

Kathryn Edwards

# Tax Planning: Not Just a Year-End Activity



**T**he end of the calendar year is not the *only* time we should be thinking of tax planning. It is, however, the time many individuals and corporations turn their attention to such matters.

To help you focus on tax planning, the following points are provided for your consideration. While not intended to be an exhaustive summary, this list will provide some straightforward opportunities that you—as an individual—or your company may consider.

Most can be implemented at any time during a taxation year. While many companies have non-calendar year-ends, individuals must report on a December 31 basis. If one fiscal period has just recently passed, you may now start to apply some of these ideas for the next fiscal period.

## Owner-Managed Businesses

Owners of incorporated businesses must consider corporate taxes, personal taxes, *and* ways to optimize these taxes on a combined basis. This can be a challenging process, often because the personal and corporate tax objectives can be at odds. All tax plans must start somewhere, however, so we'll begin with a summary of some corporate tax planning tips.

- **Maximize CCA**

If you are considering acquiring assets in the near future, consider purchasing before the fiscal year end. In the year of acquisition, many commonly acquired capital assets used by a small business are eligible for a full half-year of amortization for tax purposes, even if purchased at the very end of the year!

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- **Shareholder Loans from Corporations**

Consider repaying loans from your corporation so they are not outstanding over two fiscal-period ends, to avoid rules that cause inclusion of the loan in personal income. Sometimes it can be worthwhile to take out a personal bank loan to repay your company shareholder loan.

- **Remuneration Accrual**

Consider accruing salaries or bonuses at the company's fiscal year end. This can reduce corporate taxes while potentially deferring the payment of personal taxes.

- **Reserves**

Remember to maximize allowable reserves for doubtful accounts and obsolete inventory.

- **Older Automobiles**

Purchasing an older automobile from your corporation may reduce the overall tax implication—by way of a reduction in the standby charge—to the employee.

- **Corporate Withdrawals**

Maximize the effectiveness of withdrawals from the corporation, e.g., consider dividends vs. salaries. Also, where the company has a capital dividend account, consider electing to take a tax-free capital dividend.

- **Income Splitting with Family Members**

Consider involving family members in the business so they may be paid a salary. Note that the salary must be reasonable, given the services rendered. Appropriate documentation should be maintained, e.g., paycheques deposited into their own bank accounts, source deductions made, etc.

## Individuals

Some of the following points for individuals should be considered throughout the calendar year, while others may be more time-sensitive.

- **Income Deferral**

If you believe you will be in a lower personal tax bracket next year, consider deferring the receipt of employment income to the new year. By the same token, it can be beneficial to accelerate the receipt of employment income in the current year if you expect to be in a higher tax bracket next year.

- **Employee Loans**

Pay interest on employee loans before January 30 to reduce the amount of taxable benefit you will be required to report relating to the prior calendar year.

- **Interest Deductibility**

Review outstanding debt to ensure you make your interest expense deductible to the maximum extent possible.

- **Dividends vs. Capital Gains**

Consider investments that provide capital gains treatment vs. dividends or interest.

- **Capital Losses**

Before the end of any calendar year, consider selling investments with accrued capital losses to offset capital gains realized

in the current year or any of the prior three years. Remember, it may take several days to execute a sale, so make sure instructions are provided to your broker with enough lead time. Don't worry if you're too late for 2004; just keep this in mind for next year!

- **Capital Gains**

Consider delaying the sale of investments with accrued gains until the next calendar year, to defer the tax liability.

- **Other**

To claim a deduction or credit on your personal tax return for the year, all childcare expenses, charitable donations, medical expenses and carrying charges must be paid before the end of the calendar year. Also, remember to keep receipts!

Finally, in preparation for the upcoming RRSP season, consider the following points.

### **RRSPs**

- **2004 RRSP**

Your 2004 RRSP contribution must be made no later than March 1, 2005.

- **Spousal RRSP**

Consider a spousal contribution in situations where one spouse will have less income upon retirement.

- **Home Buyer's Plan**

Make your HBP repayment in addition to your regular RRSP contribution.

- **RRSP Withdrawals**

Consider withdrawing RRSP funds in years with low or no other income.

I hope this outline allows you to consider a few new strategies—and reconsider a few older ones—to determine whether they might fit within your existing plan. Each idea should be considered in the context of your own specific circumstances.

No tax plan should be implemented without the advice of your tax professional. ▲

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