



E.E.S. FINANCIAL SERVICES LTD.

6090 Highway #7 East

Markham, Ontario

L3P 3B1

1-866-590-0001

www.ees-financial.com

2008 YEAR-END TAX REVIEW AND TIPS

As 2008 draws to a close, it is important to consider your overall financial situation to ensure you have contemplated year-end tax issues and strategies. We suggest that you review all of the following items to see if any of them apply to you or a family member.

New in 2008

Unlocking Federal Life Income Funds – new rules allow individuals who have funds in federal locked-in RRSPs and life income funds (LIFs) greater access to their money beyond current maximum withdrawal limits.

Individuals who are at least 55 years of age with locked-in RRSPs and LIFs worth less than \$22,450 (2008) can wind up their accounts and take the cash (fully taxable) or transfer the funds to another regular RRSP or RRIF where there are no maximum withdrawal limits.

Under a 'financial hardship' option, any LIF holder, regardless of age, facing a job upset or medical/disability-related expenses can unlock up to \$22,450 (2008).

Individuals who are at least 55 years of age can unlock up to 50% of their LIF holdings and either cash them out (fully taxable) or transfer the funds into a regular RRSP or RRIF.

Creditor Protection for RRSPs and RRIFs – RRSPs and RRIFs are now formally exempt from the claims of creditors upon bankruptcy except for contributions made in the 12 months prior to the bankruptcy.

Registered Education Savings Plan (RESP) – contributions can now be made for 31 years and the plan can remain open for 35 years. There is now a six-month grace period that allows for beneficiaries to receive EAP payments for up to six months after ceasing to be enrolled in a qualifying program (provided that the payments would have qualified had they been made immediately before enrolment ceased).

Proposed for 2008

Temporary Relief to RRIF Withdrawals – measures are proposed to offer temporary relief to seniors with registered retirement investment funds (RRIFs) and private pension funds affected by global financial market turbulence. The government proposes to reduce the 2008 required minimum withdrawal amount for RRIFs by 25%. Similar rules will apply to people receiving variable benefit payments under a money purchase registered pension plan.

Coming in 2009

Tax Free Savings Accounts (TFSA) – Canadian residents aged 18 and older will be able to contribute up to \$5,000 to a TFSA every year. While there's no tax deduction for contributions, which are made in after-tax dollars, investment income in the account grows tax-free. Any amount can be withdrawn from a TFSA at any time, for any reason, tax-free. Withdrawals won't affect income-tested benefits and credits. Any withdrawals made in the previous year will be added to the contribution room for the current year and unused contribution room can be carried forward indefinitely.

Registered Disability Saving Plans – allows for individuals to save up to \$200,000 on a tax deferred basis for someone with a disability. There are government incentives available based on the amount of personal contributions to the plan.



RRSPs and Tax-Deferred Plans

- **Transferring assets into an RRSP** – any gain on these assets will be taxable to you in the year of transfer. However, any losses cannot be claimed – *so if you wish to utilize the losses, sell the assets first and transfer the cash.*
- **Home Buyers’ Plan** – if funds were withdrawn from an RRSP prior to 2007 under the Home Buyers’ Plan, a repayment equal to 1/15 of the amount withdrawn must be made by **March 1, 2009**. Failure to do so will result in the required repayment amount being included as income for 2008.

Maximum contribution limits for tax-deferred plans for 2008 and 2009 are as follows:

Year	Registered Retirement Savings Plan (RRSP) Limit	Defined Contribution Registered Pension Plan (RPP) Limit	Deferred Profit Sharing Plan (DPSP) Limit
2008	\$20,000	\$21,000	\$10,500
2009	\$21,000	\$22,000	\$11,500

- **Contribution Deadlines** – note that the final day to contribute to an **employer’s RPP** is **December 31, 2008**. The final day for all regular 2008 **RRSP contributions** is **March 1, 2009**. This is also the final day to contribute to a surviving spouse’s RRSP for a deduction on the deceased’s final tax return.
- **If you turn 71 in 2008**, you must convert your **RRSP/LIRA** to a RRIF/LIF/LRIF before **December 31, 2008**. Note that the beneficiary designation for your RRSP/LIRA *does not* automatically transfer to your newly established RRIF/LIF/LRIF. If you want your spouse or someone else to be the specific beneficiary of your new account, this must be indicated on your application. If you have contribution room available, make your contribution prior to conversion. *Individuals turning 71 this year DO NOT have the extra 60 days after year-end to make a contribution to their own RRSP.*
- **If you have a spouse who is younger than you**, you can base the minimum withdrawals from your **RRIF/LIF/LRIF** on his/her age. Another benefit of a younger spouse is that you may contribute to their RRSP until the end of the year in which *they* turn 71, based on *your* RRSP limit.
- If you are required to take a minimum withdrawal from your RRIF/LIF/LRIF and you are concerned about selling assets that have depreciated, you can **make an ‘in kind’ transfer to your regular investment account**. The assets transferred will be taxable at their market value but you can then retain the investment in your regular account. If you are considering this, check with your financial institution to ensure they can accommodate your request.



