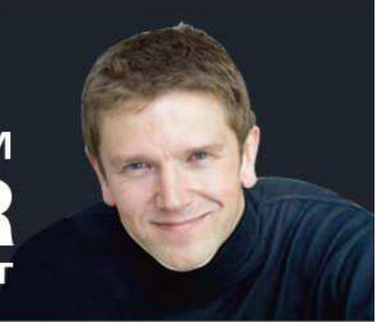
TAX STRATEGIES FROM
# KURT ROSENTRETER
CHARTERED ACCOUNTANT



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# 2013 TAX PLANNING TIPS FOURTH QUARTER

## TAX TICKLERS … some quick points to consider if you have a corporation:

- You may be able to save approximately 2% in personal taxes if you declare, and pay "non-eligible dividends" in 2013, rather than 2014.
- Receiving government loans can reduce Scientific Research and Experimental Development Credits.
- Considering the purchase or sale of a business? Taxation relating to Restrictive Covenants (ex. non-competition clauses) has changed.

If any of these items are applicable, contact your accountant for further details and planning possibilities.

## GIFTS TO EMPLOYEES: Non-Taxable?

According to the CRA:

1. Up to $500 in gifts and awards per year per employee can be paid out as a non-taxable benefit under the CRA's "gifts and awards policy".

   A "gift" is defined as recognition of a personal event or milestone in an employee's life, such as a birthday, marriage, retirement or the birth or adoption of a child, or as recognition of a public or religious holiday where gifts are traditionally exchanged, such as Christmas or Hanukkah.

   An "award" has to be for an employment-related accomplishment such as outstanding service, employees' suggestions, or meeting or exceeding safety standards. Performance based "awards" (such as exceeding production standards, completing a project ahead of schedule or under budget, putting in extra time to complete a project) do not benefit from the exemption and are therefore taxable benefits. The difference between a regular "award" and a performance based "award" is very slight and very grey. As such, the safest way to make a tax efficient payment to an employee is as a "gift" described above.

2. The "gifts and awards policy" also only applies to non-cash items. Cash, and near-cash items such as gift cards and gift certificates, are not included in the policy and are always taxable, regardless of the reason they are given.

   The rules in Quebec are slightly different.

3. The "gifts and awards policy" cannot be used against taxable parking or employer-provided transportation because the policy cannot be used to make otherwise taxable benefits non-taxable.

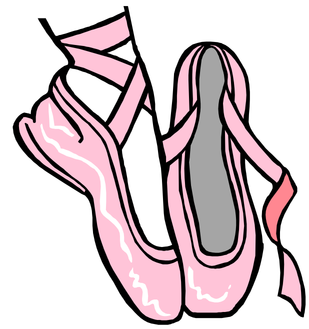
4. Prize draws or lotteries are not included in the "gifts and awards policy". Generally,

where all, or a majority of, participants in an employer-promoted contest are employees and their family members, any winnings are considered a taxable employment benefit.
Whether winnings from a prize draw held by a social committee is a taxable benefit depends on whether the social committee is funded or controlled by the employer.

Action Item: See www.cra.gc.ca/gifts for specific details.

## ARTS AND FITNESS CREDITS: The Separate Receipt Issue

In an April 13, 2013 Ministerial Correspondence, CRA noted that a specific program cannot qualify for both the Children's Fitness Tax Credit (CFTC) and the Children's Arts Tax Credit (CATC). However, they acknowledged that an Organization may offer distinct programs, some of which qualify for each credit. They indicated such Organizations should either issue separate receipts, or a single receipt that clearly segregates the amounts paid for each program.



Action Item: If your child is enrolled in more than one program with an organization, ask for a separate receipt for each program.

## EMPLOYEE EXPENSES: Not Deductible?

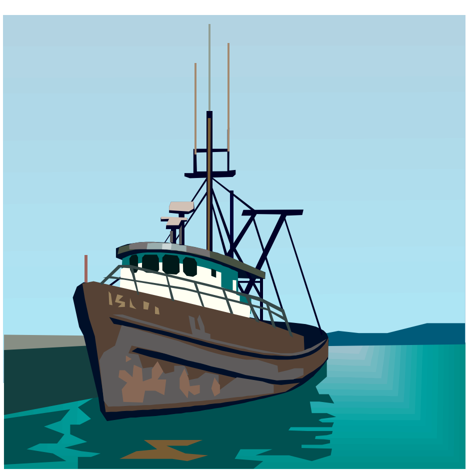
In a July 9, 2013 Tax Court of Canada case, a group home counselor took residents of the group home shopping, to medical appointments, and to recreational activities as part of his employment duties. The employee argued that it was an implicit term of his contract that he incurs expenses for the use of his own personal vehicle and, therefore, the amounts should be deductible on his personal tax return.

Taxpayer loses
The taxpayer's manager noted that many employees do not use their own vehicle for transporting residents and instead take a taxi or public transportation.

Because the employee was not required under his contract of employment to use his vehicle, the Court disallowed the expenses.

Consideration Item: This may apply to a wide range of employees, including those who have received T2200s from their employers. A T2200 (Declaration of Conditions of Employment) is the form signed by employers that allow employees to deduct certain employment expenses from his or her income.

