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CANADIAN OVERVIEW
Q4, 2024

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Marcil Lavallée

A quarterly Canadian newsletter produced by the Canadian member firms of Moore North America for the purpose of inspiring conversation and collaboration throughout Canada and beyond.

SCALING TO SUCCESS: ESSENTIAL CONSIDERATIONS FOR TECH START-UPS IN CANADA

Canada is a prime location for tech innovation, boasting a wealth of entrepreneurs in the software, gaming, app development, and hardware industries. However, the rapid pace of the industry means new tech companies are facing some complex challenges, from navigating data privacy laws to managing international expansion.

Let's take a look at some of the primary obstacles for tech start-ups today—and strategies that can help you overcome them.

Compliance with evolving data privacy laws

In tech, managing data privacy is not just good practice—it's a legal obligation. Laws like Canada's Personal Information Protection and Electronic Documents Act (PIPEDA) and Europe's General Data Protection Regulation (GDPR) require companies to prioritize how they handle user data, which can be especially challenging for start-ups with limited resources. Non-compliance isn't an option—it risks heavy fines and loss of consumer trust.

To start, assessing your data collection practices and identifying potential privacy risks is essential. This can reveal any vulnerable areas early on, making it easier to address these issues before they become larger liabilities. Establishing a clear privacy budget can also help your business anticipate and allocate resources for any compliance costs that may arise over time. Treating privacy as a core component of your business model, rather than a one-time task, will strengthen your company's reputation and—most importantly—keep it resilient to regulatory changes.

Finding visibility in a crowded market

With countless apps, games, and software products flooding the market, gaining visibility is tough for new tech companies. The cost of user acquisition can quickly add up, especially if you don't use those investor funds wisely.

So, where do you begin? First, focus on a clear and unique value proposition is often the best first step. Knowing exactly what sets your product apart from the competition makes it easier to reach a niche audience with a targeted message. Market channels like influencer partnerships and social media ads can be cost-effective ways to boost early visibility. Tracking the return on investment (ROI) from each channel is crucial; this data allows you to pivot or reallocate resources quickly if certain strategies aren't delivering results.

Building a community around your product and gaining organic traction from user engagement is another effective strategy to stand out without spending extensively on advertising. Customer referrals, early user feedback, and authentic reviews are also building blocks that will help create a foundation of trust with your new users.

Balancing growth with infrastructure demands

Scaling up means not only growing your user base but also investing in the infrastructure to support that growth. For your tech business, this can include expanding server capacity, investing in cloud storage, and strengthening cybersecurity measures. These high-tech needs often come with a hefty price tag, and without a solid plan, infrastructure demands can quickly outpace available resources.

Projecting future costs is essential for managing growth sustainably. Cash flow forecasting that accounts for these upcoming demands can help ensure the necessary liquidity as your business expands. For example, some cloud services offer flexible, pay-as-you-go options, which allow for gradual scaling as demand increases. Staying flexible with these kinds of options will help you to preserve cash flow without overextending the company.

The challenges of international expansion and cross-border taxes

International expansion is a huge opportunity but brings additional layers of complexity. For tech start-ups in Canada, reaching a global market can boost growth exponentially, but it requires careful management of your cross-border tax obligations, currency exchange rates, and international regulations.

One of the best practices here is to understand cross-border tax obligations thoroughly before making the leap. Additionally, exchange rate fluctuations are another factor to consider. Setting up multi-currency accounts or adopting hedging strategies can help protect profitability when working with foreign customers and suppliers. By managing these variables proactively, start-ups can position themselves to grow internationally without unexpected financial stress.

Of course, your CPA advisor will be well suited to make sure you're aware of these cross-border considerations once your company is ready to make the move—but early planning around international tax structures from the get-go will help reduces the risk of unexpected costs and liabilities down the line.

Safeguarding intellectual property (IP)

In a field where innovation drives success, intellectual property is often a start-up's most valuable asset. However, protecting IP can be complex, especially in competitive industries like gaming and software where piracy and copycats are a real threat.

