

YEAR-END TAX PLANNER 2011/2012

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Looking back to 2011 and **FORWARD TO 2012**

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Federal Highlights

Corporate income tax rates

The federal general and manufacturing and processing (M&P) rates dropped from 18% to 16.5% in 2011 and will decrease to 15% in 2012.

“Kiddie tax”

Now applies to certain capital gains realized or which are included in the income of a minor, after March 21, 2011.

Eligible dividends

Personal taxes on eligible dividends increased in 2011 and will further increase in 2012 (see Appendix I).

RRSP anti-avoidance

New rules impose penalties for certain transactions occurring and investments acquired after March 21, 2011.

Partnership information returns

- Filing requirements have changed for partnership returns with fiscal periods ending after December 31, 2010

Income deferral of a corporate partner

- A corporate partner will no longer be able to defer income from a partnership for the corporate partner's taxation year ending after March 22, 2011 where the partnership's year-end differs from the partner's.
- Corporate partners will be required to accrue estimated income from the end of the last partnership year-end to the corporation's year-end, effective for corporate year-ends after March 22, 2011.
- A one-time election may be possible to align the partnership's year-end with the corporate partner's, providing certain criteria are met.

Provincial Highlights

Small business rate

\$500,000 threshold is now applicable in all provincial jurisdictions except for Manitoba and Nova Scotia, which remain at \$400,000. Corporate rates are slated to decline in New Brunswick, Nova Scotia and Saskatchewan.

General and M&P rate

Reductions have occurred and are further expected in British Columbia, New Brunswick and Ontario (for non-M&P).

Capital tax

In 2011, applies only in Nova Scotia and will be phased out by July 1, 2012.

British Columbia Harmonized Sales Tax (HST)

Will cancel its HST and reinstate the former 7% Social Services Tax and 5% GST; targeted to be effective April 1, 2013.

Quebec Sales Tax (QST)

Rate increasing from 7.5% to 8.5% on January 1, 2011 and rising to 9.5% on January 1, 2012

Entrepreneurs

Dividends or salaries

- An owner-manager must determine the most tax-effective salary-dividend mix that minimizes overall taxes for the corporation and the relevant individuals. The owner-manager must consider marginal tax rates, impact of Alternative Minimum Tax (AMT), the corporation's tax rate, RRSP contribution room, provincial health and/or payroll taxes, CPP contributions and other personal deductions and credits.
- Consider paying eligible dividends in 2011 before the rates go up next year.
- If personal cash requirements are low, consider retaining income in the corporation to obtain the tax deferral, as corporate rates are likely less than personal rates.

Dividend payments

Required to follow specific procedures to designate dividends that qualify as eligible dividends.

Qualifying small business corporation/ Capital gains exemption

The decision regarding dividends and/or bonus may cause an increase in passive investments and could compromise the ability to claim the \$750,000 lifetime capital

gains exemption on the sale of the shares of the business.

Shareholder loans

Ensure that you repay shareholder loans from your corporation no later than one tax year after the end of the tax year in which the amount was borrowed.

Corporate income

If possible, defer taxable income to later years to benefit from declining corporate rates.

Depreciable assets

- The capital cost allowance (CCA) rate of 50% declining balance available for eligible M&P equipment, which was to fall back to 30%, has been extended for equipment acquired before 2014.
- Consider purchasing equipment prior to the end of your fiscal year to accelerate access to CCA (be wary of the available for-use rules).

Income to family members

Consider paying salaries to family members who work in the business. Keep in mind, the salaries must be reasonable. This would also allow the recipient to have earned income for child-care expense and RRSP purposes.

Remuneration accruals

For salaries and bonuses to be deductible, they must be accrued before the business's year-end and paid within 179 days thereof. Appropriate source deductions and payroll taxes must be remitted on time.

Private health services plan (PHSP) premiums

If you are self-employed, PHSP paid may be deducted from your self-employment income in certain situations. Premiums not deductible may be claimed as a medical credit.

Tax liabilities

Final corporate tax liabilities need to be paid within two months after year-end, and three months for certain eligible Canadian-Controlled Private Corporations (CCPCs).

