

In this issue...

TFSA: Start to save more in 2009	1
Year End Tax Planning Checklist	2
Update on the economic and financial situation of Québec	7
Firm News	8

PSB Boisjoli, LLP
Chartered Accountants

3333 boul. Graham, #400,
Montréal (Québec) H3R 3L5
T. (514) 341-5511
F. (514) 342-0589
www.psbboisjoli.ca

**TFSA: START TO SAVE MORE IN 2009**

To improve the taxation of savings, the 2008 Federal Budget introduced the “Tax-Free Savings Account” (TFSA), a registered account that will help individuals to grow their savings. You will find a summary of the main characteristics of the TFSA below:

BASIC RULES

Starting in 2009, individuals will be allowed to accumulate \$5,000 of TFSA contribution room each year. The \$5,000 limit will be indexed to inflation; however the annual additions to contribution room will be rounded to the nearest \$500.

Unused contribution room will be carried forward to future years. For example, if an individual contributes \$2,000 to a TFSA in 2009, the individual’s contribution room for 2010 will be \$8,000 (\$5,000 for 2010 plus \$3,000 carried forward from 2009). There will be no limit on the number of years that unused contribution room can be carried forward.

Any amounts withdrawn from an individual’s TFSA in a year will be added to the individual’s contribution room for the following year. This will give individuals who access their TFSA savings, the ability to re-contribute an equivalent amount in the future.

PENALTIES FOR EXCESS CONTRIBUTIONS

Excess contributions will be subject to a tax of one per cent per month, beginning with the first dollar of overcontribution.

TAX TREATMENT OF TFSA INCOME

Any income, losses and gains in respect of investments held within a TFSA, as well as amounts withdrawn, will not be included in computing income for tax purposes.

However, contributions to a TFSA will not be deductible in computing income for tax purposes.

MINIMAL AGE

Only individuals 18 years of age and older will be allowed to contribute to a TFSA. Because there is no maximum age limit to make a contribution to a TFSA, retired individuals will be able to participate in the program.

CONTRIBUTIONS BY A SPOUSE OR COMMON-LAW PARTNER

It will be possible for individuals to take advantage of their TFSA contribution room by using funds provided by their spouse or common-law partner, without negative tax implications.

QUALIFIED INVESTMENTS

A TFSA will generally be permitted to hold the same investments as a “Registered Retirement Savings Plan” (RRSP). The RRSP qualified investment rules accommodate a broad range of investments including, for example, mutual funds, publicly-traded securities, government and corporate bonds, guaranteed investment certificates and, in certain cases, shares of small business corporations.

There will be some limitations on TFSA investments. Specifically, a TFSA will be prohibited from holding investments in any entities with which the account holder does not deal at arm's length—including for this purpose an entity of which the account holder is a "specified shareholder" as defined in the Income Tax Act or in which the account holder has an analogous interest (generally a 10 per cent or greater interest, together with non-arm's length persons).

As a result, the TFSA may be an interesting tax planning tool, especially, for investments in a private corporation by a shareholder or a key employee who (together with related people), owns less than 10% of each class of issued and outstanding shares.

ISSUERS

Financial institutions currently eligible to issue RRSPs will be permitted to issue TFSAs. This includes Canadian trust companies, life insurance companies, banks, and credit unions.

YEAR END TAX PLANNING CHECKLIST

REGISTERED RETIREMENT SAVINGS PLAN

- The deadline for 2008 RRSP contributions will be March 1st, 2009. Make your annual RRSP contributions early in the year to begin tax-free compounding as early as possible.
- The amount deductible in 2008 is the balance of the unused contribution room as at December 31, 2007 plus the lesser of: 18% of 2007 "earned income" and \$20,000, reduced by the 2007 Pension Adjustment.
- Unused contribution room is the amount of RRSP deductions you are entitled to deduct from previous years less the amount actually deducted.
- If you turn 71 during 2008, make your annual RRSP contributions before December 31st. Furthermore, your RRSP must be converted to either a Registered Retirement Income Fund or an annuity prior to the end of the year.

REPORTING

To provide the Canada Revenue Agency with adequate means to determine contribution room and monitor compliance, TFSA issuers will be required to file annual information returns. The information required to be reported is expected to include, for example, the value of an account's assets at the beginning and the end of the year and the amount of contributions, withdrawals, and transfers made in the year.

Please contact a member of our tax department for additional information.

