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As we near the end of 2014, 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 25th and will re-open on January 5th, 2015.***

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

IN THIS ISSUE

YEAR-END TAX PLANNING

December 31, 2014 is fast approaching… see below for a list of tax planning considerations. Please contact us for further details or to discuss whether these may apply to your tax situation.

1. Certain expenditures made by individuals by December 31, 2014 will be eligible for 2014 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, certain public transit amounts, and children's fitness and arts amounts. Ensure you keep all receipts that may relate to these expenses.
2. You have until Monday March 2, 2015 to make tax deductible Registered Retirement Savings Plan (RRSP) contributions for the 2014 year. Consider the higher income earning individual contributing to their spouse's RRSP via a "spousal RRSP" for greater tax savings.
3. The age limit for maturing Registered Pension Plans, RRSP, and Deferred Profit Sharing Plans is 71 years of age.
4. If you own a business or rental property, consider paying a reasonable salary to family members for services rendered. Examples include website maintenance, administrative support, and janitorial services.
5. A senior whose 2014 net income exceeds $71,592 will lose all, or part, of their Old Age Security. Senior citizens will also begin to lose their age credit if their net income exceeds $34,873.
6. Consider purchasing assets eligible for capital cost allowance before the year-end. A half year of depreciation deduction is allowed for most assets even if it was purchased just before the year-end.
7. 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 year, and then in the three preceding years.
8. 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.
9. A refund of Employment Insurance paid for certain non-arm's length employees may be available upon application to the CRA.
10. 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 to the shareholder is required.

11. A Registered Disability Savings Plan may be established for a person who is under the age of 60 and eligible for the Disability Tax Credit. Non-deductible contributions to a lifetime maximum of $200,000 are permitted. Grants, Bonds and Investment income earned in the plan are included in the beneficiary's income when paid out of the RDSP.
12. If required income, forms, or elections have not been reported to the CRA in the past, a Voluntary Disclosure to the CRA may be available to avoid penalties.
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. Consider restructuring your investment portfolio to convert non-deductible interest into deductible interest.
    It may also be possible to convert personal interest expense, such as interest on a house mortgage or personal vehicle, into deductible interest.
15. Are you a US Resident, Citizen or Green Card Holder? Consider US filing obligations with regards to income and financial asset holdings. Filing obligations may also apply if you were born in the US.
16. Do you have foreign property or investments? Consider the filing obligations in both the foreign country and Canada.
17. An investment tax credit is available in respect of each eligible apprentice. Also, a $1,000 Incentive Grant per year is available for the first and second year as apprentices. A $2,000 Apprenticeship Completion Grant may also be available. Provincial credits may also be available.
18. Canada Pension Plan (CPP) receipts may be split between spouses aged 65 or over. Also, it may be advantageous to apply to receive CPP early (age 60 - 65) or late (age 65 - 70).
19. Individuals 18 years of age and older may deposit up to $5,500 into a Tax-Free Savings Account in 2014. Commencing in 2009, annual contributions were limited to $5,000, though increased to $5,500 in 2013, for a total of $36,500 by January 2015.

2014 REMUNERATION

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

1. There are generally two options for paying earnings out of a corporation – salaries and dividends.
   The best method depends on the 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.
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 the 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 gains exemption.
7. Excessive personal income may reduce receipts and credits, such as Old Age Security, the age credit, child tax benefits, and GST credits. It may be advantageous to defer receiving Old Age Security receipts (for up to 60 months) if it would otherwise be eroded due to high income levels (greater than $71,592 for 2014).
8. Salary payments require source deductions (such as CPP, EI and payroll taxes) to be remitted to CRA on a timely basis.
9. Individuals that wish to contribute to the CPP 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; $24,930 for 2015).
10. Spouses may jointly elect to have up to 50% of certain pension income reported by the other spouse.
11. If you are providing services to a small number of clients through a corporation (which would otherwise be considered your employer), 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.

TAX TICKLERS... Some quick points to consider

- CRA has released a smartphone APP that alerts users of their tax filing and payment deadlines (for corporate tax, payroll, and GST/HST accounts).
- If child care expenses are incurred, you may be eligible for a tax deduction on your personal tax return.
- Ignoring a request to file a tax return from CRA may result in serious tax implications.

SMALL BUSINESS JOB CREDIT: Small Employers Save on EI Premiums

On September 11, 2014, Minister of Finance Joe Oliver announced the introduction of the **Small Business Job Credit**. The credit will be **automatically** administered (no need to apply) to eligible businesses that pay **employer EI premiums** equal to or **less than $15,000** in **2015** and/or **2016**. The credit is expected to be worth approximately **39 cents per $100** of insurable earnings.

For example, at 2014 rates, the employer EI premiums payable for an employee earning $48,600 totals $1,279. For 2015, a savings of approximately $190 would be experienced for the same pensionable earnings.

Action item: ***No action needed – if eligible, your business will be automatically credited!***

PRINCIPAL RESIDENCE: Partial Conversion to an Office

In an August 7, 2014 **Technical Interpretation**, CRA commented on a situation where an individual **converted** the **basement** of his **principal residence into an office** (including the addition of a **separate entrance**) to be used by his **Corporation**.

