TATOR, ROSE & LEONG
Chartered Accountants
Licensed Public Accountants

TAX FOCUS

November, 2012

Effective tax planning requires careful attention and a consistent long term focus. This edition of our annual Tax Focus will outline some opportunities that you should consider in your annual tax planning regimen. We will also consider how recent income tax changes can be used to help you minimize your taxes for 2012 and subsequent years.

Tator, Rose & Leong New Address

As you know, in August we moved to our new office location at 160 Eglinton Avenue East, Suite 603. We are looking forward to showing all our clients the new space over the next few months. Feel free to come by for a tour when you are in the neighborhood.

Tax Matters for 2012

Accessibility for Ontarians with Disabilities Act (AODA)

For companies that have 20 or more employees, you have to file your business' accessibility report with the Ministry indicating the steps you are taking to comply with the AODA.

Ontario Personal Tax Increase

For the 2012 tax return, a new Ontario Surtax of 1% on taxable income in excess of $500,000 will apply increasing to 2% in 2013.

Electronic Filing

For the 2012 tax returns, your personal tax return will be e-filed to comply with new e-file rules for tax preparers.

Increased Personal Credits

The basis personal amount, the spouse or common-law partner amount and the dependant amount will be increased to $10,822 and indexed to inflation for subsequent years.

Old Age Security (OAS) Clawback

This will apply once your net income is greater than $69,562. The full amount of your OAS will be clawed back once your net income reaches $112,017.

Family Caregiver Amount

Effective for 2012 a new Federal Credit of $2,000 will be available for persons who are dependant by reason of mental or physical infirmity.

Ontario Healthy Homes Renovation Tax Credit

For Seniors aged 65 or older, that incur renovations during the period October 1, 2011 to December 31, 2012 that modify their home to make it safer may claim a Provincial tax credit up to $1,500 (based on $10,000 of expenditure(s).

Owner- Manager Year End Tips

The small business deduction (SBD) reduces the corporate income tax rate to 15.5% (in Ontario) on the first $500,000 of qualifying active business earned by companies.

Now is the time for owner-managers to focus on year end planning and determine their optimal salary-dividend mix.

A determination must be made that minimizes overall taxes for the owner-manager and family members. Consideration must be made of:

- the owner-manager's marginal tax rate;
- the corporate tax rate;
- provincial health and/or payroll taxes;
- RRSP contribution room;
- CPP contributions;
- other deductions and credits such as those for child care expenses and charitable donations.

To be deductible, salaries and bonuses must be accrued (i.e. payable) before the business's year end and paid within 179 days thereof. It may be beneficial to pay a reasonable salary to a spouse or child who provides services to the business and is in a lower tax bracket.

Some salary-dividend strategies include:

1. Paying a salary of $132,333 will generate sufficient earned income to maximize your 2013 RRSP contribution of $23,820.
2. Next, salary or bonuses may be paid to reduce business income to $500,000.
3. Any additional amount could be paid as dividends. The payment of dividends may result in a dividend refund to the corporation - if there is RDTOH (Refundable Dividend Tax on Hand).
4. The following chart illustrates the tax savings from income splitting with your spouse.

	Spouse
Lowest bracket (up to $42,707)	$ 13,204
Second lowest bracket (to $85,414)	5,855
Second highest bracket (to $132,400)	1,410
	$ 20,469

Investment Strategy

Return on Investment

This topic has been very popular in past years and therefore we are again repeating it using 2012 numbers.

As part of year-end tax planning, you should review your investment mix to ensure that you receive the best possible **after-tax** return on your portfolio.

The table below shows the differences in tax rates as applied to various income sources and taxable income. Regular income includes salary, interest and business income.

		2012 Marginal Tax Rates			
Taxable Income	Tax	Income	Capital Gains	*Eligible Dividends	Other Dividends
$0	$ 0	20.05%	10.03%	(1.89%)	2.77%
$39,020	5,726	24.15%	12.08%	3.77%	7.90%
$42,707	6,616	31.15%	15.58%	13.43%	16.65%
$68,714	14,717	32.98%	16.49%	14.19%	17.81%
$78,043	17,794	35.39%	17.70%	17.52%	20.82%
$80,964	18,828	39.41%	19.71%	19.88%	23.82%
$85,414	20,581	43.41%	21.71%	25.40%	28.82%
$132,406	40,980	46.41%	23.21%	29.54%	32.57%
$500,000	211,579	47.97%	23.98%	31.69%	34.52%

* dividends from publicly-traded companies and dividends from income taxed at the high rate in CCPC's (Canadian Controlled Private Companies)

Conclusion:

Based on the different tax treatment for each type of investment, where possible, it is preferable to:

- hold interest-yielding investments inside an RRSP (to defer tax on the higher-taxed interest), and
- hold equity investments, which yield dividends and capital gains, outside an RRSP.

