



ADVANCING

WINTER 2008 • VOL. 15, No. 1

I S S U E S

Planning for Tax Season

By B. Ann Ibberson, *Vice President, Corporate Planning Associates*

NO, THIS ISN'T ANOTHER ARTICLE ABOUT TAX PLANNING OPPORTUNITIES THAT WILL REDUCE THE TAX YOU PAY FOR 2007 — WITH A COUPLE OF EXCEPTIONS, IT'S TOO LATE FOR THAT. THIS IS MOSTLY ABOUT ORGANIZING YOUR INCOME TAX INFORMATION AND PROVIDING IT TO YOUR ACCOUNTANT/TAX PREPARER IN A WAY THAT WILL MINIMIZE REQUESTS FOR ADDITIONAL INFORMATION, REDUCE TURNAROUND TIME AND, IN THE END, HOPEFULLY SAVE YOU MONEY.

The exceptions mentioned above are that you can still make an RRSP contribution and split your pension income with your spouse (more about this below).

- To qualify as a deduction for 2007, contributions to your own or to a spousal RRSP must be made on or before *February 29, 2008*. The amount of your allowable contribution is clearly indicated on your 2006 Notice of Assessment. Obviously, you need to deduct from this amount any contributions you have already made.
- If you left your employer last year and received a lump sum retiring allowance or severance payment, you may be able to transfer this amount to your own RRSP on a tax deferred basis (for pre-1996 service only). The deadline is *February 29, 2008*.

The following are some of the items routinely overlooked by taxpayers when submitting their tax information:

INVESTMENT INCOME —

- Everyone knows that you have to submit the T3 and T5 slips you receive, which report investment income and allocations. Often included in the same envelope is back-up detail — a summary of investment income, return of capital, a trading summary or a gain/loss report showing the transactions in your account over the past year. This information is just as important

to your return and should be attached to the T slip. If you haven't received a gain/loss report from your broker, call and ask for one.

- Similarly, if you sell shares you hold personally, make sure you include the details of their original purchase.

CHARITABLE CONTRIBUTIONS —

- Unless the charity has a registration number, which is indicated on the receipt, the contribution cannot be deducted.
- If you have made a pledge to donate, the pledge receipt itself is not tax deductible. You must have made the donation to claim the deduction.
- If you have donated appreciated shares or those arising from a stock option exercise, please provide the transaction details.

TUITION EXPENSES —

- If you have children in university and want to claim their unused tuition credits, you will need to provide form T2202 Education and Textbook Amounts Certificate *signed by the student*. Most institutions now have these available online and the student can simply download and print the form. Where this is not an option, the student must go to the Registrar's Office and request the form. You will also need to provide the student's income so that the amount eligible for transfer can be determined.

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CPA Best Practices – How to Protect Important Papers, Data and Family Memories!

By John Davis, Senior Vice President, Corporate Planning Associates

It just makes sense to protect what's important. We lock our homes at night, and we remind our children and grandchildren not to talk to strangers. But when it comes to the protection of important papers, data and family memories we are often guilty of either a lack of awareness on how to proceed, or we lack the sense of urgency required to prompt us to take action.

As one hundred and fifty house fires are reported every day in Canada, we all live with the constant risk of a fire destroying our home and its contents. Sure you have insurance, but what of the hundreds of man-hours required to get all your official documents reissued. Moreover, what of the loss of sentimental items: family pictures, videos, mementos – not necessarily valuable, but all irreplaceable!

So what can you do to protect these items?

