

2008 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.

- Instalments** -
 - Pay less frequent Ontario income and capital tax instalments if your corporation qualifies.
 - Reduce Quebec income and capital tax instalments in your corporation claims research and development tax credits and meets other eligibility criteria.
- 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).
- Salary/dividend mix** - Determine the optimal salary/dividend mix for you and other family members for 2008.
- Pay salary or bonus** - other than dividends if the corporation's combined Federal and Provincial rate exceeds 20% - generally when taxable income exceeds \$400,000.
 - 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.
- 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.
- Employee gifts and awards** - Consider the CRA's revised policies when formulating an employee gift and award program.
- Salaries to family members** - Pay a reasonable salary to a lower-tax bracket spouse or child who provides services to your business.
- 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).
- Depreciable assets** - Accelerate purchase of depreciable assets.
- Capital tax** - Consider alternatives to reduce federal and provincial taxable capital.
- Reserves** - Identify and claim any additional reserves for doubtful accounts receivable or inventory obsolescence.
- Dividends** - Convert dividends to capital gains.
- Dispositions** - Defer planned dispositions that will result in income until after year end.
- Costs of doing business** - Compare costs of doing business in different jurisdictions.
- Sales to related businesses** - Ensure that goods sold to related businesses are resold to third parties before year end.
- \$750,000 capital gains election** -
 - Ensure that the company qualifies as a qualified small business corporation.
 - Crystallize the capital gain now.
 - Consider taking steps to have your spouse or children share in future appreciation to use their \$750,000 capital gains exemption.
 - Determine whether you have a cumulative net investment loss (CNIL) amount which will affect any capital gains exemption claim.
 - If you have already used your exemptions, consider transferring private company shares to your RRSP if a cash contribution is not practical.
- Capital gains rollover** - Investment proceeds on the sale of eligible small business investments in other eligible small business investments.
- Inter-company charges** - Ensure inter-company charges are reasonable given changes in the economy.
- Donations** - Make charitable donations and political donations before year-end.
- 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 \$300,000 threshold. This threshold may be higher in some jurisdictions.
- Shareholder loans from your corporation** - Repay shareholder loans from your corporation no later than one tax year after the amount is borrowed (exceptions apply).
- Fines and penalties** - most government and court fines are not deductible.

Professionals and sole proprietorships -

- Consider making election to retain your off-calendar year-end.
- If your business is growing and the income increasing annually, the alternative method may provide some income tax deferral.
- If you are operating a successful unincorporated business, consider whether incorporation of the business will provide additional commercial and tax benefits.
- Review whether you should incorporate your professional business, if allowed by your licensing authority.