Note: For 2012 an individual in Ontario who has no other income would pay no taxes if they received a $39,420 other dividend or a $47,887 eligible dividend.

If this individual is a student with $7,000 of tuition, they would pay no taxes if they received a $45,501 other dividend or a $57,822 eligible dividend.

CPP Contribution Rules

Currently an employer will need to deduct CPP for employees aged 60 to 70 even if the employee is receiving CPP retirement pension.

Employees age 65 to 70 can elect to stop paying CPP deductions while receiving CPP retirement pension by filing Form CPT30(E) with the Canada Revenue Agency. This form needs to be filed prior to December 31, 2012 to be effective starting January 1, 2013.

Capital Loss Utilization

With the continuing volatility in the world economy dominating the news, the stock markets have been very unpredictable with gains and losses occurring daily. If you have realized a capital gain in 2012 or in any of the last three years (2009 to 2011) consider selling investments with accrued losses before the end of the year.

You may wish to repurchase these shares again in the near future. However, you should always consider obtaining investment advice prior to making this type of decision. December 23, 2012 is the last day for tax-loss selling for Canadian equities and December 27, 2012 for US equities.

Registered Retirement Savings Plan (RRSP)

i) The RRSP contribution limits for 2012 and subsequent years, before any pension adjustments are as follows:

Year	RRSP Contribution Limit	Earned Income Required in Prior Year
2012	$22,970	$ 127,611
2013	23,820	132,333
2014	Indexed	

ii) Your 2012 RRSP contribution must be made within 60 days of the end of the calendar year, which is February 28, 2013. However, if you turn 71 in 2012, the RRSP contribution for 2012 must be made by December 31, 2012 not February 28, 2013.

iii) You should consider making a lifetime (not annual) non-deductible over-contribution of $2,000 to your RRSP. Since the over-contribution is not deductible, the amount is from your after tax dollars.

iv) Once you turn 65 you may convert your RRSP to a RRIF. This income would then be eligible for the pension credit and pension splitting with your spouse where upon you will be able to withdraw $4,000 from your RRIF without paying tax on it.

Tax Free Savings Accounts (TFSA)

TFSA's were introduced in 2009 and allows for annual contributions of up to $5,000. If you have not previously taken advantage of the TFSA, on January 1, 2013 you will be able to contribute up to $25,000 ($5,000 x 5 years) to a TFSA.

Income earned by a TFSA is tax free and the funds can be withdrawn at any time without tax consequences. Funds can be re-contributed to the TFSA, after a withdrawal, on January 1, of the following year. TFSA's are an excellent savings vehicle that should be used along with your RRSP and Pension Plan accounts. They can also be used as a savings vehicle for the purchase of your first home, along with the Home Buyers Plan program of your RRSP.

Self Employed - EI Program

Effective January 31, 2010, self-employed individuals and owner managers of corporations are eligible for the following special EI Benefit Programs:

Maternity Benefits
Parental Benefits
Sickness Benefits
Compassionate Care Benefits

If you elect to pay the EI Premiums you will be eligible for the above-mentioned benefits. This new program makes financial sense for someone who will be able to receive maternity benefits in the future. The program doesn't apply to regular benefits.

Upcoming Deadlines

December 15, 2012

Final 2012 personal income tax instalment due.

December 23, 2012

Last day for selling Canadian Equities

December 27, 2012

Last day for selling US Equities

December 31, 2013:

Pay deductible or creditable fees, expenses and dues, for example:

Charitable donations
Medical expenses
Union dues and professional membership fees
Investment counsel fees, interest and carrying charges on investments
Safety deposit box fees
Certain legal, tax and accounting fees
Alimony and support payments
Child care expenses
Moving expenses
Political contributions
Employment expenses (home office, travel and entertainment)
Tuition fees
Tax shelter investments
Registered Education Savings Plan (RESP) - to qualify for 2012 Canada Educations Savings Grant
RRSP contribution if you turn 71 in 2012

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A newsletter of this nature cannot be all-encompassing and is not intended to replace professional advice. This letter summarizes recent tax developments and tax planning opportunities; however, we recommend that you consult with us before embarking on any of the suggestions contained in this letter, which are appropriate to your own specific requirements.

Tator, Rose & Leong
Chartered Accountants
160 Eglinton Avenue East, #603
Toronto, Ontario
M4P 3B5
(416) 924-1404
(416) 964-3383 Fax

or

email@tarole.ca
daver@tarole.ca
edmundl@tarole.ca
joanneh@tarole.ca
calvinm@tarole.ca
glenng@tarole.ca
rebeccav@tarole.ca