THE CONSISTENT PARTNER IN TOURISM

Visitor Guide stays current while celebrating three decades of publication

PHOTO: EXCHANGE MAGAZINE

Dave Glofcheski (left), advertising manager and Laurie Martin, Creative Director and co-owner of Visitor.

BY EXCHANGE STAFF

The names may have changed, but the purpose remains exactly the same, 30 years later. The magazine now known as "Visitor" was launched in 1978 as "Waterloo Region," although it became "Visitor" several years later. As the original title suggests, it was created to serve the tourism sector in Waterloo Region, but the mandate quickly grew to include what was then known as "Midwestern Ontario." That designation, too, has largely disappeared; today, the larger tourism area is known as Southwestern Ontario.

Visitor plays a key role in attracting people to Southwestern Ontario – sometimes simply referred to as "Visitor Country." The magazine is published three times a year – in Spring, Summer, and Fall/Winter editions. One hundred thousand copies of Visitor are distributed, to every border crossing, tourist information centres, and hundreds of tourist-oriented businesses.

Jon Rohr is publisher of Visitor – the same position he holds with Exchange magazine.

Creative Director Laurie Martin is co-owner of Visitor.

Rohr sees the role of the tourism publication as simply defined – to encourage people to come from "Point A to Point B, and then to experience Point B."

In recent editions of Visitor, those "Point Bs" have included villages, towns and cities throughout Southwestern Ontario: Baden, Brantford, Burlington, Cambridge, Delhi, Elmira, Elora, Haldimand County, Guelph, Kitchener, New Hamburg, Norfolk County, Owen Sound, Port Dover, Shakespeare, Simcoe, St. Agatha, St. Marys, St. Jacobs, Stratford, Tillsonburg, Wallenstein, Waterloo and Wellesley.

Visitor magazine originated as a publication of the Fairway Group. More than eleven years ago, Fairway was reorganized, and Rohr and Martin (his sister-in-law) started their own independent publishing company with the very publications Rohr had managed during his seven years at Fairway.

To put the 30-year history of Visitor in perspective, Rohr notes that the magazine was launched only two years after the tourism development had begun in St. Jacobs, a consistent participant in Visitor, and today, one of the major tourist attractions in Canada.

A lot has changed in 30 years, but while Visitor has adapted (today it includes a website, www.visitor.on.ca, with a large calendar of events, and links to the web pages of the communities and businesses featured in the magazine), Rohr notes that "we've stayed true to the purpose." The original idea was to create the best, most useful and informative magazine to meet the needs of visitors to southwestern Ontario; that's still the goal.

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Dave Glofcheski is advertising manager of Visitor. He speaks with great appreciation and affection for the many clients who have been part of Visitor for decades. He knows this longevity of relationships points to the effectiveness of the magazine, and says, "We've got a great track record," which means that new clients inevitably benefit from the strength of the attractions and communities who are already part of the publication.

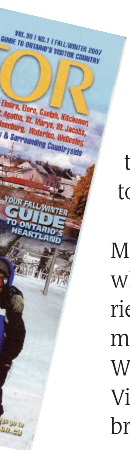
Glofcheski has been with the Waterloo-based publication for ten years. He believes Visitor serves a unique purpose in the wider tourism industry in Southern Ontario. "Because we cover so many towns and villages, we get into places others can't," he says. The wide geographic base of Visitor creates a foundation for communities to promote fledgling tourism ventures to a broad readership.

He cites examples ranging from the entire village of St. Jacobs – one of the great Canadian tourism success stories – to individual businesses in the towns and cities of Southwestern Ontario. And he stresses that there are always interesting attractions in most villages, towns and cities. Glofcheski points to Woodside National Historic Site in Kitchener; the Southworks shopping complex in Cambridge, the intriguing museums of

Guelph, and the visitor-friendly neighbour of Uptown Waterloo as just a few of the attractions that have consistently used Visitor to communicate with tourists.