When a portion of a personal use property is converted into business use, a **disposition is deemed** to occur on the converted portion. This means that the principal residence exemption will no longer be available for that portion.

However, it is CRA's practice to **not deem** changes as **dispositions** when:

- the property **retains its character** as a primary residence;
- **no capital cost allowance** has been requested on the building; and
- **no structural change** has occurred.

CRA opined that the changes in this case, which included the opening of an exterior wall, could be **considered a structural change**. Therefore, a **disposition** may be deemed to occur.

It was also noted that the **Corporation** would **pay** for the **improvements** to the property. If the renovations **increased the value** of the residence, the Corporation may be deemed to confer a **taxable advantage on the shareholder**.

Action Item: ***Contact us before converting a portion of your house into an incoming earning asset or office.***

TAX PAYMENTS: Doing it Online

On August 11, 2014, CRA released information regarding their online **payment service** which allows **individuals** and **businesses** to **pay tax bills** directly from their bank. This option can be used if the taxpayer has an account at one of the following **financial institutions**:

- BMO Bank of Montreal (personal only)
- Scotiabank
- RBC Royal Bank
- TD Canada Trust
- Envision Financial
- Libro Credit Union

Transaction totals are subject to the account's **daily** or **weekly limits** as determined by the financial institution.

Action Item: ***Consider paying your tax bill online.***

COLLECTIONS AT THE CRA: Options When You Can't Pay Your Tax Bill

On May 5, 2014, CRA updated their article, **When You Owe Money – Collections at the CRA**, which discussed **programs available** should taxpayers not be able to pay their tax debt in full. Such programs may include a **payment arrangement**. The website also references other websites that taxpayers may find useful: IC98-1R4 – **Tax Collection Policies**, IC13-2 – Government Program Collection Policies, and IC13-3 – Customs Collections Policies, as well as a link to the Office of the Superintendent of **Bankruptcy website.**

Action Item: ***If you think you may struggle to pay your tax bill, contact us earlier, rather than later, so we can help to find a solution.***

ESTATE PLANNING: Consider all Digital Assets

When Estate planning, consideration should be given to **digital assets** held by an individual. Digital assets can span a wide range including **social network accounts**, **websites**, **photos** and **videos**, **email accounts**, **online documents** (ex. used in **banking** or **investments**), and **online businesses**.

When planning, consider the following four steps:

- **Make a list** of digital assets and passwords;
- **Draft instructions** for the Executor to set out wishes;
- Consider naming a **digital Executor** to deal solely with these assets; and
- **Store the information securely**.

To date, **technology** is **outpacing** the **law** in this area and specialized legal advice may be required.

Action Item: ***Include a summary of, and directions with regards to online accounts and assets in your Will, or an attached note, as applicable.***

TRANSFERS OF ASSETS TO A CORPORATION: There may be a Tax Cost!

In a July 29, 2014 Tax Court of Canada case, the taxpayer **transferred oilfield equipment** (Equipment) **to his Company** in 2004 and 2005 in return for fair market value proceeds of $135,000 and $73,500 respectively. The taxpayer did not report any gains for 2004 on the basis that the adjusted cost base (ACB) of the Equipment was equal to the proceeds. For 2005 the taxpayer reported a gain of $43,500. In this case, the assets were acquired over time, often from related business ventures, and limited or no records were available.

CRA reassessed on the basis that:

- the Equipment transferred was **inventory rather than capital** (this means that 100% of the gain on sale would be taxable as opposed to 50%);
- the **ACB** for the two years of transfers was only **$30** because there was no evidence to support the contrary; and
- **GST** should apply on the transfer.

Subsequently, CRA issued a **second reassessment** to increase the proceeds again by $90,093. This reassessment was issued **outside the three-year period** in which CRA is normally allowed to reassess.

Taxpayer loses

The Court found that the taxpayer's **evidence** to support the original amount paid for the Equipment, the ACB, was **insufficient** to rebut the Minister's assumption that it was only $30. Therefore, the gains on sale were increased from $0 (in 2004) and $43,500 (in 2005) to almost $135,000 and $73,500 respectively.

The taxpayer was also found to be **liable for GST** on the sale of the Equipment to his Company.

Action Item: ***Retain receipts for capital purchases. Not doing so could result in a reassessment based on a nominal cost base and an inflated tax liability***.

Taxpayer wins

The Court determined that the **long period** that the taxpayer held the Equipment prior to selling it was more indicative of a **capital investment** than an inventory investment. Therefore, the sale was held to be on account of capital rather than inventory.

Also, the Court found that the **second CRA reassessment** to increase the proceeds was not valid (it was **statute-barred)** as the taxpayer did not make a misrepresentation attributable to neglect, carelessness or willful default.

Action Item: ***Contact us if CRA has questions or is proposing an audit.***

RENOUNCING U.S. CITIZENSHIP: It's Getting More Expensive

Up to 2010, there was no **expatriation** application **fee charged** by the IRS. However, in 2010 the State Department introduced a fee of **$450**. This fee rose to **$2,350** on **September 12, 2014.**

Action Item: ***Renouncing your US citizenship takes time and money. Carefully consider before making this decision.***