



TAX STRATEGIES FROM **KURT ROSENTRETER** CHARTERED ACCOUNTANT



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2014 TAX PLANNING TIPS FOURTH QUARTER

TAX TICKLERS . . . Some quick points to consider . . .

- CRA has released a smartphone APP that alerts users of their tax filing and payment deadline (for corporate tax, payroll, and GST/HST accounts).
- If child care expenses are incurred, you may be eligible for a tax deduction on your personal tax return.
- Ignoring a request to file a tax return from CRA may result in serious tax implications.

SMALL BUSINESS JOB CREDIT: Small Employers Save on EI Premiums

On September 11, 2014 Minister of Finance Joe Oliver announced the introduction of the Small Business Job Credit. The credit will be automatically administered (no need to apply) to eligible businesses that pay employer EI premiums equal to or less than \$15,000 in 2015 and/or 2016. The credit is expected to be worth approximately 39 cents per \$100 of insurable earnings.

For example, at 2014 rates, the employer EI premiums payable for an employee earning \$48,600 totals \$1,279. For 2015, a savings of approximately \$190 would be experienced for the same pensionable earnings.

PRINCIPAL RESIDENCE: Partial Conversion to an Office

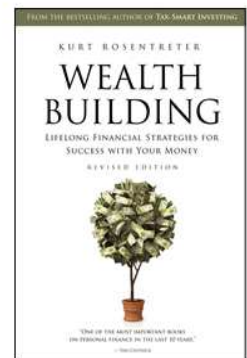
In an August 7, 2014 Technical Interpretation, CRA commented on a situation where an individual converted the basement of his principal residence into an office (including the addition of a separate entrance) to be used by his Corporation.

When a portion of a personal use property is converted into business use, a disposition is deemed to occur on the converted portion. This means that the principal residence exemption will no longer be available for that portion.

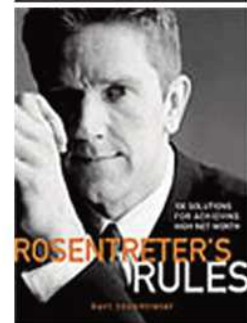
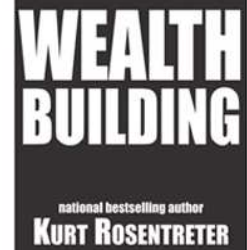
However, it is CRA's practice to not deem changes as dispositions when:

- the property retains its character as a primary residence;
- no capital cost allowance has been requested on the building; and
- no structural change has occurred.

Kurt's National Best Selling Books



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— The Economist



CRA opined that the changes in this case, which included the opening of an exterior wall, could be considered a structural change. Therefore, a disposition may be deemed to occur.

It was also noted that the Corporation would pay for the improvements to the property. If the renovations increased the value of the residence, the Corporation may be deemed to confer a taxable advantage on the shareholder.

COLLECTIONS AT THE CRA: Options When You Can't Pay Your Tax Bill

On May 5, 2014, CRA updated their article, When You Owe Money – Collections at the CRA, which discussed programs available should taxpayers not be able to pay their tax debt in full. Such programs may include a payment arrangement. The website also references other websites that taxpayers may find useful: IC98-1R4 – Tax Collection Policies, IC13-2 – Government Program Collection Policies, and IC13-3 – Customs Collections Policies, as well as a link to the Office of the Superintendent of Bankruptcy website.



ESTATE PLANNING: Consider all Digital Assets

When Estate planning, consideration should be given to digital assets held by an individual. Digital assets can span a wide range including social network accounts, websites, photos and videos, email accounts, online documents (ex. used in banking or investments), and online businesses.

When planning, consider the following four steps:

- Make a list of digital assets and passwords;
- Draft instructions for the Executor to set out wishes;
- Consider naming a digital Executor to deal solely with these assets; and
- Store the information securely.

To date, technology is outpacing the law in this area and specialized legal advice may be required.

LUMP-SUM SUPPORT PAYMENT: Deductible?



In order for spousal support payments to be deductible to the payer, the recipient must have discretion as to its use, the individuals must be living separate and apart because of a breakdown in their marriage or common-law relationship, and, the amount must be:

- payable to the recipient;
- payable as an allowance for the maintenance of the recipient;
- payable on a periodic basis; and
- payable under an order of a competent tribunal or under a written agreement.

In a June 20, 2014 Technical Interpretation, CRA discussed the third criterion noted above, the amount must be payable on a periodic basis.

Generally, an amount paid as a single lump sum does not qualify as an amount payable on a periodic basis. However, there may be situations where this is not the case. This occurs primarily where the amount represents a series of periodic payments in arrears after the date of the Court Order or Written Agreement.

This could apply to a single lump-sum arrears payment, or to multiple lump-sum arrears payments.

That said, a lump-sum payment to obtain a Release from a liability imposed by an Order or Written Agreement may not be considered to be a periodic payment.

TRANSFERS OF ASSETS TO A CORPORATION: There may be a Tax Cost!

In a July 29, 2014 Tax Court of Canada case, the taxpayer transferred oilfield equipment (Equipment) to his Company in 2004 and 2005 in return for fair market value proceeds of \$135,000 and \$73,500 respectively. The taxpayer did not report any gains for 2004 on the basis that the adjusted cost base (ACB) of the Equipment was equal to the proceeds. For 2005 the taxpayer reported a gain of \$43,500. In this case, the assets were acquired over time, often from related business ventures, and limited or no records were available.

CRA reassessed on the basis that:

- the Equipment transferred was inventory rather than capital (this means that 100% of the gain on sale would be taxable as opposed to 50%);
- the ACB for the two years of transfers was only \$30 because there was no evidence to support the contrary; and
- GST should apply on the transfer.

Subsequently, CRA issued a second reassessment to increase the proceeds again by \$90,093. This reassessment was issued outside the three-year period in which CRA is normally allowed to reassess.

Taxpayer loses

The Court found that the taxpayer's evidence to support the original amount paid for the Equipment, the ACB, was insufficient to rebut the Minister's assumption that it was only \$30. Therefore, the gains on sale were increased from \$0 (in 2004) and \$43,500 (in 2005) to almost \$135,000 and \$73,500 respectively.

The taxpayer was also found to be liable for GST on the sale of the Equipment to his Company.

Taxpayer wins

The Court determined that the long period that the taxpayer held the Equipment prior to selling it was more indicative of a capital investment than an inventory investment. Therefore, the sale was held to be on account of capital rather than inventory.

Also, the Court found that the second CRA reassessment to increase the proceeds was not valid (it was statute-barred) as the taxpayer did not make a misrepresentation attributable to neglect, carelessness or willful default.

RENOUNCING U.S. CITIZENSHIP: It's Getting more Expensive

Up to 2010, there was no expatriation application fee charged by the IRS. However, in 2010 the State Department introduced a fee of \$450. This fee rose to \$2,350 on September 12, 2014.

HOW KURT AND TEAM CAN HELP YOU WITH TAXES

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- **Implementing life insurance to cover taxes at death**
- **Tax smart portfolio investment strategies**
- **Small business advanced tax planning**
- **Tax effective design of retirement cash flows**
- **Tax wise Will design**



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The Wealth Management Practice of Kurt Rosentreter

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