

# NetWorth



## Innovation: Creating wealth through business improvements.

For Canadian private business owners, innovation in their businesses may be defined as “the successful exploitation of new ideas to improve processes, bring new and improved products and services to market, increase efficiency and, most importantly improve profitability.”

Peter Drucker, famed management consultant and author, described innovation as “the specific instrument of entrepreneurship, the act that endows resources with a new capacity to create wealth”. In his ground-breaking 1985 book, *Innovation and Entrepreneurship: Practice and Principles*.

Innovation is different from invention and does not necessarily depend on technology. Drucker’s description predates the development of technological advances like smart phones, apps, artificial intelligence and social media that are so widely used and relied upon today.

Innovative and profitable business changes do not necessarily require significant financial investments, specialized personnel with computer science degrees, engineers, or other technical people. Innovation that helps create wealth for Canadian business owners only requires business leadership and motivation, a supportive circle of family, associates and employees, and a desire to improve. Sometimes simple, low-tech innovations can help to keep things “fresh” for customers, employees and the business.

A survey was commissioned by BMO Wealth Management to learn more about how Canadian small business owners view innovation and how it can help their businesses. Small business owners were asked to name their top three reasons for implementing innovations. Meeting client needs was the most important reason (cited by 70% of respondents), followed by creating a better product or service (66%) and maintaining growth and sustainability of the business (61%). Women and older entrepreneurs were more client centric, while men and younger business owners had a higher focus on creating better products or services.



### Let's connect

**David Kozier, CIM, FCSI**  
Wealth Advisor and Portfolio Manager

Suite 1800 - 885 West Georgia Street  
Vancouver, BC  
V6C 3E8

Tel: 604-443-1558  
Toll Free: 1-866-308-9495

[dave.kozier@nbpcd.com](mailto:dave.kozier@nbpcd.com)  
[kozierwealthmanagement.ca](http://kozierwealthmanagement.ca)



### Canadian business demographics and innovation

There are over 1.1 million small businesses in Canada, employing more than 70% of working Canadians. One of the reasons why about half of such businesses fail in their first five years may be that Canadian businesses generally underperform in the area of innovation.

Many small business owners can learn a valuable lesson in measuring the success of the innovations they introduce by looking at the management performance indicators used by larger Canadian enterprises. Enterprises that believe innovation will help them gain market share, introduce new products, and become more profitable, measure more than just financial ratios such as profitability and profit growth. Leading edge companies develop their own combination of metrics that include more subjective and behavioural-based factors that include leadership, employee and customer inputs. Innovation should be a never-ending process.

### Business accelerators and support networks

In the technology realm in particular, there is a network of accelerators, incubators and hubs that allows entrepreneurs to work with experienced mentors in supportive environments, and can also assist to attract funding. The Waterloo-Toronto corridor is widely recognized as the Silicon Valley of Canada, but there is considerable technological expertise – and many innovative businesses are being nurtured – across the country.

The support available from accelerators, incubators and hubs goes far beyond helping to launch new technology businesses. There are many sources of support for innovation for nontechnology business:

- Canada Business Network, a collaboration between the federal government, provincial governments and not-for-profits, supports a wide variety of businesses from start-up through growth phases.
- Organizations that support coaching, mentoring and training across the country can be found on the Canada Business Network website.
- Younger entrepreneurs in Ontario can benefit from targeted programs, such as the Youth Business Acceleration Program.

The importance of these resources was emphasized by the small business owners that participated in the survey. When asked to identify the top three keys to innovation for a successful entrepreneur, access to networking was cited most frequently (70%), followed by access to funding (69%), partnerships with staff, suppliers and customers (60%) and access to mentoring programs (46%). Access to incubators and accelerators was cited by just 20% of the survey respondents.

### Getting involved

Canadian small business owners should think beyond accelerators, incubators and hubs. Joining a business group, finding a mentor and surrounding yourself with similar business professionals can provide both short and long-term benefits to help innovate and grow.

### Profitability, personal wealth and risk

Canadian small business owners often take on personal financial risk when running their business. It is important to balance this by not being overly aggressive in a personal wealth plan. While entrepreneurs often have considerable expertise in their area of business, it can be risky to invest personal funds and retirement

funds in these same industries. Excessive wealth concentration in one industry can have very negative effects if that industry falters. A balanced approach that includes investing personal and retirement funds in other industries and regions can help mitigate risk.

While many entrepreneurs hope to sell their business to fund their future retirement, it may not be that easy. Only a small percentage of businesses are ultimately sold when a business owner chooses to retire. Instead, implement a plan to put money away for the future every year. These funds should be invested in a diversified way to fund long-term goals such as retirement. Professional advice is key when making investment, diversification, retirement and wealth planning decisions.

Another risk that small business owners may face is their health. Personal insurance is important to mitigate the risks of events that limit the ability to work in the business. Insurance can help pay bills, keep the business running and pay staff until the business owner recovers.

