one company over \$2 million dollars in tax savings.

The 'Solutions' vision is simple: keep our partners and clients informed about relevant current events in the commodity tax realm and provide useful tips for minimizing taxes for corporations. I encourage and welcome your feedback. Help us produce content that's relevant to the issues you confront in your business; please contact me directly with your comments and suggestions at asarangi@stratossolutions.com.

Altaf Sarangi CA
President
Stratos Solutions Inc.

Stratos Helps Finance Departments Confront Tough Challenges

1 Does this scenario sound familiar: senior management and internal customers are demanding more in-depth financial reporting and analysis; line managers are pushing to get their information faster; sales and marketing are requesting better customer profitability analysis and governance; and internal controls awareness is heightened as a result



of Sarbanes Oxley and Bill 198. For all of these reasons, and so many more, finance departments are under intense scrutiny and increasingly finding themselves in pressure-cooker situations.

One common problem many finance departments confront is not reacting quickly enough to their environment, failing to adapt their structure, people, processes or systems to meet new challenges. Finance departments often explain to us that not only is the volume of work increasing, but this coupled with the

level of analysis and recommendations required, is making their work that much more complex. Complicating matters even more, the solution is not as simple as hiring additional staff or allocating extra resources. Instead, the solution involves re-evaluating department fundamentals such as skill levels, processes and information systems.

We recently helped a finance department restructure and transform the way they supported their organization. We began by carefully defining the department's mandate, critical goals and key performance measures. Then we helped identify the scope of the finance department's responsibility, and examined areas currently within the finance department's scope, that might better be served by other departments. For example, the Information Technology department developed a browser-based solution giving internal customers direct computer access to financial information—rather than working through finance department personnel. This solution saved considerable staff time; put the power in the "hands of the users" and freed up the finance department staff allowing them the time to proactively analyze and interpret key information.

In another organization, we found that finance staff was doing a lot of re-work and spending up to 30% of both managerial and staff time correcting mistakes.

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EXPERIENCE • TECHNOLOGY • RESULTS

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MARK YOUR CALENDARS NOW:

Tax Leaders' FORUM 2005

In September, Stratos Presents: **Tax Leaders' Forum 2005**

- Meet influential authorities, policy makers and industry-recognized innovators.
- Evaluate key 2005 tax initiatives and ask hard-hitting questions during round table discussions.
- This forum represents business tax solutions designed for financial decision-makers in large and medium-sized corporations.

We're receiving an overwhelming response to this innovative FORUM. Reserve your spot now. Contact us at info@stratossolutions.com.



Traders Feel Sting of New Penalty Customs Regime

2 The new Administrative Monetary Penalty System (AMPS) administered by the Canada Border Services Agency (better known as Canada Customs) was enacted two-and-a-half years ago. Interestingly, many in the trade community are either unaware or seemingly unconcerned by this potentially costly piece of legislation. AMPS allows Canada Customs to impose penalties on importers, exporters and service providers (e.g. carriers, customs brokers, warehouse operators, etc.) who fail to comply with Canada's trade laws and regulations as they relate to goods entering or leaving the country.

Some readers may have already felt the sting of an AMPS penalty...if you haven't, ***prepare and protect yourself***, read on.

The modernized sanctions regime on goods took effect on October 7, 2002. While still evolving, the master penalty document (which can be likened to a provincial Highway Traffic Act), contains over 350 contraventions. The AMPS equivalent of a speeding ticket might be "A Person failed to report imported goods..." Penalties range from \$100 to \$25,000 depending on the severity of the infraction.

To this point, the majority of penalties issued are for what senior officials call "front-end infractions." These cover contraventions related to the inbound or outbound reporting, release and accounting of goods. Until recently, only a handful of penalties were issued against importers for "backend" infractions. These include failing to file voluntary adjustments to correct errors and maintaining or producing records for prescribed periods.

As post entry review is now the main program used to verify an importers' compliance levels, AMPS is and will

continue to be become a very real issue. Canada Customs can choose to impose penalties retroactively up to four years, although currently, this only extends to October 7, 2002.

AMPS penalties are issued on Form E650 E, Notice of Penalty Assessment. Unless the recipient can demonstrate the form was issued in error, the penalty stands. Fortunately, the Customs Act provides an avenue for appeal. If you maintain the penalty was issued improperly, a request for a review by the President may be submitted. Such requests must be submitted within 90-days of the notice being issued. If you are issued a favourable decision, the penalty amount is refunded (or not payable). If the initial appeal is unsuccessful, the recipient can escalate the appeal to the federal court.

Penalties range from \$100 to \$25,000 depending on the severity of the infraction.

There is no question: AMPS is here to stay. Educate and protect yourself from becoming its next victim. If you are a trader, and have not jumped on the compliance bandwagon, now is the time. Find out what your obligations are under the system. If you think, or have reason to believe you may not be compliant, seek professional advice. Work with a trusted professional and initiate an action plan that will get you back on track. Taking this course of action can go a long way to helping Canada Customs forgive past sins or omissions.

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3 What's New: Updates in Provincial Tax Legislation

We've collected a summary of recently implemented provincial tax changes.

B.C.

