



Business Insights

Information and analysis from TD Commercial Banking

Fall 2007

Five ways to handle the sky-high dollar

With the Canadian dollar hitting 30-year highs against its U.S. counterpart, your business is likely to be feeling the effects of the dramatic increase — for better or for worse.

But there are measures you can take to limit or offset the negative impact, and even profit from the loonie's strength. Here are five strategies to combat the negatives and take advantage of some of the benefits a rising currency offers.

1 Time to invest?

This may be a good time for your company to invest in big-ticket capital items. Equipment priced in U.S. dollars may be cheaper in Canadian dollar terms, providing an excellent opportunity to modernize, upgrade your technology, and boost efficiency and productivity.

Be sure to review your budget and equipment needs. Equipment that might have been too costly a few years ago may now make good business sense and fit within budget constraints.

If you intend to finance purchases of equipment from the U.S. or priced in U.S. currency, think about borrowing in U.S. dollars. Payments and interest costs in Canadian terms will fall if the loonie continues to climb, and can also be offset by revenues denominated in U.S. dollars.

2 Hedge your bets

Consider opportunities to manage currency fluctuations with hedging. A business with substantial U.S. receivables can use hedging strategies to provide a buffer against further declines in the



The soaring loonie may create business opportunities in non-U.S. markets where the value of our dollar is less of a hindrance.

U.S. dollar. Questions to consider include:

- ▶ What potential impact on profitability do currency fluctuations have?
- ▶ Where is your company exposed to currency risk — receivables, payables, or both?
- ▶ Will you hedge all or part of your company's exposure?
- ▶ When should you hedge? Budget cycle and cash flow patterns will help you decide.
- ▶ Does your company have a formal plan for managing currency risk? It should outline when and how you will hedge.

Here are some hedging strategies to explore.

CONSIDER USING FORWARD CONTRACTS TO LOCK IN EXCHANGE RATES AHEAD OF TIME.

Foreign exchange forward contracts are popular, flexible, and effective hedging tools. This contract

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Five ways to handle the sky-high dollar

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The sharp rise of the loonie has hit some businesses hard, while boosting profits for others. Even so, effective planning can help reduce the pain and maximize the gain for every business.

is an agreement to convert one currency into another at a fixed date in the future. The amount and exchange rate are fixed at the time you enter into the contract. Delivery is flexible, as forward contracts are usually settled within a 30-day window.

USE OPTIONS AS INSURANCE. When used to hedge (as opposed to speculate), put or call options can allow you to participate when currencies move in your favour, while offering you protection if they move in the opposite direction.

3 Buying U.S. dollars?

If you are a net importer or net buyer of U.S. dollars, current foreign exchange rates are very attractive. They may represent a great opportunity to hedge your longer-term working capital requirements.

There are a wide variety of products available for you to consider, and strategies can be tailored to your unique business needs.

4 Increase your foreign cost base

If your business is being squeezed by the high Canadian dollar, go where you'll get more value for the dollar. This may mean outsourcing production or contracting services outside Canada, in countries

where labour costs are lower.

Alternatively, determine if you are able to source payables for goods and services in U.S. dollars. This would give your company a "natural hedge" and reduce the risk of dealing in foreign currency.

5 Look beyond the U.S. for markets

Diversifying into other export markets will help to reduce your exposure to the U.S. dollar. Your business can grow while capitalizing on opportunities where stronger currencies can enhance profitability.

Remember, however, that hedging is also important when you venture outside of North America. Don't leave your business overly exposed to currency risk.

TD Commercial Banking and TD Securities^{®.1} can help. We understand that companies may need customized solutions to manage foreign exchange risk. Our extensive experience can help you identify and minimize the foreign currency risks your business is exposed to on a day-to-day basis. A group of dedicated foreign exchange specialists is available to assist with your day-to-day needs and longer-term requirements. Trade execution is made simple, at competitive levels, via telephone or online. ●

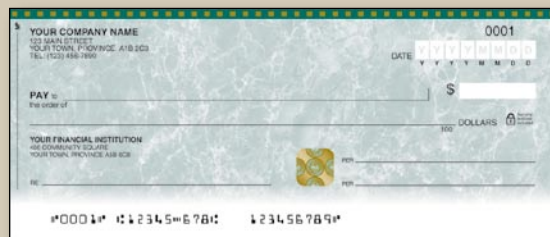
INDUSTRY INSIDER

Complying with the new cheque standards

To help businesses make a smooth transition to "image-friendly" cheques, a grace period for "old format" business cheques has been introduced — until September 2, 2008. This extension will allow businesses still working on the changes to make any required modifications to cheque-printing software and use up their existing supplies of cheques.