He notes that many tourism promotional publications are issued once a year; Visitor is published three times annually, and attractions with specific seasonal interest often take advantage of the publication to promote their active months. This, says Glofcheski, is a decided strength – ski areas have little reason to advertise in the summer, while beach country gains little from winter month promotion. But across "Visitor country," he argues, "there are many things to do, all year round. That's why tourists and local residents pick it up, use it, and look forward to the next issue."

Rohr points out that there are three categories of "tourist", and that people in the tourism industry need to promote to all three. He calls it "the ABCs of tourism – Visitors from Away, Back Yard and Consistent Visitors." "Aways" are first-time visitors who come from elsewhere; they pick up a handy Visitor guide to discover the local attractions that are new to them. "Back yards" are people who live in the area, but are visiting tourist attractions for local entertainment. They tend to appreciate a tourism publication for ongoing and new information, and also as a useful tool to share with visiting friends.



"Consistent" tourists are those who return to specific attractions on a regular basis – Stratford theatre patrons, for example. Rohr argues that too often, tourism promotion becomes focused on the consistent group, which he compares to "preaching to the converted".

Speaking of tourism promotion, Rohr, Martin and Glofcheski are diplomatic when they speak of various efforts carried out by the tourism industry. In fact, a major initiative is now underway in Waterloo Region, and Rohr stresses that Visitor, as always, supports all efforts that bring new people to the area.

However, the long-time publisher also notes that many promotion programs – from tourism associations to municipal projects to private and public sector organizations – have come and gone in the 30 years that Visitor has been published. And he notes the value of a broad perspective that serves the individual efforts and promotes the area with one focus – the visitor.

Martin refers to the communities, the advertisers, and the sites where the magazine is distributed as "a beautiful partnership" that encourages visitors to discover the tourism treasures of this part of the province. And Rohr makes the point

"We're independent. We're not municipally funded, relying on grants, otherwise known as tax dollars. We have a lot of flexibility to produce a publication that works for our customers and for our readers."

that the kind of information available in Visitor allows a visitor to "drill down" and discover so much more that is delightful about all the communities – large or small – in the magazine. One regular Visitor feature, "Backroads Adventures," welcomes visitors to a wide variety of unique attractions in out of the way locales.

Rohr says that Visitor, as a tool of the tourism industry, faces the same challenges the entire industry faces – the high Canadian dollar, and the continuing fallout from 9/11 including the tightened border security. And he also notes "the challenge of communities and governments taking charge of the market." A true entrepreneur, Rohr is a strong advocate of letting the private sector do business without unfair competition from publicly-funded entities.

Glofcheski makes a similar point. "We're independent," he says. "We're not municipally funded, relying on grants, otherwise known as tax dollars. We have a lot of flexibility to produce a publication that works for our customers and for our readers."

Martin sees that mandate continuing for years to come. She notes that because tourism is such a people-oriented business, those in the industry have to be creative, passionate, vibrant and vital. That's true of tourist attractions; and the team that produces Visitor are determined it will continue to be true of their publication, a 30-year-old magazine that is a current as next week's calendar of events, exhibits and festivals.

THE DEVELOPING STORM

The looming leadership deficit could stifle our communities

by ANNE LAVENDER

ANNE LAVENDER is Executive Director of Leadership Waterloo Region, which offers a ten-month leadership program focused on critical community issues and the leadership skills necessary to address them.
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There is a storm developing just over the horizon; one that could adversely affect our community more than anything to date. But the storm is sneaky. It is quietly gathering strength as it approaches, avoiding all but the most perceptive early warning systems.

This threatening "storm" is precipitated by a looming, unprecedented shortfall in leadership, both in our business communities, and in the community at large.

If we prepare properly, we will emerge from it as a strong, vital, prosperous community. However, if we inadequately prepare, then we run the serious risk of languishing as other communities grow and prosper.