It's a smart move to file for IP protections—such as patents, copyrights, and trademarks—as soon as possible to avoid potential legal conflicts later. Beyond initial registration, building in regular IP assessments ensures these protections remain up-to-date as your business grows and develops new products. While IP protection comes with its costs, securing these rights can be invaluable, especially when attracting investors who see a protected IP portfolio as a sign of stability and long-term value.

Establishing a financial foundation for stability

Finally, having a solid financial framework is key to sustainable growth. Tech start-ups often find themselves focusing on product development, leaving financial organization as an afterthought. But having transparent, reliable financial practices from the outset can make a big difference, especially when seeking funding or potential acquisition down the line.

Implementing a clear financial reporting system early on simplifies tracking expenses and managing cash flow. Regular financial reviews offer valuable insights into spending and can help catch inefficiencies that could otherwise go unnoticed. These practices build confidence with stakeholders, making your start-up more attractive to investors and partners.

A reliable support network makes a difference

While there's no one-size-fits-all solution to these challenges, having trusted advisors can make a difference at critical junctures. Your CPA advisor can provide tailored guidance for your business, helping you navigate these complex issues, from compliance to financial planning. With expertise in the tech sector, your advisor can help ensure your start-up is prepared to meet industry challenges head-on, setting it up for long-term success. Reach out to them at any step of the way to discuss your business's unique challenges and opportunities while you're navigating Canada's dynamic tech landscape.

Article written by: DMCL

DMCL

CHARTERED PROFESSIONAL ACCOUNTANTS

DIGITIZATION OF SMES IN 2024: OPPORTUNITIES, CHALLENGES AND TIPS FOR A SUCCESSFUL TRANSITION

The transition to digital technology has radically changed the modern business world.

To remain competitive and meet their customers' expectations, small and medium-sized businesses are now forced to digitize their operations. This shift towards digital technologies has not only opened up unprecedented prospects for growth and provided advanced management tools, it has also created new challenges with which entrepreneurs will now have to learn to navigate.

The benefits of digitalization for small and medium-sized businesses

Increased operating efficiency

Thanks to digitalization, SMEs can optimize their operational efficiency in a number of ways.

The first is through process automation.

Digitization enables repetitive tasks to be automated, freeing up time for higher value-added activities such as business development and customer loyalty. This increased efficiency also translates into lower operating costs. The digitization of certain tasks reduces the number of human interventions, which in turn lowers associated expenses. What's more, automated processes are less prone to error than manual methods, and so help to limit the costs associated with irregularities.

Improving customer relations

Digitalization is revolutionizing SME customer relations in several ways. On the one hand, it enables more personalized interactions thanks to AI and machine learning, which accurately identify the needs and preferences of each consumer. On the other, it improves companies' responsiveness, since digital tools enable instant responses to customer queries and problems, boosting customer satisfaction. Finally, digitalization facilitates the collection and analysis of valuable customer data.

This information becomes a major asset for informing business decisions and adjusting offers in line with market expectations. For example, customer journey analysis enables tailor-made digital strategies to be developed, as well as performance and customer feedback to be assessed. In this way, companies can deepen their understanding of consumer needs and respond to them more effectively to deliver an ever more positive customer experience.

Digitization enhances data analysis processes

Optimizing data analysis stands out as a key digitalization asset for SMEs. Thanks to sophisticated digital tools, companies can now process and analyze massive volumes of

data (Big Data) with unprecedented speed and accuracy.

This data – from consumers, competitors, the market and the company itself – becomes a valuable resource for making informed decisions. It enables strategies to be adjusted in real time, guaranteeing optimum responsiveness to market fluctuations. Exploiting this data intelligently can also reveal trends, paving the way for new growth opportunities. For example, by analyzing consumer purchasing behavior, SMEs can offer tailor-made products and services, thus improving their competitiveness.

Increased flexibility and adaptability

Digitization is revolutionizing the management and operations of SMEs, offering unprecedented flexibility and adaptability. It is transforming teleworking into an everyday reality, enabling employees to work from anywhere with access to the necessary documents online, which can improve their working conditions and productivity.

