PSBBoisjoli.ca
REPORTER

December 2010

YEAR-END TAX PLANNING CHECKLIST

REGISTERED RETIREMENT SAVINGS PLAN

- The deadline for 2010 RRSP contributions will be March 1st, 2011. Make your annual RRSP contributions early in the year to begin tax-free compounding as early as possible.
- The amount deductible in 2010 is the balance of the unused contribution room as at December 31, 2009 plus the lesser of: 18% of 2009 "earned income" and $22,000, reduced by the 2009 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 2010, 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.
    - 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 you 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 the 71 in 2010.
- If your 2010 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 2010, consider making your 2011 RRSP

In this issue...

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contribution in December 2010 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, 2011, you will benefit from an RRSP deduction in 2011. (This assumes that you have earned income in 2010; that you cannot contribute to a spousal RRSP and that you can benefit from the deduction in 2011).

HOME BUYERS' PLAN

- The Home Buyers' Plan allows a "first time buyer" to withdraw up to $25,000[1] of RRSP funds on a tax-free basis to purchase a home. For a family, each spouse is entitled to withdraw up to $25,000 from their RRSP for a total of $50,000.
- 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.
- 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.

LIFELONG LEARNING PLAN

- 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*** ("CESG") 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.
- Depending on family income and in addition to the basic grant discussed above, the CESG rate will be increased on the first $500 of annual contributions to an RESP in respect of a beneficiary who is under 18 years of age:
  - 40% if the child's family has net income for the year of $40,970 or less or
  - 30% if the child's family has net income for the year in excess of $40,970 but less than $81,941;
  - 20% if the child's family has net income for the year in excess of $81,941.
- Furthermore, since January 1st, 1998, each minor child accumulates grant contribution room 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

[1] For all withdrawals made after January 27, 2009.

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 will be 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 Quebec financial assistance for education savings provided by the tax credit will be equivalent to 10% of the first $2,500 of annual contributions to an RESP for children under age 18.
- The maximum lifetime limit of the Quebec 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
- Investments counsel fees
- Professional membership fees
- Employment expenses
- Tuition fees
- Medical expenses (*)
- Charitable expense
- Public transit passes
- Acquisition of a first home that meets the requirements of the First-time Home Buyer's Tax Credit.

(*) 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, 2010. This will trigger a capital loss that can be used to offset any capital gains reported in the year.
- In cases where you have realised large capital gains in calendar years 2007, 2008, or 2009 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, 2011. 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 2010, the transaction must take place no later than ***December 24, 2010***, in Canada and no later than ***December 28, 2010*** 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 will no longer 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 65 and older, subject to certain threshold amounts, up to $2,000 for Federal and $2,010 for Quebec, 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 relative (e,g: a spouse, an adult child, or a trust created for the benefit of minor children) where the loan bears interest at the rate equal to (or greater than) CRA's prescribed rates. The prescribed interest rate is only 1% for the fourth quarter of 2010. Historically, the prescribed interest rate has never been so low. Therefore, consider

making an interest-bearing loan to a relative to purchase investments that yield a greater return. Although the interest on the loan would be taxable in your hands, the excess returns would be taxed at your relative'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, limit 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.
- The last Quebec budget introduced a new stock savings plan, the SSP II, to facilitate the financing of medium-sized businesses on public savings markets. The characteristics of this new regime are as follows:
    - Maximum assets of the eligible corporation is set at $200 million;
    - The tax deduction granted to individuals is set at 150% for the period from March 19, 2009 to December, 31, 2010 and 100% for subsequent years;
    - The minimum holding period for eligible shares is set at two years.
- Consequently, consider investing in this new plan before December 31, 2010 to claim a deduction of 150% on the eligible investment for 2010 taxation year.

REGISTERED DISABILITY SAVINGS PLAN

WHAT IS A REGISTERED DISABILITY SAVINGS PLAN?

A Registered Disability Savings Plan ("RDSP") is a tax-deferred plan that was introduced as an incentive for parents and others to create long term savings for individuals who are eligible for the Disability Tax Credit. In brief, the RDSP works as follows:

- Only one RDSP can be created for a beneficiary,
- The disabled beneficiary must be a resident of Canada,
- Contributions into the plan are NOT tax deductible,
- Contributions will attract Canada Disability Savings Grants ("Grants"),
- Contributions may attract Canada Disability Savings Bonds ("Bonds"),
- Income accumulates in the RDSP on a tax-deferred basis,
- There is no maximum annual contribution limit,
- However, there is a maximum lifetime contribution limit of $200,000,
- Some planning is required in order to maximize a disabled beneficiary's Grants and Bonds,
- Contributions can be made until the end of the year that the beneficiary turns 59.

