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Year-end tax planner – 2011

What Canadian individuals and owner-managed businesses need to do now to save tax.

November 2011

pwc

Looming Tax Deadlines – December 2011 to April 2012

This calendar includes many key tax deadlines during the next few months.

Among the deadlines **not** included are those for provincial payroll taxes, payroll withholdings, provincial health insurance premiums, workers' compensation, federal and provincial *corporate* income and capital tax payments, Goods and Services Tax/Harmonized Sales Tax and provincial sales taxes.

Deadlines falling on holidays or Sundays may be extended to the next business day.

	Su	Mo	Tu	We	Th	Fr	Sa
2011					1	2	3
	4	5	6	7	8	9	10
December	11	12	13	14	**15**	16	17
	18	19	20	21	22	**23**	24
	25	26	27	28	29	30	**31**
2012	1	2	3	4	5	6	7
	8	9	**10**	11	12	13	14
January	**15**	16	17	18	19	20	21
	22	23	24	25	26	27	28
	29	**30**	31	1	2	3	4
	5	6	7	8	9	10	11
February	12	13	**14**	15	16	17	18
	19	20	21	22	23	24	25
	26	27	28	**29**	1	2	3
	4	5	6	7	8	9	10
	11	12	13	14	**15**	16	17
March	18	19	20	21	22	23	24
	25	26	27	28	29	**30**	**31**
	1	2	3	4	5	6	7
	8	9	10	11	12	13	14
April	**15**	16	17	18	19	20	21
	22	23	24	25	26	27	28
	29	**30**					

Dec. 15 **Final quarterly instalment of tax due:** For individuals (other than unincorporated farmers and fishermen)

Dec. 23 **Final trading day on which to settle a trade in 2011:**
- Canadian stock exchanges: Likely December 23
- U.S. and others: Consult your broker

Dec. 31 **Final payment date for a 2011 tax deduction or credit:**
- Alimony and maintenance payments
- Charitable donations
- Child care, and child fitness and non-fitness expenses
- Contributions to your own RRSP if you turn 71 in 2011
- Employees' legal fees to collect unpaid remuneration
- Employees' registered pension plan contributions
- Interest (for paid-basis taxpayers)
- Investment counsel fees and other investment expenses
- Medical expenses
- Moving expenses (of individuals)
- Political contributions
- Safety deposit box rental fees (not deductible in Quebec)
- Tuition fees and interest on student loans

Employer-provided automobile:
- Employees should notify employers if the alternative operating cost benefit calculation is advantageous (need > 50% business use)
- Last day to make payments to employer to reduce standby charge

Other items for employees and employers:
- Last day to purchase and make "available for use" business-use capital assets for CCA claim in 2011

Jan. 10 **Quebec employees with employer-provided automobile:** Last day to provide employer with your logbook (deadline is earlier in some cases)

Jan. 15 **U.S. taxes:** estimated tax payments due for individuals

Jan. 30 **Loans:**
- Interest due on intra-family loans
- Non-deductible interest due on loans from employer (to reduce interest benefit)

Feb. 14 **Employer-provided automobile:** Last day to reimburse employer for costs to reduce operating cost benefit

Feb. 29 **Tax reporting slips:** Filing deadline for T4, T4A and T5 Summary and Supplementaries

Employer-provided automobile: Last day to notify employer regarding reduction in standby charge benefit for low personal use of vehicle (<50%), but for practical purposes it must be earlier

RRSPs:
- Last day for all regular 2011 contributions
- In respect of taxpayers who died in 2011, the last date for contributions to a surviving spouse's RRSP for a deduction in deceased's final return
- Home Buyer's Plan repayment due

Mar. 15 **Quarterly instalment of tax due**

Mar. 30 **Income tax returns for *inter vivos* trusts:** Last day to file without penalty

Mar. 31 **Tax reporting slips:** Filing deadline for NR4 Summary and Supplementaries relating to amounts paid or credited to non-residents of Canada

Apr. 15 **U.S. taxes:**
- Final 2011 and 2012 estimated tax payments for individuals due
- U.S. individual tax return due (an extension may be available)

Apr. 30 **Personal income tax returns:** Last day to file without penalty, except:
- June 15 if individual or spouse carried on a business in the year
- deadline may be later if individual or spouse died

Year-end tax planner – 2011

What individuals and owner-managed businesses need to do now to save tax

How to use this planner

The *Year-end tax planner* is designed primarily for individuals who have accumulated some wealth or who own their own businesses (large or small). Contact your PricewaterhouseCoopers LLP (PwC) adviser or any of the individuals listed on page 21 to discuss how this *Year-end tax planner* applies to you.

This edition is current to November 1, 2011, and provides year-end tax planning checklists for:

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Parents and spouses 10
Students 12
Seniors 12
Individuals and businesses with:
international connections 13
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Other features include:

- a calendar of upcoming tax filing and other deadlines (inside front cover);
- integration tables relating to active business income and investment income (page 16);
- key personal and corporate income tax rates (pages 17 to 18);
- titles of additional PwC publications, which are available at **www.pwc.com/ca/publications** (pages 19 to 20); and
- a list of PwC podcasts, which are available at **www.pwc.com/ca/taxtracks** (page 20).

In addition to tax, a complete financial plan should reflect investment philosophies, sound business practices and motivational considerations. Given the uncertainty in the economic environment, cash flow management remains especially important; owner-managers should ensure that sufficient funds are retained to meet business objectives.

What is new for 2011? (Federal)

- **General and M&P corporate rate** – dropped from 18% to 16.5% (2011) and will decrease to 15% (2012).
- **Small business corporate rate** – remains 11% in 2011 and subsequently.
- **Eligible dividends** – personal taxes increasing in 2011 and 2012.
- **"Kiddie tax"** – extended to certain capital gains realized after March 21, 2011, that are included in a minor's income.
- **Registered retirement savings plans and registered retirement income funds** – anti-avoidance rules expanded for transactions occurring and investments acquired after March 22, 2011.
- **Partnership income deferral** – eliminated for a corporate partner's taxation year ending after March 22, 2011, for partnerships with misaligned year ends.
- **Partnership information returns** – for partnerships with fiscal periods ending:
  - after 2010, the Canada Revenue Agency (CRA) has changed its administrative policy on the filing criteria for partnership information returns; and
  - on or after December 31, 2011, it is expected that the CRA will require disclosure of the adjusted cost base and at-risk amount of each partner's interest in the partnership.
- **Capital cost allowance (CCA)** – the 50% straight-line accelerated CCA rate extended to eligible M&P machinery and equipment acquired before 2014.
- **Avoidance transactions** – must be reported starting 2011.