The storm in question is called "the future", but a future like none we have faced before. It brings many growing, increasingly complex, seemingly intractable issues in areas such as the environment, economic development, social justice, and population growth, to name just a few. These are all issues that will impact the quality of life in our community. Each of these issues will present challenges with no easy answers.

A significant amount of community leadership from a large number of people will be needed to address these challenges. A paper prepared for the Community Foundations of Canada by Judith Maxwell, entitled "Looking Down the Road: Leadership for Canada's Changing Communities," states: "How communities adapt has overwhelming consequences for the quality of day to day life of most Canadians."

The issues are too numerous, varied, and diverse to be addressed, as so often they could in the past, by a few dedicated and talented leaders. Also, in "The Community Of The Future," published by The Drucker Foundation, the observation is made that in successful communities of the future, decisions will not be made by a few people, but rather appropriate vehicles for making decisions will operate on many levels guided by a common community vision. It goes on to observe that the tasks of leadership must be assumed by a wide range of people.

This growing need for more community leaders is where our future is so very different from that faced by our predecessors. But just as we have a growing need for more community leaders, we are facing an approaching decline in numbers of strong leaders. A high percentage of our current community leaders come from what is commonly referred to as the baby boomer generation, but this generation is now approaching retirement. While you would expect the following generations to provide the needed replacements, this may not automatically happen in sufficient numbers for several reasons.

This growing need for more community leaders is where our future is so very different from that faced by our predecessors.

First, the size of the immediately subsequent generations is not equal to that of the baby boomer generation. Second, with the increased complexity of day to day life, younger generations often commit less time to developing community leadership skills. Third, as noted above, the challenges ahead require many more community leaders than in the past.

This all contributes to the growing leadership deficit. The problem is not peculiar to our community. Businesses and other sectors of society are facing the need for more leadership resources.

Contrary to a popular belief, there are very few born leaders; most effective leaders have learned their leadership skills through such things as training, mentorship and experience. This has created a demand for more leadership training. The growing realization by business in particular of the need to address their approaching leadership deficit has led to the rise of leadership development courses at several Canadian universities and other institutions.

An excellent book, "Made in Canada Leadership" by Amal Henein and Francoise Morissette offers "wisdom from the nation's best and brightest on leadership practice and development." Formal educational programs by universities and other similar institutions are a good step in the right direction. However, they tend to be targeted at university age students or businesses looking to develop leadership skills in their employees.

It will be some years before the typical university age student can develop into an effective community leader. As for businesses, while many leadership skills are of a generic nature, many of the leadership skills needed in business differ from those required for effective community leadership. Consequently, there is a need for leadership skills development as it specifically relates to community issues and that is available to that segment of the population that will be replacing the retiring baby boomers.

Programs to address this need are also coming into existence, such as Leadership Waterloo Region. It offers a ten month program that helps participants acquire both a broader understanding of critical community issues and the leadership skills necessary to address them. The program is very accessible in that participants can continue in their current employment while in the program. Similar programs are being introduced in many of the major cities across Canada.

We all need to be aware of the developing storm. since it will affect us all in our quality of life. However, proper preparation can allow our community, not only to weather the storm, but to come out stronger and better positioned to be one of the more vital, prosperous, and healthy communities of the future. The choice is ours – the question is whether we will accept the challenge.

THE $9 BILLION DECISION

Your philanthropic dreams realized in a changing community

by ROSEMARY SMITH

ROSEMARY SMITH is CEO of The Kitchener and Waterloo Community Foundation. email rsmith@kwcf.ca.

Philanthropy impacts on most aspects of society at some time and in some way. Today, you and thousands of other Canadians contribute more than $9 billion each year. In beginning their philanthropic journey, many people start giving because of the tax benefits involved but soon discover the personal satisfaction that only generosity can provide.

But where do you begin? How do you evaluate if you're getting what you want out of your giving? How do you know if you're really making a difference?

