

tribution to create an RRSP registered in the name of the spouse, that RRSP will not be subject to tax at the contributor's death.

When the surviving spouse or common-law partner has been designated sole beneficiary, the entire fair market value of the deceased's unmatured RRSP, i.e. not yet paying a retirement income, can be rolled over tax free into the spouse's or partner's RRSP. If the RRSP is mature and thus already paying an annuity, it remains in place but the annuity now goes to the surviving spouse or partner who receives it as taxable income.

RRSP amounts paid to financially dependent children or grandchildren will be included in their incomes and taxed accordingly. Unless the contrary can be established, a child is assumed not to be financially dependent if his or her income exceeded \$9,600 for the prior year. Children can transfer the RRSP amounts received into an annuity. The term of the annuity may not exceed 18 years minus the age of the child when the annuity is established. Such a transfer could be compared to a spousal transfer with a few notable exceptions.

- The transfer is allowed only for children under the age of 18.
- The annuity ends when the child reaches the age of 18.
- Annuity income is taxable in the hands of the child.
- All funds within the annuity must be distributed to the child before the child's 19th birthday.

If there are financially dependent children or grandchildren with physical or mental infirmities, the rollover provision provides that the fair market value of the RRSP may be transferred to an RRSP, a life or term-to-90 annuity. The absence of the age restrictions that affect other financially dependent children or grandchildren permits long-term financial considerations to be addressed.

Investments

Investment assets are deemed to have been disposed of at fair market value at the date of death. The taxable amount is one-half of the difference between the fair market value at that date and the adjusted cost base, i.e. the purchase price adjusted for brokerage and other costs. Since no brokerage is paid on the deemed sale, the fair market value is considered to be the sale price.

- Interest Income
Interest income accrued to the date of death must be included in the deceased's income. For instance, if the deceased taxpayer had \$100,000 in a 5% Government of Canada bond that paid interest on June 1 and December 1 and died October 31, the \$2,500 interest payment received must be included in income plus the interest accruing from June 2 to October 31 of \$2,077 for a total income of \$4,577.

If the bond is not liquidated in the distribution of the estate, interest earned from the date of death becomes income in the hands of the beneficiary. Care should be exercised to not include amounts in income twice. The \$2,077 in the above example should be deducted from the next \$2,500 payment before it is included in the income of the beneficiary or the estate.

- Equity Investments
Taxable capital gains, if any, are calculated by netting out the gains and losses of the equity portfolio as at the date of death. This is done by subtracting the original cost of the investment plus brokerage fees etc. from the fair market value of the investment at the date of death. Only half the capital gain is subject to tax. The best way to ensure payment of only the correct minimum level of tax is to keep an accurate record of all investment transactions including the date of purchase, number of shares, price paid and brokerage fees. Other investment tax considerations may come into play that will require the expert advice of a chartered accountant.

If the deceased has named the surviving spouse as the beneficiary, investments are transferred to the spouse at the deceased's adjusted cost base. Alternately, the executor could elect out of this rollover, on a security-by-security basis, to pay tax on the capital gain in the deceased's final return. There are two choices:

- Have the gain included in the deceased's income and transfer the assets with an adjusted cost base equal to the fair market value of the securities at the date of death.
- Transfer the assets at the adjusted cost base attributable to the deceased at the time of death. There is no capital gain or loss in this case.

The consequences of these alternatives are best explained by an example.

Assume the following:

- Many years ago the deceased purchased 100 shares at \$10 per share for a total investment cost of \$1,000; and
- At the time of death, the 100 shares have a fair market value of \$200 per share for a total of \$20,000

Scenario 1

At the time of death, the executor elects to report a capital gain of \$19,000 for the deceased and \$9,500 is included in the deceased's income for the year of death. The surviving spouse inherits the shares at an adjusted cost base of \$20,000 since the deceased has already paid the tax on the capital gain. If the surviving spouse disposes of the shares at a later date, a capi-

tal gain will be calculated as the difference between \$20,000 and the disposal price less brokerage.

Scenario 2

The surviving spouse inherits the investment at the adjusted cost base of \$1,000 even though the investment is worth \$20,000 at the date of death. The spouse pays no tax until he or she sells the shares. If the shares are sold for \$20,000 shortly after the date of death, the spouse records a \$19,000 capital gain and pays income tax on \$9,500. If the shares are sold for, say, \$25,000, some years later, the spouse will realize a \$24,000 capital gain and take \$12,000 into taxable income.