STORAGE OUTSIDE OF THE HOME:

- The best approach is to obtain a reasonably sized safety deposit box at your bank to store important documents, small valuables, etc. that are not required on a regular basis. Suggested items to keep inside a safety deposit box include: original legal agreements (i.e. estate documents, trust deeds, spousal loan notes, domestic contracts, purchase and sale agreements, indemnity agreements, etc.) share certificates, property records, a video of your home's interior finishing and contents, appraisals (for art, jewelry and collectibles), marriage and birth certificates, life insurance policies, copies of run-off Directors' and Officers' Insurance, colour photocopies of identification, and old photo negatives. Additionally, for personal security reasons large amounts of cash should never be kept at home but rather in the bank or a safety deposit box.
- For our clients, CPA provides an extra level of protection as we maintain copies of many important documents not only to assist us in the planning process, but also in case originals are lost, stolen or destroyed.
- It is becoming more and more convenient to maintain pictures, video and information in electronic form. For storage of such data, you can establish a private account with an online storage website and upload your digital family photos, videos and

electronic copies of important documents. These are compressed and archived for quick retrieval, and they can be accessed from any computer using a secure password. If you have concerns with the security of online storage options, you are best to download your important data onto CDs, DVDs, memory sticks, etc. and store them in your safety deposit box.

STORAGE AT HOME:

A safety deposit box at your bank is your safest means of storage. That said, if you require more storage space or you just like to keep your important belongings at home, you will need an appropriately selected home fire safe.

- When shopping for a home safe you need to consider fire rating, use and size. It is also important to ensure your safe and its technology are waterproof to prevent items inside being destroyed by a flood, or by water used to extinguish a house fire.
- Most safes are fire-resistant, not fireproof. They are rated based on how long they can protect their contents in a fire at different temperatures. Statistics suggests that unless you are in an area that is a substantial distance from your local fire department, a one-hour fireproof safe should provide adequate protection.
- The traditional fire safe is designed to protect paper documents from fire by keeping the internal temperature of the safe below 170° C. A "fire data safe" or "media safe" is specially designed to address issues caused by excess humidity, and in the case of a house fire, keep the internal temperature of the safe below 52° C in order to protect plastic based data from being damaged.
- If you plan to hold items of significant monetary value inside, you need to consider the burglary and impact ratings of your safe. The higher the burglary rating, the longer the anticipated break-in period required for a thief to breach the safe. Safes can also be submitted to an impact test. This test is designed to replicate a three story building collapse.

So now that you know everything you need to protect your important papers, data and family memories – why not make it a special project for this season. You would certainly sleep a little more securely on a cold winter's night knowing you had everything in order.

Planning for Tax Season

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- If you have children attending university in the U.S., the student needs to have the university complete form TL11A Education and Textbook Amounts Certificate – University Outside Canada.
- You should also indicate whether the student is in residence or in rental accommodation. If the latter, you also need to provide the name of the landlord, the address of the accommodation and the amount of rent paid.

STOCK OPTIONS –

- If you exercised stock options in 2007, the taxable benefit will appear on your T4. However, if you subsequently sold the shares, the resulting gain or loss also has to be reported, so the details of both the exercise and sale are required.

MEDICAL RECEIPTS –

- Ever wish there was a better way to keep track of all your prescription medication receipts? There is. Simply ask your pharmacy to print out a summary receipt for the year.

TAX INSTALLMENTS –

- Proof of Tax Installments paid for the 2007 tax year is on the back page of your March 2008 Installment Reminder.

EMPLOYMENT EXPENSES –

- If you are required to use your car for work, and you want to claim your expenses, you need to provide form T2200 Declaration of Conditions of Employment, *signed by your employer*. You also need to provide the details of your expenses (gas, repairs, license, insurance, etc.) and the mileage allocation between personal and business use.
- The same applies if you maintain an office in your home but the expenses are prorated according to the square footage of the office.

NOTICES OF ASSESSMENT –

- Copies of last year's Notices of Assessment should be provided. These contain important information concerning gain/loss carryforwards, RRSP contribution limits, etc. They also confirm whether or not your return was assessed as filed.

- Copies of any Notices of Reassessment and/or cheques you may have received during the year. Your accountant may have carried back capital losses to prior years and this is the only way to confirm that they were actually processed.
- If you receive a request for payment after your return has been assessed, do not automatically assume you have to pay it. The request should be sent to your accountant/tax preparer for review.

