The Owner Manager

YEAR END CONSIDERATIONS
DECEMBER 31, 2001

As we draw to a close of the year 2001, year end tax planning should be given top priority as it relates to your personal and corporate affairs. In this regard we would suggest the following matters be considered.

1. RRSP

Contribute to your RRSP's as soon as possible as the more you increase your capital to finance your retirement the greater the cash flow will be. For 2001, you can claim an RRSP contribution of up to 18% of income earned from employment or business in 2000 up to a maximum of $13,500. You are allowed to make an excess contribution of as much as $2,000 without it being subject to the 1% per month special tax. If you contribute less than the maximum allowable amount to your RRSP in a previous year, you can use your unused RRSP contribution room for 2001 by contributing an additional amount equal to the amount of the unused room. Again, don't wait too long to make up unused room or you will end up with a smaller accumulation of capital in your RRSP when you retire and when you really need the additional cash flow. The contribution must be made by March 1, 2002.

2. RRIF

If you turn 69 in 2001, you must terminate your RRSP no later than December 31 of that year. Do not wait until the last minute to plan for your RRSP maturing. If you do not make appropriate decisions by December 31, the full market value of your RRSP will be added to your taxable income in 2001. There are many options available including, but not limiting to, transferring your RRSP to a Registered Retirement Income Fund or (RRIF), receiving an annuity, receiving a lump sum, or choosing a combination of these options. You must act now to make the appropriate choice. If your spouse is younger than you, consider creating a spousal RRSP so that you can contribute to the spousal plan until your spouse turns 69, provided of course, that you have unused contribution room. Don't forget that any assets or funds transferred to this spousal plan become the property of the spouse.

3. Borrow Funds

Interest paid on funds borrowed to make an RRSP contribution is not deductible so therefore you must consider the advantages of whether or not to borrow or not borrow funds. If you do borrow, make sure that the earnings in your RRSP are growing at a higher rate than your interest payment.

Two recent income tax cases (Singleton, Ludco) may now allow you to use your equity in investment assets to purchase a personal use asset, then borrow funds to re-purchase/re-invest in the investment asset and deduct the interest expense. Consult with your advisors first before undertaking such a transaction.

4. The $500,000 Capital Gains Exemption

Shares in a qualified small business corporation and qualified farm property (including shares of a corporation or partnership interest) still qualify for the lifetime capital gains exemption. However, if you have already claimed the $100,000 personal capital gains exemption, which was abolished in 1994, you are now only entitled to an exemption to a maximum of $400,000. If you plan to use this exemption in the current year or subsequently and if you have an outstanding cumulative net investment loss (more popularly referred to as CNIL) as at December 31, 2001, you cannot claim the full exemption before using up the CNIL amounts, that is, you must reduce the CNIL to zero. If you are a shareholder of a private corporation, the quickest way to reduce your CNIL is to increase your investment income, and particularly the interest or dividend income you receive from the corporation. However, you should consult your tax professional before adopting any of these strategies as ABIL deductions in item #6 affect the use of the capital gains exemption as well.

5. Capital Losses

If you suffered capital losses in the current year, you can use these losses to reduce your taxes for the current year. Of course, now you are going to ask, How? By using the current year's capital loss against any capital gains realized in the current year, you can net out as to the amount that will be ultimately taxable. Be careful! Superficial loss rules prevent the taxpayer from claiming a capital loss on an asset that the taxpayer clearly intended to continue to hold. Therefore, if you purchase an identical asset within 30 days of selling the first asset, these rules will apply. Complicated? - You betcha! Again, consult your tax professional before arbitrarily realizing your capital losses. Be cognizant of non-arms length sales and/or sales to affiliated persons.

6. How To Offset Taxable Income With An Allowableable Business Investment Loss (ABIL)

If you are fortunate enough to have an ABIL, you will be able to reduce your overall taxable income. In fact, although capital losses can only be used to reduce capital gains, an ABIL can be used to reduce your overall income. However, the paperwork, the documentation, the overall financial details must be in place prior to claiming this ABIL on your tax return. Proper preparation and detail as to planning will go a long way in allowing you to have this ABIL claimed properly on your tax return and accepted.

7. Investments Deadline

When making your investment decisions for year end purposes, remember that security transactions are often finalized on the settlement date, that is, 3 business days after the trade date. The last date allowed for trading securities in 2001 is December 24. If the transaction is a cash sale (payment made and security documents delivered on the trade date) you have until December 31, 2001.

8. Defer Your Income

Good year end tax planning often includes, among other measures, deferring some income to the next year. Therefore, it may be advantageous to shift taxable income to the year 2002 as tax rates for individuals begin to decrease. This planning must be measured when one considers if their income for next year will be substantially higher or substantially less. Each case is different and your tax professional can be very helpful for budgeting these decisions.

9. Donations

If you have not already done so, now is the time to reconsider your donations program for 2001 and benefit from the charitable donations tax credits. Federal credits are equal to 17% of the first $200 paid in the year and 29% for any donations in excess of $200. Have you even considered donating shares of public companies?

