

# 2008 Year-end Personal Tax Planning Tips

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## WHAT'S NEW

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### **Tax Free Savings Account ("TFSA")**

Take advantage of the new TFSA beginning in 2009. You can contribute up to \$5,000 per year to a TFSA, as long as you are 18 or older and resident in Canada. Although contributions to the TFSA will not be deductible for income tax purposes, the investment income earned within the TFSA will not be taxable. Withdrawals can be used for any purpose without any tax consequences.

## INVESTMENT STRATEGIES

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### **1. Tax Loss Selling**

Consider crystallizing capital losses to offset any capital gains that arose in the year or to carry back to the previous three years where you had capital gains. Superficial loss rules limit the deductibility of a loss if the same or identical securities are acquired by you or an affiliated person within 30 days before and after the disposition. Where you do not have capital losses available to offset capital gains in 2008, consider postponing the sale of assets with accrued gains until early 2009.

### **2. Gift Securities to Your Children**

If you have securities with accrued capital losses, you may consider giving them to a child. This will allow you to trigger a capital loss that you can claim, transfer any future growth to your child, and reduce probate fees upon death. You will, however, give up control over the assets.

### **3. Delay Mutual Fund Purchases Until January for Non-registered Accounts**

It may be advantageous to defer the purchase of certain mutual funds until early 2009. Many mutual funds distribute income and capital gains in December. Consequently, if units are purchased just prior to a distribution, the individual will be allocated a full share of the mutual fund's income and gains for that year. Deferring the purchase until early January will ensure that there will be no allocated taxable income for 2008.

### **4. Turning 71 in 2008**

You must mature your RRSP into cash, an annuity or a Registered Retirement Income Fund by December 31, 2008. In addition, if you have RRSP contribution room in 2008, you can still make one final tax deductible RRSP contribution as long as it is made before December 31, 2008.

### **5. Utilize the Capital Gains Exemption**

A \$750,000 capital gains exemption still exists to shelter capital gains on the sale of qualified small-business corporation shares. The rules surrounding the capital gains exemption are quite complex and a number of conditions must be satisfied.

### **6. Small Business Deferral**

If you have sold an eligible small business investment and you use some or all of the proceeds to purchase another eligible small business investment, the taxation of some or all of the capital gain on the sale can be deferred. Certain criteria must be met to qualify for the deferral of tax.

## 7. Registered Education Savings Plan

Make an RESP contribution before year-end to get the Canada Education Savings Grant (maximum of \$500 or 20 per cent of your contribution up to \$2,500) for 2008.

## SELF-EMPLOYMENT STRATEGIES

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### 1. Salaries to Family Members

If you have family members that work for you, especially if their marginal tax rate is lower than yours, consider paying them a reasonable salary. This will also provide them with earned income for RRSP purposes. A record should be kept of the time spent and the particular services performed.

### 2. Timing of Acquisitions and Dispositions of Capital Property

In general, capital assets should be acquired before the end of the fiscal year. As long as the asset is "available for use" you will be able to claim one-half of the full year's capital cost allowance (i.e. tax depreciation) in the year of acquisition.

On the other hand, you should dispose of an asset at the beginning of the next fiscal year if the disposition will give rise to a capital gain and/or recapture. Delaying the disposition will provide you a tax deferral as well as enabling you to claim capital cost allowance for one more year.

## DATES AND DEADLINES

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- **December 15:** Final instalment for 2008 is due.
- **December 31:** Payments eligible for 2008 tax savings:
  - Charitable donations
  - Medical expenses
  - Union and professional fees
  - Investment and interest expenses
  - Child care expenses
  - RESP contributions
  - Moving expenses
  - Political contributions
  - Deductible legal fees
  - Tuition fees
  - Alimony and maintenance payments
  - Fitness tax credit
- **January 15:** Election due to defer taxation on stock option benefits for public company employees.
- **January 30:** Interest payable on employee loans due in order to reduce employee taxable benefits.
- **February 28:** Due date for T4, T4A and T5 Information Returns.
- **March 1:** RRSP deadline for 2008 contributions (maximum contribution of \$20,000 for 2008)
- **April 30:** Personal tax return due (except self-employed individuals) and final taxes payable.
- **June 15:** Personal tax return due for self-employed individuals.