What is new for 2011? (Provincial/territorial)

- **General and M&P corporate rate** – declining in British Columbia (2011), New Brunswick (2011) and Ontario (for non-M&P, 2011 to 2013).
- **Small business rate and threshold** – rate declining in New Brunswick (2012 to 2015), Nova Scotia (2011 to 2012) and Saskatchewan (2011); rate may drop to 0% in British Columbia (April 1, 2012); $500,000 threshold applies in all jurisdictions except Manitoba and Nova Scotia, which have a $400,000 threshold.
- **General capital tax** – applies only in Nova Scotia, where it will be eliminated on July 1, 2012; eliminated in Manitoba and Quebec on January 1, 2011.
- **Quebec Sales Tax (QST)** –
  - rate increased from 7.5% to 8.5% on January 1, 2011, and increasing to 9.5% on January 1, 2012.
  - to be harmonized with the Goods and Services Tax (GST) on January 1, 2013 (effective harmonized rate of 14.975%).
- **British Columbia Harmonized Sales Tax (HST)** – to be replaced with the former 7% Social Services Tax and 5% GST; targeted for April 1, 2013.

Financial statement reporting

- **Requirements** – for fiscal years beginning after December 31, 2010:
  - most "publicly accountable enterprises" must adopt International Financial Reporting Standards (IFRS); and
  - private enterprises must adopt either IFRS or Accounting Standards for Private Enterprises (ASPE).

Year-end tax planning checklists ☑

Working with your PwC adviser is essential when considering the following year-end tax planning tactics.

Owner-managed businesses ☑

☐ **Salary/dividend mix** – Determine the optimal mix of salary and dividends for you and other family members for 2011.

- ☐ Consider all relevant factors, including the owner/manager's marginal tax rate, the corporation's tax rate, provincial health and/or payroll taxes, RRSP contribution room ($127,611 of earned income in 2011 is required to maximize RRSP contribution in 2012), CPP contributions and other deductions and credits (e.g., for child care expenses and donations).
- ☐ Be aware that if you earn dividends (especially eligible dividends) your alternative minimum tax (AMT) exposure can increase.
- ☐ If the individual does not need to extract cash, consider retaining income in the corporation.
  - ☐ Tax is deferred if the corporation retains income when its tax rate is less than the individual owner-manager's rate. See Table 1 on page 16.
  - ☐ In times of economic uncertainty, retaining income in the corporation will help the corporation's cash flow and will allow the corporation to have income and pay corporate tax that may be recovered by possible future business losses.

☐ All provinces and territories –

- ☐ Ensure that owner-manager remuneration strategies account for increases in personal taxes on eligible dividends in 2012.
- ☐ Consider accelerating eligible dividends to 2011 to take advantage of lower eligible dividend tax rates in 2011.
- ☐ Possible exception for Nova Scotia – If Nova Scotia tables a budget surplus in its 2012-2013 fiscal year, for 2012 the top $150,000 personal tax bracket and 21% rate will be eliminated, but the 10% personal income tax surtax on provincial income tax exceeding $10,000 will be reinstated. In this case, owner-managers should take into account that personal tax rates may change in 2012 and adjust strategy on the payment of salary and/or dividends accordingly.

☐ Saskatchewan – Consider accelerating non-eligible dividends to 2011 to take advantage of lower non-eligible dividend tax rates in 2011.

☐ Qualifying small business corporation share status – Recognize that forgoing bonus and/or dividend payments and stockpiling passive investments could cast doubt on whether substantially all of the assets of a Canadian-controlled private corporation are used in an active business, in turn jeopardizing the ability to claim

the $750,000 lifetime capital gains exemption, among other things.

- ☐ Scientific research and experimental development (SR&ED) – Consider not forgoing bonus payments if it causes a Canadian-controlled private corporation's SR&ED investment tax credits (ITCs) to be non-refundable and subject to the lower ITC rate. (But retaining some income will allow the company to use the non-refundable ITCs.)

☐ **Dividend tax regime** – Be aware of how the dividend tax rules affect dividend distributions.

- ☐ Designate dividends that qualify as eligible dividends. (Designation procedures differ for public and non-public companies, but both require designation at the same time as, or before payment of, the eligible dividend.)
- ☐ Consider electing to treat all or part of any excess eligible dividend designation as a separate non-eligible dividend.
- ☐ **Canadian-controlled private corporations (CCPCs)** –
  - ☐ Determine the CCPC's ability to pay eligible dividends by estimating its general rate income pool (GRIP) as at its 2011 year end.
  - ☐ Consider distributing dividends in the following order:[a]
    1. Eligible dividends that trigger a refundable dividend tax on hand (RDTOH) refund.
    2. Non-eligible dividends that trigger a RDTOH refund.
    3. Eligible dividends that do not trigger a RDTOH refund.
    4. Non-eligible dividends that do not trigger a RDTOH refund.

a. However, depending on the jurisdiction of residence, paying non-taxable capital dividends should be inserted as the second or third preference.

  - ☐ Consider making the election that permits a CCPC to be treated as a non-CCPC for purposes of the dividend tax regime. For a newly incorporated CCPC that is expected to earn only active business income and will not benefit from the small business deduction, this would eliminate the need to calculate and monitor GRIP before paying eligible dividends.
  - ☐ A CCPC that will become a non-CCPC (i.e., planning to go public or become controlled by non-residents) should consider the effect of the federal dividend tax rules, as well as the deemed year end rules.
- ☐ **Non-CCPCs** –
  - ☐ Determine whether the non-CCPC must pay non-eligible dividends before it can pay eligible dividends, by computing its low-rate income pool (LRIP).
  - ☐ A non-CCPC that will become a CCPC should consider the effect of the federal dividend tax rules.