At the same time, it makes SMEs more responsive to market fluctuations. Real-time data processing enables them to adjust their offers and strategies instantly. What's more, digital tools, especially cloud-based ones, ensure automatic updates and system scalability, guaranteeing a solution to changing needs.

Global access creation

Another benefit of digitalization for SMEs is the creation of global access. These digitization-driven changes make international interactions possible by eliminating the notion of distance, opening up a vast horizon of unprecedented business opportunities for companies of this size. SMEs can extend their reach and diversify their customer base without massive investment, regardless of their geographical location. Thanks to the Internet and e-commerce platforms, they can market their products or services worldwide.

Digitization also enables collaboration between people located anywhere in the world, such as partners, suppliers or subcontractors, optimizing their business processes and supply chains, which can ultimately have a positive impact on SME sales.

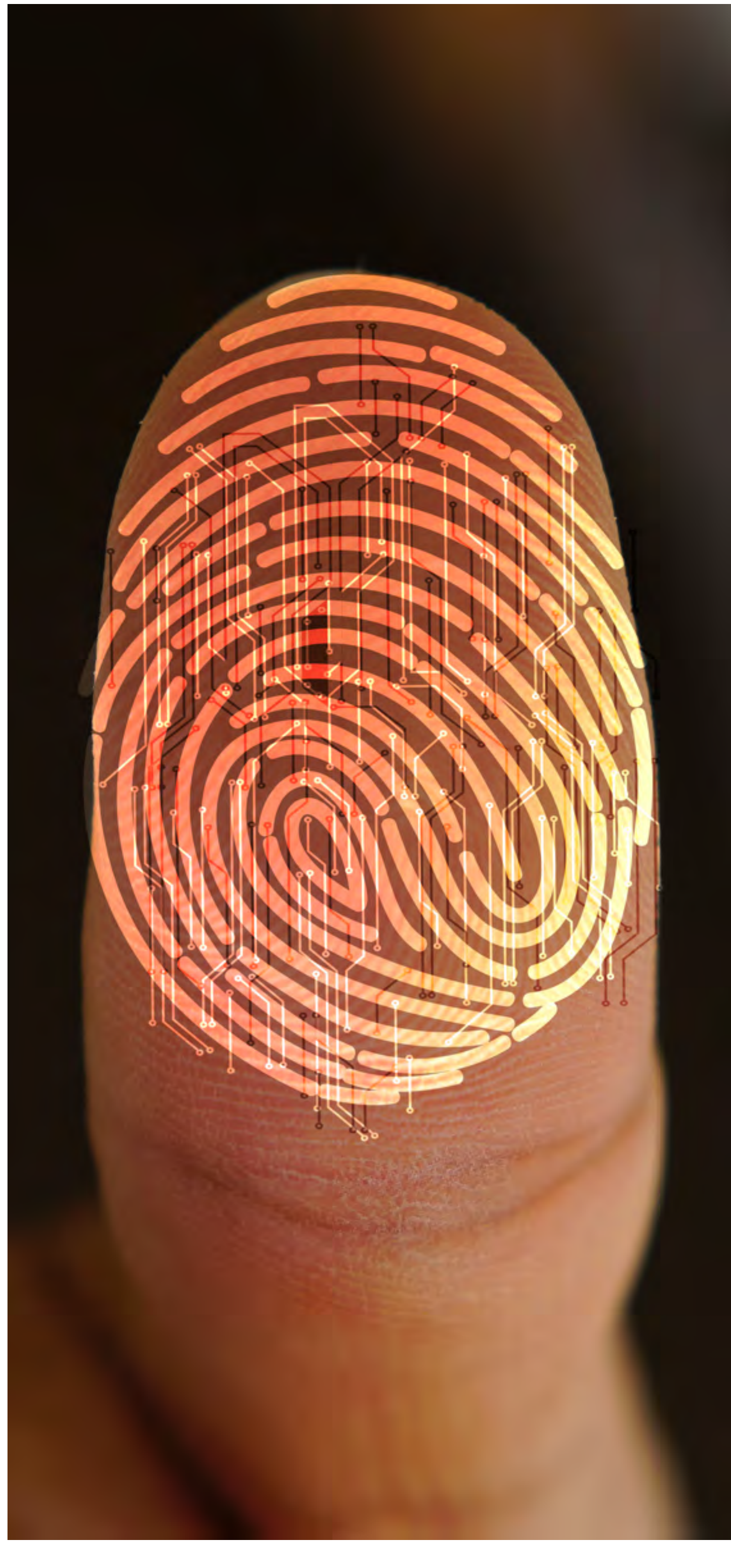
Issues to consider when going digital

Cybersecurity threats

With the increasing digitalization of SMEs, cybersecurity is becoming a major issue.

Cyber-attacks, which have existed since the early days of the Internet, are gaining in intensity as businesses adopt digital technologies. Among the most frequent threats are ransomware, which locks access to company data until a ransom is paid; phishing, which deceives employees to gain access to confidential documents; and malware, capable of stealing or destroying data.

Internal attacks, whether intentional or not, also represent a significant danger. Often caused by human error, such as choosing weak passwords or clicking on suspicious links in e-mails, they can have disastrous consequences. SMEs, often perceived as easy prey by cybercriminals, are particularly vulnerable because their security systems are generally less robust than those of large corporations. In such cases, it makes sense to train users in the organization's risks.



Troubleshooting

The digitalization of SMEs increases their vulnerability to system failures. Indeed, a company whose operations are entirely dependent on IT systems runs the risk of being paralyzed in the event of a failure, leading

to a total interruption of its activities.

To protect themselves against breakdowns, it is essential for SMEs to implement robust preventive strategies . The installation of continuous monitoring systems, for example, enables problems to be detected and anticipated before they become critical. Detailed documentation of hardware and software configurations is also essential. It enables rapid fault diagnosis and immediate recovery of affected systems. In addition, well-defined disaster recovery plans are crucial. These plans must include clear procedures for restoring affected data and systems. Finally, regular training of staff in good maintenance and troubleshooting practices can greatly improve responsiveness and efficiency in the event of a breakdown.