## GETTING AUDITED: Net Worth Assessments

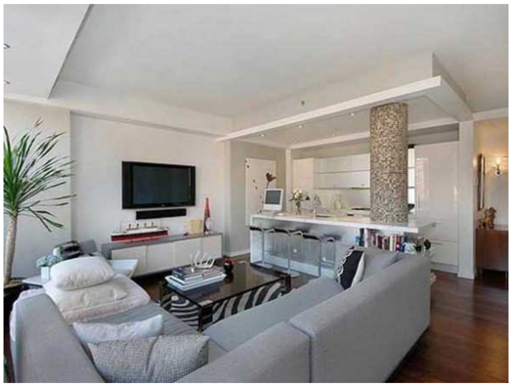


In a May 14, 2013 Tax Court of Canada case, two taxpayers carried on a fishing business that was being audited. The CRA auditor applied a net worth calculation to estimate their earnings because he was unable to reconcile the income from the accounting records to the growth in their assets, largely fishing licenses.

Taxpayer loses
The taxpayers argued that the CRA should not have used the net worth method, but confined their review to the accounting records. The Court noted that maintaining accounting records is not sufficient - they must be reliable, credible and accurate - and the disparity between the growth of their assets and the income reported justified use of the net worth method.

Action Item: Maintain reliable accounting records!

## CRA ATTACK: Condo Sales



It has been noted recently in several news articles, that the CRA has increased activity in reviewing condominium sales. It appears that CRA is reviewing land titles records to identify short-term condo holds. In such cases, CRA reassesses the gains as "ordinary business income" on the assumption that the vendor's intention was always to resell or flip the condo at a profit.

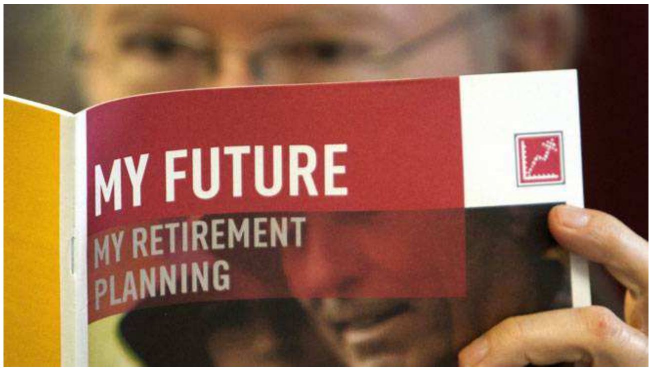
While this may be true in some cases, in others the intent was to reside in the property for an extended period. In such cases where the intent was not business in nature, the sale may be considered a capital gain (taxed at half the rate of "ordinary business income") or no gain at all if qualifying as, and determined to be, a principal residence.
CRA seems to have adopted a policy of "reassess and penalize first, and ask questions only if the taxpayer objects".

Action Item: If you have received such a reassessment, contact your accountant immediately so that an Objection can be filed. Objections need to be filed within 90 days of the date on the Notice of Reassessment.

## OLD AGE SECURITY: Defer It?

The 2012 Federal Budget introduced provisions whereby an individual can delay receiving their OAS for up to five years after age 65. Commencing July 1, 2013, a compensation of 0.6% per month of delay is provided to compensate for the deferral of the OAS pension payments.

This flexibility may permit a person to reduce, or eliminate, the OAS clawback by deferring the receipt of the OAS until the income of the person is below the net income threshold ($70,954 for 2013).




In general, the taxpayer does not need to take any specific action to defer commencement of the OAS receipts. The person simply would not apply for OAS until he or she wishes to receive the payment. An OAS application may be retroactive to as much as eleven months.

Note that the Government may send a letter notifying a 64 year old individual of the ability to apply for the OAS at age 65.

Consideration Item: An individual who has received OAS benefits for less than six months may cancel the benefits and begin the deferral by paying back the total OAS received. This could apply even if the individual has not received any net OAS payments because of a full clawback.

## FOREIGN PROPERTY: New Information Needed

Corporations and individuals holding "Specified Foreign Property" (which generally includes investment assets like rental properties or foreign stocks) with a cost of $100,000 or more must complete and submit a T1135 - Foreign Income Verification Statement. A new version of this Form, which requires significantly more detailed information, was released on June 25, 2013. The name and location of the investment, the maximum cost amount in the year, the cost at year-end, the income (or loss) in the year, and any gain (or loss) on disposal must be reported. Each of these items needs to be reported on an investment-by-investment basis. For example, information relating to each of the stocks within a brokerage account would need to be reported (as opposed to details on the brokerage account as a whole). An exemption from the detailed level of reporting is available if income from the investment is reported on a T5 or T3 Slip.

The federal government also announced a three year extension of the normal allowable reassessment period where this Form is not filed when required, or the required information is not properly disclosed.

Action Item: If foreign investments are held, prepare a summary of investments including the aforementioned components to reduce the accounting costs associated with the additional disclosures.

## HOW KURT AND TEAM CAN HELP YOU WITH TAXES

- Oversee annual tax return preparation
- Thorough personal and business tax planning opportunity reviews
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