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As we near the end of 2013, we would like to remind you that if you need to arrange an appointment with one of our Accountants before December 31st, please contact us as soon as possible. ***Our office will be closed for the holidays starting December 24th and will re-open on January 2nd, 2014.***

We would also like to take this opportunity to wish you and your family a safe and happy holiday season.

IN THIS ISSUE

2013 YEAR-END: Tax planning tips

December 31, 2013 is fast approaching… See below for a list of tax planning considerations. Please contact us for further details and to discuss whether these may apply to your personal tax situation.

1. Certain expenditures made by individuals by December 31, 2013 will be eligible for 2013 tax deductions or credits including: moving expenses, child care expenses, charitable donations, political contributions, medical expenses, alimony, eligible employment expenses, union, professional, or like dues, carrying charges and interest expenses, and children's fitness and arts amounts. Ensure you keep all receipts that may relate to these expenses.
2. You have until Saturday, March 1, 2014 (unless an extension to March 3, 2014 is announced) to make tax deductible Registered Retirement Savings Plan (RRSP) contributions for the 2013 year. Consider the higher income earning individual contributing to their spouse's RRSP via a "spousal RRSP" for greater tax savings.
3. If you own a business, consider paying a reasonable salary to family members for services rendered to the business. Examples may include website maintenance, administrative support, and janitorial services.
4. An individual whose 2013 net income exceeds $70,954 will lose all, or part, of their old age security. Senior citizens will begin to lose their income tax age credit if net income exceeds $34,562.
5. Consider purchasing assets eligible for capital cost allowance before the year-end. A half year of depreciation deduction is allowed even if purchased right before the year-end.
6. Consider selling capital properties with an underlying capital loss prior to the year-end if you had taxable capital gains in the year, or any of the preceding three years. This capital loss may be offset against capital gains in the current or preceding three years.
7. Taxpayers that receive "eligible dividends" from private and public corporations may have a significantly lower tax rate on the dividends as compared to non-eligible dividends. Notification from the corporation to the shareholder is required.
8. Consider restructuring your investment portfolio to convert non-deductible interest to deductible interest.
9. Eligible public transit passes will be entitled to a tax credit.

10. Registered Education Savings Plan (RESP) - A Canada Education Savings Grant for RESP contributions will be permitted equal to 20% of annual contributions for children (maximum $500 per child per year). In addition you may be eligible to receive a Canada Learning Bond which provides $525 in the first year, and an additional $100 each year until the child turns 15.
11. Tax credits for children under 16, or under 18 years if eligible for the disability amount, enrolled in fitness or artistic oriented organized activities are available.
12. A Registered Disability Savings Plan may be established for a person who is eligible for the Disability Tax Credit. Non-deductible contributions to a lifetime maximum of $200,000 are permitted and may be eligible for tax-deferred grants and bonds.
13. For individuals who have not yet claimed charitable donations, consider making a donation of up to $1,000 in order to get a "super charged" donation credit. For these individuals with total donations of less than $1,000 in the current year, consider not claiming the donation amount until you have donated a total of $1,000 (can wait up to five years to claim the credit.)
14. Are you a US Resident, Citizen or Green Card Holder? Consider US filing obligations with regards to income and financial asset holdings.
15. Do you have foreign property or investments? Consider the filing obligations in both the foreign country and in Canada.

2014 REMUNERATION… Earnings from a corporation

Some general guidelines to follow in remunerating the owner of a Canadian-Controlled Private Corporation earning "active business income" include:

1. There are generally three options for paying earnings out of a corporation:
    a. Bonus down the active business earnings in excess of the annual small business deduction limit.
    b. Bonus all income out.
    c. Do not bonus down at all and distribute income via dividends.

    The best method depends on applicable provincial tax rates, quantity of personal and corporate income, and whether you can afford to leave earnings in the Company.
2. Notification must be made to the shareholders when an "eligible dividend" is paid - usually in the form of a letter dated on the date of the dividend declaration. If all shareholders are directors, the notification may be made in the Directors' Minutes.
3. Elect to pay out tax-free dividends from the "Capital Dividend Account".
4. Consider paying taxable dividends to obtain a refund from the "Refundable Dividend Tax on Hand" account.
5. Corporate earnings in excess of personal requirements could be left in the company to obtain a tax deferral (the tax is paid when cash is withdrawn from company). The effect on the "Qualified Small Business Corporation" status should be reviewed before selling the shares where large amounts of capital have accumulated.
6. Dividend income, as opposed to a salary, will reduce an individual's cumulative net investment loss balance thereby possibly providing greater access to the capital gain exemption.
7. Excessive personal income impacts receipts subject to clawbacks, such as Old Age Security, the age credit, child tax benefits, and GST credits.
8. Salary payments require source deductions to be remitted to the CRA on a timely basis.
9. Individuals that wish to contribute to the Canada Pension Plan or a RRSP may require a salary to create "earned income". RRSP contribution room increases by 18% of the previous year's "earned income" up to a yearly prescribed maximum ($24,270 for 2014).
10. If you are providing services to a small number of clients through a corporation, CRA could classify the Corporation as a Personal Service Business. There are significant negative tax implications of such a classification. In such scenarios, discuss risk and exposure minimization strategies with your professional advisor.