The importance of separating incompatible tasks

Segregation of incompatible tasks aims to prevent errors and fraud by assigning separate responsibilities to different people. This practice is essential to ensure that no one person can initiate, approve and record a transaction at the same time. For example, in an SME, one person might be responsible for creating purchase orders, while another handles their approval and payment. This prevents unauthorized modifications and ensures better protection of company resources.

The growing importance of computerized tasks within SMEs reinforces the need to implement internal controls for the separation of incompatible tasks. In a digital environment, the concentration of powers and responsibilities increases the risk of fraud and cyber-attacks. Strict access management is essential to ensure that users only have access to the information and functions required for their role, thus avoiding conflicts of interest and abuse of power. It's also a good idea to use access management tools to monitor and control authorizations. These tools can be used to define clear roles and ensure that sensitive tasks are divided between several people.

By setting up regular audit mechanisms, SMEs can quickly spot any anomalies. For example, a periodic internal audit may reveal non-compliant access or attempts to bypass controls. Finally, the integration of advanced security solutions such as artificial intelligence can help detect suspicious behavior and reinforce protection against fraud attempts.

Job cuts

The automation of processes and the use of specialized software reduce the need for manpower for certain repetitive tasks, leading to job cuts that can turn employees' lives upside down. For example, the adoption of automatic cash registers in retail outlets is reducing the number of cashiers needed, while the digitization of documents and electronic data management are reducing administrative positions. SMEs need to anticipate these changes by investing in ongoing employee training.

This will enable workers to reorient themselves towards higher value-added professions, such as customer relationship management, new product development or data analysis, for example.

Change management in human resources

Adopting new technologies can create resistance among employees, who are forced to change their habits. To make this transition a success, clear, ongoing communication is essential. Employees need to understand the benefits of new digital tools (the time savings are enormous!) and how they improve their day-to-day working lives. Training staff in new technologies is a key element.