- In addition, if you turn 71 in 2008, the requirement that a specified minimum amount be withdrawn from your RRIF will be waived for 2008 regardless of when the RRIF was established.
 - Earned income generally includes:
 - income from employment;
 - income from carrying on a business;
 - taxable support (alimony) received in the year; and
 - net rental income.
- Less the total of:
- losses from carrying on a business;
 - net rental losses; and
 - deductible alimony payments.
- Consider asking your employer to make a direct contribution to your RRSP. The primary advantage of this type of contribution is that you can contribute your salary without your employer having to withhold federal and provincial income taxes.

- The Canada Revenue Agency allows taxpayers to over contribute to their RRSP up to a cumulative excess of \$2,000. Making an over contribution may be advantageous because it will allow you to earn tax-deferred income even though you are not permitted to deduct the RRSP over contribution.
- If you are over 71 years of age and you have earned income consider making contributions to a spousal RRSP if your spouse has not yet reached 71 in 2008.
- If your 2008 taxable income is low, consider carrying forward your RRSP contribution and claiming a deduction in a future year if you expect to be in a higher tax bracket.
- If you receive a retiring allowance, consider transferring it directly to an RRSP (up to the deductible amount) to avoid withholding tax.
- Any RRSP administration fees should be paid outside the plan; this will allow you to maximise the capital in the plan for future growth.
- If you turn 71 in 2008, consider making your 2009 RRSP contribution in December 2008 before the RRSP is wound up. While you will be subject to an over contribution penalty for the period between the date of over contribution and January 1, 2009, you will benefit from an RRSP deduction in 2009. (This assumes that you have earned income in 2008; that you cannot contribute to a spousal RRSP and that you can benefit from the deduction in 2009).
- Amounts withdrawn under this plan must be repaid to your RRSP over a period not exceeding 15 years. The repayment period commences no later than 60 days after the second calendar year following the year in which the withdrawal is made.
- In the year of withdrawal you may claim an RRSP deduction. In order to obtain a deduction, the contribution must remain in the RRSP for a period of not less than 90 days before the withdrawal if that contribution is part of the withdrawal.
- Keep in mind that withdrawing funds under this plan will result in the taxpayer forgoing the income that would have been earned on those funds during the period of withdrawal and the related tax-free compounding of that income.

LIFE LONG LEARNING

- Individuals may withdraw up to \$10,000 per year from their RRSP, provided they are enrolled in full-time training or higher education for at least three months during the year. The cumulative limit is set at \$20,000 per person.
- Generally, withdrawals under this plan are repayable in equal instalments over a 10-year period, with the first repayment due no later than 60 days after the fifth year following the withdrawal.

REGISTERED EDUCATION SAVINGS PLAN

- Registered Education Savings Plans (“RESP”) can be used to achieve income splitting with children. There is no annual contribution limit to an RESP as of 2007 and later years, however the lifetime contribution is limited to \$50,000. While the taxpayer is not entitled to a deduction for a contribution made in the year, investment income earned in the plan accumulates tax-free, and will only be taxed when received by the student.
- In addition to your contribution to the plan, the federal government provides a **Canada Education Savings Grant**. This grant will be paid directly into the plan and is equal generally to 20% of the first \$2,500 annual RESP contribution for each beneficiary under age 18, to a maximum of \$500, for 2008 and subsequent years.

HOME BUYERS’ PLAN

- The Home Buyers’ Plan allows a “first time buyer” to withdraw up to \$20,000 of RRSP funds on a tax-free basis to purchase a home. For a family, each spouse is entitled to withdraw up to \$20,000 from their RRSP for a total of \$40,000.
- You are a “first time buyer” if you and your spouse have not owned and lived in a home as a principal place of residence at any time during the five calendar years up to and including the current year.
- If you withdraw funds from your RRSP under the Home Buyers’ Plan, you must acquire a home by October 1st of the year following the year of withdrawal.