WHAT IS A CANADA DISABILITY SAVINGS GRANT?

Grants are the amount that the Canadian government will pay into RDSPs. The amount of the Grant is dependant on the following two factors:

a) the beneficiary's family income, and

b) the amount contributed into the beneficiary's plan in the year,

The beneficiary's family income is computed as follows:

- Until December 31st of the year in which the beneficiary turns 18, the beneficiary's family income is based on the income information for the purpose of determining the Canada Child Tax Benefit for that beneficiary,
- Beginning in the year the beneficiary turns 19, the beneficiary's family income is based on the disabled beneficiary's income and that of his/her spouse,

Where, in 2010, the beneficiary's family income is less than $81,941[2], the Grant shall be computed as follows:

- On the first $500 of contributions: 3 times the amount contributed (up to $1,500), and
- On the next $1,000 of contributions: 2 times the amount contributed (up to $2,000),

As a result, the maximum annual Grant for low income families shall be $3,500 (on contributions of $1,500)

Where, in 2010, a beneficiary's family income is more than $81,941, the Grant shall be computed as follows:

- on the first $1,000 of contributions: one dollar for each dollar contributed,

Thus, for high income earning families, the maximum annual Grant shall be $1,000 (on contributions of $1,000).

Please note that the cumulative lifetime Grant limit is $70,000 per beneficiary.

WHAT IS A CANADA DISABILITY SAVINGS BOND?

In short, a Bond is another form of government assistance that is available for low income earning families. More precisely, the Canadian government will pay up to $1,000 per year to a RDSP where the beneficiary's family income is less than $23,855[2]. No Bond is paid where the beneficiary's family income is in excess of $40,970. The amount of the Bond will be phased out where the family income is between $23,855 and $40,970. The cumulative lifetime Bond limit is $20,000.

Please note that no Grants or Bonds will be paid in years following the year the beneficiary turns 49 years of age.

[2] Please note that the family income thresholds are subject to indexation.

EXAMPLE OF POTENTIAL GRANTS AND BONDS AVAILABLE:

The following simple example will demonstrate the amount of Grants and Bonds that may be available under the RDSP.

Facts:

- John was born in March 2010.
- John's parent's income will be $90,000 per year while John is a minor child.
- As a result of his condition, John will never be able to work.
- John's parents plan to contribute $1,500 per year to the RDSP

Based on the above example, the following Grants and Bonds may be available:

Grants

John's age	Grants	Computation
0 to 18	$19,000	($1,000 per year x 19 years)
19 to 32	$49,000	($3,500 per year x 14 years)
33	$ 2,000	($2,000 to arrive at the cumulative limit)
Total Grants	$70,000	(at age 33)

Bonds

John's age	Bonds	Computation
0 to 18	Nil	(family income is too high)
19 to 38	$20,000	($1,000 per year x 20 years)
Total Bonds	$20,000	(at age 38)

In this situation, the government would contribute $70,000 in Grants and $20,000 in Bonds to the beneficiary's RDSP over a 39 year period.

HOW ARE WITHDRAWALS FROM THE RDSP TAXED?

Generally, beneficiaries must begin to withdraw annual amounts from their RDSP in the year they turn 60 years old. The Grants, Bonds, and income generated within the RDSP will be taxed in the beneficiary's hands as amounts are paid out of the plan. The original contributions, however, are not subject to taxation as they are withdrawn from the RDSP. Please note that the taxable portion is excluded from a beneficiary's income when computing the GST/HST credit, Canada Child Tax Benefits, and the Working Income Tax Benefit. Further, it is excluded when calculating the social benefit repayment.

OTHER APPLICATION RULES:

Please note that all government Grants and Bonds paid into the RDSP during the ten preceding years must be repaid under any of the following circumstances:

- The RDSP is voluntarily terminated,
- The RDSP is deregistered,
- The beneficiary ceases to be disabled, or
- The beneficiary dies,

Please note that this article is not meant to replace a personal meeting to discuss this subject matter. Should you require additional information on RDSPs, please contact a member of our tax department.