This training must be adapted to different skill levels and include practical sessions. Employee commitment is essential to ensure successful adoption of digital tools. In conclusion, digitalization for SMEs offers a panoply of benefits, including increased operational efficiency, enhanced customer relations, optimized data analysis processes, increased flexibility and wider global access. It can also help you make strategic decisions, providing you with a wealth of information that was harder to access before the digital transformation.

However, this technological transition is not without its challenges.

Cybersecurity threats, the complexity of separating incompatible tasks, the risk of system breakdowns and managing change among employees are among the main issues to be overcome. To reap the full benefits of digitalization, SMEs will need to skilfully navigate these benefits and challenges, putting in place appropriate strategies to secure their digital evolution.

Article written by: Cloé Turcotte

YEAR-END TIPS TO ENSURE A SEAMLESS ENGAGEMENT

With the change in weather upon us, it doesn't just signal that winter is coming, it means that year-end financial reporting internal and external deadlines are fast approaching. Preparation and upfront communication are critical to ensuring a smooth and efficient close process, where we can provide support that will aid our clients in their day-to-day tasks and ensure a seamless assurance engagement! Here are a few suggestions our clients can implement to improve their reporting close process:

Automation, automation, automation

Virtually all financial reporting functions rely on some level of automation, whether it be Excel or their financial reporting system. There is a strong likelihood that they are performing the same tasks as part of every month end. Here are a few tips you can pass along:

- Ask your clients which analysis/reconciliations are performed each month and see what types of formulas can be implemented to reduce the amount of manual entry

- Identify if there are any automated reports that the financial reporting system already has available that can be utilized and use those reports more consistently

Risk assessments aren't just necessary for assurance professionals

It's comforting to know that we aren't the only professionals that need to conduct risk assessments as part of our roles. Our clients should be conducting risk assessments to identify if there are any accounts that they should pay more focus on when it comes to month end.

Clients can use a risk-based approach to prioritize accounts/balances to prioritize on reviewing first as part of the close process but they can also benefit from identifying higher risk accounts to perform additional analysis (for auditors and executive management) and areas of financial reporting where less procedures can be completed.

Close the loop with a calendar

Although not as exciting as a holiday advent calendar, every financial reporting function can benefit from outlining in a document the close process timeline, each financial reporting task necessary to complete the close process and when each task will be completed (prepared and reviewed). Once the calendar is built, it can be shared and communicated with other stakeholders in the organization so everyone is aware of the financial reporting department's priorities during the close process.

Please reach out to your accountant to plan how you can improve your close process for the upcoming fiscal year-end or even sooner!

Article written by: Gregory Barr

AMENDED GAAR RULES NOW IN FORCE

In June 2024, changes to the general anti-avoidance rule (GAAR) took effect. These changes strengthened the teeth of this tax anti-avoidance rule, expanding its scope and introducing a penalty for transactions that are found to breach the rule.

The GAAR is a general fallback rule that can apply to transactions which, although complying with the Income Tax Act, are contrary to the spirit of the Act and result in a misuse or abuse of its provisions.

An example of this would be where a transaction results in an outcome that was not intended by the Act, even though the transaction has not technically breached any of the Act's provisions.

When it comes to reorganizations of corporations and personal estates, the GAAR is very significant. These types of reorganizations frequently involve several separate transactions that, when combined, can save or defer taxes, neither of which the CRA likes.

The CRA may use the GAAR as a backup to punish these "abusive" transactions if they believe that any of the transactions result in a misuse or abuse of the Act, especially if they have no other powers to prevent the saving or deferral of tax, but where they believe that an abuse of the Act has occurred.

One of the most significant changes to the GAAR rules is the change in the definition of what an “avoidance transaction” is – a transaction must be an avoidance transaction in order to be caught by the GAAR.

Previously, a transaction could avoid being caught by the GAAR if it could be shown that there were “bona fide purposes” to the transaction, other than the obtaining of a tax benefit, and that these purposes were the primary reason for entering into the transaction.

Therefore, if there were genuine business reasons for the transactions (for example, creditor-proofing, restructuring, planning for the entrance or exit of shareholders, etc.), the fact that the transactions also resulted in a tax benefit was not usually enough for the transactions to be caught by the GAAR.

