

As we draw closer to the end of 2011, we thought we'd point out a few interesting ways for you to minimize your 2011 taxes.

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DETAILS AND DEADLINES FOR DONATIONS

If you are interested in making a gift to a charity, December 31 is the last day to make a donation in order to get a tax receipt and hence benefit from the donations tax credit for 2011.

If you reside outside Quebec, the federal donations tax credit is equal to 15% of the first \$200 of total charitable donations made in 2011, plus 29% of the remaining total donations in excess of \$200. You will also receive an additional tax credit at the provincial level for the same donation. Making a \$100 donation can save as much as \$46.41 of tax for an Ontario individual in the top tax bracket.

“ *Instead of cash, you can also donate stocks or mutual fund units that have unrealized capital gains.* ”

Instead of cash, you can also donate stocks or mutual fund units that have unrealized capital gains. Tax is eliminated on such gains when the securities are donated directly to a charity. Keep in mind that, in such circumstances, the donation date is the date when the charity actually receives the securities, which may take some time depending on the charity. Hence, if you are considering donating stocks or mutual fund units to charity, you should do it soon!

TO TAKE ADVANTAGE OF INVESTMENTS IN LOSS POSITION, SELL BY DECEMBER 23

You can sell investments, which are in a loss position at year-end in order to offset other capital gains you may have in your portfolio. Tax rules allow 2011 losses to first offset 2011 capital gains, and any remaining losses can be carried forward indefinitely or be carried back to offset any capital gains in the previous three years.

Investors should keep in mind that to get the tax loss, they can't buy the same investment again until 30 days after the sale. The reason for this stipulation is the “superficial loss” rule, which occurs when you sell property for a loss and then buy it back within 30 days before or after the sale date. The rule also applies if your spouse or partner (or a corporation controlled by you or your spouse or partner) buys it back within 30 days.

“ *Any trade made after December 23, 2011 will not settle until 2012.* ”

To guarantee that a trade of securities is settled in 2011, so that you enjoy the benefit of the tax loss, the trade date must be no later than Friday, December 23. This will make sure that the settlement of the trade takes place in 2011 and that any triggered losses are available to you this year. Any trade made after December 23, 2011 will not settle until 2012 and therefore those losses would not be available until next year.

DID YOU BORROW TO INVEST AND PAY INTEREST IN 2011?

With many planners advising clients to borrow, investors should know that interest paid on money borrowed to invest is deductible for tax purposes, while interest paid on personal debt is not tax deductible. If you have taken out a loan for investment purposes, keep in mind that you can continue to deduct the related interest even if you sold the original investment and used the proceeds to buy a new investment. If you have excess cash, consider paying down your non-deductible debt (i.e. personal credit cards, mortgage, etc.) to reduce the non-deductible interest that you are paying.

NEED CASH BEFORE THE NEW YEAR? WITHDRAW MONEY FROM YOUR TFSA BY DECEMBER 31!

If you have a tax-free savings account (“TFSA”), withdrawing funds from the TFSA before December 31 will allow you to re-contribute the withdrawn funds back to the TFSA in the following year – i.e. as early as January 1, 2012. Conversely, if you wait until sometime in 2012 to make a withdrawal, you will not be able to re-contribute the withdrawn amount to the TFSA until 2013 (provided that you otherwise make maximum annual contributions).

DON'T NEED CASH BEFORE THE NEW YEAR? DEFER TAX ON CAPITAL GAINS

Consider waiting to sell assets that would yield a capital gain until 2012. Doing so will postpone the payment of tax on the gain by a full year, until the time of filing your 2012 tax return in 2013.

In addition, you can also spread out the tax on the capital gain from the sale of an asset if you allow the purchaser to pay you in installments over a period of time. Doing so enables you to claim a “capital gains reserve” to spread out the tax over a maximum period of 5 years.

NOT ALL DIVIDENDS ARE TAXED AT THE SAME RATE

If you are a shareholder of a Canadian-controlled private corporation (“CCPC”) which earned active business income not subject to the small business deduction in the past, the CCPC may have accumulated income in a “general rate income pool” (“GRIP”). You can have your corporation pay out the GRIP balance to you in the form of eligible dividends.

You can save personal tax by receiving eligible dividends, as they are taxed at a lower rate than regular (non-eligible) dividends. You can also save tax by having eligible dividends paid to you this year instead of next year, as the personal tax rate on eligible dividends will increase effective January 1, 2012.