NEW RULES CONCERNING THE REMITTANCE OF CSST PREMIUMS

Effective January 1st 2011, new rules will be put in place by the Commission de la Santé et de la Sécurité du Travail ("CSST"). More precisely, as of January 1st, employers will begin to pay their CSST premiums based on actual assessable earnings rather than estimated salaries.

Further, the CSST has entered into an agreement with Revenue Quebec whereby employers will now have to remit their CSST premiums along with other Quebec payroll taxes.

If an employer fails to file, or late files, a periodic remittance, it could be exposed to the following penalties on the unpaid amount:

- 7% if the amount is paid within 7 days following the due date;
- 11% if the amount is paid during the period from the 8th to the 14th day following the due date; and
- 15% in all other cases

Should you have any questions concerning the remittance of your 2011 CSST premiums, please contact a member of our tax group.

INCREASE IN THE QST

In the Budget Speech of March 19, 2009, the Minister of Finance of Québec announced a 1% rate increase to the Québec sales tax ("QST"). The increase in the QST rate to 8.5% applies to taxable supplies in respect of which QST becomes payable on or after January 1, 2011.

In the Budget Speech of March 30, 2010, the Minister of Finance of Québec announced another QST rate increase, in addition to the increase to take effect January 1, 2011. The additional increase in the QST rate to 9.5% applies to taxable supplies in respect of which QST becomes payable on or after January 1, 2012.

FIRM NEWS

ACHIEVEMENTS

PSB Boisjoli held its first Volunteer day at **Moisson Montreal** on November 22, 2010. A special thank you to all the participants for taking part in this very rewarding experience.

In addition, we would like to thank the Partners for taking part in volunteering their time at the **Cummings Center Soup Kitchen.**

We would also like to extend our congratulations to **Joseph Suissa, CA Partner** for completing the **Ride to Conquer Cancer**, a two day bike ride, 288 kilometer, from Montreal to Quebec City; $8,700 was raised for the Jewish General Hospital and to **Leon Krantzberg, CA Partner** for participating in the **YMHA** and the **Juvenile Diabetes Research Foundation** bike rides.

We at **PSB Boisjoli** believe that we can make a difference in the lives of the most vulnerable people in our community by lending a hand.

Once again a special congratulation go out to **Kristina Ashqar, Paola Colapelle, Alina Ghitulescu, Angela Pietrantonio and Leandra Spatari** for joining the 60 kilometer walk in the Weekend to End Breast Cancer on August 28 & 29, 2010. In a courageous show of spirit and determination, the participants together with PSB Boisjoli raised over $ **11,000.**

CONGRATULATIONS

We are happy to announce the following partner and employees became proud parents:

Ariel Sabbah, CA, Partner, and his spouse Laurence on the birth of their third child, David, born in September 2010.

Ouriel Soudry, CA, and his spouse Michaela on the birth of their first child, Dylan, born in June 2010.

David Pelchat, CA, and his spouse Karine on the birth of their third child, Eric, born in May 2010.

Alain Moussallie, CA, and his spouse Sylvie on the birth of their first child, Milan, born in April 2010

Lawrence Brault and his spouse Melanie on the birth of their second child, Kaitlyn born in February 2010.

Antoine Boustani and his spouse Linda on the birth of their first child, Anna, born in September 2010.

Nay Ayache and her spouse Peter on the birth of their first child, Zach, born in September 2010.

Melanie Correia-Oliveira and her spouse on the birth of their first child, Chad, born in 2010.

We would also like to congratulate the following employees who tied the knot this year: **Julia Bestrov** and her spouse Domenico Narelli and **Qian Ni** and her spouse Linong Sui. Best wishes to you all!

Finally, special congratulations go to the following employees:

Jason Rickaby, Kristina Ashqar, David Savage, Antoine Lamarche, Erik Stamboulieh, and Oury Ezerzer for having passed the UFE (Uniform Final Examination).

Congratulations to **Kevin Soumahoro, CA and Lynsey Robertson, CA** after having successfully written the UFE in September 09, have received their **CA** designation.

Omar Hamade for having passed his MEE (Membership Entrance Exam) and officially obtained his **CBV** designation

Joseph Saba and **Luc Herrbach** for receiving their **CGA designation**.

Marie-Josee Normand and **Julie Duschenau**, from Solertia, for receiving their title of **CHRP (Certified Human Resources Professional).**

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