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**YEAR-END TAX PLANNING**

**80(1)**

1. If the following **expenditures** are made by **individuals** by **December 31, 2007** they will be eligible for 2007 tax deductions: moving expenses, child care expenses, safety deposit box fees, charitable donations, political contributions, medical expenses, and alimony.



2. **2007 eligible Registered Retirement Savings Plan (RRSP) contribution** amounts are noted on the 2006 **personal income tax return assessment notices**. You have until **February 29, 2008** to make tax deductible RRSP contributions for the 2007 year.

Consider contributing to a **spousal RRSP** to achieve income splitting in the future.

3. The 2007 Budget changed the **RRSP conversion age** from **69 to age 71** for 2007. **Special rules** apply to persons age 69 or 70 who have already converted their RRSPs to an annuity or a Registered Retirement Income Fund.

4. If you own a business, consider paying a **reasonable salary** to family

members for services rendered to the business.

5. An individual whose **2007 net income** exceeds **\$63,511** 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 **\$30,936**.

Contact your professional advisors for assistance in **managing** 2007 personal income.

6. Consider purchasing assets eligible for **capital cost allowance** before the year-end.

7. If you had taxable capital gains in the **year**, or any of the **preceding three years**, consider selling capital properties with an **underlying capital loss** prior to the year-end. This capital loss may be offset against the capital gains.

8. **Registered Education Savings Plan (RESP)**

A **Canada Education Savings Grant (CESG)** for RESP contributions will be permitted equal to 20% of annual contributions for children (maximum \$500 per child per year).

The **\$4,000** annual RESP **contribution** limit has been **eliminated** and the **lifetime** limit has been increased to **\$50,000** from \$42,000.

9. **Health and dental premiums for the self-employed**

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**Individuals** will be allowed to **deduct** amounts payable in respect of the year for **Private Health Service Plan** coverage in computing **business income** provided they meet certain criteria.

**10. Tax on Split Income**

The Income Tax Act applies the **maximum marginal tax rate** to certain **passive** income of **individuals** under the **age of 18**. Therefore, consider **minimizing** this type of income in **2007**.

11. A **refund** of **Employment Insurance** paid for non-arm's length employees **may** be available upon application to CRA.

12. Taxpayers that receive "**eligible**" dividends from private and public corporations will have a significantly lower tax rate on the dividends. **Noti-**

# Tax Tips & Traps

**fication** from the corporation to the shareholder is required. See 80(2) - #2.

13. Eligible **public transit passes** will be entitled to a tax credit.
14. A **\$500 fitness tax credit** for children under 16 enrolled in certain organized sports will be available commencing in 2007.

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## 2007 REMUNERATION

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### 80(2)

Some **general guidelines** to follow in **remunerating the owner** of a **Canadian-controlled private corporation** earning "**active business income**" include:



1. **Bonusing down** active business earnings in excess of the **annual business limit** may reduce the **overall tax**. However, leaving corporate **active business income** over this amount presents a **tax deferral**. The **disadvantage** of the additional tax on dividends has been significantly **reduced** or **reversed** with the new **lower tax rates** on "**eligible**" dividends.

**Professional advice** is needed in this area.

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**.

Please contact your **professional advisor** for advice before paying an **eligible** or **ineligible** dividend.

3. Elect to pay out tax-free "**capital dividend account**" dividends.

4. Consider paying dividends to obtain a refund of "**refundable dividend tax on hand**".
5. Corporate earnings in excess of personal requirements could be left in the company to obtain a **tax deferral**. The effect on the "**Qualified Small Business Corporation**" status should be reviewed before selling the shares.
6. **Dividends**, as opposed to salaries, will reduce an individual's **cumulative net investment loss** balance thereby providing greater access to the **capital gain exemption**.
7. Excessive **personal income** affects 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 Canada Revenue Agency (CRA) on a timely basis.
9. Individuals that wish to contribute to the Canada Pension Plan or a Registered Retirement Savings Plan may require a **salary** to create "**earned income**".
10. **Salaries** paid to family members must be **reasonable**.
11. Some provinces have "**payroll taxes**" thereby increasing the costs of paying salaries versus dividends.

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## PERSONAL TAX RETURNS

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### 80(3)

#### SCHOLARSHIP/FELLOWSHIP EXEMPTION

In a May 1, 2007 **External Technical Interpretation**, CRA notes that the Income Tax Act **fully exempts** income received as a "**scholarship, fellowship or bursary**" where the income is connected to the individual's



enrollment at a **designated education institution**.

For a **university outside Canada** to be a "**designated educational institution**" it must be "a university... at which the individual... was enrolled in a course, of **not less than thirteen consecutive weeks** duration, leading to a degree".