Now, as a result of the recent changes, a transaction can constitute an avoidance transaction where “one of the main purposes” of the transaction was to obtain a tax benefit.

This may seem like a subtle change in wording, but it significantly widens the net in terms of transactions that may be caught by the GAAR.

Under the new wording, even if there are bona fide non-tax purposes for entering into a transaction, if there is also a tax reason for entering into the transaction, the bona fide purposes are not enough to fall out of the GAAR net.

To add to this, the consequences of being caught by the GAAR are now far more penal.

Before the changes, the only real repercussion of being caught by the GAAR was that the “tax benefit” that the taxpayer achieved was denied.

Therefore, the taxpayer was essentially placed back in the same financial situation as if they had not entered into the avoidance transaction and obtained a tax benefit.

A financial penalty has been introduced for transactions caught by the GAAR

This penalty is 25% of the extra tax charged if the GAAR is found to apply (i.e, 25% of the tax benefit that was achieved by the transaction before GAAR denied the benefit).

Even though these two changes are arguably the most important, there are a lot of other changes to the rules that need to be understood because they may also cause a transaction to now be subject to the GAAR.

There are also changes which may mitigate the increased scope of the GAAR. For example, the new penalty may not apply if the taxpayer voluntarily discloses the details of the transaction before the CRA becomes aware if it. This, of course, is what the CRA is hoping to achieve.

It will take many years for the full impact of these changes to become known. Transactions will be taken to court for a judicial analysis of the new GAAR rules and how and if they apply.

Until the full extent and range of the updated rules become clear, advisors and taxpayers must exercise caution when entering into transactions that result in a “tax benefit”, which includes tax savings, a tax deferral, and an increase to a tax refund, among other things.

For now, the CRA has started to release guidance in relation to situations where it thinks the new GAAR rules will and will not apply.

For example, the CRA have already suggested that common estate plans, such as estate freezes (see the March 2024 Tax Letter) may not be subject to the GAAR in certain circumstances.

For taxpayers entering into any tax planning, it is now more important than ever to work closely with your tax advisor to ensure that the new GAAR rules are considered.

Although the rules are complex, and their interpretation is still largely uncertain at this point, it is very important to try to understand the rules and anticipate how the courts may view any proposed transactions from a GAAR point of view.

Article written by: M.A. Yale Publications on behalf of Marcil Lavallée

POWER OF TWELVE (^12)

There are many famous twelves: the 12 days of Christmas, the 12 signs of the zodiac, the 12 numerals on an analog clock, the 12 months of the calendar year and of course the 12 months in the fiscal year.

The fiscal year is something that accountants hold near and dear to their hearts. It is a time to reflect and evaluate how the past year went, what went well and what did not. It is also a time to plan for the future and often prepare budgets/forecasts for the upcoming year for management, shareholders, and/or lenders. For accountants and financial professionals, the annual results are measures used to evaluate key and critical success factors and metrics of businesses.

But what if management had that same annual operating results picture every month?

A Trailing Twelve Months (TTM) statement of income every month allows for such an evaluation, and importantly allows for that evaluation of the progress of businesses over time. Our clients that have implemented TTM reporting in their monthly reports often find that they can identify trends both good and bad in revenues, margins and key cost drivers sooner than waiting for the year end.

It is interesting to note that TTM reporting is widely used:

- In Mergers and Acquisitions transactions to allow for the analysis of results over multiple years to identify trends in Revenues, Expenses, Net Operating Income, and EBITDA
- By banks when analyzing trends for significant credit reviews
- In Health and Safety reporting of near-misses, incidents and accidents

TTM reporting is utilized in these fields as it eliminates the “noise” of monthly variations and business seasonality. It provides a monthly comparison of the multiple twelve month periods to show a more complete picture of annualized performance over time.

Where does TTM fit in accounting systems and software? Unfortunately, rarely are TTM reports generated in financial accounting software for small businesses. At best, some allow for the generation of multi-column monthly or quarterly results over a period of time, and sometimes even provide for periods that overlap fiscal year-ends.