Various bulletins now make reference to the new *Bulletin SST 119*: Bundled Sales: Taxable and Non-Taxable Goods or Services Sold Together for a Single Price, including:

- **Bulletin SST 018:** Taxable Services
- **Bulletin SST 040:** Computer Hardware, Software and Related Services
- **Bulletin SST 080:** Goods used for Demonstration or Display, Samples, Gifts and Prizes, Promotional Materials, Taxable and Non-Taxable Goods Sold as a Package, Premiums
- **Bulletin SST 110:** Warranties, Service Contracts and Maintenance Agreements

The provincial government announced its 2005 Budget on February 15, 2005. Statutes administered by the Consumer Taxation Branch are amended as a result, including:

- **Bulletin SST 002:** Exemption for Safety Equipment.
- **Bulletin SST 009:** Exemption for Children's Clothing.
- **Bulletin SST 011:** Exemption for Material and Equipment Used to Conserve Energy.
- **Bulletin SST 018:** Taxable Services.
- **Bulletin HRT 005:** Do You Need to Register as an Operator?
- **Bulletin HRT 006:** Your Responsibilities as a Registered Operator.

Saskatchewan

Effective April 1, 2005, the Provincial Sales Tax and Fuel Tax no longer applies to substances used in approved Enhanced Oil Recovery (EOR) projects. This includes chemicals and injection agents such as natural gas, hydrogen chloride, liquid nitrogen, potassium chloride, liquid oxygen, carbon dioxide, propane and butane.

To qualify for this exemption the substance must be:

- acquired on or after April 1, 2005;

- used in a new or existing EOR project that received approval pursuant to The Oil and Gas Conservation Act;
- injected into an oil-bearing formation as part of the enhanced oil recovery process;
- intended to directly enhance the recovery of oil by altering the properties of the oil (e.g. substances injected into a well for maintenance purposes are not eligible for the exemption).

Effective January 1, 2005, the interest rate on unpaid taxes increased from 6.75% to 7.25%. This rate is in effect until June 30, 2005.

Manitoba

The following changes, affecting the filing of retail sales tax returns, were announced in the recent budget:

Commission Structure Change:

Effective with the June 2004 sales tax returns, vendors who report more than \$3,000 in tax collectable on sales will no longer receive a commission.

Late Filing Penalty:

The late filing penalty will increase from 5% to 10% on late remittances received after June 30, 2005.

Ontario

Sales Tax Information Notices

- Destination Marketing Fee (2004/12)
- Transfer of Assets Between Related Corporations and Partnerships Rules (2004/12)
- Extended exemptions for publications and printed matter purchased by religious organizations and charities

Quebec

Payment of an Assessment

Effective November 3, 2004, the amount displayed on a notice of assessment is payable immediately, by law.

If the amount owing is paid by the deadline displayed on the notice of assessment (e.g. within 20 days after the date the notice was sent) no interest is charged. If you don't make payment by the deadline, additional interest is calculated from the date that the notice of assessment was sent. These rules apply even if an objection, an appeal or a summary appeal is filed regarding the assessment.

4 Stratos Solutions CLIENT CASE STUDY

The CHALLENGE: Recapture tax savings in a complex purchase order/tax monitoring system, while channeling knowledge across the organization.

In this case study, the client, a large Ontario-based manufacturer, employed over 2000 people and recorded annual sales exceeding half billion dollars. The organization had a complex multi-tiered hierarchy, decentralizing many processes and delegating authority to employees to increase efficiencies. One decentralized process was purchasing—starting with small purchases of office supplies—ending with larger acquisitions of heavy-duty machinery. In effect, the purchase order set-up procedures varied between departments, creating hundreds of non-standardized AP transactions across the organization, to be processed daily by the AP department.

The Stratos SOLUTION: A systems adjustment combined with the creation of a customized reference platform, accessible across the organization and complemented with employee training.

Consolidation of several reporting platforms was at the heart of the solution, permitting the proper and in-depth examination of tax issues: savings vs. liabilities. After Stratos completed the full transactional and legislative analysis, **final tax savings were well in excess of \$2 million!** This success was achieved by employing an innovative and unique method of analysis, it enabled the Stratos tax specialist to evaluate every single transaction. As a result, the client benefitted from a much improved purchase order management system, customized training and ongoing monitoring tools. Stratos Solutions helped this client accomplish their original intention: maximizing processing efficiencies.

Stratos Helps Finance Departments Confront Tough Challenges (cont.)

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We discovered most of these mistakes were made by the regional managers who had a poor understanding of accounting and finance. This problem was compounded because some of the junior finance staff lacked critical skills. We worked with the client to centralize a number of finance functions and develop two new “customer service” oriented positions at head office. These positions are designed to work with regional offices and “non-financial” managers to help them develop financial goals, plans and budgets, as well as assist with daily transactional activities. Recruitment standards were changed and a training program was developed to upgrade the skill levels of junior finance department staff. These changes not only improved customer service scores, but increased finance staff productivity significantly.

Finance departments facing these new and different demands may consider having a review conducted by external experts. A finance function review should be holistic and examine the organization’s business strategy,

financial plans, job structure, people, key processes and information systems. We suggest the following steps:

1. **Current State Assessment: assess current performance, jobs, skills and systems.**
2. **Future State Assessment: examine long-term business goals and assess impact.**
3. **Gap Identification : address jobs, people, processes and systems.**
4. **Recommendations: implement in stages to address the highest priorities first.**

The finance function in organizations will continue to face new challenges, especially in light of current regulations and an increasingly competitive business environment. Employ a proactive strategy and help your finance department meet these demands. It just makes good business sense.

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