DID YOU KNOW?
(A publication for the clients and contacts of Gary S. Aslett, Chartered Accountant)

YEAR-END TAX PLANNING

With the close of 2005 fast approaching, now is the time to finalize any planning to minimize your personal income tax bill for 2005. This article provides you with 10 tax planning tips to consider:

1. **Payments by December 31:** The following items must be paid by December 31 to be claimed as a deduction on your 2005 personal income tax return:

    - Alimony and maintenance payments.
    - Carrying charges such as safety deposit box charges and interest expense.
    - Charitable donations.
    - Child care expenses.
    - Medical expenses.
    - Moving expenses.
    - Political contributions.
    - RRSP contributions to your plan if you are 69 in 2005.
    - Tuition fees.
    - Union dues and professional fees.

2. **Organize your receipts for tax time:** You should have a system to accumulate your income and eligible expenses throughout the year. This may include using a computerized accounting or personal finance program, an excel spreadsheet or manual workbook. You may also find our Personal Tax Checklists useful to summarize your income and expenses which are available on our website under Library. You should also ensure you maintain a car log which tracks your business mileage as Canada Revenue Agency has been increasing their attention on reviewing these. Please contact us if you require a log book to track your mileage.

3. **RESP contributions:** You can receive a 20% government grant on contributions to a registered education savings plan to a maximum grant of $400.00 per year for each eligible child. A contribution of $2,000.00 will generate the maximum grant of $400.00 although the maximum annual contribution to an RESP is $4,000.00. The 2004 federal budget introduced additional grants depending on your income level.

4. **RRSP contributions:** Review your 2004 notice of assessment for your 2005 RRSP limit. A non-deductible over-contribution is also allowed up to $2,000.00. Consider contributions to a spousal plan, monthly instead of annual contributions, and delaying a deduction in 2005 if you will be in a higher tax bracket in 2006.

5. **Tax loss selling:** If you have realized capital gains in 2005 or in the previous three years and you have investments with accrued capital losses, consider selling some of these investments before the end of the year to trigger capital losses to offset your gains. There are a number of considerations before implementing this plan and discussions with your tax advisor is recommended. As a reminder, as most stock and bond transactions settle three business days after the trade has been entered, try to complete all trades before the holiday season. Refer to an earlier edition of 'Did You Know? - Cash in Your Capital Losses' for more details which is located on our website under Library/Did You Know?

6. **Instalments:** Have you paid your quarterly income tax instalments? Canada Revenue Agency will charge you interest currently at 7% on unpaid or late payment of instalments. You can minimize this interest charge by paying late instalments as soon as possible. Refer to an earlier edition of 'Did You Know? - Paying Your Personal Income Taxes in Instalments' providing more details on the payment of instalments which is located on our website under Library/Did You Know?

7. **Apply to Fairness for a refund:** If you or someone you know has an unclaimed tax refund from not filing a tax return or from not claiming an eligible deduction for the years 1985 to 1994, December 31, 2004 is the deadline to request these old refunds. Effective January 1, 2005, refunds will only be considered for returns filed within 10 years from the end of the taxation year.

8. **Spousal loans:** Canada Revenue Agency's prescribed interest rate of 3% is still low enough to consider making a spousal loan for income splitting. This strategy is beneficial if the spouses are in different tax brackets and more than 3% can be earned on investments. The higher-income spouse lends money to the lower-income spouse at the prescribed rate. The lower-income spouse invests the funds and declares the income and also deducts the 3% interest which must be paid on the loan to the higher-income spouse by January 30 of the following year. The higher-income spouse includes the 3% interest received. Complete documentation and the payment of interest by January 30 are both critical to implementing this strategy successfully.

9. **Beware of tax shelter donation arrangements:** Canada Revenue Agency has introduced rules to close down arrangements such as "buy-low, donate-high" art flips and certain other charitable donation plans. Generally, the amount of the donation is limited to the cost of the property donated subject to some exceptions. This is a reminder to carefully review any donation tax shelters you may be considering for investment.

10. **Purchase of business assets:** If you are self-employed or own a corporation and are considering purchasing assets such as computers, furniture, equipment, leasehold improvements, etc. in the near future, you may want to consider acquiring these assets before December 31 to obtain a deduction for capital cost allowance (tax depreciation) in 2005.

You can contact Gary Aslett at 905-629-3318 or gary@aslettca.ca if you require further information on any of the above strategies.

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