



# BAKHSH & ASSOCIATES INC.

## Year End Tax Planning

### FEATURED BUSINESS

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#### CRA

<http://www.cra-arc.gc.ca>

#### Canada Business

<http://www.canadabusiness.ca>

#### WSIB

<http://www.wsib.on.ca>

#### Government of Canada

<http://www.canada.gc.ca>

#### Government of Ontario

<http://www.ontario.ca>

December 31, 2013 is fast approaching... See below for a list of tax planning considerations. Please contact us for further details and to discuss whether these may apply to your personal tax situation.

#### SOME 2013 YEAR-END TAX PLANNING TIPS INCLUDE:

1) Certain expenditures made by individuals by December 31, 2013 will be eligible for 2013 tax deductions or credits including: moving expenses, child care expenses, charitable donations, political contributions, medical expenses, alimony, eligible employment expenses, union, professional, or like dues, carrying charges and interest expenses, certain public transit amounts, and children's fitness and arts amounts. Ensure you keep all receipts that may relate to these expenses.

2) You have until Saturday, March 1, 2014 (unless an extension to March 3, 2014 is announced) to make tax deductible Registered Retirement Savings Plan (RRSP) contributions for the 2013 year. Consider the higher income earning individual contributing to their spouse's RRSP via a "spousal RRSP" for greater tax savings.

3) If you own a business, consider paying a reasonable salary to family members for services rendered to the business. Examples include website maintenance, administrative support, and janitorial services.

4) An individual whose 2013 net income exceeds \$70,954 will lose all, or part, of their old age security. Senior citizens will begin to lose their income tax age credit if net income exceeds \$34,562.

5) Consider purchasing assets eligible for capital cost allowance before the

yearend. A half year of depreciation deduction is allowed even if purchased right before the year-end.

6) Consider purchasing assets eligible for the Scientific Research and Experimental Development Credit before year-end. Capital expenditures are not eligible as of January 1, 2014.

7) Consider selling capital properties with an underlying capital loss prior to the year-end if you had taxable capital gains in the year, or any of the preceding three years. This capital loss may be offset against capital gains in the current or preceding three years.

8) Registered Education Savings Plan (RESP) - A Canada Education Savings Grant for RESP contributions will be permitted equal to 20% of annual contributions for children (maximum \$500 per child per year). In addition you may be eligible to receive a Canada Learning Bond which provides \$525 in the first year, and an additional \$100 each year until the child turns 15.

9) A refund of Employment Insurance paid for non-arm's length employees may be available upon application to the CRA.

10) Taxpayers that receive "eligible dividends" from private and public corporations may have a significantly lower tax rate on the dividends as compared to non-eligible dividends. Notification from the corporation to the shareholder is required.

11) Taxpayers that receive "non-eligible dividends" from private

corporations could generally save 2% of tax, depending on the taxpayers' province or territory if received in 2013 rather than 2014.

12) Eligible public transit passes will be entitled to a tax credit.

13) Tax credits for children under 16, or under 18 years if eligible for the disability amount, enrolled in fitness or artistic oriented organized activities is available.

14) A Registered Disability Savings Plan may be established for a person who is eligible for the Disability Tax Credit. Non-deductible contributions to a lifetime maximum of \$200,000 are permitted and may be eligible for tax-deferred grants and bonds.

15) If required income, forms, or elections have not been reported to the CRA in the past, a Voluntary Disclosure to the CRA may be available to avoid penalties.

16) For individuals who have not yet claimed charitable donations, consider making a donation of up to \$1,000 in order to get a "super charged" donation credit. For these individuals with total donations of less than \$1,000 in the current year, consider not claiming the donation amount until you have donated a total of \$1,000 (can wait up to five years to claim the credit.)

17) Consider restructuring your investment portfolio to convert non-deductible interest to deductible interest.

18) Are you a US Resident, Citizen or Green Card Holder? Consider US filing obligations with regards to income and financial asset

holdings.

19) Do you have foreign property or investments? Consider the filing obligations in both the foreign country and in Canada.

#### 2014 REMUNERATION

Some general guidelines to follow in remunerating the owner of a Canadian-Controlled Private Corporation earning "active business income" include:

1) There are generally three options for paying earnings out of a corporation:

a. Bonus down the active business earnings in excess of the annual small business deduction limit.

b. Bonus all income out.

c. Do not bonus down at all and distributing income via dividends.

The best method depends on the applicable provincial tax rates, quantity of personal and corpo-

rate income, and whether you can afford to leave earnings in the Company.

2) Notification must be made to the shareholders when an "eligible dividend" is paid - usually in the form of a letter dated on the date of the dividend declaration. If all shareholders are directors, the notification may be made in the Directors' Minutes.

3) Elect to pay out tax-free dividends from the "Capital Dividend Account".

4) Consider paying taxable dividends to obtain a refund from the "Refundable Dividend Tax on Hand" account.

5) Corporate earnings in excess of personal requirements could be left in the company to obtain a tax deferral (the tax is paid when cash is withdrawn from company). The effect on the "Qualified Small Business Corpo-

ration" status should be reviewed before selling the shares where large amounts of capital have accumulated.