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## ESTATE PLANNING

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### 80(4)

#### PENSION SPLITTING

The Income Tax Act permits **spouses** (or common-law **partners**) to **split "eligible pension income"** commencing in 2007.

Advantages include **shifting income** to a lower tax bracket spouse, reducing or eliminating the "clawback" of **Old Age Security**, reducing or eliminating the "clawback" of the **age amount credit** and, additional access to the **\$2,000 pension credit**.



#### CANADA PENSION PLAN (CPP) COLLECTED EARLY

To qualify for **CPP early** the person must be at least **age 60** and either have stopped working or **earned less** than the current monthly maximum CPP benefit in the month the **pension begins** and the **prior month**.

For example, if a person turned 60 in November, 2007, the first CPP cheque could come in December, the month after you turn 60. (Service Canada recommends that you **apply for** your pension **six months before** you wish the CPP to begin.) In this example, the taxpayer could go back to work in January, 2008 and, CPP would not apply on any of the future earnings.

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# Tax Tips & Traps

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When taking CPP early the amounts are reduced by *one-half of 1% per month*. For example, by taking the CPP five years early the CPP payments would be *30% less* than that which would have been received at age 65 (6% per year times 5 years = 30%).

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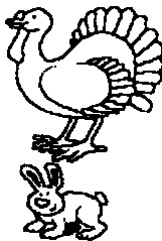
## GST

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### 80(5)

#### AGRICULTURE AND FISHING

In *GST/HST Memoranda Series 4.4*, CRA provides detailed information on the tax status of *agricultural and fishing* supplies including administrative guidelines.



#### DENTISTS - CROWNS, BRIDGES AND DENTURES

In a French *Tax Court* of Canada case, the taxpayer *dentist* claimed *GST Input Tax Credits* of \$14,900, of which CRA allowed \$2,195. The *issue* was whether that portion of the Appellant's dental practice that was attributable to the supply of *crowns, bridges and dentures* was a zero-rated, exempt or taxable supply. If zero-rated or taxable, the Appellant was entitled to *Input Tax Credits (ITCs)* in respect thereof. If *exempt, no ITCs* were available. The *tax status* and *allocation methods* were *analyzed* in this French case.

#### Taxpayer Loses

The taxpayer's *appeal* was *dismissed*.

#### INPUT TAX CREDITS

In a June 11, 2007 *Federal Court of Ap-*

*peal* case, the Court *disallowed* the *Input*

*Tax Credits* claimed by the taxpayer who had paid *GST* to a number of suppliers which, for various reasons, did *not* have *valid GST Registration Numbers*.

Even though it may *not be practical* to confirm the *GST/HST Registration* with *CRA* on *all purchases*, it would be *prudent* to confirm the numbers on more *material, potentially uncertain*, items. This confirmation may be done through a search on the *CRA website* (<http://www.cra-arc.gc.ca/eservices/tax/business/gsthstregistry/menu-e.html>).

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## WEB TIPS

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### 80(6)

#### SMALL BUSINESS FINANCE TIPS

If you are interested in learning more about *financing, investing or improving efficiency within small business*, check out:

<http://www.smallbusinessfinancetips.com/>



Although it is not specifically for Canadian businesses, this site still contains a highly applicable set of *tips and descriptions*. In addition, the content is primarily written by authors who practice in accounting. Therefore, the information is presented in terms consistent with our practices and processes.

Sections include:

*Finance Software, Business Loans, Building Credit, Cashflow Solutions, Controlling cash, Business Financing, Bookkeeping, Business Plans, and Useful*

#### Resources.

Each section gives a *quick description* of the topic, it *highlights the pertinent factors*, gives some *good tips* and then *provides links to additional resources*. For example, in the *Business Plans* section, a link to several templates is provided.

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## DID YOU KNOW...

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### 80(7)

#### ADMINISTRATIVE MONETARY PENALTY SYSTEM (AMPS)

The Canada Border Services Agency (*CBSA*) applies the *AMPS* which is a *civil penalty* designed to encourage *compliance* with Customs legislation.



A recent *CBSA* development notes that effective *January 31, 2007*, additional *AMPS* penalties are to be applied to directed self-corrections, at the conclusion of a compliance verification review or monitoring activity, where it was found an *importer* has previous "*Reason to Believe*" of the error. The approach defines the "*Reason to Believe*" criterion not on what the importer can reasonably be assumed to have known but on the assumption that the *importer ought to have known* it was making an error.



The preceding information is for educational purposes only. As it is impossible to include all situations, circumstances and exceptions in a commentary such as this, a further review should be done. Every effort has been made to ensure the accuracy of the information contained in this commentary. However, because of the nature of the subject, no person or firm involved in the distribution or preparation of this commentary accepts any liability for its contents or use.

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# Tax Tips & Traps

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