From this point forward, all businesses should ensure that their cheques meet the new specifications, known as "Standard 006."

Below is an example of a cheque that complies with the new standards. Among the key features to be included in all new cheques are:



- ◀ Adoption of a numeric date field
- ◀ Standardized positions for key fields, such as the amount field
- ◀ Mandatory serial numbers in the MICR line

For information on how to ensure that your cheques are compliant with the new standards, visit the Canadian Payments Association website at www.cdnpay.ca

Will federal tax changes affect your business?

A number of tax changes proposed by the federal government may affect your business if and when they are passed into law. Some of the more significant proposals are described below. It's best to seek professional tax advice before making any of the proposed changes.²

CAPITAL COST ALLOWANCE INCREASES. The March budget proposed a temporary increase in the capital cost allowance (CCA) rate for manufacturing and processing (M&P) equipment. M&P items currently included in CCA Class 43 move to a 50% straight-line CCA rate, up from 30%. The change would apply to assets acquired on or after March 19, 2007, and before 2009.

Other proposed CCA rate changes include:

- ▶ Newly constructed buildings used in M&P: to 10%, from 4%³
- ▶ New non-residential buildings: to 6%, from 4%³
- ▶ Computer equipment: to 55%, from 45%⁴
- ▶ Natural gas distribution lines: to 6%, from 4%
- ▶ Liquefied natural gas facilities: to 8%, from 4%

These proposed changes would apply to assets acquired on or after March 19, 2007.

PHASE-OUT OF ACCELERATED CCA FOR OIL SANDS PROJECTS. Oil sands projects would remain eligible for the regular 25% CCA rate. However, an additional accelerated CCA that permits deduction of up to 100% of the remaining cost of eligible assets would be phased out gradually from 2011 to 2015. The accelerated CCA would continue to apply to assets acquired before March 19, 2007. It would also apply to assets acquired before 2012 that are part of a project phase — if major construction began before March 19, 2007.

ACCELERATED CCA FOR CLEAN ENERGY GENERATION. The accelerated CCA rate for equipment used to produce clean energy would be enhanced. Changes would apply to assets acquired on or after March 19, 2007. Accelerated CCA would be available for:

- ▶ Active solar equipment
- ▶ Wind and tidal energy equipment
- ▶ Small photovoltaic and fixed-location fuel cell systems
- ▶ Biogas production equipment

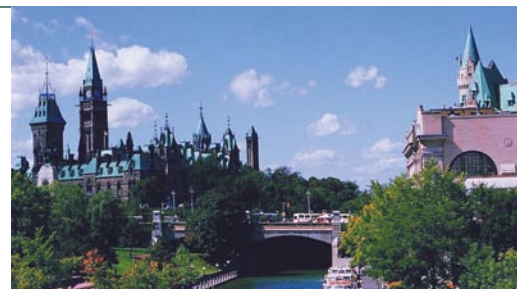
- ▶ Biomass drying and other fuel upgrading equipment
- ▶ Pulp and paper waste fuel cogeneration systems
- ▶ Waste-fuelled thermal energy systems

INVESTMENT TAX CREDIT FOR CHILDCARE SPACES. A non-refundable investment tax credit would be available to businesses that create licensed childcare spaces for employees' children (and potentially for other children in the community). The credit would equal up to 25% of eligible expenditures incurred on or after March 19, 2007, to a maximum of \$10,000 per space.

ELIMINATION OF WITHHOLDING TAX ON U.S.-CANADA INTEREST PAYMENTS. Canada and the U.S. have agreed to eliminate the current 10% withholding tax on cross-border interest payments. Withholding tax on payments between non-related parties would be eliminated in the first calendar year after the required amendment to the Canada-U.S. tax treaty. For related parties, withholding tax would be reduced to 7% in the first year of the new regulations and 4% in the second year, and would be fully eliminated in the third and subsequent years.⁵