WHAT'S NEW FOR 2007

- Pension splitting. Beginning in 2007, you can allocate up to half of your pension income (not CPP or OAS) to your spouse. This joint election is done when filing your tax returns and your accountant/tax preparer will optimize the amount of this pension transfer.
- The cut-off age for making RRSP contributions has been extended to the year you turn 71, subject to available deduction room.
- The Lifetime Maximum Capital Gains Exemption has been increased from \$500,000 to \$750,000 for gains realized on the sale of small business shares and/or qualified farm property after March 18, 2007.
- Parents may now claim a \$2,000 tax credit for each child under the age of 18.

And last but not least, and in our ongoing quest for a stress-free tax season, a couple of "Don'ts":

- Don't hold onto your tax file until every last piece of paper has arrived. Once the bulk of the information is together, send it along so that the file can be set up, photocopies made, etc. When the last receipts do arrive, they can be easily incorporated.
- Don't automatically assume that everything that comes in a windowed envelope in the first 3 months of the year is tax related and include it with your tax file. You should check to make sure it doesn't contain time-sensitive material.

Rentals and Relocation – Know the right tax moves for *your* move

By Gena Katz (Reprinted with permission from *Advisor's Edge*.)

THIS IS THE SECOND OF A TWO-PART SERIES ON MOVING EXPENSES.

Your client, Leah, has just been offered an excellent promotion, but with it comes relocation from Toronto to Calgary.

She's inclined to accept the offer, and plans to hold on to her Toronto house, with the hope that she'll be back within five to seven years' time. Her current plan is to rent out the Toronto home and live in rented premises in Calgary.

Leah's situation is not unique, so if you have clients who rent out their homes after a move, be aware there are some tax considerations.

Generally, when the use of a property changes from personal to rental, there is a deemed disposition and reacquisition at fair market value. Although this would have no immediate tax consequences (because any gain would be sheltered by the principal residence exemption) on the move back into the home, there would be another deemed disposition as a result of a change in use, and any increase in value from the time of the first deemed disposition would result in a taxable capital gain.

Alternatively, Leah and others in the same situation can defer the recognition of these gains by filing a no-change-in-use election. This election is simply made by including a signed letter with the T1 return for the year the change in use occurs. Once the election is made, the property continues to qualify as a principal residence for a period of up to four taxation years, even if no family members live in the home, as long as no depreciation is claimed or the election is not otherwise rescinded.

Accordingly, on a subsequent sale, any capital gains that accrued over the four years can be sheltered by the principal residence exemption. There are two important details in relation to this election. First, the CRA will generally accept a late-filed election, but only if depreciation has not been claimed on the property. Second, the individual must be resident in Canada or deemed to be resident in Canada in order for the property to retain its principal residence status over the four-year period.

JOB CHANGE

In the case of an employment relocation, the four-year period can be extended indefinitely – the home can be designated as a principal residence for all years of absence – if the individual moves back into the original home while still working for the same employer, or in the year after employment ceases. Keep in mind, though, that moving back into the original home for a couple of days before occupying a new home does not pass the test, according to the CRA.

The tax consequences become more complicated when the relocation is outside of Canada. If a person retains Canadian residency status for tax purposes, the same rules apply.

However, if Canadian residence ceases, although a no-change-in-use election may be made, when computing the principal residence exemption on a subsequent sale, the home cannot be designated for the previous years of non-residency.

As a result, unlike a move within Canada, the no-change-in-use election will not necessarily shelter the gain accruing during non-occupancy. Even so, the election can still be valuable to an individual who rents out her home while absent from Canada, if she later returns and resumes occupancy. This is so because it avoids the second deemed disposition of the home on the change from rental use back to personal use. This second deemed disposition would otherwise result in the realization of any gain on the property in respect of the period of non-residence. The election would also be valuable if the gain per year during the period of non-residence is large, relative to the gain per year during which the person occupies the home.

Gena Katz, FCA, CFP, is an Executive Director with Ernst & Young's National Tax Practice in Toronto. "Tax Break" appears monthly.

PUBLISHED QUARTERLY BY
CORPORATE PLANNING ASSOCIATES

SUITE 1700, 320 BAY STREET
TORONTO, ONTARIO, M5H 4A6

TEL: (416) 364-7898

FAX: (416) 364-6438

MANAGING EDITOR: LINDSAY HAGEN

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