Hiring credit for small business

Credit of up to \$1,000 if your business's employment insurance premiums increased in 2011 and were \$10,000 or less in 2010.

Employee stock options

Consider if it will be the employee or the employer who will take the appropriate tax deduction for cashed-out stock options (keep in mind that an election may be required).

E-filing of corporate income tax and information returns

- Required if corporate tax returns have gross revenues exceeding \$1-million.
- Required for information returns if more than 50 slips are submitted annually.

Scientific Research and Experimental Development (SR&ED)

- Remember that forgoing bonus payments (i.e., lowering income to the small business limit) may cause a CCPC's SR&ED investment tax credits (ITCs) to be non-refundable and subject to the lower ITC rate.
- File SR&ED claims no later than 18 months after the corporation's year end.

Personal Tax Matters

As an employee, what do I need to know?

Employment-related courses

Consider having your employer pay directly for job-related educational courses.

Gifts and awards

Subject to certain exceptions, non-cash gifts and awards with a total value of \$500 or less annually may not be taxable to you personally. Ask your employer to consider this option.

Employee loans

Pay 2011 interest on or before January 30, 2012.

Employee stock options

- Employee elections to defer the payment of tax on stock option benefits until the shares are sold are no longer allowed.
- Employers are now required to withhold and remit income tax relating to the taxable benefit realized when public company options are exercised.
- Discuss with your employer which of you will claim the deduction if you disposed of stock options for cash.

Home office

Ensure you claim your entitlement to home-office expenses if your employer will complete Form T2200.

Public transit pass tax credit

Ensure you claim the cost of public transit (subject to certain criteria).

Corporate vehicle

Reduce your operating cost benefit and/or standby charge benefit if you have access to a company vehicle.

To reduce the operating cost benefit

- Consider reimbursing your employer for some or all of the personal-use portion of the actual operating costs; and
- Reduce your personal driving (to < 50% of the total driving, if possible).

To reduce or eliminate your standby charge benefit

- Limit your access to the vehicle (i.e., not every day); and
- Avoid personal driving.

RRSPs, RPPs and DPSPs

If you contributed less than the maximum allowable amount to your RRSP in a previous year, use the unused contribution room for 2011, in addition to your

normal contribution. If you decide not to contribute your entitlement for 2011, your ability to do so carries forward indefinitely. However, even if you do not need the deduction in 2011, you should still make the contribution if you have excess funds, so the funds can start to grow on a tax-deferred basis. You can claim the deduction in any future year.

RRSP anti-avoidance

These rules will now be applicable to certain transactions occurring, income earned, capital gains accruing and certain investments acquired after March 22, 2011.

CONTRIBUTION LIMITS FOR REGISTERED PLANS

	Registered Retirement Savings Plan (RRSP)	Money purchase Registered Pension Plan (RPP)	Deferred Profit Sharing Plan (DPSP)
Basis for deduction	18% of earned income for the previous year	18% of pensionable earnings for the year	
2011 dollar limits	\$22,450	\$22,970	\$11,485
2012 dollar limits	\$22,970	Indexed	

I have investments, so what do I need to know?**Interest deductibility**

If you are incurring non-deductible interest and, at the same time, have cash or investments on hand, consider using some of your cash or investments to pay down non-deductible debt and then borrow to replace those investments (careful on triggering gains, though, if you liquidate investments).

Interest income

Consider waiting until January 2012 to purchase certain interest-bearing investments.

Capital gains and losses

If you have capital gains this year (or in 2010, 2009 or 2008), consider selling an investment at a loss, which can then be offset against those capital gains this year and then from prior years (i.e., to recover tax). Before triggering losses, consider the superficial loss rules. If you have little or no other income, or have capital losses to use

up, consider triggering capital gains before year-end by selling an investment that has appreciated in value, then reinvesting the proceeds (even in the same investment).

Superficial loss rules

These rules prevent a taxpayer from claiming a capital loss on an asset that the taxpayer clearly intended to continue to hold. If you are holding an asset with an accrued loss and wish to sell the asset to offset against any capital gains realized and you purchase the identical asset within 30 days, either before or after selling the original asset, the superficial loss rules will apply to deny the capital loss, provided that the asset is held at the end of 30 days after the sale. The superficial loss would also apply if your spouse (or a company controlled by you or your spouse) buys the asset within the same time frame.