☐ **Cash flow management** – Recognize that managing your business cash flow is critical, especially in times of economic uncertainty. To reduce working capital outflows, reduce or defer tax instalments (if lower taxable income is expected), maximize federal and provincial refundable and non-refundable tax credits (e.g., SR&ED investment tax credits and film, media and digital incentives), trigger capital losses to recover capital gains tax paid in previous years and recover any income, sales or customs tax overpayments from previous years.

☐ **Salaries to family members** – Pay a reasonable salary to a spouse or child who is in a lower tax bracket and provides services to your business. This also allows family members to have earned income for CPP, RRSP and child care expense purposes.

☐ **Remuneration accruals** – Accrue reasonable salary and bonuses before your business year end. Ensure accrued amounts are paid within 179 days after the business' year end and appropriate source deductions and payroll taxes are remitted on time.

☐ **Retirement compensation arrangements (RCAs) and employee profit sharing plans (EPSPs)** – Consider setting up an RCA or EPSP as an alternative to paying a bonus. However, be aware that the federal government will be assessing the need for technical improvements to the rules for EPSPs.

☐ **Employee stock options** – Be aware that only the employer or employee (not both) can claim a tax deduction for cashed-out stock options. File an election if the company chooses to forgo the tax deduction.

☐ **Donations** – Make charitable donations and provincial political contributions (subject to certain limits) before year end. See our booklet, *Charitable giving guide for donors*; new edition coming. Be aware that corporations, trade unions and partnerships cannot make political contributions federally, in Manitoba or in Nova Scotia.

☐ **Final corporate tax balances** – Pay final corporate income and capital tax balances and all other corporate taxes imposed under the *Income Tax Act* within two months after year end (three months for certain CCPCs).

☐ **Corporate withdrawals** – Make tax-effective withdrawals of cash from your corporation (e.g., by paying tax-effective dividends or non-taxable capital dividends, returning capital or repaying shareholder loans).

☐ **Corporate income** – Consider deferring income to 2012 and later years by maximizing discretionary deductions (e.g., CCA) in 2011 to benefit from the following corporate rate reductions:

- ☐ General rate – the federal rate will decline from 16.5% to 15% in 2012. General rates will also decline in Ontario on July 1, 2012 (see Table 4 on page 17).
- ☐ Small business rate – will decrease in New Brunswick and Nova Scotia on January 1, 2012, and in British Columbia on April 1, 2012 (scheduled, but uncertain) and has decreased in Saskatchewan on July 1, 2011 (see Table 5 on page 18).

☐ **Mandatory e-filing of corporate income tax and information returns** – To avoid penalties, e-file:

- ☐ corporate income tax returns if annual gross revenues exceed $1 million (similar penalties apply in Quebec); and
- ☐ information returns if more than 50 information returns are submitted annually (note: penalties have been deferred until 2012).

☐ **Partnership information returns** – Be aware that for partnerships with fiscal periods ending:

- ☐ after December 31, 2010, the CRA has replaced the requirement to file a partnership information return based on the number of partners with one related to financial thresholds and partner structure. Refer to our:
  - ☐ *Tax memo* "Partnership Information Returns–Who Must File Starting 2011?"; and
  - ☐ podcast "Partnership Information Returns"; and
- ☐ on or after December 31, 2011, it is expected that these returns will be revised to require the disclosure of the adjusted cost base and at-risk amount of each partner's interest in the partnership.

☐ **Partnership deferral** – If you have a corporate partner in a partnership, be aware that draft legislation will curtail the deferral of partnership income for certain corporate partners with taxation years ending after March 22, 2011, in respect of partnerships with misaligned year ends. As a result:

- ☐ the corporate partner must accrue a notional income amount from the partnership for the portion of the partnership's incomplete fiscal period that falls within the corporation's taxation year;
- ☐ the corporate partner should consider:
  - ☐ changing the fiscal year end of the partnership to coincide with that of the corporate partner; a one-time election can be made if certain conditions are met; or
  - ☐ requesting permission to change its taxation year end; and
- ☐ the corporate partner should determine whether a reserve might be available in respect of additional income reported on the transition to the new rules.

See our *Tax memo* "Consultation draft released: Implements 2011 budget proposals to end deferral of corporate income tax through use of partnerships."

The CRA has indicated that its administrative policy for joint venture fiscal periods will be modified to reflect similar rules.

☐ **Hiring credit for small business** – Claim this credit of up to $1,000 in 2011 if your business's 2010 employment insurance (EI) premiums were $10,000 or less and increased in 2011.

☐ **Avoidance transactions** – Be aware that:

- ☐ draft legislation makes an "avoidance transaction" meeting certain conditions a "reportable transaction" that must be reported to the CRA, generally for transactions entered into after 2010 and those that are part of a series of transactions completed after 2010. See our *Tax memo* "New Federal Reporting Regime for Aggressive Tax Planning: Draft Legislation Released."
- ☐ Quebec requires disclosure of certain aggressive tax planning transactions, generally carried out after October 14, 2009. See our *Tax memo* "Quebec's Regime for Aggressive Tax Planning: Prescribed Form Released."

☐ **Depreciable assets** –

- ☐ Accelerate purchases of depreciable assets. Ensure assets are available for use at year end.
- ☐ Purchase eligible M&P machinery and equipment. The CCA deduction is enhanced from 30% declining balance to 50% straight-line, for purchases made before 2014.
- ☐ Consider making a special election to treat leased fixed assets as purchased under a financing arrangement.

☐ **Reserves** – Identify and claim reserves for doubtful accounts receivable or inventory obsolescence.

☐ **Business income reserve** – If you sold goods in 2011 and the proceeds are receivable after the end of the year, you may be able to defer tax on related profits by claiming a reserve over a maximum of three years.

☐ **Dispositions** – Defer, until after year end, planned dispositions that will result in income.

☐ **Accounting method** – Consider changing the corporation's method of accounting in respect of the timing of income inclusions. This may require the Minister's approval.

☐ **Costs of doing business** – Compare costs of doing business in different jurisdictions.

☐ **Intercompany charges** –

☐ Ensure charges are reasonable given changes in the economy.

☐ Consider adjustments to intercompany charges to reduce overall taxes paid by the related group. For example, charge reasonable mark-ups for services provided by related corporations.

☐ **Capital gains reserve** – If you sold or will sell capital property in 2011 in exchange for debt, you may be able to defer tax on part of the capital gain by claiming a capital gains reserve over a maximum of four years.