- Depending on family income and in addition to the basic grant discussed above, the CESG rate will be increased, on the first \$500.00 of annual contributions to an RESP in respect of a beneficiary who is under 18 years of age, to:
 - 40% if the child's family has net income for the year of \$37,885 or less or
 - 30% if the child's family has net income for the year in excess of \$37,885 but less than \$75,769.
- Furthermore, since January 1st, 1998, each minor child accumulates grant contribution room of \$2,000 per year and of \$2,500 per year for 2007 and subsequent taxation years. Therefore, RESP contributions will attract a **Canada Education Savings Grant** up to the amount of that cumulative room. In this respect, a family that has been unable to contribute to an RESP for one or more years will be able to "catch up" in later years.
- If the RESP beneficiaries do not pursue higher education, then the income and the contributed capital may be withdrawn but the **Canada Education Savings Grant** must be repaid. Up to \$50,000 of the income withdrawal will be eligible for transfer to your RRSP, to the extent that you have contribution room, and the remainder will be subject to both regular tax and an additional 20% tax.
- In order to be eligible for the **Canada Education Savings Grant**, a beneficiary must have a social insurance number.
- In 2007, the Quebec government introduced a new refundable tax credit to support education savings. This refundable tax credit is granted to a trust governed by an education savings plan for beneficiaries resident in Quebec, that has attracted a **Canada Education Savings Grant**.
- In general, the Québec financial assistance for education savings provided by the tax credit will be equivalent to 10% of the first \$2,000 of annual contributions to an RESP for children under age 18.
- The maximum lifetime limit of the Québec refundable tax credit is \$3,600 per child.

DEDUCTIBLE EXPENSES / TAX CREDITS

To obtain a deduction or tax credit, the following items should be paid for before the end of the year.

- Registered pension plan contributions
- Union dues
- Child care expenses
- Attendant care costs
- Moving expenses
- Support (alimony) payments
- Political contributions
- Interest on student loans
- Physical education costs (fitness & sports) for children
- Investment counsel fees
- Professional membership fees
- Employment expenses
- Tuition fees
- Medical expenses (*)
- Charitable donations
- Interest expense
- Public transit passes

(*) Disbursements in a period of 12 months ending in the year

CAPITAL GAINS/LOSSES

- Individuals can realise up to \$750,000 of capital gains free of basic income taxes when they dispose of **Qualified Small Business Corporation Shares** or **Qualified Farm Property**. Taxpayers holding such shares must ensure that the shares meet all eligibility criteria, or if not, steps must be taken to make the shares eligible.
- The timing of when you decide to dispose of capital property is very important. For property that has appreciated in value,

consider selling it only in January as opposed to the current calendar year. This can result in a one-year deferral of tax. Similarly, for property that had depreciated in value consider selling it before December 31, 2008. This will trigger a capital loss that can be used to offset any capital gains reported in the year.

IMPORTANT INFORMATION FOR 2008

- **In cases where you have realized large capital gains in calendar years 2005, 2006, or 2007 and you paid income tax on those gains at the top marginal tax rates, consider triggering capital losses to the extent of those gains prior to January 1, 2009. The purpose of the above is to allow you to recuperate taxes paid in prior years.**
- **Note that any unused capital losses may be carried-forward indefinitely to be applied against future capital gains.**
- **For investments in shares traded on the stock market, the selling date of the shares for tax purposes is the date of settlement of the transaction (i.e., three working days after the date of the transaction). For a sale of shares to be effective in 2008, the transaction must take place no later than December 24, 2008, in Canada and no later than December 26, 2008 in the United States.**

- A capital loss incurred by an individual on the transfer of shares to his RRSP is deemed to be nil.
- Taxable capital gains arising on publicly listed securities donated to registered charities do not have to be included in income.

SELF-EMPLOYMENT INCOME

- Individuals residing in Quebec are required to pay contributions to the Health Services Fund (HSF) on non-salary income.
- Self-employed individuals operating a successful business should consider whether incorporating the business would provide additional benefits. Many professional orders now allow their members to incorporate.
- Self-employed individuals wishing to claim home office expenses must ensure that the work space is either:

- a) the principal place of business of the individual; or
- b) used exclusively to earn business income *and* to meet clients on a regular and continuous basis.

- Where the above-mentioned conditions are met, deductible expenses include, but are not limited to, a portion of municipal taxes, rent, heat, and insurance. Where home office expenses create or increase a business loss, the amounts are not deductible against other sources of income, but they may be carried forward.
- Revenue Quebec limits the deduction for expenditures for a home office that relate to the cost of maintaining a residence (maintenance and repair costs, rent, interest on a mortgage, property taxes, etc.) to 50% of the amount deducted on the federal income tax return. Other home office expenses will be deductible in accordance with the federal provisions.

BUSINESS LOSSES

- Some of the ways you may utilise losses during the year from an unincorporated business are:
 - carrying the losses back three years and/or forward twenty years against other sources of income;
 - collapsing RRSP's;
 - reducing or not claiming discretionary deductions; and
 - accelerating receipt of other income (i.e. dividends).

