

## TAX AND BUSINESS UPDATE DECEMBER 2011

### TAX TIPS FROM THE CANADA REVENUE AGENCY



While it is an unlikely source the Ottawa based CRA does offer a number of tax tips on its website. A few of these certainly represent good advice and if followed, can help to reduce your overall tax burden. Some of the CRA's tax tips are as follows:

*Keep Good Records*—as accountants we couldn't agree more with this advice. We have found over the years that incomplete records generally lead to higher tax costs, especially interest and penalties. Documented support for income earned and expenses paid are very important if you are ever audited. In fact, many completely legitimate expenses are often disallowed simply because the supporting documents are inadequate. Good records also allow for better future planning, which is a key to minimizing taxes.

*If You are Unable to Pay, Contact the CRA*—Again, we agree with this advice. By contacting the CRA and explaining your situation, you will likely be able to reach a payment arrangement that will avoid legal action such as garnishees on bank accounts.

*Be Well Informed When Making Investments*—Unfortunately, due to an increase in the number of unscrupulous promoters, this suggestion is very valuable. Many investment schemes claim significant tax savings, and while the CRA may grant a tax number to the organizations, they do not guarantee the tax benefits. Similar to many schemes, if it sounds too good to be true, it probably is. The CRA suggests thoroughly researching the promoters and obtaining independent accounting or legal advice.

*Use Online Services*—Using online services to file your returns and to pay your taxes can save a lot of time and paper. Such services as *Netfile* and *Telefile* can certainly reduce the amount of time required to prepare and file returns and to reduce the time taken for assessments. *My Payment* allows electronic payments and can be very helpful in assuring that payments are made on time and credited to the correct account.

### NEW PARTNERSHIP FILING REQUIREMENTS

In prior years, most small partnerships were exempt from filing an annual T5013 Partnership Information Return. However, effective for 2011, this situation has changed. The following partnerships must now file the return:

- A partnership in which total revenues plus total expenditures exceeds \$2,000,000 or in which total assets exceed \$5,000,000.
- Tiered partnerships (in other words, one which is a partner itself in another partnership).
- A partnership that has a corporation or trust as one of its partners.
- A partnership that has invested in flow through shares which renounced Canadian Resource Expenditures.
- Any partnership that receives a request from the Canada Revenue Agency to file a T5013 return.

The due date is generally 5 months after the year end date of the partnership unless the partnership has individual partners only and no corporate partners. If this is the case, the due date is March 31st of the year following the fiscal year of the partnership.

The information requirements for filing these returns are extensive, so if you believe your partnership is caught by the new rules, we recommend contacting your accountant at Harvey, Lister & Webb Inc. as soon as possible.

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## CPP UPDATE

It seems as if every bulletin that we have published recently has some CPP Update information. In this case, it is just a brief reminder that if you are 65 or over, collecting CPP and still working, you must complete a prescribed CRA form if you wish to be exempt from future CPP premiums. If so, you must complete Form CPT30 E and provide a copy to your employer. If this is not done, your employer will have to deduct CPP premiums from future earnings.

The decision on whether or not to complete the form will be based on the following:

- An annual cost to you and your employer of up to \$4,613 for 2012 and more in future years,
- How much in CPP benefits you are currently receiving, and
- How much will your future CPP benefits increase if you continue to pay premiums.

The Service Canada website has good information on the modernized CPP rules. Visit <http://www.servicecanada.gc.ca/eng/sc/cpp/retirement/canadapension.shtml> for details.

## FUTURE RRSP CONTRIBUTION LIMITS

The indexed limits for RRSP contributions have been announced as follows:

- 2012 — \$22,930 and
- 2013 — \$23,820.

Remember that the 2011 maximum is \$22,450.

## LEAP YEAR DEADLINES

It is important to remember that certain deadlines that usually fall on March 1st or 31st will now be February 29th and March 30th for 2012. Remember to make your RRSP and similar contributions by February 29, 2012, not March 1st as in prior years. Any trusts or estates having December 31, 2011 year ends will have to file by March 30, 2012 not March 31st.

## ANNUAL YEAR END TAX CHECKLIST

We are once again providing a copy of our annual year end tax checklist with this December bulletin. The checklist is now two pages long and may include some items that are relevant to your situation. If you have any questions about any of the items included, please call your accountant at Harvey, Lister & Webb Incorporated. (250 492.8821)

## CANADA REVENUE AGENCY INTEREST RATES

The Canada Revenue Agency collects and pays interest on overdue accounts and refunds respectively. The rate of interest is established quarterly and varies depending on the nature of the debt or refund. The current rates are as follows:



- Interest charged on overdue taxes, CPP and EI contributions is currently 5%.
- Interest paid on refunds to corporations is 1%.
- Interest paid on refunds to individuals is 3%.
- The prescribed interest rate for calculation of employee benefits and low interest loans is 1%.

All rates are compounded daily, so the effective rates are slightly higher than the published rates.