Investments

- **Non-registered GICs** – if you have GICs maturing in late 2008, defer reinvesting the proceeds in a new GIC until January 2009. The interest on a GIC purchased in December 2008 will be taxable in 2009, while the interest on a GIC purchased in January 2009 will be taxable in 2010.
- **Non-registered mutual funds** – if you invest in a mutual fund (outside of your registered accounts) between now and **December 31**, you may be in for a shock when you file your 2008 income tax return. Mutual funds must distribute all interest, dividends and realized capital gains to unit holders in the fiscal year in which they receive them. Many Canadian funds use the calendar year as their fiscal year. A year-end distribution results in you paying tax on the distribution allocated to you, although you have not enjoyed the income.
- **The deadline to contribute to an RESP** – for 2008 is **December 31, 2008**. *You DO NOT have 60 days after the end of the year to contribute as with an RRSP.* Also if you want to receive the maximum **Canada Education Savings Grant** of \$500 you must contribute at least \$2,500. You may also contribute amounts for past years where you have unused contribution room and this generates additional grants.

Capital Gains and Losses

Probably the most talked about tax strategy this month is 'tax loss selling'. As the factors surrounding this issue are based on individual circumstances, please contact your E.E.S. consultant to determine how any tax benefits may apply to you.

- **The disposition of securities** is deemed to take place not on the day that the order is placed, but rather on the 'settlement date'. For most securities, settlement occurs three days after placing a sell order. As such, to be considered on your 2008 tax return, Canadian transactions should be placed by **December 24, 2008** and U.S. transactions should be made by **December 26, 2008**.
- **Capital Gains and Losses** – 50% of your **capital gains** are included in your income. **Capital losses** can be carried back and claimed against any capital gains reported in the previous three years (2005, 2006 or 2007) or carried forward indefinitely. *However, your current year losses must first be used to offset your current year gains (if any).*
- **Fluctuations in the Canadian dollar** relative to the U.S. dollar may have created substantial foreign exchange issues in terms of capital gains or losses.
- **Superficial loss rule** – can negate the tax benefit of selling at a loss if you, your spouse or common-law partner, or another related entity acquires the same investment in the 30 days preceding *or* following the sale of the security on which you are claiming the loss. Note that an **RRSP** is considered to be a related entity.



- **Employer stock options** – are taxed as employment income, *not* capital gains; hence, capital losses cannot be applied to reduce the tax payable.
- **Deemed Disposition** – be aware that you may trigger a deemed disposition or acquisition of assets even though no transaction occurs. Examples include a marriage break-up, entering or leaving Canada, RRSP contributions ‘in kind’, and ‘change of use’ of assets.

Borrowing for Tax Purposes

- **Carrying Charges** – as a general rule, interest is deductible for tax purposes as long as the loan is used for the purpose of earning income from a business or property. This is often referred to as ‘**carrying charges**’. Several tax cases exist regarding the application of this rule. Other carrying charges include investment counselling fees, broker management costs, safety deposit box fees, etc. There is draft legislation at the Federal level to limit the amount of interest deductible to the cumulative income of the investment. Quebec has already changed its rules to provide distinct limitations.
- **Spousal loans** – established between **October 1, 2008** and **December 31, 2008**, the CRA prescribed interest rate is 3%. The deadline for payment of loan interest due in 2008 is **January 30, 2009**.

Charitable Donations

- **Share Security and Option donation** – consider making a **charitable donation** of a security with an accrued capital gain instead of using cash. As a result of donating the security, *none of the gain* will be included as taxable income rather than the standard 50% inclusion. A tax receipt will be issued for the entire fair market value of the donated security. This special tax treatment is also available for proceeds received through the exercise of employee stock options if the proceeds are donated within 30 days of acquisition directly by the exercising broker.
- **Donation of air miles or other loyalty program points** – companies often make it difficult to redeem air miles and loyalty program points, which result in an accumulation of miles and points with little or no value. Donating these miles or points to charity is a great way to redeem them and make a difference at the same time. Depending on the organization, these donations may yield a tax receipt.