Tax-Free Savings Account (TFSA)

- Canadian residents age 18 or older may contribute to a TFSA. Contributions are not deductible, but withdrawals and income earned are not taxed.
- Withdrawals should be done before year-end as amounts withdrawn are not added to your contribution room until the beginning of the following year after the withdrawal.

Donating flow-through shares

Draft legislation may limit the capital gains tax exemption on the donation of publicly listed flow-through securities acquired after March 21, 2011. The net cost of a donation, even under the proposals, is still attractive.

Eligible dividends

- May trigger Alternative Minimum Tax (AMT).
- Could be tax free.
- Personal taxes on them are increasing in 2012.

Mutual funds

If you are thinking of investing in a particular mutual fund before year-end, inquire whether there is going to be a significant taxable distribution reported in 2011. If so, consider waiting until January to make the investment to avoid paying tax on the distribution.

Home Buyers' Plan and incentives

- If you are a first-time home buyer, you may withdraw up to \$25,000 from your RRSP and your spouse's RRSP under this plan to acquire a home.
- You may be eligible to claim the First-time Home Buyers' Tax Credit of up to \$750.

What do families need to know?

Estate planning

Ensure your estate plan is meeting your current and future objectives. Also ensure that your will is up to date.

Income splitting

Consider an income-splitting plan to lend funds to family members in lower tax brackets. The current prescribed rate is 1%. Interest on intra-family loans must be paid on or before *January 30, 2012*, to avoid attribution of income.

"Kiddie tax"

Will apply to capital gains realized after March 21, 2011 that are included in the income of a minor, if the gain is attributable to a non-arm's-length disposition of shares and any dividends on those shares would have been subject to the kiddie tax. Any such capital gains will be ineligible for the lifetime capital gains exemption and will be treated as dividends subject to the kiddie tax.

Family trusts

To be included in the beneficiary's income and deducted from the trust's income, income earned by discretionary *inter vivos* family trusts must be paid or made payable to beneficiaries by December 31, 2011. CRA has raised concerns about the absence of proper accounting and trustee minutes with respect to *inter vivos* trusts and is currently in the midst of a "family trust project." Therefore, taxpayers should be following best practices with respect to maintaining their *inter vivos* trusts.

Registered Education Savings Plan (RESP)

- Plan to ensure the RESP will receive the maximum lifetime Canada Education Savings Grant (CESG) of \$7,200.
- Asset transfers between RESPs for siblings are now allowed (subject to certain criteria).

Child-care expenses

Ensure expenses for 2011 are paid by December 31, 2011 and a receipt is obtained. Boarding school and camp fees qualify for the child-care deduction (limits may apply).

Universal Child-Care Benefit (UCCB) and Canada Child Tax Benefit (CCTB)

Consider investing the funds received from UCCB and CCTB in a separate bank account in trust for your children. Investment income on these funds will not be taxable to you.

Children's fitness tax credit

Claim this federal non-refundable tax credit on up to \$500 of fees paid per child under the age of 16 for enrollment in an eligible physical activity program. These expenses have to be paid by December 31, 2011, and you must retain the receipts.

Children's arts tax credit

Claim this federal non-refundable tax credit on up to \$500 of fees paid per child under the age of 16 for enrollment in an eligible program of artistic, cultural, recreational or developmental activities. These expenses have to be paid by December 31, 2011, and you must retain the receipts.

Education and textbook tax credits

Claim these credits if you attend post-secondary school either full or part time. Eligible fees for exams taken after 2010 may qualify for the tuition tax credit.

Unused and unclaimed tax credits

Consider transferring your education, tuition or textbook tax credits to your spouse, parent or grandparent (subject to limitations) if you are unable to use them.

The carryforward period is generally indefinite for unclaimed education, tuition and textbook credits and five years for unclaimed student loan interest.

Moving expenses

These may be deductible if you moved to attend school or moved from school to work or back home.

