

Take the time... It could well be worth it!

The end of the year is a busy time for many people – buying gifts, getting together with friends, celebrating the holidays, etc. The last thing you want is something added to your “to do” list. But, before the 1999 tax year closes (December 31 for individuals), you really should take time to review your tax situation to ensure you’re not paying more than necessary.

Here are a few year-end tax planning ideas you might consider.

Maximizing personal deductions/credits

Medical expenses

To claim the medical expense credit your medical expenses must exceed a threshold (the threshold for 1999 is \$1,614 or 3% of net income, whichever is less). If your medical expenses already exceed the threshold, you can maximize the credit by paying for additional expenses now that you anticipate will arise in the near future, for example, eye glasses or contact lenses, braces that might otherwise be paid for on an instalment basis, etc.

Creditable/deductible expenses

Certain amounts must be paid by December 31 to be creditable/deductible for tax purposes. The following are examples of some of the amounts you should ensure are paid by year’s end to maximize your credits/deductions:

- child care expenses,
- professional dues,
- charitable donations,
- political contributions,
- alimony and maintenance,
- accounting and investment counsel fees,
- safe deposit box rental fees, and
- contributions to registered pension plans.

Owner-managed businesses

Acquire capital assets before year-end

If you foresee buying capital assets in the near future, why not acquire them before the end of your business’ fiscal year? Under the capital cost allowance (CCA) system (depreciation for tax purposes), in the first year you own an asset CCA can be claimed at only one-half the usual rate. If you purchase assets now (and they are available-for-use before year’s end) you will be able to claim one-half the normal CCA this year (even though you’ve

only had the assets for a fraction of the year) and next year you can claim full CCA.

Salary and bonuses

Because the first \$200,000 of active business income of a Canadian-controlled private corporation is taxed at a lower rate, consider having the company pay out sufficient salary and bonuses to reduce the corporation’s income to \$200,000. Remember that to be a deductible expense, salaries and bonuses declared must be paid within 180 days of the company’s year end.

Also, ensure that the salary/bonus you are paid is enough for you to have sufficient earned income in 1999 for you to claim the maximum RRSP deduction in 2000. (The maximum contribution to an RRSP for 2000 is \$13,500, which requires 1999 earned income of \$75,000.)

Minimizing capital gains

Offset your capital gains with capital losses

Capital losses can be applied to offset capital gains. So, if you realized capital gains this year, consider disposing of assets with accrued losses before year’s end.

Even if you don’t have any capital gains this year, because you can carry back capital losses for up to three years, you might want to trigger the capital loss now and apply it to a previous year.

If you decide to realize a loss by selling shares traded on an exchange before year’s end, remember to factor in time for settlement, which can take a few days, depending on the applicable rules. Also, don’t forget that at the end of December exchanges may be closed on certain days for the holidays. To ensure your trade will be executed before the end of 1999 it’s best to place trade orders as soon as possible.

Utilize your capital gains exemption

If you have qualified small business corporation shares or qualified farm property with accrued gains, consider triggering the gain (sometimes called “crystallizing” it) so that you can take advantage of the \$500,000 enhanced capital gains exemption. This suggestion is likely to be especially appealing to those who worry that one of these days the government may decide to eliminate this exemption, as it did in 1994 with respect

to the basic \$100,000 capital gains exemption. We don't necessarily think this will happen, mind you (our crystal ball is no clearer than yours on this) – but it is always possible and if you have such assets, you should at least consider whether crystallizing the gain makes sense for you now.

Investment income

Delaying certain investments

All distributions of income and capital gains made any time in 1999 must be included in your 1999 income. Many mutual funds distribute income and capital gains once a year, often on December 31. If you own units of a fund on the distribution date you will be allocated a full share of that year's income and gains, regardless of how long you have owned the units. Therefore, if you are thinking about purchasing units in a mutual fund, consider deferring the purchase until early January to ensure you will not be allocated income or gains for 1999.

Miscellaneous

Dividends to children

In the 1999 Federal Budget the government announced new measures that will apply to prevent individuals from splitting income with minor children beginning in 2000. Under the proposed "kiddie tax", taxable dividends (other than those paid by publicly-traded companies) earned by a minor, whether directly or through a trust for the child's benefit, will be carved out of a child's taxable income and taxed separately at the top marginal rate and the minor will not be able to claim personal credits to reduce this tax. (Certain other business income of a minor derived from particular partnerships or trusts are also subject to the kiddie tax, but a discussion of such income is beyond the scope of this article. If you have minor children earning business income from a partnership or trust we would be happy to discuss whether the kiddie tax might apply.)

Given that the new tax is to become effective January 1, if you have an income splitting plan already established with minors receiving dividends that will become subject to the kiddie tax, you might consider declaring larger dividends this year, before the tax takes effect.

Contribute to an RESP

Registered Education Savings Plans (RESPs) have become more attractive since the introduction of the Canada Education Savings Grant (CESG) in 1998. Under the CESG the government adds a grant equal to 20% of the contribution to the child's RESP (to an annual maximum of \$400). The grants accumulate in the RESP along with your contributions to the plan until your child goes to college or university.

If you fail to make an RESP contribution in a year, or if your

contribution yields a grant of less than the maximum, the unused CESG room is carried forward, but your ability to utilize CESG room in the future is limited. Therefore, if you are considering making an RESP contribution, it is beneficial to make it before the end of the year to ensure that the CESG is maximized.

Interest on loans from your employer

You will have a taxable benefit if you received a low-interest loan from your employer during the year. The benefit is based on the prescribed interest rates applicable for the time the loan was outstanding. The taxable benefit is reduced by any interest on the loan that you pay during the year or within the first 30 days of the next year. So, consider paying interest on such loans by January 30, 2000.

Contribute to your RRSP

It's really nothing you haven't heard before – be sure to maximize the amount you contribute to your RRSP. Your 1998 Notice of Assessment should have Revenue Canada's calculation of your 1999 contribution limit, but in any event, the limit for 1999 is 18% of your 1998 earned income, to a maximum of \$13,500. If you are a member of a registered pension plan or a deferred profit sharing plan the maximum contribution will be less (because of the so-called "pension adjustment"). You also can over-contribute to your RRSP by \$2,000 without being penalized. (But be careful that you don't exceed the over-contribution limit because the penalty for doing so is fairly stiff.)

RRSP contributions made through February 29, 2000 are eligible for deduction for 1999 tax purposes.

Conclusion

Regardless of whether any of the suggestions mentioned here seem applicable to you – perhaps the most valuable suggestion we have is that you should sit down and review your situation *now* to see whether there are any planning methods you should implement before December 31.

The ideal tax plan

Though we've highlighted a number of things you should consider as the end of the year approaches, we must remind you that, ideally, tax planning should not just be a year-end activity. You should be monitoring your situation throughout the year to ensure you are on-side, for example, there are numerous things you must do during the year to avoid penalties and/or interest, including ensuring that you are making proper instalments and that the foreign content of your RRSP never exceeds 20% of the value of the RRSP.

We would be happy to review your personal situation with you to help ensure that you minimize your 1999 taxes as much as possible and to help ensure you're on top of things throughout 2000.

Notice To Reader

Rich Rotstein publishes this newsletter to inform readers of current developments in numerous areas. It is neither a definitive analysis of any law, nor a substitute for professional advice.



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