☐ **Foreign exchange** – Consider triggering a foreign exchange loss that is on account of capital before year end to offset capital gains in the current year or previous three.

☐ **Individual pension plans (IPPs)** – If you have (or will) set up an IPP, be aware that draft proposals intended to put them on the same footing with other retirement savings vehicles eliminate certain advantages that IPPs have (e.g., minimum withdrawal requirements will apply to IPP members over 71, starting 2012, and new rules will apply for funding past service contributions after March 22, 2011).

☐ **Shareholder loans to your corporation** – Determine whether your corporation would benefit from deductible interest on shareholder loans made to the corporation, to reduce active business income to the $500,000 threshold (lower in some jurisdictions; see Table 5 on page 18).

☐ **Shareholder loans from your corporation** – Repay shareholder loans from your corporation no later than one tax year after the amount is borrowed (exceptions apply).

☐ **Protect your investment in your business assets** – Consider:

☐ transferring assets (e.g., real estate and intellectual property) from an operating company to a separate company on a tax-deferred basis; and

☐ arranging to secure a loan from a shareholder.

☐ **Capital gains rollover** – If you sold or will sell eligible small business corporation shares in 2011, invest the proceeds in other eligible small business corporation shares by April 29, 2012, to be eligible to defer all or part of the capital gain. (Applies to individuals only.)

☐ **Exemption for qualified small business corporation shares** –

☐ Structure the business so that corporate shares become or remain eligible for the $750,000 capital gains exemption.

☐ Consider crystallizing the capital gains exemption and/or restructuring to multiply access to the $750,000 capital gains exemption with other family members.

☐ **SR&ED** – Ensure claims in respect of SR&ED expenditures or investment tax credits are filed by the deadline, which is 18 months after the corporation's year end.

☐ **Nova Scotia capital tax** – If your corporation is subject to provincial general capital tax (in 2011, applies only in Nova Scotia and will be phased out by July 1, 2012), discuss with your PwC adviser ways to reduce Nova Scotia taxable capital (see Table 6 on page 18).

☐ **GST/HST** –

☐ Ensure that GST/HST has been correctly collected and remitted on taxable supplies and that input tax credits have been claimed on eligible expenses throughout the year.

☐ GST/HST electronic filing requirement – To avoid penalties, file your company's GST/HST returns electronically if certain criteria (e.g., annual taxable supplies on an associated basis exceed $1.5 million) are met.

☐ Recapture of input tax credits – Determine if your business is required to report recaptured input tax credits, which generally applies to large businesses and financial institutions.

☐ British Columbia – Be aware that British Columbia will cancel its HST and reinstate the former Social Services Tax (SST) and GST regime (targeted to be effective April 1, 2013). Depending on the details, which are forthcoming, businesses subject to British Columbia's HST may need to:

- ☐ review all systems (accounting, point of sale, etc.);
- ☐ consider if the return to the SST will affect consumer purchasing decisions before the reinstatement date;
- ☐ consider the effect of the SST on capital expenditures and purchasing; and
- ☐ review significant contracts to ensure contract clauses will address the cost and/or reimbursement of SST on significant projects.

See our *Tax memo* "B.C. votes to extinguish HST."

☐ **Quebec sales tax (QST)** – Be aware that:

☐ QST will be harmonized with the GST on January 1, 2013 (target implementation date with an effective harmonized rate of 14.975%). See our *Tax memo* "QST to be harmonized with GST by 2013"; and

☐ the QST rate will increase from 8.5% (effective rate of 8.925%) to 9.5% (effective rate of 9.975%) on January 1, 2012. Consider accelerating large purchases for which input tax refunds might not be recoverable.

- **Property tax** –
  - To challenge the company's property tax bill, appeal the property value assessment, which generally is mailed early in the year. Filing deadlines vary by province or territory, are compulsory and usually fall before the property tax bill is mailed.
  - **Ontario** –
    - Be aware that all property owners received a property assessment notice in 2008 based on the property's value as of January 1, 2008. A property owner will not receive a new assessment notice unless the assessment has changed. This notice is used to calculate property taxes for the 2009 to 2012 tax years. A company can appeal its 2008 property assessment (used for the 2012 tax bill) by March 31, 2012. On appeal, the onus is on the assessment agency to prove that the assessed value is correct.
    - A company that has a vacancy in a commercial or industrial facility in 2011 may be able to claim a tax refund by filing a request to the municipality by February 29, 2012. Filing for this rebate is the owner's responsibility.
    - Verify your company's property tax rate classification (i.e., industrial, commercial). Using the correct tax rate may reduce property taxes.
  - Discuss with your PwC adviser ways to reduce municipal property tax.
- **Financial statement reporting** – Be aware that effective for interim and annual financial statements for fiscal years beginning after December 31, 2010:
  - most "publicly accountable enterprises" must adopt International Financial Reporting Standards (IFRS); and
  - private enterprises must adopt either IFRS or Accounting Standards for Private Enterprises (ASPE).

  These changes could affect the measurement and reporting of income taxes for financial statement purposes and the calculation of Canadian taxes payable. See our *Tax memos:*
  - "IFRS and Tax: The Rubber has Hit the Road"; and
  - "The Move to IFRS: CRA Guidance."
- **Environmental incentives** – Be aware of federal and provincial environmental incentives that can help your company go green and save money. See our *"Going Green Tables (2009/2010)"*; new edition coming. Recent enhancements:
  - extend the 50% declining capital cost allowance rate to equipment acquired after March 21, 2011, that generates electricity using waste heat; and
  - in Manitoba:
    - increase the green energy equipment tax credit rate on purchases and installations of geothermal heating systems after April 12, 2011; and
    - extend the odour control tax credit to December 31, 2014.
- **Provincial or territorial tax incentives** – Benefit from provincial or territorial tax incentives and enhancements to these incentives. For example, determine whether your company qualifies for:
  - **Manufacturing and processing (M&P) tax credits** – Extended in Manitoba and program revised in Nova Scotia.
  - **SR&ED tax credits** – available in all provinces (except Prince Edward Island) and the Yukon.
  - **Media tax incentives** – enhanced in Nova Scotia (film and digital media tax credits) and Quebec (sound recording production tax credit), but film tax credit will be phased out in New Brunswick. Online applications for the Ontario Media Development Corporation are mandatory starting April 1, 2011.
  - **Publishing industry incentives** –
    - Book publishing tax credits – extended in Manitoba and enhanced in Manitoba, Ontario and Quebec.
    - Manitoba cultural industries printing tax credit – new 15% refundable credit can be claimed on costs incurred and paid after April 12, 2011, and before 2016, for printing, assembly and binding performed in Manitoba to produce eligible books.
  - **Manitoba Neighbourhoods Alive! tax credit** – new 30% non-refundable tax credit (maximum annual credit is $15,000) introduced for corporations that donate funds to charitable organizations to create new social enterprises after April 12, 2011, and before 2020.
  - **Manitoba co-op education and apprenticeship tax credits** – certain components are extended to December 31, 2014, and enhanced commencing 2011.

