

2006 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 2006.
- Pay salary or bonus -** other than dividends if the corporation's combined Federal and Provincial rate exceeds 20% - generally when taxable income exceeds \$300,000 (\$400,000 for 2007)
 - 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.
- \$500,000 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 \$500,000 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 imposed after March 22, 2004 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.