Note also that interest paid to the CRA on overdue accounts represents a non-deductible expense, whereas interest received with refunds is taxable. Clearly, this significantly increases the actual out of pocket cost of not paying tax liabilities when due.

## DONATIONS AND MEDICAL EXPENSES

Just a reminder that it is generally more beneficial to group two years worth of charitable donations into one year on your tax return as this increases your tax savings. For example, if you contribute \$300 per year to charity, you would reduce your taxes by approximately \$47 if you carry forward the first year's donation to the second year and claim \$600 in donation credits in one year. Note that charitable donations should be reported in the year the donation is made, even if you are going to wait to claim the credit.



Credits for medical expenses are not calculated in the same manner as donations, but you may benefit by prepaying for such expenses as dental work or glasses if you anticipate making a claim for medical expenses in your 2011 tax return.



*Compliments of the Season—we hope you have an enjoyable Christmas break and a wonderful 2012.*

**HARVEY, LISTER & WEBB INCORPORATED**  
**Year-end Tax Planning Checklist**  
**December 2011**

Please check to see if any of the following year-end tax planning techniques are relevant for you or your family. If you need further information, please contact us at 250.492.8821 or [info@harveylisterwebb.com](mailto:info@harveylisterwebb.com)

<b>Tax Reducing Technique</b>	<b>Yes</b>	<b>No or N/A</b>
Should I make charitable donations prior to December 31 <sup>st</sup> ?		
Should I pay for medical or dental expenses before December 31 <sup>st</sup> ?		
Should I purchase tax shelters prior to December 31 <sup>st</sup> ?		
If auto expenses are deductible for me, should I pay for required repairs or purchase needed tires prior to December 31 <sup>st</sup> ?		
If I am in a high tax bracket in 2011, can I defer the receipt of some income (salaries, commissions etc.) until 2012?		
If I am in a low tax bracket in 2011, can I move forward the receipt of income (capital gains, prepaid wages, redeem RRSP's etc.) to help reduce taxes in 2012?		
If I have moved at least forty kilometers to a new job in 2011, will I have paid for all moving expenses prior to December 31 <sup>st</sup> to maximize my claim?		
Do I need to top up installment payments prior to December 31 <sup>st</sup> to reduce or eliminate installment interest charges?		
If I am self-employed, should I pay salaries or wages to family members prior to December 31 <sup>st</sup> to reduce my net income for tax purposes?		
Are there other deductible expenses that I should pay prior to December 31 <sup>st</sup> to reduce net income from self-employment or commissions?		
If I have reached the age of 71 in 2011, have I converted my RRSP's to RRIF's or annuities prior to December 31 <sup>st</sup> to avoid an income inclusion?		
If I am the trustee of a family trust, have I assured that all income received by the trust in 2011 has been distributed to the beneficiaries to avoid the high tax rates imposed on the trust?		
Should I pay fees for eligible Children's Fitness or Arts Programs before December 31, 2011?		
Should I make capital gains tax free charitable contribution of publicly traded shares to increase tax credits?		

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Should I pay or prepay any childcare expenses prior to December 31 <sup>st</sup> to assist in maximizing my 2011 claim?		
Should I pay interest on my student loan prior to December 31 <sup>st</sup> to assist in maximizing my 2011 claim?		
If I have earned capital gains in 2011, should I liquidate some accrued loss assets to reduce the taxes on the gains?		
If I have accrued losses on shares in or loans to a Canadian small business corporation, should I sell, transfer or quit claim those investments prior to December 31 <sup>st</sup> to create an allowable business investment loss?		
If I am short of cash but have an RRSP contribution limit, should I transfer non-cash assets to my RRSP to create an allowable deduction (and a potential capital gain)?		
Should I pay investment counseling fees, professional dues or alimony or make contributions to a political party before December 31 <sup>st</sup> to maximize my allowable deductions or credits?		
Should my corporation pay dividends prior to December 31 <sup>st</sup> to create a dividend refund?		
If I am between age 65 and 70, should I file form CPT30 E to elect not to pay additional CPP premiums? Should I revoke a previously filed election, if relevant?		
Have I considered the source of funds for my 2012 Tax Free Savings Account contribution? Would it make sense to liquidate securities in 2011 for this purpose?		
If I am member of a partnership, has the business met the new filing requirements for Form T5013? (Relevant for partnerships whose year ends end on or after January 1, 2011.		
If I own a corporation which has older vehicles, does it make sense to purchase those vehicles from the company to reduce standby charges based on original cost?		
If I am 65 or older and not receiving Pension or Registered Retirement Income Fund income, should I purchase an annuity to create at least \$2,000 of annual pension income, which is eligible for a tax credit?		
If I have ineligible investments in my RRSP (generally private company shares), have I contacted my investment adviser to commence the process of divesting the plan of such investments?		
Should I contact Harvey, Lister & Webb Incorporated to see if any of the above techniques are relevant for me or if I should do anything else to reduce or manage my 2011 income tax liability?		