Capital losses occur when the deemed or actual disposal price is below the adjusted cost base. Tax

treatment of losses will vary depending on the marginal tax rates and other factors of both the deceased and the surviving spouse.

The Bottom Line: Be Prepared

People of all ages find it hard to contemplate their own death and its consequences. As a result, when death occurs, survivors are often left unprepared for the effects of taxes on themselves or on the deceased. Reviewing your personal financial position, planning your estate and discussing your options with your chartered accountant is a positive step toward eliminating unpleasant surprises for your loved ones as they face one of the most distressing events of their lives—your death. ■

TECHNOLOGY

The Proliferation of Passwords

The trouble with passwords is that we need so many of them. Today's stringent rules safeguarding confidential information from virus attacks, the possibility of hacking by competitors seeking intellectual property secrets, and the potential that disgruntled team members may abuse their access privileges, make passwords a necessary evil.



What is the Best Way to Create a Password?

The most secure passwords use a combination of alphanumeric and non-alphanumeric characters. Many applications support characters such as "&" or "~" in addition to the English alphabet and Arabic number set we are accustomed to using. Additionally, passwords are sometimes case sensitive; to the computer "a" and "A" are two different characters. The more random a password appears, the more difficult it is for someone to guess or for a program to crack using "brute force." The term brute force is used to describe a method of hacking that sequentially attempts various passwords until it eventually guesses the correct one.

Devise a password that is nearly impossible for someone else to figure out but easy for you to remember. A

birth date or the name of your cat would be examples of weak passwords because subtle enquiries from friends, relatives or colleagues will quickly reveal this information to anyone determined to break into your system.

To protect your business and at the same time ensure that passwords are not forgotten, associate passwords with familiar or favourite numbers, names or addresses and use variables of the key identifiers.

For instance, if you use your initials as a primary building block, you can add a series of variables that are easy to remember. Now you need only to remember the variables. By using a base familiar to you, it is possible to build hundreds of passwords that are difficult to crack but not difficult to remember. By way of example:

- Your initials are ABC
- Your work address is 456 Main Street
- Your home address is 123 York Street

By using your initials ABC, a few of the possibilities would be ABC123, 123ABC, ABC456, 456ABC 654CBA, A456BC etc. The beauty of this simple method is that the same characters and letters may be used in a myriad of situations wherein passwords are required without having to remember a completely different and unrelated combination for each application.

This simplified algorithm allows changes to be made on a recurring basis without the need to worry about remembering the specific password. A simple change of familiar base sequence of numbers and letters will reduce the chance of forgetting a string of random numbers or letters that have no associative meaning for you. With this method, if you try one password and it doesn't work you simply enter the limited range of variations until the system opens. ■

TECHNOLOGY

The Road to Recovery

Most computers purchased today come with a restore CD or have a set-up program that prompts the user to produce a restore CD. The purpose of these discs is to enable the user to bring the computer back to life in the event of a hard drive failure or system crash.



Unfortunately, the cure may be worse than the disease. Using a restore CD is not like rebooting your computer. The restore program restructures the hard drive to its original configuration at the time of purchase; therefore, all of your files and settings will be destroyed.

More Than Just Data Loss

In a perfect world, a hard drive crash or an operating system meltdown would not be a problem: computers are always new, the original software disc is still available and office backup routine is meticulous. In the real world, however, computers are often old, discs containing original programs are misplaced, and backup routines are seldom adhered to.

There are many other considerations that are not obvious until an issue arises that requires the computer to be restored.

Consider:

- All backup files will need to be restored to the hard drive

- Software that was pre-installed on the computer may have been included on the restore CD. If so, the computer must be restored to its factory settings, even if only one program is required
- The installation media or files may have been lost; replacement media or the original download link may no longer be available, i.e. software that was downloaded from the Internet will need to be located, downloaded and re-installed.
- New software may have to be purchased. This may be an issue if the application requirements are greater than what is supported by the older machine. For example, the new software may not be compatible with an older operating system, or the computer may not provide enough memory, free hard drive space or a fast enough processor.

- All personalized settings will need to be re-created, including Internet bookmarks, desktop shortcuts, and security preferences.
- If you use a local e-mail client such as Microsoft Outlook or Outlook Express, your address book may have been lost unless backed up.
- Most operating system vendors regularly release security updates. It can take a considerable amount of time to download and install all of these patches at once. You may need to restart your PC several times before it is fully updated.