PENSION INCOME

- For taxpayers of 65 and older, subject to certain threshold amounts, up to \$2,000 of qualified pension income is eligible for federal and provincial tax credits. Qualifying pension income does not include Old Age Security or Quebec Pension Plan benefits.
- If you are 65 or older and you are not in receipt of qualifying pension income, consider purchasing an annuity or converting your RRSP into a RRIF which will generate income eligible for the credit.
- Since 2007, couples are given the option to split retirement income. This measure will enable taxpayers who receive retirement income, such as payments under a registered pension plan, annuity payments from a registered retirement

savings plan (RRSP) starting at age 65 and annuity payments under a registered retirement income fund (RRIF) to allocate up to 50% of this income to their spouse.

INCOME SPLITTING

- Spouses and children can be paid reasonable salaries from a family-run business. Note that the salary paid must be reasonable for the work performed.
- Income attribution rules do not apply to capital gains earned on loans to minor children. Therefore, consider giving or loaning money to children to purchase investments with a low current yield but high capital gain potential. Although the income may be attributed to you, the capital gain will be taxed to your children and subject to their tax rates.
- Income splitting can be achieved in families with two working spouses by having the higher income earner pay as much of the family living expenses as possible and allowing the other spouse to save and invest his/her income.
- Income attribution rules do not apply to income earned on loans made to a spouse where the loan bears interest at the CRA's prescribed rates. Therefore, consider making an interest-bearing loan to a spouse to purchase investments that yield a greater return. Although the interest on the loan at prescribed rates would be taxable in your hands, the excess returns would be taxed at your spouse's tax rate. For additional application rules, contact a member of our tax department.

TAX INSTALMENTS

- Ensure your required quarterly instalments are made on time to avoid non-deductible interest charges.
- If your income is lower than you originally estimated, consider reducing your instalments accordingly.

OTHER

- If you are considering making an acquisition that will allow you to claim CCA (capital cost allowance) (e.g. – automobile) consider making the purchase before the end of the year rather than early in the New Year. This will allow you to accelerate the CCA claim by one year.

- Attempt to convert otherwise non-deductible interest expense into deductible interest. Using available cash pay down personal loans, and credit card balances, and then borrow money for investment or business purposes.
- Since interest rates on credit card balances are normally very high, consider refinancing alternatives such as a consumer loan or line of credit. This will reduce the cost of non-deductible interest.
- Consider the Minister of Revenue of Quebec's rules that, since March 30, 2004, limits the deductibility of investment expenses for Quebec tax purposes to the investment income earned in the taxation year. This limitation will not apply to expenses incurred to earn active business income or rental income. Investment expenses that can not be deducted in a given taxation year may be applied against investment income earned in one of the three preceding taxation years or in any subsequent taxation year.
- Investment decisions should be made on the basis of the after-tax and not the pre-tax returns. In this respect, capital gains and dividends are more attractive than interest.
- Consider combining the claim for medical expenses. This will include eligible expenses incurred by you, your spouse, and your eligible dependants.
- Since 2005, the Minister of Revenue of Quebec requires an employer that makes an automobile available to an employee to obtain from his employee a copy of the logbook that the employee keeps for the automobile, no later than the tenth day after the end of the year; or the tenth day after the end of the period in which the automobile was made available to the employee. If an employee does not provide his employer with the logbook within the prescribed time limit, he will incur a penalty of \$200.
- Contact our office for more details.

UPDATE ON THE ECONOMIC AND FINANCIAL SITUATION OF QUEBEC

On November 4, 2008, the Minister of Finance, Minister of Government Services, Minister responsible for Government Administration and President of the Treasury, Monique Jérôme-Forget announced measures to allow the people and businesses of Quebec to better cope with the impacts of the financial crisis. Below is a summary of those measures:

Support household income

Increase from 71 to 73 years the age limit for the expiration of RPPs and RRSPs

The Quebec government proposes that beginning with the 2009 taxation year, the age limit for the conversion of RPPs and RRSPs increase from 71 to 73 years. However, it is essential that the federal government responds to the Government of Quebec proposal for this measure to take effect.

One year deferral for reimbursements under the Home Buyers Plan

The Quebec government proposes to defer for the 2009 taxation year, the obligation to reimburse the amounts withdrawn from an RRSP under a HBP. However, it is essential that the federal government responds to the Government of Quebec proposal for this measure to take effect.

Increase the tax credit for retirement income

The government announced that the maximum amount of retirement income eligible for the tax credit will be increased from \$1,500 to \$2,000 in 2009. In addition, this amount will be indexed at the indexation rate of the personal tax system as of 2010.