Employees ☑

- ☐ **Income deferral** – Defer the receipt of certain employment income if your marginal personal tax rate will be lower in 2012 than in 2011.
- ☐ **Job-related courses** – Ask your employer to pay for job-related courses directly, rather than paying you additional remuneration.
- ☐ **Scholarship programs** –
  - ☐ Ask your employer to set up a program that provides non-taxable scholarships for post-secondary education that may benefit your and other employees' children. Funds allocated by your employer to a discretionary bonus pool could instead be used to fund this program.
  - ☐ Be aware that, under the CRA's administrative policy, elementary and secondary education scholarships, bursaries and tuition fees provided by employers to their employees' family members are taxable to the employee.
- ☐ **Employee gifts and awards** – Ask your employer to provide you with non-cash gifts and/or awards. These will not be taxable to you if you receive non-cash gifts and non-cash awards with a total value to you of $500 or less annually. Exceptions apply.
- ☐ **Employee loans** – Ensure that any interest you intend to pay relating to employee loans for 2011 is paid on or before January 30, 2012.
- ☐ **Home office** – If you work out of your home, try to arrange your employment terms so that you can deduct certain expenses related to your home office.
- ☐ **Employee home purchase loans** – If you expect interest rates in 2012 to rise, take out or replace an employee home purchase loan before January 1, 2012, to take advantage of the current prescribed rate (1% for the fourth quarter of 2011 and expected to remain 1% in the first quarter of 2012).
- ☐ **Stock option benefits of public companies** –
  - ☐ If you disposed of stock options for cash, ask your employer to elect to forgo the tax deduction so that you may claim it.
  - ☐ Be aware that you can no longer defer the benefit related to exercising these stock options (relief may be available for previously filed elections).
  - ☐ Be aware that commencing 2011, an exemption for withholdings on stock option benefits will no longer be granted solely because the benefit is not paid in cash; withholdings are required on these benefits unless there are other reasons for exemption.
- ☐ **Reduce income tax deductions at source** – If you will have excess tax deductions or non-refundable tax credits in 2012, request reductions in your payroll income tax withholdings early in 2012 (Federal Form T1213; Quebec Form TP-1016-V).
- ☐ **Public transit pass tax credit** – Claim this federal non-refundable tax credit for the cost of public transit passes (monthly or longer) and certain weekly and electronic payment cards. Yukon has a parallel credit. Retain passes or receipts to support claims.
- ☐ **Company car** – Try to reduce or eliminate your operating cost benefit and/or your standby charge benefit if you have a company car. Regarding the operating cost benefit:
  - ☐ reimburse your employer for some or all of the personal use portion of the actual operating costs; and
  - ☐ reduce your personal driving (to under 50% of total driving, if possible).

  To reduce or eliminate your standby charge benefit:
  - ☐ reduce the number of days the car is available to you;
  - ☐ have your employer sell the automobile and repurchase it or lease it back;
  - ☐ do not use the automobile for personal driving; and
  - ☐ choose a less expensive vehicle.

  For more information, refer to our booklet, *Car expenses and benefits – A tax guide (2011).*
- ☐ **Tracking motor vehicle use** – Keep an automobile logbook to support motor vehicle expense and taxable benefit calculations. If you are self-employed (except for Quebec), a logbook maintained for a sample period will be sufficient to support these calculations if:
  - ☐ you maintain a full logbook for a 12-month "base" period (starting in 2009 or later);
  - ☐ you complete a sample logbook for a continuous three-month period in each subsequent year;
  - ☐ business use in the sample logbook is within 10% of the results for the same three-month period in the base year; and
  - ☐ business use for the entire year as extrapolated from the subsequent sample log is within 10% of the base-year result.

  For a paper or electronic employee log, see our booklet, *Car expenses and benefits – A tax guide (2011).*

☐ **Retirement savings plans, profit-sharing plans and RRIFs** –

☐ Take advantage of higher contribution limits:

	Registered retirement savings plans (RRSPs)	Money purchase registered pension plans (RPPs)	Deferred profit-sharing plans (DPSPs)
2011	$22,450	$22,970	$11,485
2012	$22,970	Indexed	

☐ If your taxable income is below the highest tax bracket, consider maximizing your RRSP contributions each year, but delay claiming the amount as a deduction until a future year when your taxable income is in a higher tax bracket.

☐ Be aware that anti-avoidance rules for RRSPs and RRIFs will include rules similar to the "advantage" rules applicable to tax-free savings accounts, for transactions occurring, income earned, capital gains accruing and investments acquired after March 22, 2011. The advantage rules can result in significant penalties such as a 100% penalty on income or gains realized from prohibited investments. Transitional rules may apply. See our *Tax memos:*

- ☐ "Alert for RRSP and RRIF holders: Action is required if a new 'prohibited investment' rule applies to you";
- ☐ "Prohibited investment rules extended: Alert for RRSPs and RRIFs with investment fund holdings"; and
- ☐ "Federal Budget Includes RRSP Anti-Avoidance Rule."

☐ Be aware that Quebec will allow voluntary retirement savings plans that will be patterned on the pooled registered pension plan framework, which is intended for employees who do not have access to a private pension plan and is similar to a defined contribution RPP (or a group RRSP plan). Legislation to come.

