

TAX TIPS & TRAPS

WINTER • 2014

SPECIAL
EDITION

We are now the

BCJ GROUP
CHARTERED ACCOUNTANT

4946 Fraser Street,
Vancouver, British Columbia
V5W 2Y8

T. (604) 431-0445 F. (604) 428-0099
www.brianjang.ca

2014 REMUNERATION

Some general guidelines to follow in remunerating the owner of a Canadian-Controlled Private Corporation earning "active business income" include:

- 1) There are generally two options for paying earnings out of a corporation – salaries and dividends.

The best method depends on the applicable provincial tax rates, quantity of personal and corporate income, and whether you can afford to leave earnings in the company.

- 2) Notification must be made to the shareholders when an "eligible dividend" is paid.
- 3) Elect to pay out tax-free dividends from the "Capital Dividend Account".
- 4) Consider paying taxable dividends to obtain a refund from the "Refundable Dividend Tax on Hand" account.

- 5) Corporate earnings in excess of personal requirements could be left in the company to obtain a tax deferral (the tax is paid when cash is withdrawn from the company).

The effect on the "Qualified Small Business Corporation" status should be reviewed before selling the shares where large amounts of capital have accumulated.

- 6) Dividend income, as opposed to a salary, will reduce an individual's cumulative net investment loss balance thereby possibly providing greater access to the capital gain exemption.
- 7) Excessive personal income may reduce receipts and credits,

such as Old Age Security, the age credit, child tax benefits, and GST credits.

It may be advantageous to defer receiving Old Age Security receipts (for up to 60 months) if it would otherwise be eroded due to high income levels (greater than \$71,592 for 2014).

- 8) Salary payments require source deductions (such as CPP, EI and payroll taxes) to be remitted to CRA on a timely basis.
- 9) Individuals that wish to contribute to the CPP or a RRSP may require a salary to create "earned income".

RRSP contribution room increases by 18% of the

previous year's "earned income" up to a yearly prescribed maximum (\$24,270 for 2014; \$24,930 for 2015).

- 10) Spouses may jointly elect to have up to 50% of certain pension income reported by the other spouse.
- 11) If you are providing services to a small number of clients through a corporation (which would otherwise be considered your employer), CRA could classify the Corporation as a Personal Service Business. There are significant negative tax implications of such a classification. In such scenarios, discuss risk and exposure minimization strategies with your professional advisor.

IN THIS EDITION

2014 REMUNERATION

2014 YEAR-END TAX
PLANNING

YEAR-END TAX PLANNING

December 31, 2014 is fast approaching... see below for a list of tax planning considerations.

Please contact us for further details or to discuss whether these may apply to your tax situation.

SOME 2014 YEAR-END TAX PLANNING TIPS INCLUDE:

- 1) Certain expenditures made by individuals by December 31, 2014 will be eligible for 2014 tax deductions or credits including: moving expenses, child care expenses, charitable donations, political contributions, medical expenses, alimony, eligible employment expenses, union, professional, or like dues, carrying charges and interest expenses, certain public transit amounts, and children's fitness and arts amounts. Ensure you keep all receipts that may relate to these expenses.
- 2) You have until Monday March 2, 2015 to make tax deductible Registered Retirement Savings Plan (RRSP) contributions for the 2014 year. Consider the higher income earning individual contributing to their spouse's RRSP via a "spousal RRSP" for greater tax savings.
- 3) The age limit for maturing Registered Pension Plans, RRSP, and Deferred Profit Sharing Plans is 71 years of age.
- 4) If you own a business or rental property, consider paying a reasonable salary to family members for services rendered. Examples include website maintenance, administrative support, and janitorial services.
- 5) A senior whose 2014 net income exceeds \$71,592 will lose all, or part, of their Old Age Security. Senior citizens will also begin to lose their age credit if their net income exceeds \$34,873.
- 6) Consider purchasing assets eligible for capital cost allowance before the year-end. A half year of depreciation deduction is allowed for most assets even if it was purchased just before the year-end.
- 7) Consider selling capital properties with an underlying capital loss prior to the year-end if you had taxable capital gains in the year, or any of the preceding three years. This capital loss may be offset against capital gains in the current year, and then in the three preceding years.
- 8) Registered Education Savings Plan (RESP) - A Canada Education Savings Grant for RESP contributions will be permitted equal to 20% of annual contributions for children (maximum \$500 per child per year). In addition you may be eligible to receive a Canada Learning Bond which provides \$525 in the first year, and an additional \$100 each year until the child turns 15.
- 9) A refund of Employment Insurance paid for certain non-arm's length employees may be available upon application to the CRA.
- 10) Taxpayers that receive "eligible dividends" from private and public corporations may have a significantly lower tax rate on the dividends as compared to non-eligible dividends. Notification to the shareholder is required.
- 11) A Registered Disability Savings Plan may be established for a person who is under the age of 60 and eligible for the Disability Tax Credit. Non-deductible contributions to a lifetime maximum of \$200,000 are permitted. Grants, Bonds and investment income earned in the plan are included in the beneficiary's income when paid out of the RDSP.
- 12) If required income, forms, or elections have not been reported to the CRA in the past, a Voluntary Disclosure to the CRA may be available to avoid penalties.
- 13) For individuals who have not yet claimed charitable donations, consider making a donation of up to \$1,000 in order to get a "super charged" donation credit. For these individuals with total donations of less than \$1,000 in the current year, consider not claiming the donation amount until you have donated a total of \$1,000 (can wait up to five years to claim the credit).
- 14) Consider restructuring your investment portfolio to convert non-deductible interest into deductible interest.

It may also be possible to convert personal interest expense, such as interest on a house mortgage or personal vehicle, into deductible interest.
- 15) Are you a US Resident, Citizen or Green Card Holder? Consider US filing obligations with regards to income and financial asset holdings. Filing obligations may also apply if you were born in the US.
- 16) Do you have foreign property or investments? Consider the filing obligations in both the foreign country and Canada.
- 17) An investment tax credit is available in respect of each eligible apprentice. Also, a \$1,000 Incentive Grant per year is available for the first and second year as apprentices. A \$2,000 Apprenticeship Completion Grant may also be available.

Provincial credits may also be available.
- 18) Canada Pension Plan (CPP) receipts may be split between spouses aged 65 or over. Also, it may be advantageous to apply to receive CPP early (age 60 - 65) or late (age 65 - 70).
- 19) Individuals 18 years of age and older may deposit up to \$5,500 into a Tax-Free Savings Account in 2014. Commencing in 2009, annual contributions were limited to \$5,000, though increased to \$5,500 in 2013, for a total of \$36,500 by January 2015