Avoid Saving Data on the C: drive

Saving your documents on the C: drive is like putting all of your eggs in one basket. Doing so ties the safety of your data even more closely to the stability of your operating system. Many computer manufacturers split the hard drive into multiple partitions, or logical drives. Inside your computer, there may be only one physical hard drive; however, from within Windows you may see two or more logical drives, such as C: and D:. Windows may be installed on your C: drive; however, you may store documents on your D: drive. If the Windows installation becomes corrupted, you may be able to reformat and re-install the C: partition, thereby leaving your data intact on the D: partition.

If your computer did not come with more than one partition, i.e. if you do not see additional hard drives in the "My Computer" window, you can create new partitions if you have enough free hard drive space. Third-party partition software such as PartitionMagic is available to make this task very easy. If your new or second partition is assigned the letter D:, E: or F:, for example, then that is where you should save your data.

Utility Software

Utility software, in this context, is an application installed on your computer to help protect your data from deletion, or recover it in case of accidental deletion.

Several recovery applications are available; some products even allow the prospective buyer a free trial period. Naturally, each product has its own framework for data recovery but in general, the features offered may allow recovery of:

- Recently saved data
- Files from deleted or formatted hard drives
- Data that has become inaccessible as a result of operating system corruption

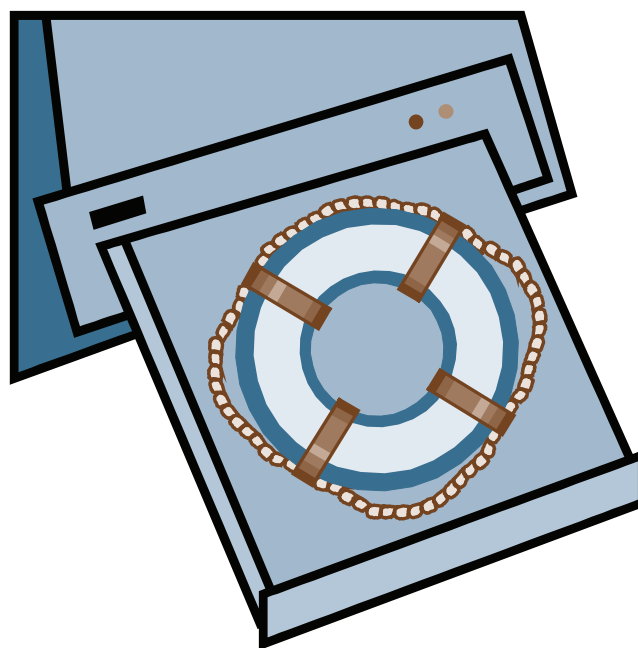
Common Sense

Software applications can sometimes recover lost data, but not if the hard drive has been severely damaged. Furthermore, if your computer or hard drive is lost or stolen, a recovery program isn't going to help.

Users should:

- Ensure that a regular backup routine is followed
- Test the backup medium to guarantee that the data stored is recoverable
- Whenever possible purchase each operating program CD/DVD
- Update applications on a regular basis
- Backup downloaded application installers that are not part of your regular business applications onto CD/DVDs
- Establish a working relationship with a computer consultant
- Never purchase or download unlicensed or pirated software
- Maintain all receipts, customer codes, passwords and contact numbers for each software product

Recovery programs supplemented with data and program storage ensure peace of mind in the event of a system meltdown. Being prepared for a disaster will allow operations to return to normal quickly and ensure that the negative effect on the bottom line is minimized. ■



Travel Wise

Now that China has replaced Canada as our southern neighbour's number-one trading partner, Canadian entrepreneurs in the manufacturing sectors that relied mainly on exports to the US may have to start looking for new markets either at home or overseas. This means more travelling — mostly by air.



To help you navigate airport security with a minimum of stress and trauma, the following excerpts from the Canadian Air Transport Security Authority (CATSA) website, and the Transportation Security Administration (TSA) website, although not all-inclusive, may ease the transition from land to air and back.

Protect Your Cameras and Film

To keep your camera from getting broken or stolen, carry it on the plane. All cameras, whether film or digital, must undergo X-ray inspection. Regulators indicate that film with an ISO/ASA100-400 range (the most commonly sold films) and others up to an ISO/ASA 800 rating will not be harmed by the X-ray inspection. More sensitive film with an 800 ISO/ASA rating or higher, however, is definitely at risk.

Concerned passengers may request a hand search of their carry-on luggage. Any film already loaded in a camera will have to be removed: use all your film before going through airport security.

Electronic Devices

Electronic devices such as portable computers, cell phones, PDAs, MP3 players, global positioning devices, calculators, etc. are allowed on board but they must be removed from their carrying cases and scanned first. Security may ask you to disassemble your camera or activate an electronic device but such requests are rare.