Philanthropy is most worthwhile for you and for those to whom you give when clear goals are set and a plan to achieve them is established. By planning your charitable giving you will maximize the impact you make to the causes that are closest to your heart. Before embarking on this incredible expedition of giving, consider the following:

Think about what is important to you.Follow your passion to give your philanthropy personal meaning – a specific charity, an area of interest. Do you want to contribute to root causes or deal with end conclusions? Where do you want to make your mark in the community?

Research – in other words, do your homework! Find out about the organizations that interest you. Set up informational interviews if you have the time. Because community foundations are knowledgeable about their communities, they can offer a viable solution in learning about your community, especially if you can't find the time to break away from your daily work and home responsibilities to meet with your charities of choice.

In doing your homework, it's okay to cheat a little bit by taking advantage of indicator programs already established in your community, such as "Waterloo Region's Vital Signs". These programs can give you insight into your community – identifying trends and needs – and help you decide where your

Many people start giving because of the tax benefits involved but soon discover the personal satisfaction that only generosity can provide.

gift is needed most.

Put your philanthropy into practice with effective follow-through – set goals that fit in with your own personal values. Once you've found your passion and the charities that can best help you achieve your philanthropic dreams, outline the steps you need to take to bring those dreams into reality. Are you going to contribute once a year or more? How much do you want to give? Will you always donate to the same charity or are there a few organizations that have caught your eye? Will your family be involved in the decision processes? How often will you re-evaluate your giving practices due to an ever-changing community?

Set up time each year to reflect on your goals and determine if they are being met – is your charity really benefiting from what you have given? Are you happy with the end results?

In this reflection you will likely discover that the needs of your charity or area of interest change over time. New programs are developed or demands in the community might have prompted your charity-of-choice to partner with other organizations to deliver more-effective, multi-faceted services to those they assist.

Being strategic in your planning and considering the changing needs of your community will help you make the most impact with your philanthropic giving. It can offer you a sense of pride – knowing that your donations are reflective of what your community really needs and that you are truly making a difference to the causes you care about most.

EXPOSING THE COST OF GROUP THINK

Subprime loans and independence in the boardroom

by JIM BROWN

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Have you ever tried to enter a theatre when the show has ended and people are exiting? Have you ever watched a person try to retrieve a carry-on bag from a compartment behind them when everyone else is trying to leave the plane? The fact is, it's very difficult to go against the flow.

Leaders at NASA experienced that reality when they proceeded with launch plans for the space shuttle Challenger. In the final hours of countdown, engineers recommended that the launch be rescheduled. Their information indicated that the o-rings were not reliable. But millions of people were anticipating the launch. NASA had taken a lot of criticism, and another launch delay could injure public opinion even more. Besides, weather forecasts can be wrong... Engineers can make mistakes... Group think overruled the situation. Public pressure and the push for 'results' created a mass flow that led to a disaster on the world stage.

Nowhere is the pressure for 'results' greater than in corporate boardrooms. The determination to be at the front of the wave has bewitched many boards into group think. As we watch large lenders write down the largest losses in their history, one can only imagine what curious dynamics happened in boardrooms of financial institutions in the past several years.

Did anyone comment on some of the warnings that were issued, like the series of articles in 2006 by Greg Larkin, an analyst in New York? He and his colleagues at Innovest Strategic Value Advisors noticed that the value of loans made to subprime borrowers had soared five-fold between 2001 and 2005. Larkin and his team discovered that the majority of these loans were not designed to pay off over the life of the loan and were structured with variable, not fixed, interest rates. The original lender would quickly transfer the mortgages to someone else's balance sheet by issuing derivative securities.

Edward M. Gramlich, a Federal Reserve official, was waving the red flag in May of 2004, when he warned that "Increased subprime lending has been associated with higher levels of delinquency, foreclosure and, in some cases, abusive lending practices." And in a recent book by Gramlich, he reports that he tried to get Alan Greenspan to increase oversight of subprime lending as early as 2000, but got nowhere.