INTEREST DEDUCTIBILITY FOR FUNDS USED TO FINANCE A FOREIGN AFFILIATE. In most cases, the government would no longer allow the deductibility of interest costs and other borrowing costs associated with debt incurred to directly or indirectly finance foreign affiliates. There would be an exception if the foreign affiliate generates non-exempt income (taxable surplus). The new restrictions would apply to interest arising after 2007 on debt incurred on or after March 19, 2007 (except where an agreement in writing was in place before that date).⁶

DEEMED BUSINESS INCOME CHANGES. Rules that would deem certain passive income of a foreign affiliate as active business income may also change. This could affect the treatment of royalties, interest, and lease payments. After 2008, a Canadian corporate taxpayer would have to have a qualifying interest in the affiliated business — usually considered a direct or indirect interest of at least 10% — if the payments are to be classified as active income.⁶ ●



Ottawa's most recent budget proposed several revisions to tax laws that may affect your business.

A non-refundable investment tax credit has been proposed for businesses that create childcare spaces for their employees' children.

Getting more from your IT dollar

A BPM system uses technology to integrate a business's processes into a comprehensive platform that offers a high-level view of all business operations.

Used effectively, information technology (IT) can be a gateway to increased revenues and better cost management for your company. Here are some smart ways to make the most of what IT has to offer today.

- **MANAGE CORPORATE SECURITY.** IT security doesn't just mean protecting systems from viruses and fraud. Security also involves using IT to comply with regulations, avoid disruptive legal action, meet audit requirements, and even manage risk to keep insurance costs under control.

IT security policies should be an integral part of a wider business risk management strategy, as IT is key to business continuity and disaster planning. Areas to consider include: examining systems and practices for vulnerabilities, evaluating spending on compliance and security, data back-up and recovery, and monitoring suppliers.

- **BUSINESS PROCESS MANAGEMENT (BPM)** is a fast-developing field of technology that focuses on automating and integrating all business processes. It typically includes tools for modelling and analysis, business rules, and activity monitoring that can help the business operate more efficiently.

For example, using BPM technology to transfer information about individual sales more quickly can result in faster order fulfillment, improved supply chain efficiency and inventory management, faster collection of receivables, and improved customer satisfaction. A BPM system can monitor and analyze tasks in real time, and trigger immediate responses when appropriate.

- **EXPLOIT THE ADVANTAGES OF THE INTERNET.** Even if you don't sell directly through the

web, your website is a key tool to generate client interest and loyalty, provide information, receive feedback, and help customers connect with you. Make sure you have the necessary resources allotted to keep the website fresh and up-to-date.

Look into the possibilities of so-called "Web 2.0" tools that may resonate with your customers. These include social networking sites like Facebook, consumer-created content, wikis, blogs, video, podcasting, mobile communications, email marketing, microsites, and online communities and games like Second Life. Depending on your business, any or all of these tools may become a major component of your marketing strategy.

- **GATHER AND USE COMPETITIVE INTELLIGENCE.** Thanks to the Internet, competitive intelligence is more readily available — including information on products and product development, business plans, personnel, and salaries. The Internet is a boon for companies operating on an international scale, providing information on competitors that might have been impossible to obtain in the past.

Have an IT strategy for collecting data from company websites, government and regulator sites, and other sources. Or pay a third party for information that has become much cheaper as the Internet simplifies data gathering. Creative digging can unearth valuable information. For example, international customs and port records can reveal important details of competitors' importing and exporting strategies.

Look for information that can help with pricing, risk, entry strategies and timing, marketing, and even choosing international partners. ●

- UNDERSTANDING - EXPERTISE - SOLUTIONS - COMMITMENT -

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The information in this newsletter is current as at August 15, 2007.

1 TD Securities represents TD Securities Inc., TD Securities (USA) LLC, TD Securities Limited and certain investment banking activities of The Toronto-Dominion Bank and its subsidiaries.

2 A taxpayer remains potentially liable to the effects of the current law in the event that the budget is not ultimately adopted.

3 In order to be eligible for one of the additional allowances, a building will be required to be placed into a separate class. If the taxpayer forgoes the separate class, the current treatment will apply (i.e. a CCA rate of 4 per cent). Further, at least 90 per cent of the building (measured by square footage) must be used for the designated purpose at the end of the taxation year.

4 Budget 2007 proposes that the computer software tax shelter property rules be extended to computer equipment that is eligible for the CCA rate of 55 per cent proposed in this budget.

5 Following the Treaty's entry into force.

6 This change will apply to taxation years that begin after 2008 for foreign affiliates.

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