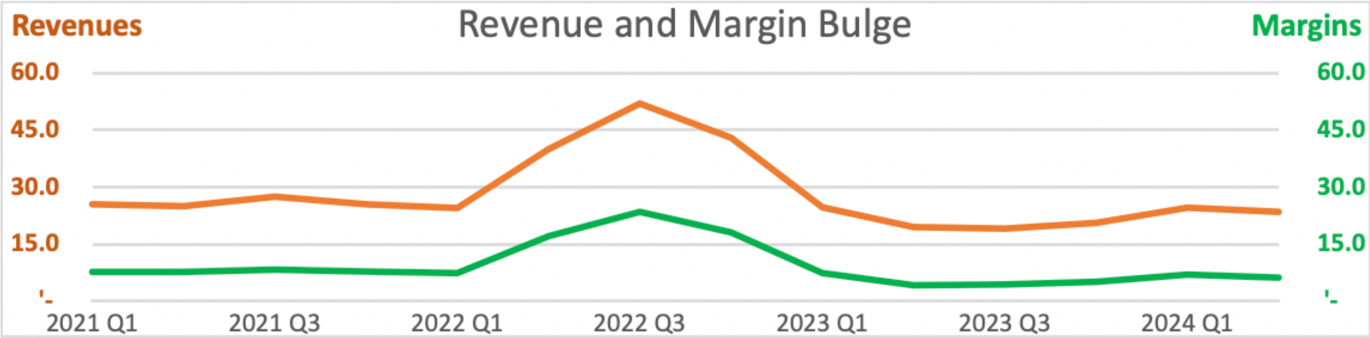
Traditional financial reporting generated by accounting software, especially for small and medium-sized businesses, provides for current month results and year-to-date results which are often compared to the prior fiscal year results or to budgets for those periods. What’s missing:

- This reporting misses all the results during the intervening period. For example, the 1st quarter reporting for the current year and the prior year missed the results of the three quarters in between. Consider if a business’ health and safety department would want to ignore those nine months when measuring its progress in accident reduction?
- Are the current year’s quarterly results expected to be the same and comparable to the same three months last calendar year? Often yes, especially in businesses with significant seasonality. But what about the last quarter and the intervening 3 quarters – any trends that would be valuable to know?
- Monthly trends can be reviewed in month-to-month comparison when they are able to be generated, Quickbooks does this extremely well, other products not so much.

TTM reporting does not eliminate the need for traditional reporting. However, it is a valuable analytical tool for management to consider using. Often a picture is often worth a thousand words, so let us look at a couple of financial results scenarios.

Illustration #1 COVID Bounce

Illustrates the effects of a post COVID demand spike.



Traditional Quarterly Comparisons

	2022	2021	Changes	2023	2022	Changes	2024	2023	Changes
$MM	**Q1**	Q1	Q1	**Q1**	Q1	Q1	**Q1**	Q1	Q1
Revenue	**24.5**	25.5	(1.0)	**24.7**	24.5	0.2	**24.6**	24.7	(0.1)
COGS	**17.1**	17.8	(0.7)	**17.3**	17.1	0.2	**17.6**	17.3	0.3
Gross Margin	**7.4**	7.7	(0.3)	**7.4**	7.4	-	**7.0**	7.4	(0.4)
GM %	**30.2%**	30.2%	0.0%	**30.0%**	30.2%	-0.2%	**28.5%**	30.0%	-1.5%

Some changes year over year by quarter, but nothing telling.

