



McGovern, Hurley, Cunningham, LLP

Chartered Accountants

2005 Sheppard Avenue East, Suite 300, Toronto, Ontario, Canada M2J 5B4

Telephone: (416) 496-1234 -- Fax: (416) 496-0125

E-Mail: info@mhc-ca.com -- Website: www.mhc-ca.com

YEAR-END TAX PLANNING

80(1)

1. If the following expenditures are made by individuals by December 31, 2007 they will be eligible for 2007 tax deductions: moving expenses, child care expenses, safety deposit box fees, charitable donations, political contributions, medical expenses, and alimony.
2. 2007 eligible Registered Retirement Savings Plan ("RRSP") contribution amounts are noted on the 2006 personal income tax return assessment notices. You have until February 29, 2008 to make tax deductible RRSP contributions for the 2007 year.
Consider contributing to a spousal RRSP to achieve income splitting in the future.
3. The 2007 Budget changed the RRSP conversion age from 69 to age 71 for 2007. Special rules apply to persons age 69 or 70 who have already converted their RRSPs to an annuity or a Registered Retirement Income Fund.
4. If you own a business, consider paying a reasonable salary to family members for services rendered to the business.
5. An individual whose 2007 net income exceeds \$63,511 will lose all, or part, of their old age security.

Senior citizens will begin to lose their income tax age credit if net income exceeds \$30,936.

Contact your professional advisors for assistance in managing 2007 personal income.

6. Consider purchasing assets eligible for capital cost allowance before the year end.
7. If you had taxable capital gains in the year, or any of the preceding three years, consider selling capital properties with an underlying capital loss prior to the year-end. This capital loss may be offset against the capital gains.
8. Registered Education Savings Plan ("RESP")
A Canada Education Savings Grant ("CESG") for RESP contributions will be permitted equal to 20% of annual contributions for children (maximum \$500 per child per year).
The \$4,000 annual RESP contribution limit has been eliminated and the lifetime limit has been increased to \$50,000 from \$42,000.
9. Health and dental premiums for the self-employed
Individuals will be allowed to deduct amounts payable in respect of the year for Private Health Service Plan coverage in computing business income provided they meet certain criteria.

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10. Tax on Split Income

The Income Tax Act applies the maximum marginal tax rate to certain passive income of individuals under the age of 18. Therefore, consider minimizing this type of income in 2007.

11. A refund of Employment Insurance paid for non-arm's length employees may be available upon application to CRA.
12. Taxpayers that receive "eligible" dividends from private and public corporations will have a significantly lower tax rate on the dividends. Notification from the corporation to the shareholder is required. See 80(2) - #2.
13. Eligible public transit passes will be entitled to a tax credit.
14. A \$500 fitness tax credit for children

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under 16 enrolled in certain organized sports will be available commencing in 2007.

2007 REMUNERATION

80(2)

Some general guidelines to follow in remunerating the owner of a Canadian-controlled private corporation earning “active business income” include:

1. Bonusing down active business earnings in excess of the annual business limit may reduce the overall tax. However, leaving corporate active business income over this amount presents a tax deferral. The disadvantage of the additional tax on dividends has been significantly reduced or reversed with the new lower tax rates on “eligible” dividends.

Professional advice is needed in this area.

2. Notification must be made to the shareholders when an “eligible” dividend is paid - usually in the form of a letter dated on the date of the dividend declaration. If all shareholders are directors, the notification may be made in the Directors’ minutes.

Please contact your professional advisor for advice before paying an eligible or ineligible dividend.

3. Elect to pay out tax-free “capital dividend account” dividends.
4. Consider paying dividends to obtain a refund of “refundable dividend tax on hand”.
5. Corporate earnings in excess of personal requirements could be left in the company to obtain a tax deferral. The effect on the “Qualified Small Business Corporation” status should

be reviewed before selling the shares.