Were similar concerns raised by directors at any of these board meetings? If yes, they were apparently overruled by the mass flow to catch the wave that was driving higher returns. Apparently many said, "So what?" to the statistic that 40% of the new loans were being made to people who didn't qualify under any of the previous criteria for mortgages.

This is not to suggest that the subprime loan crisis compares to the loss of the Challenger, but the root issue is the same. Group think always has high costs.

Sarbanes Oxley and related standards in Canadian law declare that directors must be independent. But much of the debate centres around the appropriateness of members of the management team and significant customers or suppliers being members of the board. Naturally, these affiliations create loyalties and liabilities that can easily influence a related director's perspectives. However, the real issue is not so much relatedness, as it is independence of thought. Do the board members think for themselves, express contrary or dissenting views, and vote for what they believe to be best for the ownership as a whole? Or do they allow pressures and popularity to push them to go with the flow, to think like the group?

Rules and legislation don't create independence. Independence is a mark of a healthy board. Competent people are essential, but certainly not sufficient. Those people must show:

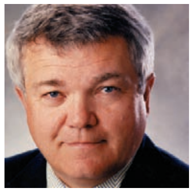
- courage to ask the uncomfortable questions;
- trust that each other brings value to the table and recognizes their own;
- patience to hear each other's perspectives;
- openness and inventiveness to use processes that uncover differing views and the basis of each;
- commitment to best decisions, even when it's not expedient.

Great boards take steps to avoid group think and insist on independence. The boards that don't take these steps risk writing off much larger expenses in the future.

"WHAT HAPPENED TO THE WORK ETHIC"

Have the new generations left the boomer ethic behind?

by DENNIS GRIMM



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By any measurement we live in a prosperous community. Our Region is an economic power house and the future continues to promise sustainability and even greater growth. Many factors continue to contribute to this privileged standard of living we enjoy: economic diversity, highly skilled workforce, a strong entrepreneurial spirit, internationally recognized universities and a number one ranked college. However, the work ethic of those that went before us most certainly is at the core of the success we enjoy today as a community.

From the first settlers to arrive in Sandhill and, then Berlin, hard work was key to our forefathers being. An honest day's work defined one's character and collectively defined the Region. Business was attracted to the area because of this well engrained work ethic. In today's jargon, we are what we are today because we have historically lived to work. Today however, as we look to those that follow, we must ask the question "what happened to this work ethic?"

> There are currently four generations in the work force today.

As we baby boomers hand over the reigns to the generations to follow, we often ask ourselves, "what is to happen to the economy we worked so hard to build?" Where the standard of living we enjoy today was founded on a "live-to-work" model, today the younger workers are passionate about adopting a "work-to-live" model. Has the all important work ethic been rejected by today's younger workers?

To answer this, we need to understand what the younger worker today is all about. What motivates them, what do they expect from their jobs, who do they or don't they respect, what do they demand from employers, what turns them on and what turns them off? While making broad generalizations of human nature is dangerous, it is a necessary exercise as we embark on our search to find today's work ethic.

There are currently four generations in the work force today. There is little consensus on the names attributable to each group and even less consensus on the ages used to define them. I will use somewhat arbitrarily the following: over 50 years of age (baby boomers), 41-50 (late boomers), 30-40 (generation X), under 30(millenniums).

Baby Boomers

Baby boomers have, because of their sheer numbers, controlled the economy from the day they entered the workforce. After their short experience with love, peace, and opting out, they quickly embraced the old work ethic of their parents and grandparents. While materialism will be our legacy, we in the main, embraced a live-to-work model to our jobs. We embraced the one working spouse, usually male, 2.5 children and viewed time as something we were willing to invest to give us a better future. The work ethic is so engrained in the baby boomers, that even now that they can retire with unprecedented financial security, they don't want to. They want to continue to work. Why? Because they tend to define themselves by the work they do.

