

In this edition:

YEAR-END TAX PLANNING

- ❖ 2013 YEAR-END TAX PLANNING TIPS 1
- ❖ 2014 REMUNERATION 2

This publication is a high-level summary of the most recent tax developments applicable to business owners, investors, and high net worth individuals. Enjoy!

YEAR-END TAX PLANNING

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.

SOME 2013 YEAR-END TAX PLANNING TIPS INCLUDE:

- 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, 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 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 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 purchasing assets eligible for the Scientific Research and Experimental Development Credit before year-end. Capital expenditures are not eligible as of January 1, 2014.



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- 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 or preceding three 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 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 from the corporation to the shareholder is required.
- 11) Taxpayers that receive "non-eligible dividends" from private corporations could generally save 2% of tax, depending on the taxpayers' province or territory if received in 2013 rather than 2014.
- 12) Eligible public transit passes will be entitled to a tax credit.
- 13) Tax credits for children under 16, or under 18 years if eligible for the disability amount, enrolled in fitness or artistic oriented organized activities is available.
- 14) 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.
- 15) 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.
- 16) 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.)

- 17) Consider restructuring your investment portfolio to convert non-deductible interest to deductible interest.
- 18) Are you a US Resident, Citizen or Green Card Holder? Consider US filing obligations with regards to income and financial asset holdings.
- 19) Do you have foreign property or investments? Consider the filing obligations in both the foreign country and in Canada.

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 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 distributing income via 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 - 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.



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- 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".
- 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.

RRSP contribution room increases by 18% of the previous year's "earned income" up to a yearly prescribed maximum (\$24,270 for 2014).

The preceding information is for educational purposes only. As it is impossible to include all situations, circumstances and exceptions in a newsletter such as this, a further review should be done by a qualified professional.

Although every reasonable effort has been made to ensure the accuracy of the information contained in this newsletter, no individual or organization involved in either the preparation or distribution of this letter accepts any contractual, tortious, or any other form of liability for its contents.

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