Lifetime Learning Plan (LLP)

You are allowed to make a tax-free withdrawal from your RRSP to finance full-time education (part time for students who meet one of the disability conditions) for yourself, your spouse or your common-law partner. You may withdraw up to \$10,000 in a calendar year and up to \$20,000 in total.

The golden years

Inter vivos trust

Consider establishing this trust as part of your estate plan if you are age 64 or older and live in a province with a high probate fee.

RRSP

If you turned 71 in 2011, you must collapse your RRSP. You may:

- Defer taxes on all or a portion of the amount in your RRSP by transferring the funds to a Registered Retirement Income Fund (RRIF) or a Life Income Fund (LIF); and
- Contribute to your RRSP only until December 31, 2011 if you have unused RRSP contribution room or earned income in the previous year;
- Contribute to your spouse's RRSP until the end of the year when your spouse reaches age 71, if you have unused RRSP contribution room or earned income in the previous year; and
- Make a 2012 contribution by the end of 2011, subject to a small penalty.

Pension income

If you receive pension income, consider splitting it with your spouse or common-law partner.

Old Age Security (OAS)

Allocation of pension income from a spouse or receipt of dividends may trigger an OAS clawback. Consider receiving capital gains distributions, as only 50% of the gain is included in income for the purposes of calculating the OAS amount. See if you can manage your income (e.g., through a corporation) to avoid the OAS clawback.

United States Matters

U.S. estate tax

Canadians may be exposed to this tax if they hold U.S. property (i.e., shares in U.S. corporations, even if held in a Canadian brokerage, U.S. real estate, including vacation homes), interests in U.S. partnerships, and so on.

U.S. federal income tax return/treaty-based tax return

Determine whether you are conducting activities in the United States that require you to file U.S. federal income tax returns, or U.S. treaty-based tax information disclosure returns.

State and municipal taxes

The rules here differ in many cases from the U.S. federal level. If you are carrying on business in the U.S., please consult your adviser to ensure you are onside since each jurisdiction has its own set of rules.

International Matters

Foreign reporting requirements

Individuals, corporations, trusts and partnerships that own specified foreign property with a total cost exceeding C\$100,000 at any time in the year are required to file Form T1135. Review your foreign holdings to determine if you have a reporting obligation. Taxpayers resident in Canada who own shares of a non-resident corporation that is a foreign affiliate may be required to file an information return (T1134).

Thin capitalization

These rules may limit the deduction of any interest on that debt where the debt-to-equity ratio is greater than 2:1 and the creditor is a non-resident with significant ties to the debtor.

Payments to non-residents

- You may be required to withhold and remit 15% of certain payments made to non-residents in respect of fees, commissions or other services rendered in Canada.
- Be aware of the new NR301, NR302 and NR303 forms released by the CRA that non-residents should file in support of reducing withholding tax rates on payments under a tax treaty.
- Be aware of the new Form R102-R that has been released by the CRA to request reduced withholdings on payments made to non-resident employees.

KEY TAX DATES

December 15, 2011

- Final quarterly installment of 2011 tax due for individuals

December 23, 2011

- This is likely the final trading day for Canadian exchanges for those wishing to have trades settled for 2011

December 31, 2011

Last opportunity to make a payment for the following items in order to use any applicable credit or deduction on your 2011 return:

- Charitable donations
- Payment of union dues and professional fees
- Investment counsel fees, interest and other investment expenses (including safety deposit box fees, though not deductible in Quebec)
- Alimony and maintenance payments
- Child-care and child fitness expenses
- Interest
- Medical expenses
- Moving expenses of individuals
- Political contributions
- Deductible employee legal fees
- Tuition fees and interest on student loans
- Payments to employer to reduce standby charge
- RRSP contributions if you turn 71 by December 31, 2011

January 15, 2012

- U.S. taxes: estimated tax payments due for individuals

January 30, 2012

- Interest due on intra-family loans
- Non-deductible interest due on loans from your employer, to reduce your taxable benefit

February 14, 2012

- Payment to your employer to reduce your taxable operating benefit from an employer-provided automobile