6. Dividends, as opposed to salaries, will reduce an individual’s cumulative net investment loss balance thereby providing greater access to the capital gain exemption.
7. Excessive personal income affects receipts subject to clawbacks, such as old age security, the age credit, child tax benefits, and GST credits.
8. Salary payments require source deductions to be remitted to Canada Revenue Agency (CRA) on a timely basis.
9. Individuals that wish to contribute to the Canada Pension Plan or a Registered Retirement Savings Plan may require a salary to create “earned income”.
10. Salaries paid to family members must be reasonable.
11. Some provinces have “payroll taxes” thereby increasing the costs of paying salaries versus dividends.

PERSONAL TAX RETURNS

80(3)

SCHOLARSHIP/FELLOWSHIP EXEMPTION

In a May 1, 2007 External Technical Interpretation, CRA notes that the Income Tax Act fully exempts income received as a “scholarship, fellowship or bursary” where the income is connected to the individual’s enrollment at a designated education institution.

For a university outside Canada to be a “designated educational institution” it must be “a university... at which the individual... was enrolled in a course, of not less than thirteen consecutive weeks duration, leading to a degree”.

ESTATE PLANNING

80(4)

PENSION SPLITTING

The Income Tax Act permits spouses (or common-law partners) to split “eligible pension income” commencing in 2007.

Advantages include shifting income to a lower tax bracket spouse, reducing or eliminating the “clawback” of Old Age Security, reducing or eliminating the “clawback” of the age amount credit and, additional access to the \$2,000 pension credit.

CANADA PENSION PLAN (“CPP”) COLLECTED EARLY

To qualify for CPP early, a person must be at least age 60 and either have stopped working or earned less than the current monthly maximum CPP benefit in the month the pension begins and the prior month.

For example, if a person turned 60 in November, 2007, the first CPP cheque could come in December, the month after you turn 60. (Service Canada recommends that you apply for your pension six months before you wish the CPP to begin.) In this example, the taxpayer could go back to work in January, 2008 and, CPP would not apply on any of the future earnings.

When taking CPP early the amounts are reduced by one-half of 1% per month. For example, by taking the CPP five years early the CPP payments would be 30% less than that which would have been received at age 65 (6% per year times 5 years = 30%).

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GST

80(5)

AGRICULTURE AND FISHING

In GST/HST Memoranda Series 4.4, CRA provides detailed information on the tax status of agricultural and fishing supplies including administrative guidelines.

DENTISTS - CROWNS, BRIDGES AND DENTURES

In a French Tax Court of Canada case, the taxpayer dentist claimed GST Input Tax Credits ("ITCs") of \$14,900, of which CRA allowed \$2,195. The issue was whether that portion of the Appellant's dental practice that was attributable to the supply of crowns, bridges and dentures was zero-rated, exempt or taxable. If zero-rated or taxable, the Appellant was entitled to ITCs in respect thereof. If exempt, no ITCs were available. The tax status and allocation methods were analyzed in this French case.

Taxpayer Loses

The taxpayer's appeal was dismissed.

INPUT TAX CREDITS

In a June 11, 2007 Federal Court of Appeal case, the Court disallowed the Input Tax Credits claimed by a taxpayer who had paid GST to a number of suppliers who, for various reasons, did not have valid GST Registration Numbers.

Even though it may not be practical to confirm the GST/HST Registration with CRA on all purchases, it would be prudent to confirm the numbers on more material, potentially uncertain, items. This confirmation may be done through a search on the CRA website (<http://www.cra-arc.gc.ca/eservices/tax/business/gsthstregistries/menu-e.html>).

DID YOU KNOW...

80(6)

ADMINISTRATIVE MONETARY PENALTY SYSTEM ("AMPS")

The Canada Border Services Agency ("CBSA") applies the AMPS which is a civil penalty designed to encourage compliance with Customs legislation.

A recent CBSA development notes that effective January 31, 2007, additional AMPS penalties are to be applied to directed self-corrections, at the conclusion of a compliance verification review or monitoring activity, where it was found an importer has previous "Reason to Believe" of the error. The approach defines the "Reason to Believe" criterion not on what the importer can reasonably be assumed to have known but on the assumption that the importer ought to have known it was making an error.

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