



YEAR-END TAX PLANNING

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Some **2009 year-end tax planning tips** include:

1. Certain **expenditures** made by **individuals** by **December 31, 2009** will be eligible for **2009 tax deductions** or **credits** including: moving expenses, child care expenses, safety deposit box fees, 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 amounts.
2. The 2009 Federal Budget proposes to introduce a temporary **Home Renovation Tax Credit** for expenditures made after January 27, 2009 and before February 1, 2010 in excess of \$1,000, to a maximum of \$10,000, resulting in a maximum Federal credit of \$1,350 (\$9,000 x 15%).



Please **provide details** of reno-

vation costs (example - carpets, landscaping, additions, fences, painting, etc.)

For details, see www.cra.gc.ca and click on **Home Renovation Tax Credit**.

3. You have until **March 1, 2010** to make tax deductible Registered Retirement Savings Plan (**RRSP**) contributions for the 2009 year.

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

4. If you own a business, consider paying a **reasonable salary** to family members for services rendered to the business.
5. An individual whose **2009 net income** exceeds **\$66,335** 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 **\$32,312**.

Contact your professional advisors for assistance in **managing** 2009 personal income.

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6. Consider purchasing assets eligible for **capital cost allowance** 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 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).



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

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

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

11. Taxpayers that receive "**eligible**" dividends from private and public corporations will have a significantly lower tax rate on the dividends. **Notification** from the corporation to the shareholder is required.

12. Eligible **public transit passes** will be entitled to a tax credit.

13. A **fitness tax credit** for children under 16 enrolled in certain organized sports 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 which are eligible for grants and bonds. Please contact your professional advisors for details.

munerating 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**.

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. **Dividend income**, 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**, **GST credits** and certain **provincial incentives**.

8. Salary payments require **source deductions** to be remitted to the Canada Revenue Agency 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**.

EMPLOYMENT INCOME

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CRA ADMINISTRATIVE CHANGES



On June 11, 2009, CRA introduced **policy changes** for employment benefits. For example,

Overtime Meals and Allowances Provided to Employees

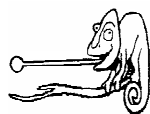
For 2009, CRA will consider **no taxable benefit** to arise if:

- the value of the meal or meal allowances is **reasonable**; a value

2009 REMUNERATION

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Some **general guidelines** to follow in re-



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of up to \$17 will generally be considered reasonable,

- the employee works **two or more hours** of overtime right before or right after his/her scheduled hours of work, and
- the overtime is **infrequent** and **occasional** in nature. Less than three times a week will generally be considered infrequent or occasional. However, this condition may also be met where the meal or allowance is provided three or more times per week on an occasional basis to meet **workload demands** such as major repairs or periodic financial reporting.

Loyalty Programs

For **2009**, CRA will **no longer** require **loyalty points** (e.g., frequent flyer points) that are **controlled** by the **employee** to be added as employment income by the employee as long as:

- the points are **not** converted to **cash**,
- the plan or arrangement is **not** indicative of an **alternate form** of remuneration, or
- the plan or arrangement is **not** for **tax avoidance** purposes.

Non-Cash Gifts and Non-Cash Awards

For **2010**, the following changes are being made to CRA's **gift and award policy**. The **current rules** are that up to **two gifts** and **two awards** costing **\$500 or less** are **non-taxable** to the employee but **deductible** to the employer.

- Non-cash gifts and non-cash

awards to an arm's length employee, **regardless of the number**, will **not be taxable** to the extent that the total aggregate value of **all non-cash gifts and awards** to that employee is less than or equal to \$500 annually. The total value in excess of **\$500 annually** will be taxable.

- In **addition** to the above, every 5 years a separate non-cash **long-service award** may also qualify for **non-taxable status** to the extent its total value is **\$500 or less**.

Editor's Comment

See your **professional advisor** for information on these and other **CRA administrative changes**.

ESTATE PLANNING

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DIRECTOR LIABILITY - UNPAID GST/HST

In a May 4, 2009 **Tax Court** of Canada case, the taxpayer/director was assessed for **personal liability** for **unpaid GST/HST** of \$236,344 plus **interest** of \$7,372 plus **penalties** of \$9,651 for a total of \$253,367.

Taxpayer Wins!

The Court noted that where the director has **little understanding** of **financial documents**, he may rely on others to handle the financial aspects without incurring personal liability for unpaid GST/HST.

Also, in a May 12, 2009 **Technical Interpretation**, CRA notes that **directors cannot** be assessed **more**

than two years after they cease to hold office.

Editor's Comment

Legal advice is needed in this area.

SUPERFICIAL LOSSES

In a January 22, 2008 **Technical Interpretation**, CRA notes that a **taxpayer's loss** from the disposition of **property** is deemed **nil** to the extent that it is a "**superficial loss**".

For example, this applies if the taxpayer sells a security which is then purchased, or repurchased, by a **Trust** governed by the taxpayer's **RRSP, RRIF or TFSA** within the period of **thirty days** before, or **thirty days** after, the disposition.

FARMING

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EASEMENT OR RIGHT OF WAY

In a June 4, 2009 **External Technical Interpretation**, CRA notes that if the property to which the **easement or right of way** pertains meets the definition of "**qualified farm property**" the landowner may be entitled to the **capital gains exemption**.



GST

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INPUT TAX CREDITS (ITC'S) – CAUTION

In **corporate structures**, it is **important** to ensure that it is the **recipient** of the **supply** that pays the expense and **claims** the **ITC**.



CRA has made **reassessments** where the **wrong person** in a **corporate group** has claimed the **ITCs**.

Editor's Comment

See your **professional advisor** for more information.

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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