

In this issue, we present certain 2012 deadlines and additional tax planning opportunities relating to your 2011 tax return.

## IN THIS ISSUE...

- 2012 Tax Deadlines
- RRSP
- TFSA
- Nature of Investments in RRSP's and TFSA's
- Pension Income Splitting
- Bonus Payments
- Children's Arts Tax Credit
- Foreign Property Reporting
- U.S. Citizens and Green Card Holders
- RRSP and TFSA Considerations for U.S. Citizens and Green Card Holders
- Ontario Apprenticeship Tax Credit for Corporations

## 2012 TAX DEADLINES

Jan 1	General federal corporate tax rate cut from 16.5% to 15%
Feb 29	Deadline for filing T4, T4A and T5 tax slips Final day for making RRSP contributions for the 2011 tax year
Mar 15	First instalment due for taxpayers required to remit quarterly
Mar 30	Deadline for paying any 2011 penalty tax owing on excess RRSP contributions
Apr 2	Deadline for filing 2011 tax returns for trusts and partnerships
Apr 30	Deadline for filing 2011 personal tax return if you have no self-employment income
Jun 15	Second instalment due for taxpayers required to remit quarterly Deadline for filing 2011 personal tax return for self-employed taxpayers (but any balance owing must be paid by April 30)
Sep 17	Third instalment due for taxpayers required to remit quarterly
Dec 17	Fourth instalment due for taxpayers required to remit quarterly

## RRSP

Your maximum contribution for 2011 is 18% of your 2010 earned income, up to a maximum of \$22,450. In order to be deductible in 2011, you must make an RRSP contribution by February 29, 2012.

Consider making a contribution to a spousal RRSP to achieve income splitting in the future. Your contributions will grow on a tax-deferred basis until they are withdrawn, and will be taxed in the hands of your spouse at that time.

If your taxable income is low in 2011, consider carrying forward your RRSP contribution to a future year when you will be subject to a higher marginal tax rate. Doing so will enable you to maximize the tax refund generated by the RRSP contribution.

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## TFSA

You will be entitled to contribute a further \$5,000 to your tax-free savings account in addition to your contribution room carried forward from prior years. If funds are removed by you or you receive transfers upon the death of your spouse, care must be taken to determine the amount that can be contributed. Penalties for over-contributing to a tax-free savings account are significant.

## NATURE OF INVESTMENTS IN RRSP'S AND TFSA'S

You may wish to consider the nature of the assets held in these plans compared to those held outside of these plans. For example, capital gains on assets held outside these plans are only 50% taxable, whereas capital gains earned inside an RRSP are fully taxable when withdrawn from the RRSP. The benefits of other items, such as dividend tax credits and foreign tax credits, are also lost on investments in these plans. In structuring your investment portfolio, you may wish to consider having investments generating capital gains or entitled to tax credits held outside of these plans, and have your other investments held within these plans.

## PENSION INCOME SPLITTING

Canadian residents who receive pension income that qualifies for the pension tax credit can transfer up to one-half of that income to their spouse or common-law partner. Proceeding with such a transfer can minimize the total tax paid if the spouse or common-law partner is taxed at a lower marginal rate.

## BONUS PAYMENTS

The small business deduction is generally available to Canadian-Controlled Private Corporations with active business income of less than \$500,000 in 2011. If the active business income of your corporation exceeds this threshold, the corporation could pay out a bonus to bring its income below the threshold, thereby ensuring that the corporation's income is subject to tax at the small business rate. The payment of such a bonus must be made within 180 days of the corporation's year-end in order to be deductible.

However, with the implementation of eligible dividends, it becomes important to ensure that this "bonus down" strategy remains in line with your situation and generates the best tax savings possible. We can work with you to determine the right mix of salary and dividends that would optimize not only your personal tax situation but also that of your corporation.

## CHILDREN'S ARTS TAX CREDIT

The federal government introduced a new non-refundable tax credit in 2011. In addition to fitness activities covered by the existing children's fitness tax credit, parents can now get a tax credit on money spent on children's programs that focus on fine arts, music, performing arts, outdoor wilderness training, learning a language, studying a culture, tutoring, and more.