☐ Be aware that Saskatchewan offers a Saskatchewan pension plan (SPP), which is available to all Canadian residents and offers low fund expenses (average of approximately 1%). Draft legislation that generally applies starting 2010:

- ☐ requires SPP contributions to be based on your RRSP limit;
- ☐ allows an increase to the annual SPP contribution limit from $600 to $2,500;
- ☐ allows you to transfer up to $10,000 annually from your RRSP directly to your SPP; and
- ☐ extends to SPPs certain tax rules that apply to RPPs and RRSPs.

☐ **GST/HST rebate** – Determine whether you can claim a GST/HST rebate to recover GST/HST included in employment expenses you have deducted (e.g., home office expenses, supplies and automobile expenses).

Investors ☑

☐ **Investment portfolio mix** – Because several types of investments are taxed differently, determine the optimal mix of investments in your portfolio and ensure that you are getting the best after-tax returns. Consider whether it is more beneficial to hold investments that yield eligible dividends rather than capital gains. This will depend on your marginal tax rate and province or territory of residence.

☐ **"Eligible" dividends** – Be aware that:

☐ eligible dividends can trigger an alternative minimum tax (AMT) liability;

☐ personal taxes on eligible dividends are increasing in 2012 (except for Nova Scotia if it tables a budget surplus in its 2012-2013 fiscal year and 2011 taxable income exceeds $150,000); and

☐ for individuals in lower tax brackets, eligible dividends could be tax-free or reduce tax on other income.

☐ **"Non-eligible" dividends received by residents of Saskatchewan** – Consider whether increases in personal taxes on non-eligible dividends affect your preference for earning capital gains and/or interest through a holding company (see Table 3 on page 17).

☐ **Tax-Free Savings Account (TFSA)** – If you are a Canadian resident age 18 or older, contribute to a TFSA. Contributions will not be deductible, but withdrawals and income earned in the TFSA will not be taxed. In addition:

☐ if you are planning a withdrawal from your TFSA, consider doing so before the end of 2011 instead of early 2012 – amounts withdrawn are not added to your TFSA contribution room until the beginning of the following year after the withdrawal; and

☐ be aware that taxpayers who use TFSAs in tax-planning schemes will be penalized (e.g., income attributable to deliberate overcontributions or prohibited investments is subject to a 100% tax).

- [ ] **Specified investment flow-throughs (SIFTs), real estate investment trusts (REITs) and publicly traded corporations** – Be aware that draft proposals that apply to SIFTs, REITs and publicly traded corporations in respect of transactions involving stapled securities limit the deductibility of amounts paid or payable after July 19, 2011, in respect of stapled securities, subject to a transitional period. See our *Tax memo* "Proposed changes for SIFTs, REITs and publicly traded corporations: Deductibility of amounts paid in respect of stapled securities."

- [ ] **Stock exchange cut-off** – Consult your stockbroker to determine the last day on which a sale executed through a stock exchange will be considered a 2011 transaction for tax purposes (likely December 23 for Canadian exchanges).

- [ ] **Interest deductibility** –
  - [ ] If possible, pay off non-deductible debt before deductible debt (or debt for which the interest qualifies for a non-refundable credit; i.e., interest on student loans). Borrow for investment or business purposes, and use cash for personal purchases that would otherwise generate interest costs.
  - [ ] Remember that you can continue to deduct interest on an investment loan even after you sell the investment at a loss, provided that you reinvest the proceeds from the sale in a new investment.
  - [ ] Consider rules that limit the deductibility of investment expenses for Quebec tax purposes to the investment income earned in the taxation year. This limit does not apply to expenses incurred to earn active business income or to trusts, other than personal trusts.

- [ ] **Accrued capital losses** –
  - [ ] Sell securities with accrued losses before year end to offset capital gains realized in the current or previous three years. Be aware of superficial loss rules, which limit the deductibility of a loss.
  - [ ] Close out option contracts with inherent capital losses in 2011, rather than 2012, to shelter taxable capital gains.

- [ ] **Accrued capital gains** – Delay selling securities or other assets with accrued gains until 2012.

- [ ] **Capital gains deferral** – If you sell capital property in 2011, you may be able to defer tax on part of the capital gain by having the purchaser stagger payment of the proceeds. This may allow you to claim a capital gains reserve over a maximum of four years.

- [ ] **Mutual funds** –
  - [ ] Delay mutual fund purchases to January 2012 or consider selling mutual funds before year end to minimize your allocation of taxable income for 2011. Be careful if you acquire a mutual fund during the year; you may be allocated income that was earned by the fund before your purchase.
  - [ ] If you are a non-resident investor in Canadian mutual funds, determine whether you can recover any excess Canadian withholding tax paid.

- [ ] **Donating securities** – Consider the tax benefits of donating publicly listed securities with an accrued capital gain. Be aware that draft legislation limits the capital gains tax exemption on a donation of publicly listed flow-through securities acquired by a taxpayer pursuant to an agreement entered into after March 21, 2011. See our booklet, *Charitable giving guide for donors;* new edition coming.

- [ ] **Foreign exchange gains and losses** – Consider changes in foreign exchange rates when selling foreign securities. Depreciation in the Canadian dollar relative to U.S. currency may reduce the capital loss or add to the capital gain that will be triggered on the disposal of these securities and vice versa when the Canadian dollar appreciates relative to U.S. currency.

- [ ] **Offshore investment funds** – If you invest through offshore funds, be aware that draft legislation maintains the enacted provision for investments in offshore investment funds, but increases the prescribed income accrual percentage by 2%, and extends the statute-barred periods for taxpayers that have invested in offshore investment funds by three years, for taxation years ending after March 4, 2010.

- [ ] **Transactions involving trusts** –
  - [ ] If you were or will be involved in transfers to or from trusts, contact your PwC adviser for an evaluation of the tax implications. The transfers may trigger a taxable event or a reporting requirement.
  - [ ] If the trust has non-resident beneficiaries, contact your PwC adviser to assess the tax implications. The existence of a non-resident beneficiary may trigger Canadian and foreign taxes.
  - [ ] Be careful if making a loan to or incurring debts on behalf of a testamentary trust. This could cause the trust to lose that status.
  - [ ] If the trust's 21st anniversary occurs in 2012, consider planning to avoid the deemed disposition of assets at fair market value on that date.

- [ ] **Non-resident trusts (NRTs)** – Be aware that draft legislation refines the NRT rules that generally apply to taxation years ending after 2006. A trust subject to these rules will be deemed resident for Canadian income tax purposes if it has a Canadian contributor or a resident beneficiary.