REPAYING SHAREHOLDER LOANS BEFORE YEAR END MAY OR MAY NOT BE BENEFICIAL

If you took a loan in 2010 from your corporation that has a December 31 year end, if possible, you should repay it before the end of 2011. Otherwise, you can be required to pay tax on the full amount of the loan in 2010, unless, among other things, the loan was made to you in your capacity as an employee for purchasing a residence, a vehicle for performing employment duties or securities issued by the employer corporation.

DEFER PURCHASES OF MUTUAL FUNDS UNTIL 2012

If you are thinking about purchasing mutual funds, you may wish to consider deferring your purchase until 2012. Mutual funds normally allocate taxable income to its unit-holders in December. You can therefore avoid having to potentially pay tax on such an income allocation by deferring your purchase until 2012.

MEDICAL EXPENSES

You can claim medical expenses in excess of a minimum threshold. For 2011, the threshold is the lesser of:

- 3% of your “net income”, and
- \$2,024 at the federal level and in Ontario (vary in other provinces)

You are permitted to select any 12 month period ending in 2011 when claiming medical expenses.

In addition to prescription drugs, there are other medical expenses that are often ignored by the taxpayers. Some of the common ones are:

- Transportation costs incurred in obtaining medical treatment if such treatment is not available locally,
- Renovations and/or alterations to a residence to make it more accessible for an infirm person,
- Renovations and/or alterations to a vehicle in order to facilitate wheel-chair access to an infirm person,
- Training costs incurred in order to provide care for an infirm dependant.

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MOVING EXPENSES

If you moved during 2011 for employment or business purposes, you may be able to claim a deduction for moving expenses provided your new residence is at least 40 kilometers closer to your new work location. Some of the moving expenses you may deduct are as follows:

- Transportation and storage costs relating to household effects,
- Travelling expenses (includes auto, meals and accommodation expenses) to move you and your household members to your new residence,
- Costs for up to 15 days for meals and temporary accommodation near either residence for you and your household members,
- Cost of cancelling a lease for your old residence.

If you sold your old residence as a result of the move, eligible moving expenses may also include:

- Legal fees and certain taxes paid in connection with the purchase of a new residence,
- Cost of selling your old residence (such as advertising, legal fees, real estate commission, and mortgage penalty if applicable).

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CONTRIBUTE TO A REGISTERED EDUCATION SAVINGS PLAN

Although contributions to a registered education savings plan (“RESP”) are not tax-deductible, the income that accumulates in the plan is only taxable when it is paid out to a student.

Parents should take advantage of the Canada Education Savings Grant (“the grant”). The grant equals 20% of your annual RESP contributions to a maximum of \$500 per year.

SF PARTNERSHIP HAS A PERFECT PASS RATE ON THIS YEAR'S UNIFORM FINAL EXAM

The Uniform Final Evaluation ("UFE") is the most challenging exam and the final test before young professionals become a Chartered Accountant ("CA"). The UFE's purpose is to make sure all newly qualified CAs are appropriately proficient in the CA competencies, especially those competencies essential to the practice of public accounting. Passing the UFE requires a disciplined study ethic and a level of dedication, focus and commitment that is unique to Chartered Accountants.

SF Partnership is proud to announce that all four of our 2011 UFE writers were successful. Congratulations to:

Beth Johnston
Jon Ross
Tom Tong
Rebecca Townshend

ABOUT SF PARTNERSHIP

SF Partnership, LLP is a full service, mid-market, public accounting firm providing a wide range of services to private and public entities, in a variety of industries. We work with our clients to improve profitability, minimize tax and address business management concerns. We are committed to our clients' success. We are a proud member of BKR, a respected international association of member firms that allows us to serve our clients' interests around the world in a timely and seamless manner. Our standards for client service and our approach to adding value, combined with the quality of our people are what differentiate our firm and make us a leader in the field of public accounting.

CONTACT US

The Madison Centre
4950 Yonge Street, 4th Floor
Toronto, Ontario
M2N 6K1

Phone: 416-250-1212
Fax: 416-250-1225
E-mail: info@sfgroup.ca
<http://www.sfgroup.ca>

Editor: Brook Scarr, HBA, CA
Partner, Director of Taxation
Phone: 416-646-8071
E-mail: bscarr@sfgroup.ca

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