
2011 Year End Tax Planning Letter

Dear Clients and Friends,

As we count down the days until the end of the year, now is the time to consider personal tax planning measures that could help reduce your 2011 tax burden.

New and Improved Tax Credits

The 2011 budget introduced a new “Children’s Arts Tax Credit” and made changes to some existing credits: “Tuition Tax Credits” and “Medical Expense Tax Credit for Dependents”.

Children’s Arts Tax Credit

- The Children’s Arts Tax Credit is available for fees paid for the enrolment of a child under 16 years of age.
- The fees paid should be in an eligible program of artistic, cultural, recreational or developmental activities.
- You can claim a 15% non-refundable tax credit based on a maximum of \$500 of the fees paid for the program per year per child.
- A 15% non-refundable tax credit may be claimed on an additional \$500 for a child who is eligible for the disability tax credit and is under 18 years of age.

Tuition Tax Credits

- Fees paid for an examination to obtain professional status recognized by federal and provincial statutes can now be claimed as a tuition tax credit.
- Examination fees paid to an educational institution, professional association or provincial ministry will qualify.
- The proposed new rules also reduce the required duration of attending courses at foreign universities from 13 consecutive weeks to three consecutive weeks.

Medical Expense Tax Credit for Other Dependents

- A caregiver can claim eligible expenses under the medical expense tax credit (“METC”) for a dependent relative.
- The proposed new rules removes the \$10,000 limit on eligible expenses claimed as METC.

New Partnership Rules

- Effective January 1, 2011, new filing requirements were introduced for partnership information returns.
- The new filing rules replace the requirement based on the number of partners with a requirement based on

financial thresholds and clarifies the filing requirement for the types of partners.

- Proposed new rules limit the deferral opportunities for corporations with a significant interest in a partnership that have a different fiscal period than the partnership.
- The corporations will now be required to accrue income for the portion of the partnership’s next fiscal period that falls within the corporation’s taxation year.
- Partnerships may wish to consider aligning their fiscal year to coincide with their partners.

Tax on Split Income (“Kiddie Tax”)

- Proposed new rules extend the tax on split income to certain capital gains realized by or included in the income of the minor.
- These rules apply to capital gains on a disposition of shares of a corporation to a related person where any dividends on such shares would have been subject to kiddie tax. Such capital gains will be treated as dividends and be subject to kiddie tax.
- The above gains will be ineligible for the lifetime capital gains exemption.
- The rules apply to capital gains realized after March 22, 2011.

Registered Retirement Savings Plans

- New rules were announced to introduce certain restrictions on private company shares held in an RRSP after March 22, 2011. A special tax of 50% of fair market value will apply on the acquisition of such investments and the income earned on such investments will be subject to 100% tax.
- The maximum contribution room for 2011 is limited to the lesser of \$22,450 or 18% of your 2010 ‘earned income’ minus your pension adjustment. Your available contribution room should also be printed on the Notice of Assessment from Canada Revenue Agency (“CRA”).
- The deadline for your 2011 contribution is February 29, 2012. If you have excess cash available, consider making your 2012 contribution early – any time after January 1, 2012.

If you wish to obtain more information on any of the above, please contact your adviser at Segal LLP to review your situation and determine what steps might be taken before the year-end and in the new year to minimize your taxes.

- A salary of at least \$127,611 is required in 2011 to earn the maximum RRSP contribution room of \$22,970 for the 2012 taxation year.
- If you are turning 71 years old in 2011, you must terminate your RRSP this year. You can convert the RRSP into a Registered Retirement Income Fund, into an annuity, or it can be withdrawn in a lump sum. You must make your 2011 RRSP contribution by December 31, 2011.
- If you are terminating your RRSP in 2011 and you have earned income, consider making an over-contribution to your RRSP. This will result in a tax deduction for 2012 even though you can no longer contribute to your RRSP in that year. Since the over-contribution will be subject to a 1% penalty per month, it is advisable that the contribution be made in December to minimize the penalty.
- Consider making a contribution to a spousal RRSP to achieve income splitting in the future. The contributions will grow tax-deferred until withdrawn, and will be taxed in the spouse's name at that time. The contributor is entitled to the deduction at the time the contribution is made.
- A spousal RRSP is particularly useful if you are over 71 but your spouse is younger than 71. Although you may not be permitted to contribute to your own plan, you are permitted to make contributions to a spousal plan provided the spouse is under 71 at the end of the year.
- Even if your children have no tax to pay, you may wish to file tax returns on their behalf. If they have 'earned income', they will generate RRSP contribution room which can be carried forward indefinitely.

Registered Disability Savings Plan

- The RDSP program is available to any Canadian resident that is eligible for the disability tax credit.
- Effective July 1, 2011, the RRSP or RRIF of an individual after death can be rolled over to a RDSP, subject to certain conditions.
- The RDSP beneficiaries with shortened life expectancies can withdraw more of their RDSP savings without triggering the 10 year repayment rules, subject to certain conditions.