Employment-Related Issues

- **Stock options** – give employees the right to purchase shares in their employer's company at a set price, known as the exercise price. The difference between the fair market value and this exercise price is taxed as employment income (*we emphasize - not capital gains*). Most employees can claim a deduction of 50% of the taxable benefit on qualified options, resulting in only 50% of the stock option benefit being taxed.
- **Defer taxation of stock option income** – employees may be able to defer the taxation on option income until the year the shares are actually sold. This deferral is subject to a limit of \$100,000 per year of vesting. **If you exercised any of your options in 2008 and continue to hold the stock on December 31**, you *must* notify your employer in writing by **January 16, 2009** in order to qualify for this deferral.
- **If you received a loan from your employer**, and you did not use the proceeds for the purpose of generating income; you can reduce the amount of the taxable benefit by making an interest payment before **January 30, 2009**.
- **If you have a company car**, there is a taxable benefit attributable to your use of the vehicle that is reported on your T4 and Relevé 1. Keep a log of your personal and business-use kilometers for your company vehicle to ensure easy reconciliation for your tax return. You may qualify for a reduced *standby charge* and *operating cost benefit* based on usage.
- **Employees who use their own car for business purposes** can receive a tax-exempt allowance from their employer if the allowance is based on the kilometers driven for business purposes, as opposed to a lump-sum allowance. The limit is 52 cents for the first 5,000 kilometers and 46 cents thereafter.
- **If you have eligible employment expenses or work from home more than half of the time**, your employer will be required to provide a form T2200, *Declaration of Employment Conditions*. Be sure you obtain a T2200 if it is applicable.
- **If you have tax-deductible expenses** such as RRSP contributions, support payments, childcare expenses, investment carrying charges, rental losses, etc., application can be made to the CRA or Revenu Québec to reduce your tax deductions at source for 2009. If approved, your employer may reduce the tax withheld at source resulting in increased cash flow. The approval process generally takes six weeks.

Income Tax Instalment

- If the difference between your **federal tax payable** and your income tax withheld at source is greater than \$3,000 (\$1,800 if you are a resident of Quebec), you are generally asked to make



income tax instalment payments. The reporting notices provided by the CRA can be confusing. If you expect that your liability will be more or less than previously calculated, you may want to adjust your final payment accordingly. While you do not want to overpay your tax, the CRA will charge you interest, and possibly penalties, if you underestimate the amount owing. The final federal income tax instalment for 2008 is due **December 15, 2008**, to the Receiver General for Canada.

- If the difference between your **Quebec tax payable** and your Quebec tax withheld at source is greater than \$1,200, you are generally asked to make instalments. The final Quebec income tax instalment for 2008 is due **December 15, 2008**, to le Ministère du Revenu.

Alternative Minimum Tax

- Certain tax-deductible items may expose you to **Alternative Minimum Tax (AMT)**. While this tax may be carried forward and applied in future years, it can be lost if you leave Canada and have no further taxable Canadian income. Residents of Quebec can lose the provincial AMT simply by leaving the province.

Business Owners

- **For business owners** who employ family members, pay salaries by **December 31, 2008** to ensure earned income for RRSP and CPP/QPP contributions.
- **Owner managers** with control over their income may want to ensure that they have enough employment income to maximize their **RRSP contributions**. In order to reach the maximum contribution level for 2009 (\$21,000), you must have \$116,667 of earned income in 2008.
- **If purchasing capital assets** (such as computers, furniture or equipment) in the near future, consider making the purchase(s) before the calendar year-end, or fiscal year-end for businesses, as applicable. This will allow for a depreciation claim on your 2008 return.
- If you took a **shareholder loan** from your corporation in 2007, repay it, if possible before the end of 2008.

Quebec Differences

- The **stock option deduction** for Quebec provincial tax purposes is 25%, compared to 50% for federal tax purposes.



- For **investors in Quebec**, the amount of **deductible interest and carrying charges** is **limited** to the investment income, including capital gains realized in the taxation year. Exempt from this limitation are both rental losses and active business losses. These expenses can be carried back three years or carried forward indefinitely to apply against investment income and capital gains. Be aware that many tax shelter write-offs are included in the limitations and may not be deductible depending on your circumstances.

**Please contact your E.E.S. Consultant for further details
concerning any of these tax topics.**

**Don't forget to check out our website www.ees-financial.com
for daily 'news you can use'.**