- [ ] **Foreign accrual property income (FAPI)** – If you or your corporation holds 10% or more of the shares of a foreign company, be aware of draft legislative proposals released on August 19, 2011, and draft legislation released on August 27, 2010, that may significantly change the FAPI tax regime and introduce additional tax complexities associated with loans involving foreign subsidiaries. See our *Tax memos:*
  - [ ] "Long-awaited foreign affiliate amendments released"; and
  - [ ] "August 27, 2010 Draft Legislation Implements 2010 Budget Proposals and Other Previously Announced Measures."

- [ ] **Home buyers' incentives** – If you are a first-time home buyer:
  - [ ] consider withdrawing tax free up to $25,000 from your RRSP, under the Home Buyers' Plan to acquire a home (also applies to a spousal RRSP); and
  - [ ] claim the First-Time Home Buyers' Tax Credit (maximum credit is $750) if you purchased a qualifying home to be used as your principal place of residence.

- [ ] **Property tax** –
  - [ ] To challenge your property tax bill, you must appeal the property value assessment, which generally is mailed early in the year. Filing deadlines vary by province or territory, are compulsory and usually fall before the property tax bill is mailed.
  - [ ] If you reside in Ontario, be aware that all property owners received a property assessment notice in 2008 based on the property's value as of January 1, 2008. A property owner will not receive a new assessment notice unless the assessment has changed. This notice will be used to calculate property taxes for the 2009 to 2012 tax years. To challenge your 2008 residential property assessment (used for the 2012 tax bill), you must file a "Request for Reconsideration" with the assessment agency by March 31, 2012. If you are not satisfied with the agency's response, you can file an appeal within 90 days of the date of the response. On appeal, the onus is on the assessment agency to prove that the assessed value is correct.

- [ ] **Provincial or territorial tax incentives** – Ensure you benefit from provincial and territorial tax incentives and changes to these incentives. For example, determine whether you qualify for:
  - [ ] **Manitoba mineral exploration tax credit** – extended to agreements entered into before April 1, 2015.
  - [ ] **Manitoba community enterprise development tax credit** – extended to December 31, 2014.
  - [ ] **Prince Edward Island equity tax credit**– available starting mid-2011 to individuals who invest in eligible businesses.

Parents and spouses ☑

- [ ] **Estate planning arrangements** – Review annually to ensure that these arrangements meet their objectives.

- [ ] **Income splitting** –
  - [ ] If you have cash to invest and a spouse or children in a lower tax bracket, consider an income-splitting plan. Income-splitting arrangements requiring a loan to a family member should be set up before January 1, 2012, to take advantage of the current prescribed rate (1% for the fourth quarter of 2011 and expected to remain 1% in the first quarter of 2012).
  - [ ] Interest on intra-family loans must be paid on or before January 30, 2012, to avoid attribution of income.
  - [ ] Income earned by discretionary *inter vivos* family trusts must be paid or made payable to beneficiaries by December 31, 2011, to be included in the beneficiary's income.
  - [ ] If you own shares in a private corporation, discuss with your PwC adviser the use of a trust to split income with your adult children.
  - [ ] Be aware that the existing "tax on split income" rules (the "kiddie tax") will apply to capital gains realized after March 21, 2011, and included in a minor's income, if the gain is attributable to a non-arm's length disposition of shares and any dividends on the shares would have been subject to the kiddie tax. These gains will be treated as dividends subject to the kiddie tax and will be ineligible for the lifetime capital gains exemption.
  - [ ] Give money or make an interest-free loan to your spouse or adult child to contribute to their tax-free savings account (TFSA). Because the income earned is tax free, the attribution rules do not apply.

- [ ] **Registered education savings plan (RESP)** –
  - [ ] Contribute to an RESP for your child or grandchild. For more information, refer to our *Tax memo,* "Understanding RESPs."
  - [ ] Plan for the RESP to receive the maximum lifetime Canada Education Savings Grant of $7,200, which depends on annual RESP contributions and the beneficiary's age.
  - [ ] Be aware that commencing 2011, asset transfers between RESPs for siblings will be allowed if certain conditions are met.
  - [ ] If you reside in Alberta, ensure the RESP receives funds from the Alberta Centennial Education Savings Plan (lifetime maximum of $800 per child).
  - [ ] If you reside in Quebec, ensure that the RESP receives the Quebec Education Savings Incentive, which has a lifetime maximum of $3,600.
- [ ] **Child care expenses** –
  - [ ] Pay child care expenses for 2011 by December 31, 2011, and get a receipt.
  - [ ] Remember that boarding school and camp fees qualify for the child care deduction (limits may apply), as does the cost to advertise or use a placement agency to find a child care provider.
  - [ ] Be aware that starting 2011, Newfoundland and Labrador's child care tax credit allows parents to claim a non-refundable tax credit amount equal to the child care expenses that are deductible from their income.
- [ ] **Universal Child Care Benefit (UCCB) and Canada Child Tax Benefit (CCTB)** –
  - [ ] If you receive these benefits, invest the funds in a separate account in trust for your children. Investment income on these funds will not be taxable to you.
  - [ ] If you are a single parent and receive the UCCB, include the UCCB in the income of a dependant for whom an eligible dependant credit is claimed or, if the credit cannot be claimed, of a child for whom the UCCB was paid.
- [ ] **Registered disability savings plan (RDSP)** – If your child qualifies for the disability tax credit and if RDSP assets or income will not disqualify your child from receiving provincial or territorial income support, you should:
  - [ ] set up an RDSP to qualify for Canada Disability Savings Bond (CDSB) payments (lifetime maximum of $20,000 per child);
  - [ ] contribute to an RDSP to qualify for Canada Disability Savings Grant (CDSG) payments (lifetime maximum of $70,000 per child);
  - [ ] plan to optimize the lifetime CDSG paid to an RDSP by taking into account annual CDSG limits, which depend on net family income; and
  - [ ] be aware that for RDSP withdrawals made after June 26, 2011, RDSP beneficiaries with a life expectancy of five year or less can elect to increase their annual RDSP withdrawals without repaying the grants or bonds received by the RDSP.
- [ ] **Children's fitness and arts tax credits** – If your child is enrolled in eligible programs of fitness and non-fitness activities, claim the:
  - [ ] **Federal children's fitness tax credit** – available for enrollment in an eligible physical activity program.
  - [ ] **Federal children's arts tax credit** – available starting 2011 for enrollment in an eligible program of artistic, cultural, recreational or developmental activities.