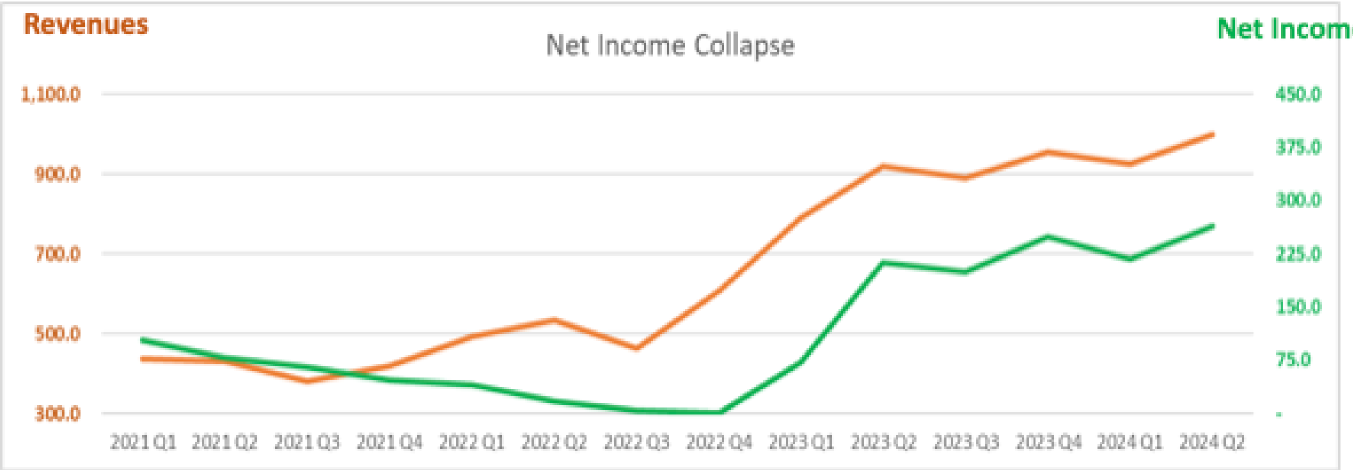
Trailing Twelve Months, by Quarter

$MM	2022 Q2	2022 Q3	2022 Q4	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2
Revenue	117.5	142.0	159.5	159.7	139.2	106.3	83.9	83.8	87.8
COGS	76.9	86.2	93.4	93.6	86.0	72.2	62.8	63.1	65.1
Gross Margin	40.6	55.8	66.1	66.1	53.2	34.1	21.1	20.7	22.7
GM %	34.6%	39.3%	41.4%	41.4%	38.2%	32.1%	25.1%	24.7%	25.9%

When the results were charted on TTM basis by each quarter, the demand spike becomes obvious and easily identifiable, lucky for the client they commenced the purchase process of this June fiscal year end corporation in early 2024.

Illustration #2 If You Build It

New client scenario in which management was aware of increased costs as they expanded their market reach – but not fully aware of the dramatic Net Income collapse.



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Traditional Quarterly Comparisons

	2022	2021	Changes	2023	2022	Changes	2024	2023	Changes
$M	**Q1**	Q1	Q1	**Q1**	Q1	Q1	**Q1**	Q1	Q1
Revenue	**492.0**	437.0	55.0	**791.0**	492.0	299.0	**926.0**	**791.0**	135.0
All Expenses	**450.7**	333.0	117.7	**718.4**	450.7	267.7	**708.0**	**718.4**	(10.4)
Net Income	**41.3**	104.0	(62.7)	**72.6**	41.3	31.3	**218.0**	**72.6**	145.4
NI %	**8.4%**	23.8%	-15.4%	**9.2%**	8.4%	0.8%	**23.5%**	9.2%	14.4%

Results were down and that was identified in this traditional reporting the company was receiving monthly.

Trailing Twelve Months, by Quarter

	2022	2022	2022	2023	2023	2023	2023	2024	2024
$MM	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Revenue	1,826	1,906	2,096	2,395	2,781	3,209	3,556	3,691	3,769
All Expenses	1,654	1,797	2,033	2,301	2,491	2,723	2,822	2,812	2,838
Net Income	172	109	63	95	291	486	734	879	931
NI %	9.4%	5.7%	3.0%	3.9%	10.4%	15.1%	20.6%	23.8%	24.7%

The full extent of the downturn was not realized until reviewing the monthly TTM reporting for the three years 2020 to 2022 noted the November 2022 TTM was a twelve-month nominal Net Income. Management identified that the labour costs of building the sale team were far greater than anticipated and a plan was implemented to significantly curtail staffing increases, while the sales began to grow, and the company returned the TTM Net Income levels of early 2020.

Article written by: [Ian J. Adair CPA, CA]

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