The tax credit is worth 15% of up to \$500 of eligible expenses per child annually, provided that the child is under 16 at the beginning of the year in which the expenses were incurred. If the child is otherwise eligible for the disability tax credit, he or she will qualify for the credit if under 18 years of age at the beginning of the year; an extra \$500 can also be claimed for this child if at least \$100 of eligible expenses were incurred.

There are a number of rules regarding the types of programs and expenses that are eligible for the new children's arts tax credit. Please contact us to determine whether your child qualifies for this credit.

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## FOREIGN PROPERTY REPORTING

Canadian individuals, corporations, trusts and partnerships that held certain property outside of Canada with a total cost of more than \$100,000 generally have to file Form T1135, Foreign Income Verification Statement.

Form T1135 requires that you report the type and the geographical location of foreign property held at any time in the year, as well as the total income you derived from the property during the year.

The types of foreign property to be reported on Form T1135 generally include funds in foreign bank accounts, foreign rental properties, debts owing from non-residents, shares of foreign companies, and shares of Canadian corporations held by a foreign broker. Personal-use property (i.e. vacation home), property used in an active business and an interest in U.S. Individual Retirement Account (IRA) are excluded.

The deadline for filing Form T1135 is the same as the deadline for filing your annual income tax return (or the T5013 information return in the case of partnerships). Canada Revenue Agency may assess substantial penalties for failing to complete and file Form T1135 by the due date.

## U.S. CITIZENS AND GREEN CARD HOLDERS

If you are a US citizen or green card holder, you must file an annual US 1040 individual income tax return in the United States regardless of where you actually reside. In addition, you may also be liable for a number of other taxes and onerous filing requirements in the United States, including:

- US gift and estate tax, which may complicate the transfer of your wealth to your spouse or children
- Annual reporting requirements for settlors and beneficiaries of trusts outside the US
- Paying US tax on passive income earned by a non-US corporation, regardless of whether the income was actually distributed

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New for 2011, Form 8938, Statement of Specified Foreign Financial Assets, is required to be filed with the annual US tax return if the total value of certain financial assets you hold outside the United States is more than \$200,000 USD on the last day of the year or more than \$300,000 USD at any time during the year. This requires reporting of non-US depository accounts, financial accounts, stocks and securities issued by a non-US person and an interest in a non-US entity.

TDF 90-22.1, Report of Foreign Bank and Financial Accounts (“FBAR”) is required to be filed separately from the US tax return if you are a US citizen and have a financial interest in or signing authority over non-US financial accounts having an aggregate value over \$10,000 USD at any time during the year. The filing deadline for the 2011 FBAR is June 30, 2012.

The Internal Revenue Service (“IRS”) can assess significant and onerous penalties for not complying with US tax filing requirements.

## RRSP AND TFSA CONSIDERATIONS FOR U.S. CITIZENS AND GREEN CARD HOLDERS

RRSP contributions are not deductible and TFSA accounts are not treated as tax-free for US tax purposes. In most instances, a resident of Canada is paying enough Canadian income tax on their income to offset, as a foreign tax credit, any tax payable on their US tax return by virtue of being a US citizen or green card holder. Care should be taken to ensure this is the case before making contributions into these plans.

## ONTARIO APPRENTICESHIP TAX CREDIT FOR CORPORATIONS

Corporations that employ an apprentice in a qualifying skilled trade in Ontario can claim the Ontario Apprenticeship Tax Credit, worth up to \$10,000 per year.

The value of the tax credit is computed as 45% of eligible expenditures for businesses with total payrolls of under \$400,000, and is reduced to 35% where total payroll exceeds \$600,000.

Expenditures eligible for the credit include salaries and wages (including taxable benefits) paid directly to a qualifying apprentice, as well as fees paid to employment agencies in respect of services provided by a qualifying apprentice.

To qualify for the credit, the apprenticeship must:

- be in a qualified skilled trade approved by the Ontario Ministry of Training, Colleges and Universities; and
- be registered by way of a training agreement or contract between the corporation and the apprentice under the appropriate apprenticeship Act.

There are over 100 trades that may potentially qualify for this tax credit, including various technicians, mechanics, painters, construction workers, call centre agents, industrial designers, and many others. Please contact us to determine whether you are eligible for this credit.

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## 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.

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