Batteries

In January 2008 the United States Transportation Security Administration issued a directive regarding batteries in electronic devices amid concerns that loose batteries in checked luggage may cause fires in the cargo bay. Since aircraft cannot extinguish battery fires,

Transport Canada, along with the US TSA, has issued the following safety guidelines:

- Consumer electronic devices that contain lithium, or lithium ion cells or batteries may be brought aboard either in carry-on or checked baggage.
- Spare lithium batteries must be individually packaged to prevent short circuiting and transported in carry-on baggage only.
- Lithium metal or lithium alloy batteries may contain no more than two grams of lithium, and lithium ion batteries may contain no more than eight.
- Lithium ion batteries with a lithium content of more than eight grams, but not more than 25, may be transported in carry-on baggage if individually packaged.
- No more than two spare batteries may be carried per person. It may be prudent to tape over the terminals.
- Batteries should be packed in a carry-on to protect them from being crushed and causing a short circuit and possible fire.

Screening

Even after you have emptied your pockets of change and placed your watch and keys in the plastic tray, the metal detector alarm can still sound.

Often it is your belt or your shoes or boots that contain metal. It has become common practice that passengers are asked to undo or remove their belts or shoes for further inspection. Please note that passengers are asked to unbuckle their own belts and hold the ends apart.

Don't Take It Personally

All of us dislike having our privacy invaded. Airport security often violates our personal space as well as testing our patience by rummaging through our per-

sonal effects. In addition, Screening Officers are authorized to select an individual randomly and search him or her with enhanced screening measures. Although extremely annoying, inconvenient and even, perhaps, embarrassing, your selection should not be viewed a personal slight. Passengers may be chosen for additional screening even if the alarm in the walkthrough or the metal detector has not been set off. Just remember: selection is random.

Body Search

If a Screening Officer asks to conduct a body search, you may request that it be done privately out of public view. It must be done in a private search room by an individual of the same sex as the person being searched. Another Screening Officer must be present during the search — of the same sex whenever possible. If a private screening is requested, you may ask to bring all your personal belongings with you so you can see them at all times.

Wearing gloves is not mandatory for Screening Officers. They are, however, mandatory for certain procedures, but optional during physical screening of passengers and their belongings. You may request that gloves be worn, and Screening Officers will comply.

Head Covering

If you are wearing a hat or a head covering such as a turban prescribed by your religious beliefs and the metal detector sounds, you will be asked to remove any item that may have caused the alarm. You need not remove your head covering, as long as the item causing the alarm can be removed. If it cannot, a further inspection will be conducted in a private room.

Religious, Cultural and Ceremonial Items

The presence of religious, cultural or ceremonial dress or accessories on your person or in your carry-on baggage may create tension between you and the Screening Officer. The guidelines suggest Screening Officers use common sense and courtesy when screening persons carrying or wearing objects of a personally sensitive, religious or cultural significance. To avoid possible problems, you should advise the Screening Officer that you are carrying such articles and indicate you are willing to let them be subjected to screening.

Certain items, regardless of religious, cultural or ceremonial significance, are not permitted through the pre-board screening checkpoint (e.g. religious knives, swords, etc.) because they are lethal. As those who have been screened with prohibited items have discovered, options are limited if you wish to board the plane: surrender them or do not board. If there is any doubt the item will pass the checkpoint, transport the item(s) in your checked baggage.

Tools

You can not carry any tools on board at a Canadian departure point. What is classified as a tool is open to interpretation; however, US jurisdiction rejects battery powered power tools, drill bits, hammers, as well as screwdrivers and wrenches in excess of 13 centimeters.

Since an airline can refuse to transport tools anywhere on the airplane, it is advisable to notify the airline well in advance of your flight that you intend to ship tools.

There is a host of items that once upon a time were considered harmless. Times have changed, however, and everyday items are now either not allowed or are subject to packaging or quantity guidelines. Such items include personal hygiene instruments and materials, health or medication supplies, physical aids and beauty products.

Less is Best

The less a business traveller carries onto the airplane will mean a faster and less-intrusive review by security personnel. If in doubt about a particular item, pack it in checked luggage. As regulations change around the world, it is advisable to visit the website of the country to which you are travelling and check the baggage regulations.

Visitors to the US should review www.tsa.gov/travelers/airtravel while those travelling within Canada should consider www.catsa-acsta.gc.ca. If you need clarification, call your airline. ■

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