6) Dividend income, as opposed to a salary, will reduce an individual's cumulative net investment loss balance thereby possibly providing greater access to the capital gain exemption.

7) Excessive personal income impacts receipts subject to clawbacks, such as Old Age Security, the age credit, child tax benefits, and GST credits.

8) Salary payments require source deductions to be remitted to the CRA on a timely basis.

9) Individuals that wish to contribute to the Canada Pension Plan or a RRSP may require a salary to create "earned income".

RRSP contribution room increases by 18% of the previous year's "earned income" up to a yearly prescribed maximum (\$24,270 for 2014).

10) If you are providing services to a small number of clients through a corporation, CRA could classify the Corporation as a Personal Service Business. There are significant negative tax implications of such a classification. In such scenarios, discuss risk and exposure minimization strategies with your professional advisor.

*The preceding information is for educational purposes only. As it is impossible to include all situations, circumstances and exceptions in a newsletter such as this, a further review should be done by a qualified professional. Although every reasonable effort has been made to ensure the accuracy of the information contained in this newsletter, no individual or organization involved in either the preparation or distribution of this letter accepts any contractual, tortious, or any other form of liability for its contents.*

## CONSUMERS TIRE



CONSUMERS TIRE Sales and Service was founded by Jim Wilson in 1990 and operated out of a small building on Bentworth Avenue in Toronto. As the business grew Mr. Wilson opened locations in Markham (1993), Mississauga (2000) and Whitby (2005). Over the years, Mr. Wilson's nephews Kent Wilson, Peter Rasanen and son-in-law John Fowler joined Consumers Tire Sales and Service and managed the various locations.



At CONSUMERS TIRE, we guarantee to provide the best quality products and knowledgeable service, with attention to detail, courtesy and integrity at a competitive price

At CONSUMERS TIRE we have state-of-the-art equipment capable of handling any tire situation. All appointments are handled through reservations and our certified tire technicians will have your vehicle in and out in less than one

hour.

Tires that are travelled on even short distances while flat are often damaged beyond repair. If a tire loses all or most of its air pressure, it must be removed from the wheel for a complete internal inspection to ensure it is not damaged. Most punctures, nail holes or cuts up to ¼ inch - confined to the tread area - may be satisfactorily repaired by our trained technicians using industry-approved methods.

If your vehicle is vibrating in the steering wheel or the seat, chances are your vehicles wheels are out of balance. Our certified tire technicians will be happy to provide you with prompt, professional service to correct your problem. Properly balanced tires lead to driving comfort and long tire life.

Under-inflated tires will cause uneven wear and make your vehicle engine work harder, resulting in poor tire life and fuel economy. For best results, check your air pressures on a monthly basis. Always use the inflation recommended by the vehicle manufacturer.

Regular tire rotation promotes more uniform tire wear. Tires should be rotated every 10,000 to 12,000 kilometres. A full size spare may be included in the rotation pattern. When tires are rotated, inflation pressures must be adjusted to the vehicle manufacturer's recommendations.

In July 2006 Larry Bristowe purchased the Toronto business from Mr. Wilson. Two years later, as Mr. Wilson prepared for retirement, he sold the Mississauga location to Peter Rasanen, the Whitby location to Kent Wilson and the Markham location to John Fowler.

At CONSUMERS TIRE, we pride ourselves on supplying the best products offered by every tire manufacturer. Our commitment to customer satisfaction combined with

### Consumers Tire Markham John Fowler

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The Ferrie Wealth Management Group provides its global clients with knowledgeable and insightful advice to help them realize their dreams. Our clients include individuals, foundations and corporations.

#### Our Team

##### David Ferrie

David acts as the Chief Investment Strategist for the FWMG and is responsible for the asset allocation and portfolio investment selection within all portfolios. David manages the portfolios through daily and vigorous risk analysis of the overall market and portfolio asset classes. He has worked with BMO Nesbitt Burns since 1987, and is a Managing Director (PCD) and a Portfolio Manager. He resides in Aurora with his wife and daughter. He is an active marathon runner, skier and sailor.

##### Anthony Petruccelli

Anthony graduated from McMaster University with a Commerce degree and a minor in Economics. He joined BMO Nesbitt Burns shortly after graduating in 1999 and joined David's team in November 2003. Working closely with David, Anthony oversees all client account asset allocations and is the principal trader for the team. He also assists with clients' estate and financial planning needs.

Anthony has completed the required courses to earn his Financial Planning (PFP), Options and Life Insurance licenses. Presently, he is studying to become an Associate Portfolio Manager. Beyond business, Anthony is an avid sports fan and enjoys playing basketball, football and soccer. Anthony lives in Thornhill with his wife Helen.

##### Gabriela Boada

Gabriela has been with BMO Nesbitt Burns since 1997 and joined The Ferrie Wealth Management Group in 2011. Gabriela has 12 years of experience in the operations field where she worked as an Administrative Assistant for the Willowdale Branch. As an Investment Representative, Gabriela is responsible for all administrative duties within the group

Gabriela resides in Pickering where she enjoys baking and spending time with her dogs.