Late Boomers

Late boomers are, to put it mildly, a very cranky bunch. Why? The late baby boomers have always sought the materialism and success the baby boomers have but because of their numbers do not give them the economic clout the early boomers have; they have tended to fall a little short. When baby boomers graduated from university, they had student loans where their repayment schedules were in multiple of $100's; the late boomers had repayment schedules in the thousands of dollars a month. Now that late boomers are finally getting in a place in their life where they should be in charge, the early boomers won't leave. On the other hand, late boomers, during their working careers, asked for extended maternity leaves, higher remuneration in their younger years, flexible work arrangements, improved benefits, etc. Everything they asked for they did not get. Now, they see those coming behind them getting everything they had asked for and more. No wonder they are cranky.

Generation X

Workers 30 to 40 are characterized by their technology skills, their need for goals, lists, quick feedback on their performance and a desire to understand the why associated with the tasks asked of them. They view time not as an investment but as a commodity they are willing to sell. They want to be successful and they enjoy the materialism success usually brings but unlike the boomers they are not patient. They want the promotion and the BMW and they want in now.

Whereas baby boomers were important because of their numbers, millenniums are powerful because of their lack of numbers.

Millenniums

Workers under 30 possess many of the characteristics of Generation X. The difference is that these characteristics are much more intense. Generation X can program a VCR. Millenniums can do it from their cell phone. Millenniums are more "Generation X" than Generation X is. This explains why Generation X has difficulty managing and motivating the millenniums. The millenniums make little distinction between how they are treated at home and how they want to be treated at work. They view their job as a means to allow them to do more meaningful activities, usually with a social or environmental benefit to the broader community. They are more likely to ask their employer about the footprint the corporation is leaving on the earth than what products or services the corporation they work for produces or sells. They are starting to replace the baby boomers as the predominant economic force in the world. Whereas baby boomers were important because of their numbers, millenniums are powerful because of their lack of numbers. Their skills are needed and there are not enough of them. Therefore what they want and demand, they will continue to get.

So where is the old work ethic? If the younger workers work-to-live, do not distinguish between how they are treated at home and how they want to be treated at work and view their time as a commodity, where is the work until you drop, personal sacrifice attitude that drove our economy for the past 100 years? Where is the old work ethic?

I can report it is alive and well. It is merely disguised. I find the younger workers just as passionate, just as keen to do a great job and just as dedicated as those who have been gone before them. They are brighter, more educated, more self-confident, and more community and globally focused than any other generation.

Where is the work ethic? It has reinvented itself as a smart ethic. The generations to follow may just have put in place the work ethic that will deliver economic sustainability on a global scale without the greed, work stress, conflicts and other negative side effects of the old live-to-work model that has been the foundation of our growth oriented economy for so long.

IT'S GUT-CHECK TIME IN THE MANUFACTURING SECTOR

"It will be tough and there will be casualties"

by DOUG CATER

DOUG CATER is a founding partner of Process Impact Inc., a manufacturing consulting company.
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With the Canadian dollar at an all time high against our largest trading partner, our manufacturing sector is likely in for a rough ride. Over the past 12 months the Loonie has risen over 20%, and over the past five years it has risen from $0.64 to $1.07, an increase of over 67%!

If you've hedged against the strengthening dollar, that's great, but few would have anticipated this kind of differential. Some of you may also be naturally hedged, having American suppliers of components or raw materials. In the end however, if your customers are in the US, they are perceiving a significantly higher price, and are now looking for alternatives, if they haven't already found them.

So you think you've weathered the worst of it? Lets assume for a minute that it's the weakening US dollar, not the Loonie's strength that has caused the change. The US dollar weakness is largely the result of easy monetary policy and easy credit over the past few years. And, since the Fed is currently easing again in an attempt to stave off a recession (the result of the housing bubble and sub-prime fallout; which by the way are both due to cheap money) there is further downside pressure on the US dollar.