10. Tax Advantage of Tax Shelters

Beware - beware - beware! Tax shelters are a wellknown means of reducing income taxes. However, many Canadians have discovered, the hard way, that the most important aspect of a tax shelter is the quality of the product and not the immediate tax savings that may be had. Therefore, before making any decisions, no matter how simplistic they would appear on the surface and no matter how enticing, we strongly recommend and urge you to consult your tax professional before doing anything as it relates to tax shelters.

11. Shareholder Loans

If you have borrowed money from your corporation, you must repay the loan before the following fiscal year end so as to avoid being taxable in your hand as a shareholder benefit. If you delay, the full amount of the loan will be added to your income for the previous year. The exception is if the loan is made to an employee shareholder for purchasing a residence, securities issued by the employer or a car for work purposes. Interest on shareholders' loans are considered a taxable benefit.

12. Bonus

A small business tax deduction is available to Canadian controlled private corporations with active incomes of less than $200,000. If the annual business income of your company exceeds $200,000, the company could pay out a bonus to bring its income below $200,000. However, you must be aware of the fact that this bonus must be paid within 180 days of the corporation's fiscal year end as well as the income taxes thereto applicable within the appropriate time period after the 179 day period. A less enhanced small business deduction limit was extended for incomes between $200,000 to $300,000. Consult your advisors if this additional limit is beneficial to you.

13. Foreign Content of RRSP's

Finance Minister, Paul Martin, finally yielded to pressure and increased the foreign content limits for RRSP's to 30% for the year 2001. Foreign content rules apply to each separate RRSP they have and are based on cost, or book value, not market value of the investment.

14. Same Sex Partners

They are now recognized under the Income Tax Act. Court decisions over the past 18 months have ruled that same sex partners are entitled to pensions and survivor benefits on the same basis as opposite sex couples. Starting with the year 2001 tax year, same sex partners will be able to contribute to spousal RRSP's and to roll over RRSPs tax free to spouses in the same circumstances as opposite sex couples.

15. RRSP's - Children

Another example of often overlooked opportunity involves advising clients and their children about setting up an RRSP, even before the deduction becomes useful. This can build strong savings habit, long term investment growth and a big fat deduction when children finally start paying taxes. A single RRSP contribution of $400 at age 10 compounding at an average return of 9%, will grow to almost $46,000 by the time the child is 65. Therefore, if the child makes $400 contribution every year until he turns 19, he will have more than $300,000 in his RRSP. You may suggest that once the child turns 19, the child can add the over-contribution amount of $2,000 to the RRSP and the RRSP will grow to more than $425,000 by the time that child turns 65. Amazing!

16. Contribute to RESP

Registered Education Savings Plans are becoming more attractive since 1998. The government grant is equal to 20% of the contribution to the child's RESP (to an annual maximum of $400). These grants accumulate in the RESP along with contributions to the plan until the 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. (Canada Education Savings Grant or CESG).

17. Summary - RRSP Season

a) Don't wait until the rush of the RRSP season before contacting your professional.

b) Meet with your professional to review your current situation to see that you have been maximizing your contributions.

c) Obtain copies of your RRSP summary information, ie. the annual notice of assessment or reassessments from the Canada Customs and Revenue Agency, and make sure that it reconciles with the T-1 returns properly filed.

d) With a little bit of creativity, you should be able to increase the amount of your annual RRSP contributions from a family perspective.

18. Top Marginal Tax Rates - 2001 and 2002

The following charts provide a summary of key Ontario top personal and corporate tax rates for 2001 and 2002. These rates should be carefully considered when mapping out tax planning strategies with your advisors, but remember that tax rates are always subject to change.

Personal Tax Rates (%)
Federal & Ontario Combined Top Marginal Tax Rates

2001		
Interest & Ordinary Income	Capital Gains	Canadian Dividends
46.41	23.20	31.34

2002		
Interest & Ordinary Income	Capital Gains	Canadian Dividends
46.41	23.20	31.34

2001 Ontario Corporate Tax Rates (%)

	Active Business Income			Investment Income
	Up to $200,000	$200,000 to $250,000	$250,000 to $300,000	All Amounts
M&P	19.49	28.49	37.46	49.41
Non M&P	19.49	28.49	40.57	

over $300,000 non M&P increases to 46.57%
M&P - manufacturing and processing

2002 Ontario Corporate Tax Rates (%)

	Active Business Income			Investment Income
	Up to $200,000	$200,000 to $280,000	Over $280,000 *	All Amounts
M&P	19.12	28.12	36.45	48.29
Non M&P	19.12	28.12	42.95	

* Non M&P between $280,000 & $300,000 = 38.95%

All of the above should be done in conjunction with your professional, so that you can maximize the benefits of year end planning. These suggestions are not all inclusive and are a guide only. They are not intended to be a substitute for competent professional advice. No action should be initiated without consulting with your professional advisors.

Yours very truly,

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