Registered Education Savings Plan

- Proposed new rules offer greater flexibility to the subscribers of individual RESPs. Transfers between individual RESPs for siblings will be allowed, subject to certain restrictions. This change is intended to permit the same flexibility regarding the allocation of RESP assets among siblings as exists for RESP family plans.

Tax-Free Savings Account

- The Tax Free Savings Account ("TFSA") Program permits Canadian residents 18 years of age or older to contribute \$5,000 annually to their TFSA.
- A TFSA is similar to an RRSP as income and capital gains earned within the TFSA will not be taxable. However, unlike an RRSP, the contributions will not be deductible and withdrawals will not be taxable.
- Funds can be given to a spouse to establish their own TFSA and the normal attribution rules will not apply.

Make a Charitable Donation

- If your contributions are in excess of \$200, you will benefit from a greater level of tax savings. Since the CRA permits either spouse to claim the donations, you should have one spouse claim all donations made by both spouses.
- If you have little or no tax owing this year, you may choose not to claim the charitable donation. Unclaimed charitable donations can be carried forward for up to 5 years. Consider saving your unclaimed donations for a future year.
- One advantage of having the lower-income spouse claim all the donations is that the lower-income spouse may receive a tax refund that can be re-invested without the 'attribution rules' applying to tax the investment income in the hands of the higher-income spouse.
- Donations to US charities can only be claimed on your Canadian tax return if they were made to a prescribed university or to the extent that you have US source income.
- Instead of cash, donate stocks or mutual fund units that have unrealized capital gains. Capital gains taxes are eliminated on gains that are generated when publicly traded securities are donated directly to a charity, or to a private foundation.
- In prior years, donating flow-through shares instead of selling could eliminate the tax liability on the gains. New rules now limit the exemption from capital gains tax on donations of publicly listed flow-through shares, acquired after March 21, 2011.

Income-Splitting

- Consider making an investment loan to your lower-income spouse to split income earned on non-registered assets and reduce taxes on the income. The CRA allows these loans as long as you charge at least the CRA prescribed interest rate on the loan and document the interest payments. The set interest rate will apply for the duration of the loan. Payment of the interest is due at the end of the calendar year and must be paid no later than January 30th of the following year.

If you wish to obtain more information on any of the above, please contact your adviser at Segal LLP to review your situation and determine what steps might be taken before the year-end and in the new year to minimize your taxes.

- Other income-splitting strategies your professional advisor can help you with include hiring your spouse or child, and transferring capital assets to your children.

Tax Loss Selling

- Consider triggering capital losses before the end of the year to offset any capital gains realized in 2011 or in one or more of the last three years.
- Beware that specific rules prohibit you from buying an identical asset within 30 days of the sale.
- Normally stock transactions are settled within three business days. Due to weekends and holidays, consider completing all trades by December 23, 2011.

Adjust your December Instalments

- If your income has decreased since last year, you may be able to decrease your December instalment payment. Use caution since any under-payment will result in penalties and non-deductible interest charges.

Medical Expenses

- You can only claim medical expenses in excess of a minimum threshold. For 2011, the threshold is the lesser of 3% of your “net income” or \$2,052. So if your 2011 income exceeds \$68,400, you can only claim medical expenses in excess of \$2,052 paid in the year.
- You are permitted to select any 12 month period ending in 2011 when claiming medical expenses.
- You can plan for the timing of certain medical expenses, since they are claimable based on when they are paid. For example, you may wish to pay for orthodontic treatment in full before the end of the year, even if the treatment will span the next year.

Public Transit Tax Credit

- Remember to keep each receipt and pass to claim the credit.
- The public transit tax credit includes weekly passes and cost-per-trip electronic payment cards along with monthly passes.

Fitness Tax Credit

- Parents can claim up to \$500 of expenses incurred to send their children to an eligible fitness program. Eligible programs include activities that contribute to your child’s strength, endurance, flexibility, and balance. For example, swimming lessons, hockey or dance classes may qualify, so make sure to retain your receipts. The program must last for at least eight weeks, with at least one session per week.

Other Suggestions

- The following expenses must also be paid by December 31st in order to be claimed as a deduction for 2011.
 - Moving expenses
 - Charitable donations
 - Union/membership dues
 - Childcare expenses
 - Safety deposit box fees and investment counsel fees
 - Interest on student loans
 - Political contributions
 - Deductible alimony / maintenance payments

Also, if income in an inter-vivos trust is to be taxed on a beneficiary’s return, the income must be paid or payable to the beneficiary by December 31, 2011.

- Consider purchasing assets eligible for capital cost allowance before the year-end.
- Up to \$34,550 of ineligible dividends can be received by an Ontario resident who has no other income, without any income tax liability resulting. The Ontario Health Premium of \$450 will still be payable.
- Up to approximately \$51,000 of eligible dividends can be received by an Ontario resident who has no other income, without any income tax liability. However, there will be a minimum tax liability and the Ontario Health Premium of \$600 will still be payable.
- Consider reimbursing your employer for the personal usage of the Company’s car to avoid receiving a taxable benefit. The reimbursement relating to the standby charge must be repaid during the year. The reimbursement relating to the operating cost benefit may be repaid within 45 days after the end of the year.