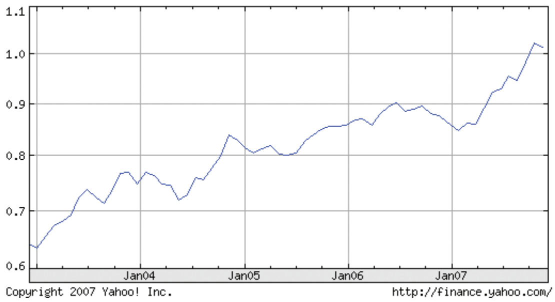
The Canadian economy on the other hand is relatively hot. Jobless rates are at historic lows and GDP growth is strong. As a result, lowering demand for the Loonie by lowing interest rates is not an option due to the risk of inflation. Combine this with the fact that most major commodities – particularly metals and oil – are are priced in US dollars, and that we here in Canada have abundant natural resources, and I would suggest the Loonie is headed higher, possibly much higher.

Over the past five years the loonie has risen from $0.64 to $1.07, an increase of over 67%!

So where does the manufacturing sector go from here? No matter how you look at it, it will be tough and there will be casualties. Everyone in your organization has to ask themselves, and each other, some tough questions. Regardless of your position in the company, here are a few questions you could ask yourself, your boss or your direct reports. Remember: your survival is tied to your company's ability to compete on a global basis. Very few companies are insulated from the global marketplace.

- Does your current business model work in today's economy?
- Who are your real competitors and on what basis to you compete with them?
- How much have your margins been squeezed already, and how long can you operate with the dollar at these levels – without dramatic changes in your processes or your products?
- Can you continue to operate if the Canadian dollar rises another 15% to around $1.25 US or higher?
- What structured initiatives has your organization planned or undertaken to restore or maintain its profitability in light of the strengthening Canadian dollar?
- What improvements or changes have you made personally, that will support and improve your company's ability to compete?

THE RISING LOONIE as of opening December 1, 2007



- Are you comfortable identifying and labeling wasteful and inefficient practices that you or others engage in, as a matter of daily routine?
- Are you prepared to make changes to the way you work, even if it means you may have to work harder, in order to maintain or restore your competitive edge?
- Do you remain current regarding the latest improvement trends and technologies pertaining to your business?

The Market will always correct inefficiencies and inequities. Ultimately, as the Canadian dollar continues to strengthen, we will lose business to the Americans whose domestic products will be more attractive. This will put pressure on Canadian manufacturers to lower prices. Those who won't or can't, will lose sales and may become casualties. Those who can will survive.

Even as consumers, we expect lower prices from the rising Loonie. Imports from the US are cheaper, and shopping trips to the US are already jamming the border crossings. There is already significant pressure on the retail sector and the automotive industry to cut Canadian prices to reflect our stronger dollar.

- How long will it take for the situation to stabilize and swing the other way? Will you be in business long enough to see it?
- How long did it take for China to beat out Mexico and Taiwan as the locations of choice for manufacturing? How long will it take for India and China to be replaced by other developing nations where labour is "relatively" cheap?
- What are the implications for a nation with plenty of natural resources, but limited ability to add value due to increasing structural costs (high labour costs, broad social programs, big government)?

Are these the right questions ... .and who will ask them, of whom?

CANADIAN GOVERNMENT PROPOSES TAX REDUCTIONS

Tax cuts should mean a boost for business individuals

by NOREEN MARCHAND

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Fall 2007 has been a particularly busy time for Canadian tax legislators. Shortly after the release of the new Canada-US Treaty Protocol and the draft foreign affiliate and functional currency proposals, Finance Minister Jim Flaherty delivered the Conservative government's fall Economic Statement (or "mini-budget"). The mini- budget proposes about $60 billion in tax reductions over the current and the next five years. Tax changes announced include corporate and personal tax reductions and a 1% cut to the federal GST rate. The mini-budget also proposes to reduce the federal debt by $10 billion in the current fiscal year.