## Conclusion

Learn from your setbacks. Don't just look for the best people in your industry to help your business, make sure they are also the right people to help you grow and innovate. Seek out and take advantage of all that is out there to help you build your business. Not only funding sources, but the invaluable knowledge and learning from experienced business owners that have been there before. Accept the challenge to grow, innovate and evolve your own way of thinking and your business at the same time.

I can help Canadian small business owners with both their business and personal situations to achieve greater financial know-how and peace of mind.

Source: BMO Wealth Management. 2018. Innovation: Creating wealth through business improvements. BMO Wealth Planning: Insight Sheet. Retrieved from <http://bmo.com/wealthreports>

## 2018 Year-end Tax Planning Tips

Since many tax strategies require foresight to be effective, tax planning should be a year-round activity. However, as year-end approaches there are still opportunities to consider in order to reduce your 2018 tax bill. The following are year-end tax-saving strategies that may be available, depending on your personal situation.



### 1. Tax-loss selling

**Deadline: December 27**

Thursday, December 27, 2018 is expected to be the last buy/sell date for securities to settle in 2018 (based on trade date plus two days). You may want to review your non-registered investment

portfolio to consider a sale of any securities with accrued losses to offset any capital gains realized in the year – or the three previous taxation years (if a net capital loss is created in the current year). It is important to ensure that a tax-loss sale makes sense from an investment perspective, since stocks sold at a loss cannot be repurchased until at least 31 days after the sale to be effective.

### 2. Charitable donations and other tax credits/ deductions

**Deadline: December 31**

Instead of donating cash to a charity, consider donating appreciated publicly-traded securities. This strategy provides a charitable tax receipt based on the value of the securities donated, while potentially eliminating the capital gains tax otherwise payable on these securities if they were sold. In order to receive a tax receipt for 2018, you must ensure all charitable donations are made before December 31, 2018.

December 31 is also the final payment date in order to receive a 2018 tax deduction or credit for expenses such as childcare, medical and tuition tax credits.

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### 3. Pension income

**Deadline: December 31**

If you are not already taking full advantage of the Federal Pension Income Tax Credit, consider creating up to \$2,000 of eligible pension income. If you are age 65 or older, converting a portion of your Registered Retirement Savings Plan ("RRSP") into a Registered Retirement Income Fund ("RRIF") to receive up to \$2,000 of qualifying RRIF income before the end of the year could allow you to benefit from this credit.

### 4. TFSA withdrawals

**Deadline: December 31**

If you're planning to make a Tax-Free Savings Account ("TFSA") withdrawal in the near future, consider making the withdrawal in December instead of waiting until 2019. This way, the amount withdrawn will be added back to your TFSA contribution limit on January 1, 2019 (rather than 2020).

### 5. RRSP contributions for those turning 71

**Deadline: December 31**

If you turned 71 years of age in 2018, you must collapse your RRSP by the end of the year. If you have unused RRSP contribution room, consider making a final RRSP contribution before closing your RRSP. And, if you have any earned income in 2018 that will generate RRSP contribution room for 2019, consider making your 2019 RRSP contribution early – in December 2018. While you will be charged a one per cent penalty tax for the month of December, the tax savings on your RRSP contribution (which can be claimed on your 2019 tax return) should exceed the penalty tax.

### 6. Payment of quarterly tax instalments

**Deadline: December 15**

Many Canadian investors are required to make quarterly income tax instalment payments since tax is not deducted at source on investment income. If your estimated net income tax payable for the year, and net payable for either of the two preceding years, exceeds \$3,000 (\$1,800 for Quebec residents), you may be required to pay income tax instalments. Personal tax instalments are due four times a year, with the final instalment due December 15.

If you fall short on any required instalments, non-deductible interest or penalties may be incurred. Therefore, it is important to determine if your year-to-date instalments are sufficient – in light of these requirements – based on your estimated income tax payable for the year.

### 7. Private corporation tax planning - Income-splitting

**Deadline: December 31**

For individuals with private businesses, new tax legislation which took effect in 2018 will significantly restrict the ability for many business owners to split income with their family members using private corporations. However, the new rules provide specific exceptions to ensure certain family members who have a sufficient direct equity investment in eligible private corporations are not impacted. These rules provide a transitional provision that allows these requirements to be met by December 31, 2018.

Accordingly, private business owners should review their existing structures to determine the impact of these important new rules and consider modifications to potentially improve their tax efficiency.

For more information, please see our BMO publication entitled "Tax Proposals Affecting Private Corporations: "Income Sprinkling" Draft Legislation Revised", and consult with your external tax advisor to understand the appropriate planning considerations in your particular circumstances.

#### Seek professional advice

Please speak to your BMO financial professional if you would like more information on these year-end strategies.

These tips are neither a comprehensive review of the subject matter, nor a substitute for professional tax advice. Be sure to consult with your tax advisor to confirm the suitability of any of these strategies for your personal situation.