Corporate Tax Rates

- Corporate tax rates for active business income are scheduled to decrease by 2% in 2012. As well, the Ontario rate will decrease by 0.5% for investment income. It may now be advantageous to incorporate a holding company for your investments.
- In prior years it was advantageous to operate a corporation as a personal services business (“PSB”) due to the low general corporate tax rates. PSB’s should be aware of the recent draft legislation which will eliminate the low tax rate advantages previously enjoyed.

Eligible Dividends

- If your company has a significant balance in the eligible dividend account, now is the time to consider paying a dividend to the individual shareholder. For shareholders in the highest bracket, the 2011 tax rate for an eligible dividend in Ontario is 28.19% compared to 29.54% in 2012.

Capital Gains

- If you do not receive all of the proceeds of sale upon closing, you may be able to defer some of the tax for up to five years. This can be extended to 10 years for farm property.
- Capital gains on the sale of shares of a qualifying corporation may be sheltered by the capital gains exemption, with a lifetime limit of \$750,000.
- If you have previously claimed an allowable business investment loss (“ABIL”) or if you have a cumulative net investment loss (“CNIL”), your ability to claim the capital gains exemption in 2011 may be restricted. Steps should be taken to rectify this issue in order to claim the capital gains exemption.

Shareholder Loans Should be Repaid

- If you or family members have borrowed money from a corporation in 2010, the loan must be repaid by the end of fiscal 2011. If the loan is not repaid at that time, it will be treated as income for 2010.
- Also, remember to pay any interest owing to the corporation by January 30, 2012 in order to avoid receiving a taxable benefit on unpaid interest.

Declare a Bonus

- Canadian controlled private corporations can take advantage of lower corporate tax rates if their taxable income is below \$500,000. In order to bring taxable income down to this level, consider declaring and accruing a bonus.
- The bonus must be paid within 179 days after the fiscal period.

- Consider planning ahead to determine whether declaring a bonus would be beneficial with the federal & provincial corporate tax rate cuts, as well as the decrease in the gross up factor for eligible dividends.

Interest Expense

- Interest may be deductible if it is incurred for the purpose of earning income from a business or from property, while interest on money borrowed for personal purposes is not deductible. Any excess cash should be applied first against paying off your non-deductible loans. You may also wish to consider restructuring your borrowings such that the interest incurred is tax deductible.

Family Trusts

- Now is the time to review your trust arrangements and to make sure all documentation is up-to-date and to ensure that all transactions are completed and recorded on a timely basis.
- With recent court decisions on the trust’s residency, it is important that you review the arrangements for family trusts set up abroad or in another province in determining where a trust is resident for Canadian tax purposes.

The information contained in this letter is of a general nature and is not intended to address the particular circumstances of any individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No action should be taken without professional advice.

Segal LLP | Taxation Services

Our Team

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Gerry has been a tax partner with Segal for many years and has helped in the development of this area of practice for the firm. In his specialized area, income taxation, he has dealt with complex issues for both personal and corporate income tax primarily for owner-managed clients. Gerry has initiated tax planning and implementation of highly tax effective structures resulting in the minimization and elimination of both personal and corporate income taxes both for ongoing investment income and sale of a business. Planning and implementation of estate planning structures are additional strengths and areas of expertise.

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Errol has extensive experience providing assurance and tax solutions. He is the primary tax advisor for large and mid-sized public and private corporations, and specializes as well in the financial sector where he provides counsel to a number of asset managers and their publicly traded and private funds. He is responsible for Canadian corporate tax planning, including corporate reorganizations, mergers and acquisitions, negotiations with tax authorities and personal tax planning.

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Andrew specializes in providing tax advice for Canadian corporations and non-resident investors, assisting them with estate planning, corporate reorganizations, mergers and acquisitions, and sophisticated personal tax planning.

He also has extensive experience working with real estate, professional corporations, and clients in the manufacturing, communications, and technology sectors.

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Our Team (cont'd)



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Warren has consulted on Canadian and International tax matters for over 7 years. His clients primarily include high net worth individuals and private corporations. He advises on tax matters for individuals immigrating to Canada and emigrating from Canada, corporate reorganizations, mergers, acquisitions, and the sale of a business. He has a successful track record in presenting appeals, managing tax negotiations, and presenting voluntary disclosures to the Canada Revenue Agency.



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Brian has dealt with complex tax issues for individuals and large to midsize corporations, both public and private. In addition, Brian has been asked to present in various internal and external tax courses.

Brian has experience in various complex tax matters including, corporate reorganizations, estate tax planning / trusts, Scientific Research and Experimental Development (SRED) claims, notice of objections and voluntary disclosures.

Brian is a member of the Certified General Accountants and has a number of years experience with an international firm and with Segal.