

## **Behind the Counter**

### **Identifying Business Risk**

Effectively managing risk has become increasingly complex and critical to the success of most business ventures. Business start-up involves risk. Gathering perfect information to eliminate risk is too costly and time consuming and often impossible. By the time we have all the information to make a risk free decision, the opportunity has disappeared. All decisions involve risk and to be successful, the entrepreneur must be able to balance risk and reward.

What the entrepreneur needs to do is to define the balance between maintaining control of the operation and encourage creativity and reinforce their own and employee's strengths. It is important to chase calculated risks where the expected rewards will exceed the expected costs, rather than dabble in speculation.

If you know what will happen for certain, there is only one possible outcome and no risk. Where the outcome is not certain, there is some probability (risk) that the outcome will be different from what is expected. Generally one outcome is worse than another and will involve a loss or at least a consequence.

Change of any kind creates new situations and openings for increased risk. Change is the one certainty within companies that are operated by people. No matter how much people resist imposed change, people constantly make little changes by finding ways to do things which suit themselves. The result is creeping change – slow, imperceptible change – which is much more intrusive and damaging to control.

One technique to identify risk is to discuss the issues with someone, a spouse, a mentor, an accountant, a business professional, or anyone you respect. They may be able to identify issues which had not even been considered, especially if it is in their interest to do so, since they have a different perspective, knowledge and experience base.

Risks fall into 7 categories. If you are applying for financing for your venture, the banks will expect you to address how you plan to reduce or eliminate the effects of these risks and protect the bank's investment into your venture.

1. Basic business risk addresses items such as the legal structure of the company, size, layers of management, management knowledge, political and legislative risk.

2. Market risk covers items such as competition and competitive reaction, technology, location, price, distribution, advertising and promotion, image and reputation, productivity and industrial espionage.
3. Individual risk relates to your own investment in the company, death or disability of key personnel and personal security.
4. Property risk is the loss, damage or destruction of the business assets by fire, flood, etc and the physical security of assets.
5. Income or cash flow loss risk has to do with the reduction in current or future cash flows as a result of loss, damage, or destruction of assets or due to speculation.
6. Liability risk covers third party liability where the company is put at risk due to the company's damage of others' property, errors or omissions, negligence and misrepresentation.
7. Environmental risk addresses losses caused by polluting of the environment, or by raping the environment by removing all the nutrients out of the soil as an example.

Risks need to be identified before they can be managed. By classifying the risks into these categories, focuses the mind and helps to identify areas of potential risk.

Here is a business start up site that might be of interest for those with internet access:

[http://www.canadabusiness.ca/servlet/ContentServer?pagename=CBSC\\_FE%2Fdisplay&lang=en&cid=1099569600889&c=GuideInfoGuide](http://www.canadabusiness.ca/servlet/ContentServer?pagename=CBSC_FE%2Fdisplay&lang=en&cid=1099569600889&c=GuideInfoGuide)

### **Hot Tax Tip**

Here is a warning from the CRA for all those that participated in tax shelter gifting arrangements. Taxpayers should be aware that CRA plans to audit all tax shelter gifting arrangements. Every audit completed to date has resulted in a reassessment of tax, plus interest. In many cases the CRA has denied the gift completely. Penalties will be considered, especially if the investor was previously audited and reassessed for participation in a gifting arrangement. To date the CRA has reassessed over 26,000 taxpayers who participated in these schemes and denied about 1.4 billion in donations claimed. Audits of another 20,000 taxpayers involving \$550 million in donation claims are just about complete. Audits on other arrangements involving over 50,000 taxpayers are about to begin. CRA notes that taxpayers should avoid all

schemes that promise donation receipts for three to four times the cash payment. It is the CRA's position that the proposed legislation, effective since 2003, will apply to reduce the donation credit to no more than the actual cash payment. Furthermore, completed audits have shown that there was effectively no gift being made in many cases and as a result, the donation was reduced to zero. CRA reminds taxpayers that tax shelter numbers are used for identification purposes only. These numbers are used to identify both the schemes and the participants. The CRA generally has three years from the date of assessment to reassess taxpayers, and these audits can take over a year to complete. The fact that investors in these tax shelters have not been contacted and/or reassessed should not be taken as the CRA's acceptance of their claim.