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your
BUSINESS

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Year-End Tax Planning For 2012

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Although the end of 2012 is still several weeks away, many income tax planning opportunities for individuals and businesses must be taken care of before the end of the calendar year.

This newsletter contains a number of tax planning opportunities that you should think about before the end of 2012 as well as considerations for the first part of the new year.

Year-End Tax Planning For Individuals

Many deductions and credits are available for the 2012 tax year only if payments are made by December 31, 2012. These include:

- Investment counsel fees
- Carrying charges on investments
- Safe deposit box fees
- Professional memberships and union dues
- Charitable donations
- Medical expenses, including premiums paid for private health insurance and co-pay amounts
- Moving expenses
- Interest expenses
- Alimony and support payments
- Certain legal and accounting fees
- Political contributions
- Tuition fees
- Tax shelter investments
- Employment expenses (home office travel etc.)
- Contributions to RESP's to qualify for the 2012 Canada education savings grant

- For those who turned 71 in 2012, RRSP contributions may be made until December 31st.

Be sure to consider these before the end of the tax year.

RRSP Contribution Deadline: The deadline to contribute to your RRSP for 2012 is March 1, 2013!

If you are married, consider making a spousal RRSP contribution to take advantage of income in the future splitting. Although the pension income splitting provides a great deal of flexibility, spousal RRSP's still have their place, particularly if you plan to retire before age 65.

Stocks, Mutual Funds, and Other Investments: Be mindful of the timing of investment transactions. For most publically traded securities, sales and purchases must take place on or before December 24, 2012 to settle by December 31, 2012.

Mutual Fund Purchases: Many mutual funds distribute their income and capital gains during December. Consider delaying the purchase until after this distribution has been made to avoid being allocated the full year of income.

Investment Losses: Consider selling investments that have an unrealized loss before December 24th. If you intend to re-purchase the investment, be aware of the superficial loss rules and wait at least 31 days before re-purchasing.

GICs and Other Debt Certificates: If you are considering purchasing a GIC or reinvesting a maturing GIC, consider waiting until the new year. By doing so, you will defer interest on the new GIC by one full tax year.

Make Loans Deductible: As a general rule, consumer debt such as credit cards, car loans and mortgages are not tax deductible. Consider paying-off non-deductible debt with available cash or investments and then borrow funds to invest. By doing so, you can make the interest on your loans deductible.

The Tax-Free Savings Account: For most Canadians, the tax-free saving account (TFSA) is an excellent vehicle for short or long-term savings. Contributions are not-deductible but the investment income and subsequent withdrawals are completely tax-free.

Child Care Expenses: If you are considering the services of a nanny the cost for the nanny to travel from their home country and other related costs may qualify as eligible child care expenses according to a recent CRA interpretation.

Create Pension Income: Seniors who receive certain pension income are entitled to a tax credit for a portion of that pension income. Generally pension income includes income from RRIF's and registered pension plans.

If you do not currently have pension income, you may be able to create it by concerting a portion of an RRSP to a registered annuity or by purchasing a regular or fixed annuity. Speak to your investment advisor for assistance in creating pension income.

Year-End Planning For Business Owners

Depreciation: If you are planning to acquire new capital assets, consider making your purchase before your year-end to take advantage of capital cost allowance this year.

Health Care Expenses: If you are a sole-proprietor and pay the premiums on a private health insurance plan, these premiums as well as any co-pay amounts qualify for the medical expense tax credit.

Salary to Family Members: If you have members of your immediate family working in your business, you may pay them a reasonable salary or wage. The income paid will be deductible to the business owner (or corporation) making the payment and taxable in the family members hands.

The filing deadline for T5's & T4's is February 28, 2012. It is important to consider the right salary and dividend mix. You should evaluate the combined tax rate, impact of the employer's health tax, and your RRSP contribution limits. Also be mindful that if you pay yourself dividends you may attract the alternative minimum tax.

Eligible Dividends: If you have a corporation, you may be able to pay eligible dividends on taxable income earned over the $500,000 limit or income received as via dividends from investments in Canadian public companies. The personal rate of tax on eligible dividends is lower than dividends paid from income subject to the small business deduction.

Interest Rather Than Salary: If you are a shareholder and have lent your company money, consider having the company pay you interest on the loan rather than take a salary. The interest will normally be deductible by the company and will not attract the EHT.

Retirement Compensation Arrangements: In some circumstances a retirement compensation arrangement (RCA) can be used as an alternative to paying a bonus to an owner/manager or company executives.

The RCA provides future retirement benefits and can result in tax savings where retirement income is expected to be in a lower tax margin. The plan is also flexible in that annual contributions are not required and the investments and future income are not subject to the restrictions placed on registered retirement plans or pension plans.

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