

2010 YEAR-END TAX PLANNING CHECKLIST

OWNER - MANAGERS

The following checklist provides tactics you should consider as part of your year-end tax planning. If you need further explanation, please contact Chaplin & Co., Chartered Accountants at 416 667 7060.

- G **Instalments** - reduce instalments if you anticipate that the current year's taxable income will be less than the prior year's taxable income.
- G **Final tax balances** - Pay final corporate income and capital tax balances within two months after year end (three months for certain Canadian-Controlled private Corporations).
- G **Salary/dividend mix** - Determine the optimal salary/dividend mix for you and other family members for 2010.
- G **Pay salary or bonus** - other than dividends if the corporation's combined Federal and Provincial rate exceeds 20% - generally when taxable income exceeds \$500,000.
 - G If the individual's tax rate is higher than the corporation's, retain in the corporation income on which the corporation pays tax, to allow personal tax to be deferred.
- G **Remuneration accruals** - Accrue salary and bonuses before the year end of your business. Ensure that accrued amounts are paid within 180 days at the corporation's year-end.
- G **Employee gifts and awards** - Consider the CRA's revised policies when formulating an employee gift and award program.
- G **Salaries to family members** - Pay a reasonable salary to a lower-tax bracket spouse or child who provides services to your business.
- G **Corporate withdrawals** - Make tax-effective withdrawals of cash from your corporation (e.g., by paying dividends, non-taxable capital dividends, or a return of capital).
- G **Depreciable assets** - Accelerate purchase of depreciable assets.
- G **Capital tax** - Consider alternatives to reduce federal and provincial taxable capital.
- G **Reserves** - Identify and claim any additional reserves for doubtful accounts receivable or inventory obsolescence.
- G **Dividends** - Convert dividends to capital gains.
- G **Dispositions** - Defer planned dispositions that will result in income until after year end.
- G **Costs of doing business** - Compare costs of doing business in different jurisdictions.
- G **Sales to related businesses** - Ensure that goods sold to related businesses are resold to third parties before year end.
- G **\$750,000 capital gains election** -
 - G ensure that the company qualifies as a qualified small business corporation.
 - G crystallize the capital gain now.
 - G consider taking steps to have your spouse or children share in future appreciation to use their \$750,000 capital gains exemption.
 - G determine whether you have a cumulative net investment loss (CNIL) amount which will affect any capital gains exemption claim.
 - G if you have already used your exemptions, consider transferring private company shares to your RRSP if a cash contribution is not practical.
- G **Capital gains rollover** - Investment proceeds on the sale of eligible small business investments in other eligible small business investments.
- G **Inter-company charges** - Ensure inter-company charges are reasonable given changes in the economy.
- G **Donations** - Make charitable donations and political donations before year-end.
- G **Shareholder loans to your corporation** - Have your corporation pay deductible interest on shareholder loans made to the corporation in order to reduce active business income to the \$500,000 threshold. This threshold may be higher in some jurisdictions.
- G **Shareholder loans from your corporation** - Repay shareholder loans from your corporation no later than one tax year after the amount is borrowed (exceptions apply).
- G **Fines and penalties** - most government and court fines are not deductible.
- G **Professionals and sole proprietorships** -
 - G Consider making election to retain your off-calendar year-end.
 - G If your business is growing and the income increasing annually, the alternative method may provide some income tax deferral.

G Professionals and sole proprietorships - continued

- G If you are operating a successful unincorporated business, consider whether incorporation of the business will provide additional commercial and tax benefits.
- G Review whether you should incorporate your professional business, if allowed by your licensing authority.