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A New Year, a New Opportunity . . . to Prepare for Tax Season!

The new year is upon us, and tax season is (fast) approaching. This article is presented to assist you in preparing for your 2002 tax filing, and to ensure that you don't miss out on certain opportunities for the current and future years. The points addressed in this article are not intended to provide an exhaustive list of tax tips and strategies, but rather, a brief summary of basic opportunities that may be commonly overlooked.

In addition, for those of you who would like to prepare your own preliminary calculation of your tax liability, a 2002 tax table is provided for your information.

Tax Tips and Opportunities

Some tax tips can be acted upon at any time; the timing of other tax strategies, however, must be considered more carefully to be most effective.

▪ *Medical expenses*

Medical expenses must exceed a certain threshold before you may make any claim on your tax return. Further, you may claim the expenses incurred in *any* 12-month period that ends in the calendar year. As such, you may want to carefully consider when to complete any elective medical/dental procedures or work. In general, it can be beneficial to group your larger medical/dental expenses in any 12-month period.

▪ *Charitable donations*

Group your donations in one calendar year, i.e., rather than making some donations in December and some the following January, group them in the same calendar year for maximum tax benefit.

▪ *Political donations*

The same comments apply as for charitable donations.

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▪ *RRSP contributions*

The deadline for RRSP contributions that can be claimed on your 2002 tax return is March 1, 2003. But don't wait until the last day; your investment advisor could be "swamped" at that point!

▪ *RESP contributions*

If you plan to set up an RESP or already have one, contributions must be made before December 31 each year to claim the annual federal grant funds, i.e., 20 percent times your contribution, up to $400 per plan. Therefore, in the future, you may wish to pre-arrange with your investment advisor to make this contribution.

▪ *Capital losses*

Good tax planning can influence the decision of when to sell off investment assets that have declined in value. Triggering capital losses can be an effective plan when capital gains have been realized in the same year, because the capital losses will offset the capital gains and reduce or eliminate the related tax.

▪ *Capital losses for carry back*

Where capital losses are triggered and exceed capital gains realized in the current year, the *excess* losses can be carried back to offset gains in any of the three prior years. This means tax paid on gains in those prior years can be refunded! Note that you must make the *election* to carry back the capital losses (on form T1A). CCRA will not automatically do this for you!

Caution: If you plan to sell investments to trigger losses in a particular taxation year, don't wait until the last minute. It can take several days for a transaction to settle, and the settlement date is the effective date of the sale. Further, before selling-off investments, speak with your investment advisor first. This will help ensure you are also making the most savvy investment decision.

▪ *Tuition transfers*

When you have assisted children or grandchildren with their tuition, but their incomes are too low to benefit from the tuition/education tax credits, remember that the tax credit may be claimed by you.

▪ *Caregiver and disability credits*

These particular tax credits are sometimes missed by taxpayers. For example, if you are taking care of an elderly parent with limited means, you may be eligible for the caregiver credit. If you, your spouse, or child suffer "a severe and prolonged impairment" that prevents the ability to perform "the activities of daily living," the disability tax credit may be available. Both credits can provide significant tax savings.

▪ *Deduction of carrying charges*

Don't forget that safety deposit box charges, investment management fees (excluding those relating to RRSPs), and interest on loans incurred for investment purposes (collectively referred to as "carrying charges") are generally deductible on your tax return.

▪ *The GST rebate*

If you have children 19 years of age or older, who have no income to speak of, remind them to file a tax return. In this way, they may claim the GST rebate (of up to $213 for 2002 for a single individual). The only way to claim this rebate is by filing a tax return.

▪ *Transfer of tax credits*

The Age, Disability, Pension, and Tuition/Education tax credits can be transferred to a spouse in certain circumstances. Therefore, ensure that these tax credits are not "wasted."

For those of you who are proprietors of your own business, here are a few additional tips to consider.

▪ *Capital expenditures*

For businesses, capital expenditures—computers, office equipment, etc.—can be amortized over time, creating additional tax deductions. In general, at least six months' worth of amortization can be claimed for tax purposes in the year a capital asset is acquired. Therefore, an asset purchased on December 31 will get you the same deduction as the same asset purchased on the following January 1, but by purchasing the asset before the end of the year, you get to claim a half-year's amortization a full year earlier!

▪ *Payment to family members involved in the business*

It is perfectly appropriate to pay family members a reasonable wage for their services to the business. By ensuring they are paid for their work, income splitting can also be achieved. Ensure that such payments are made *during* the year, because CCRA will not look kindly on subsequent payments or bonuses accrued to family members that appear to be based upon "retro-active tax planning."

▪ *Accounts receivable review*

Times are tough; you may have some receivables for which the likelihood of collection is very low. Review any accounts that have been outstanding since the year end, and consider writing-off accounts deemed not collectible. This will reduce the income on which you will pay tax. Remember, however, if the bad debt is subsequently collected, ensure that you report it in income of the subsequent year (as a "bad debt recovery").

▪ *Employee gifts and awards*

Canada Customs and Revenue Agency (CCRA) has established a relatively new policy that allows an employer to give employees two tax-free, non-cash gifts per year with a total cost to the employer (including taxes) of $500. In addition, the employer may give the employee two tax-free, non-cash awards per year, also with a total maximum cost of $500. As such, why not consider giving a tax-free gift/award on anniversaries, birthdays, Christmas, etc., instead of a taxable bonus. (Note: a gift certificate would not qualify for this treatment because it is considered "near-cash" by CCRA.)

▪ *Inventory*

When filing your tax return, ensure that any stock on hand that has realized a permanent decrease in value (or is obsolete) is written down for tax purposes. This, too, will reduce your bottom line and your tax bill!

New Year, New Beginnings, New Tax Rates!

The new year also marks the effective date of new personal tax rates, slightly reduced from prior years. To calculate your estimated tax liability for 2002, refer to the tax table below.

Marginal Tax Rates

Individuals (BC & Fed.)

Taxable Income	Salary/ Interest	Dividends	Capital Gains
$ 0 -$ 31,124	22.05 %	4.52 %	11.02 %
31,125 - 31,677	25.15	8.39	12.57
31,678 - 62,249	31.15	15.89	15.57
62,250 - 63,354	33.70	19.08	16.85
63,355 - 71,470	37.70	24.08	18.85
71,471 - 86,785	39.70	26.58	19.85
86,786 - 103,000	40.70	27.83	20.35
Over 103,000	43.70	31.58	21.85

The above tips and strategies are not intended to be a complete "checklist" for your preparation for tax season. They do highlight a number of commonly missed opportunities and hopefully, will give you a "heads up" where more prompt action must be taken in future. Please keep in mind, however, that no significant tax strategy or change should be undertaken without the input of your own personal tax advisor.

Wishing you and your family a happy and healthy new year. ▲

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