#### [The Ferrie Wealth Management Group](#)

[www.DavidFerrie.com](http://www.DavidFerrie.com)

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## BUSINESS EXPENSES—Prove It

In a June 20, 2013 Tax Court of Canada case, at issue was whether the taxpayer, Mr. L, **operated a business** activity providing consulting services, whether the expenses he claimed were deductible, and whether **gross negligence penalties** should be applied.

In his 2007 Tax Return, \$2,000 in professional gross revenue and \$17,154 in expenses for a loss of \$15,154 were reported. In 2008, no gross income and \$12,190 of business expenses were claimed.

#### Taxpayer loses

The Appeal was denied and the costly gross negligence penalty left in place. The Judge noted, "There was **no credible explanation** that would indicate that any of the amounts that Mr. L reported on his tax returns in respect of his purported consulting business were incurred for the purpose of gaining or producing income. At best, I believe that Mr. L was indifferent as to whether the expenses that he claimed on his tax return were accurate or not. More likely, I believe that Mr. L knew the expenses he claimed on his returns were false and claimed them anyway." **Action Item: Ensure that you are maintaining the necessary support in an efficient manner before the Tax Man comes to call! We can assist with a review of your recordkeeping system if needed.**



## EI—Which Working Hours Count?

The number of hours or weeks one needs to qualify for EI are based on where the person lives and the unemployment rate in that economic region at the time the claim is filed. In an April 12, 2013 Tax Court of Canada case, at issue was how many of a teacher's hours worked were **insurable hours** under the **Employment Insurance Act** (EIA).

#### Taxpayer wins

The government originally did not include hours spent **attending meetings** assigned by a principal, **preparation and planning** of courses, **marking** student work, and **recording student achievements** in determining eligible employment hours.

#### The Court noted that:

The EIA defines hours of insurable employment and notes that where a person's earnings are **not paid** on an **hourly** basis but the employer provides evidence of the **number of hours** that the person actually **worked** in the period of employment and for which the person was **remunerated**, the person is **deemed** to have worked that number of hours in **insurable employment**. The Court increased the number of hours from 509 (as conceded by CRA) to 547 hours for this extra time.

**Action Item: Although this case refers to a teaching scenario, consider whether it also applies to you or your employees.**

**WHAT WE DO...**

Penalty and Interest on tax liabilities can be a punishing financial burden. Taxpayer Relief Letters writes customized application content for Canadian individuals or companies applying for relief from penalties and interest under the Taxpayer Relief provisions of the Income Tax Act. We specialize in applications based on financial hardship, circumstances beyond the taxpayer's control, and actions by the Canada Revenue Agency. Every letter is unique because every taxpayer is unique.

"How much does the service cost?"... It depends. Fees are based on the degree of complexity required to make your case. Contact us and we can let you know exactly how much it would cost. Depending on the amount of penalties and interest you owe, using our service may be the best investment you ever make.

Send us and email with your contact number and we'll speak with you on the phone about your case. Once we have the facts we'll help you by creating a narrative that will best represent your circumstances.

Canada Revenue Agency provides several levels of request for relief from penalties and interest. If you have previously been denied relief, you are within your right to re-apply to the next level.

Taxpayer Relief Letters will write letters for any level of request.

The service is completely confidential – so confidential WE don't even need to know who you are. Generally we're in a position to provide letters quite quickly. In more complicated cases we may require a little more time to assemble the facts to your best advantage.

**WHAT WE DON'T DO...**

Taxpayer Relief Letters does not act as your representative. We don't make legal arguments, we don't do accounting, we don't organize supplementary documents, and we don't guarantee that you will be granted remission of penalties and interest. We're writers who know the legislation. We are a letter writing service only. We provide words that will articulate your best case.

**HOW THE SERVICE WORKS**

Click on the [Contact us](#) tab and [send us an e-mail](#). Let us know the periods you have been charged penalty and interest for and the amount of each. Include your first name and daytime phone number only. DO NOT include tax account numbers, your last

name, your address or other confidential information. When we get your e-mail, we'll call you. You'll tell us how the charges came to be applied to your account and a bit about the circumstances you're in. We'll listen and take notes. We might ask some questions for clarification. Once we understand the facts, we'll be able to tell you the cost to write your letter. If you're interested in purchasing our services we'll start writing. We'll send you an e-mail when your letter is ready. You'll be asked to go to our website, read the [legal disclaimer](#), and make payment through PayPal.

We'll e-mail you a receipt and a clear, concise and compelling letter that states your case for remission or reduction of penalties and interest. Applications for relief from penalties and interest often require supplementary documentation. Canada Revenue Agency may ask for Income and Expense, Asset and Liability statements, letters from medical practitioners, or other information that will support your case. Your success may depend on your ability to obtain or assemble this information.

TAXPAYER RELIEF LETTERS

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accounting · bookkeeping · income tax services

**We keep your books "healthy".**

Bakhsh & Associates Inc. brings years of experience in the income tax preparation, accounting and bookkeeping profession. We give you the opportunity to spend your time taking care of your service delivery while we take care of your administration.

As president of Bakhsh & Associates Inc., Andy Bakhsh ensures that his client's needs are met on an accurate and timely basis.