February 29, 2012

- Last day to file T4, T4A and T5 Summary and Supplementary forms
- Deductible contributions to your own RRSP or spousal RRSP (for 2011 deduction)
- RRSP Home Buyer's Plan repayment due (to avoid 2011 inclusion)

March 15, 2012

- First quarter (2012) personal tax installment due

March 30, 2012

- Last day to file income tax returns for *inter vivos* trusts without penalty

March 31, 2012

- Last day to file NR4 Summary and Supplementary forms regarding amounts paid or credited to non-residents of Canada

April 15, 2012

- U.S. individual tax return due if you have not obtained an extension

April 30, 2012

- Last day to file personal tax returns (except for self-employed individuals or spouses of self-employed individuals — in which case the deadline is June 15, 2012). No matter your deadline, interest will be charged on any balance due after April 30
- Filing deadline for personal return may be later if individual or spouse died during the year (terminal return)

Appendix I
2011 & 2012 PERSONAL TAX RATES

	Ordinary income and interest		Capital gains		Canadian dividends			
					Eligible		Non-eligible	
	2011	2012	2011	2012	2011	2012	2011	2012
Federal	29.00%		14.50%		17.72%	19.29%	19.58%	
Alberta	39.00%		19.50%		17.72%	19.29%	27.71%	
British Columbia	43.70%		21.85%		23.91%	26.11%	33.71%	
Manitoba	46.40%		23.20%		26.74%	28.12%	39.15%	
New Brunswick	43.30%		21.65%		20.96%	22.47%	30.83%	
Newfoundland and Labrador	42.30%		21.65%		20.96%	22.47%	30.83%	
Northwest Territories	43.05%		21.53%		21.31%	22.81%	29.65%	
Nova Scotia	50.00%		25.00%		34.85%	36.06%	36.21%	
Nunavut	40.05%		20.25%		25.72%	27.56%	28.96%	
Ontario	46.41%		23.20%		28.19%	29.54%	32.57%	
Prince Edward Island	47.37%		23.69%		27.33%	28.70%	41.17%	
Quebec	48.22%		24.11%		31.85%	32.81%	36.35%	
Saskatchewan	44.00%		22.00%		23.36%	24.81%	32.08%	33.33%
Yukon	42.40%		21.20%		14.28% to 17.72%	15.93% to 19.29%	30.41%	

Appendix II

2011 & 2012 CORPORATE TAX RATES

	General and M&P		Canadian-Controlled Private Corporations (CCPCs)					
	2011	2012	Active business income				Investment income	
			To \$400,000		\$400,000 to \$500,000			
			2011	2012	2011	2012	2011	2012
Federal	16.50%	15.00%	11.00%				34.67%	34.67%
Alberta	26.50%	25.00%	14.00%				44.67%	44.67%
British Columbia	26.50%	25.00%	13.50%	11.62%	13.50%	11.62%	44.67%	44.67%
Manitoba	28.50%	27.00%	11.00%		23.00%		46.67%	46.67%
New Brunswick	27.00%	25.00%	16.00%	15.50%	16.00%	15.50%	45.16%	44.67%
Newfoundland and Labrador			15.00%				48.67%	48.67%
▪ General	30.50%	29.00%						
▪ M&P	21.50%	20.00%						
Northwest Territories	28.00%	26.50%	15.00%				46.17%	46.17%
Nova Scotia	32.50%	31.00%	15.50%	15.00%	27.00%	27.00%	50.67%	50.67%
Nunavut	28.50%	27.00%	15.00%				46.67%	46.67%
Ontario			15.50%				46.41%	45.92%
▪ General	28.25%	26.25%						
▪ M&P	26.50%	25.00%						
Prince Edward Island	32.50%	31.00%	12.00%				50.67%	50.67%
Quebec	28.40%	26.90%	19.00%				46.57%	46.57%
Saskatchewan							46.67%	46.67%
▪ General	28.50%	27.00%	14.24%	13.00%	14.24%	13.00%		
▪ M&P	26.50%	25.00%						
Yukon			15.00%				49.67%	49.67%
▪ General	31.50%	30.00%						
▪ M&P	19.00%	17.50%	13.50%					

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