Corporate Tax Changes

Canada needs an internationally competitive business tax system to ensure investment and economic growth, which will lead to new and better jobs and increased living standards for Canadians. To increase Canada's business advantage in the international landscape, the mini-budget sets out a revised schedule of reductions to the general corporate tax rate that will ultimately see the rate fall to a target rate of 15% as of Jan. 1, 2012. The general corporate tax rate reductions will be phased in on Jan. 1 of the next five years:

The 2007 rate of 22.12% includes the 1.12% corporate surtax, which will be eliminated in 2008. (Source: 2007 Economic Statement, Department of Finance Canada.)

These rate cuts will also apply to the new tax on distributions of income trusts and other specified investment flow-through (SIFT) entities as of 2011.

The mini-budget documents also say that, in light of the corporate tax rate cuts, the federal government will consider corresponding changes to the enhanced dividend tax credit for eligible dividends. The enhanced credit is designed to ensure that the combined corporate and personal tax rate on dividends from large cor-

Canada needs an internationally competitive business tax system to ensure investment and economic growth.

porations is comparable to the rate applying to other income. The credit was established based on the total average federal-provincial corporate tax rates that were expected to apply in 2010.

Adjustments will also be considered for other tax rules that assume a specific underlying corporate income tax rate.

The federal government says that it will seek to collaborate with the provinces to reach a combined federal-provincial corporate tax rate of 25% by 2012.

For small businesses, the mini-budget accelerates the reduction of the small business tax rate to the target rate of 11% as of Jan. 1, 2008 (from 13.12%), instead of Jan. 1, 2009, as previously scheduled. The rate will be pro-rated for corporations with off-calendar tax years.

Personal Tax Changes

The mini-budget also proposes several measures to lower the tax burden for individuals. It proposes to reduce the lowest personal tax rate, which applies to taxable income up to $37,178 for 2007, to 15% (from 15.5%), retroactively to Jan.1, 2007. Next, the mini-budget proposes to increase the amount used to compute the basic personal tax credit to $9,600 (from $8,929) for 2007 and 2008, and to $10,100 in 2009 (indexed for later years). The mini-budget also proposes that the amounts used to compute the spousal and wholly dependent relative credits will be changed to match the basic personal amount for each of these years.

Together, these measures will remove some 385,000 low-income Canadians from the tax rolls at least a year earlier than under current legislation, and will reduce personal income taxes for 2007 by more than $400 for a typical two-earner family of four earning $80,000, and by almost $225 for a single worker earning $40,000.

GST Changes

The government proposes to reduce the GST rate to 5% (from 6%) as of Jan. 1, 2008. The mini-budget sets out transitional rules that are similar to the rules that applied when the GST rate was reduced to 6% as of July 1, 2006, including the following general transitional rules: If GST becomes payable, or is paid without becoming payable, before Jan. 1, 2008, the 6% rate applies; if GST becomes payable on or after Jan.1, 2008, without having been paid before that day, the 5% rate applies; if GST is paid on or after Jan. 1, 2008, without having become payable before that day, the 5% rate applies.

Specific transitional rules are introduced for certain types of transactions, including sales of real property, deemed supplies, imported goods and taxable services, and intangibles and taxable benefits.

To ensure the GST rate cut does not affect the overall price of tobacco products, federal excise duty on these products increased accordingly Jan. 1, 2008.

In reducing the GST rate from 7% to 6% in July 2006, the federal government decided to maintain the GST credit. With the further reduction to 5%, the government is taking the same approach now. Maintaining the GST credit level, while reducing the GST rate to 5% from 6%, will translate into benefits of about $555 million in 2008/09 for low- and modest-income families. The federal government notes that it is willing to work toward federal-provincial sales tax harmonization with the five provinces that still impose retail sales taxes. However, the mini-budget does not appear to offer the provinces any concrete incentive for doing so.

This article is a high-level summary of the changes proposed in the mini-budget. Speak with your tax adviser to help assess the effect of the tax changes in the October 2007 mini-budget.