FOREIGN PROPERTY… New Information Needed

Corporations and individuals holding "Specified Foreign Property" (which generally includes investment assets like rental properties or foreign stocks) with a cost of $100,000 or more must complete and submit a T1135 - Foreign Income Verification Statement. A new version of this Form, which requires significantly more detailed information, was released on June 25, 2013. The name and location of the investment, the maximum cost amount in the year, the cost at year-end, the income (or loss) in the year, and any gain (or loss) on disposal must be reported. Each of these items needs to be reported on an investment-by-investment basis. For example, information relating to each of the stocks within a brokerage account would need to be reported (as opposed to details on the brokerage account as a whole). An exemption from the detailed level of reporting is available if income from the investment is reported on a T5 or T3 Slip.

The federal government also announced a three year extension of the normal allowable reassessment period where this Form is not filed when required, or the required information is not properly disclosed.

Action Item: If foreign investments are held, prepare a summary of investments including the aforementioned components to reduce the accounting costs associated with the additional disclosures.

GIFTS TO EMPLOYEES… Non-Taxable?

According to the CRA:

1. Up to $500 in gifts and awards per year per employee can be paid out as a non-taxable benefit under the CRA's "gifts and awards policy".

   A "gift" is defined as recognition of a personal event or milestone in an employee's life, such as a birthday, marriage, retirement or the birth or adoption of a child, or as recognition of a public or religious holiday where gifts are traditionally exchanged, such as Christmas or Hanukkah.

   An "award" has to be for an employment-related accomplishment such as outstanding service, employees' suggestions, or meeting or exceeding safety standards. Performance based "awards" (such as exceeding production standards, completing a project ahead of schedule or under budget, putting in extra time to complete a project) do not benefit from the exemption and are therefore taxable benefits. The difference between a regular "award" and a performance based "award" is very slight and very grey. As such, the safest way to make a tax efficient payment to an employee is as a "gift" described above.
2. The "gifts and awards policy" also only applies to non-cash items. Cash, and near-cash items such as gift cards and gift certificates, are not included in the policy and are always taxable, regardless of the reason they are given.
3. The "gifts and awards policy" cannot be used against taxable parking or employer-provided transportation because the policy cannot be used to make otherwise taxable benefits non-taxable.
4. Prize draws or lotteries are not included in the "gifts and awards policy". Generally, where all, or a majority of, participants in an employer-promoted contest are employees and their family members, any winnings are considered a taxable employment benefit.

   Whether winnings from a prize draw held by a social committee is a taxable benefit depends on whether the social committee is funded or controlled by the employer.

ARTS AND FITNESS CREDITS: The Separate Receipt Issue

In an April 13, 2013 Ministerial Correspondence, CRA noted that a specific program cannot qualify for both the Children's Fitness Tax Credit (CFTC) and the Children's Arts Tax Credit (CATC). However, they acknowledged that an Organization may offer distinct programs, some of which qualify for each credit. They indicated such Organizations should either issue separate receipts, or a single receipt that clearly segregates the amounts paid for each program.

Action Item: If your child is enrolled in more than one program with an organization, ask for a separate receipt for each program.

EMPLOYEE EXPENSES… Not deductible?

In a July 9, 2013 Tax Court of Canada case, a group home counselor took residents of the group home shopping, to medical appointments, and to recreational activities as part of his employment duties. The employee argued that it was an implicit term of his contract that he incurs expenses for the use of his own personal vehicle and, therefore, the amounts should be deductible on his personal tax return.

Taxpayer loses

The taxpayer's manager noted that many employees do not use their own vehicle for transporting residents and instead take a taxi or public transportation.

Because the employee was not required under his contract of employment to use his vehicle, the Court disallowed the expenses.

Consideration Item: ***This may apply to a wide range of employees, including those who have received T2200s from their employers. A T2200 (Declaration of Conditions of Employment) is the form signed by employers that allow employees to deduct certain employment expenses from his or her income.***

GETTING AUDITED: Net worth assessments

In a May 14, 2013 Tax Court of Canada case, two taxpayers carried on a fishing business that was being audited. The CRA auditor applied a net worth calculation to estimate their earnings because he was unable to reconcile the income from the accounting records to the growth in their assets, largely fishing licenses.

Taxpayer loses

The taxpayers argued that the CRA should not have used the net worth method, but confined their review to the accounting records. The Court noted that maintaining accounting records is not sufficient - they must be reliable, credible and accurate - and the disparity between the growth of their assets and the income reported justified use of the net worth method.

Action Item: Maintain reliable accounting records!

CRA ATTACK: Condo sales

It has been noted recently in several news articles, that the CRA has increased activity in reviewing condominium sales. It appears that CRA is reviewing land titles records to identify short-term condo holds. In such cases, CRA reassesses the gains as "ordinary business income" on the assumption that the vendor's intention was always to resell or flip the condo at a profit.

While this may be true in some cases, in others the intent was to reside in the property for an extended period. In such cases where the intent was not business in nature, the sale may be considered a capital gain (taxed at half the rate of "ordinary business income") or no gain at all if qualifying as, and determined to be, a principal residence.

CRA seems to have adopted a policy of "reassess and penalize first, and ask questions only if the taxpayer objects".

Action Item: If you have received such a reassessment, contact us immediately so that a Notice of Objection can be filed. Objections need to be filed within 90 days of the date on the Notice of Reassessment.