Protect the purchasing power of households

Increase the indexation rate of the personal tax system from 1.58% to 2.36%

For the 2009 taxation year, due to higher consumer prices, the indexation rate will reach 2.36%. This indexation applies to taxable income thresholds of the tax table as well as most tax credits.

Full indexation of last-resort assistance benefits, including those of households able to work

The government announced that the benefits of Social Assistance Program, for households able to work, will now be fully indexed according to the rising cost of living. This measure will take effect from January 1, 2009 and will apply for the following years.

Increase the liquidity of enterprises, including those in the manufacturing sector

Additional funding of \$ 1 billion to enterprises, mainly SMEs

The government will set up an assistance program for the financing of successful companies experiencing financial difficulties due to the economy. This program will provide up to \$ 1 billion of additional liquidity to Quebec enterprises by the end of 2010.

The financial assistance will consist of direct funding to businesses or a refund guarantee in the case of a loan from a recognized financial institution.

The details of this new program will be announced shortly by the Minister of Economic Development, Innovation and Exportation.

FIRM NEWS

WELCOME TO THE PARTNERSHIP

The Partners of PSB Boisjoli are proud to announce that effective January 1st, 2009, Dino Forgione, CA, will be welcomed into the partnership.

Dino Forgione joined the firm in 1993 and obtained his Chartered Accountant designation in 1995. He became an audit manager in 1998 and earned the title of Senior Audit Manager in 2005.

During this time, Dino has managed one of our largest assurance teams. He serves a diverse clientele in various industries including: manufacturing, distribution, real estate, and technology. His many years of experience and strong technical and inter-personal skills have allowed Dino to build trusted working relationships with his clients and peers. Dino also has extensive knowledge in IT and he is a key member of our Technology Committee. In 2007, Dino played an integral role in converting the firm from a paper to a paperless environment, and he has continued to share his expertise ensuring a smooth and seamless transition.

We congratulate Dino on his achievements and warmly welcome him into the partnership.

WELCOME TO THE SOLERTIA GROUP

The Partners of PSB Boisjoli are proud to announce that effective January 1st 2009, Frédéric Blanchette, CHRP will become a partner in the Solertia Consulting Group (our human resources division).

Frédéric possesses a Bachelor of Commerce with a concentration in human resources as well as a CHRP (Certified Human Resources Professional) designation. In addition, he is in the process of obtaining his certification in employee benefits (C.E.B.S) from the Québec Chambre de la sécurité financière. Frédéric manages the human resources consulting team and he is responsible for overseeing all mandates. Since joining the division in July 2003, he has been spearheading projects involving organizational development,

employee training, performance management, regulatory compliance, and organizational communication. Frédéric's human resources management skills have proven instrumental and effective to many of the firm's clients.

We congratulate Frédéric on his achievements and warmly welcome him as Solertia's partner.

ACHIEVEMENTS

Congratulations to:

Edward Caplan, CA, Tax Partner: Edward will be speaking to our international affiliation, IGAF, in January 2009. The presentation will be based on the fifth protocol of the Canada-US tax convention and general matters of interest concerning Americans investing in Canada.

Pierre Fleury, CA, M. LL. Tax: Pierre was a guest speaker at the Annual Conference of the Association of Planification Fiscale et Financière on October 9, 2008 held in Quebec City. The conference focused on the "Change Of Use Rules" and the impact they have on one's tax obligation.

We are the champions! In our inaugural season, the PSB Boisjoli soccer team won the 2008 championship. Special congratulations to Elliott Beaudin, Hamza Benabdallah, Chris Dolmadjian, Tony Ferracane, Omar Hamade, Luc Herrbach, Nareg Malkhassian, Hugo Marras, Alain Moussallie, Sandro Perin, Jason Rickaby and Franz Rosenthal, for winning the big game in a shootout. Great job!

A special congratulations go out to Kristina Ashqar, Paula Colapelle, Alina Ghitulescu, Pina Laganga, Betty Lo, Susan Maruya, Martina Paventi and Angela Pietrantonio, for completing the 60 kilometer walk in the Weekend to End Breast Cancer on August 23 & 24, 2008. In a courageous show of spirit and determination the participants together with PSB Boisjoli raised over \$25,000 for this important cause.

Our aim in this bulletin is to provide our clients with general comments on recent tax matters and on methods to improve the performance of their enterprises. The information highlighted is presented in broad general terms and cannot be applied without consideration of all circumstances. We will be pleased to elaborate on the material in particular cases. Additional copies of the REPORTER may be obtained by calling our office.