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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. **Notifica-**

# Tax Tips & Traps

tion 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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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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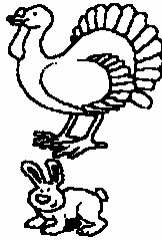
## GST

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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.smallbusinesstips.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.



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