    Each federal tax credit is non-refundable and is claimed on up to $500 of fees paid per child under 16. Different rules apply for children with disabilities.
  - [ ] **Manitoba fitness tax credit** – parallels the federal children's fitness tax credit, except that starting 2011, is also available to individuals age 16 to 24.
  - [ ] **Manitoba children's arts and cultural activity tax credit** – available starting 2011 and parallels the federal children's arts tax credit.
  - [ ] **Nova Scotia healthy living tax credit** – similar to the federal children's fitness tax credit.
  - [ ] **Ontario children's activity tax credit** – a refundable tax credit of up to $50 for each child under 16 for enrollment in a wide range of fitness and non-fitness activities. Different rules apply for children with disabilities.
  - [ ] **Saskatchewan active family benefit** – a refundable tax credit of up to $150 per child age 6 to 14, for cultural, recreational and sports activity fees.
  - [ ] **Yukon children's fitness tax credit** – parallels the federal children's fitness tax credit.

  Pay the expenses by December 31, 2011, and retain receipts.
- [ ] **Employment leave by spouse** – If your spouse is leaving the workforce, consider timing contributions to and withdrawals from a spousal RRSP to provide your family with extra disposable income.
- [ ] **Children abroad** – Consider whether your will and estate plan need to be updated for children who no longer reside in Canada.
- [ ] **Private health services plan (PHSP) premiums** – If you are self-employed, determine whether PHSP premiums you paid can be deducted from your self-employment income. Premiums that are not deductible may be claimed as a medical expense.

☐ **Medical expenses tax credit** – Be aware that starting 2011, eligible expenses that can be claimed in respect of a dependent adult relative are no longer limited to $10,000.

☐ **Provincial/territorial tax credits** – Ensure you benefit from provincial/territorial tax credits (in addition to those mentioned above) and changes to these credits. For example, Manitoba's fertility treatment tax credit, a refundable tax credit of up to $8,000 annually, was enhanced, retroactive to October 1, 2010.

Students ☑

☐ **Education, tuition and textbook tax credits** – Claim these credits if you attend post-secondary school. Be aware that certain fees for exams taken after 2010 will qualify for the tuition tax credit.

☐ **Scholarships and other amounts** – Exclude from your income the full scholarship, fellowship or bursary for attending an elementary or secondary educational program or for a program that entitles you to the education tax credit.

☐ **Unused and unclaimed tax credits** –

- ☐ If you are unable to use your education, tuition or textbook tax credits, you may transfer them to your spouse, parent or grandparent (subject to limitations).
- ☐ Remember that the carry-forward period is generally:
  - ☐ indefinite for unclaimed education, tuition and textbook credits; and
  - ☐ five years for unclaimed student loan interest.

☐ **Lifelong Learning Plan (LPP)** – Consider making a tax-free withdrawal from your RRSP to finance the full-time training or education (part-time for students who meet one of the disability conditions) for yourself, your spouse or your common-law partner. You may withdraw up to $10,000 in a calendar year and up to $20,000 in total.

☐ **Moving expenses** – If you moved to attend school or moved from school to work or home, your moving expenses may be deductible.

☐ **Foreign university** – If you are a full-time student at an educational institution outside Canada in a course leading to a degree that is at least three (down from thirteen) consecutive weeks, starting 2011:

- ☐ claim the tuition, education and textbook tax credits; and
- ☐ request educational assistance payments from your RESP.

☐ **Graduates** – If you graduate from an eligible post-secondary program and live and work in:

- ☐ **Manitoba** – claim an income tax rebate on up to 60% of tuition fees over a minimum of six years (maximum lifetime rebate of $25,000).
- ☐ **New Brunswick** – claim a 50% tax rebate on tuition fees (maximum lifetime rebate of $20,000).
- ☐ **Nova Scotia** – claim:
  - ☐ an income tax rebate over six years of up to $15,000 (university) or up to $7,500 (college diploma or certificate), if you graduated after 2008; and
  - ☐ a tax credit of up to $2,000 in 2011, if you graduated in 2008 and did not claim the credit previously.
- ☐ **a remote resource region in Quebec** – claim a tax credit of up to $8,000 over three years if you work in your field of specialization.
- ☐ **Saskatchewan** – claim a refundable tax credit that will rebate up to $20,000 of tuition fees over seven years.

Seniors ☑

☐ ***Inter vivos* trust** – If you are over the age of 64 and live in a province with a high probate fee, consider establishing an *inter vivos* trust as part of your estate plan.

☐ **Old Age Security (OAS)** –

- ☐ If you no longer receive OAS benefits because your income is too high, consider ways to reduce or defer your income so that you can continue to receive this government pension.
- ☐ Consider whether the allocation of pension income from a spouse or receipt of "eligible" dividends (subject to a 41% gross-up) will trigger an OAS clawback. Instead of receiving eligible dividends, consider receiving capital gains. Only 50% of the gain is included in income for OAS purposes.

☐ **Canada Pension Plan (CPP)/Quebec (QPP)** – If you receive CPP or QPP payments:

- ☐ consider splitting the CPP or QPP income with your spouse by requesting to share the payments; and
- ☐ be aware that, starting in 2012, if you are employed or self-employed, and are age 60 to 70, you must contribute to the CPP (however, if you are age 65 to 70, you can elect to stop these contributions; election can be revoked in the following year).

☐ **Your RRSP** – If you turn 71 in 2011, you must wind up your RRSP by the end of the year. This means that you can:

- ☐ contribute to your RRSP only until December 31, 2011;
- ☐ contribute (before the normal February 29, 2012 deadline) to your spouse's RRSP until the end of the year your spouse reaches age 71, if you have unused RRSP contribution room or earned income in the previous year;
- ☐ defer taxes on all or a portion of the amount in your RRSP by transferring the funds to a registered retirement income fund or a life income fund; and
- ☐ make a contribution for 2012 by December 31, 2011, and pay any applicable penalty.

For more information, see "Retirement savings plans, profit-sharing plans and RRIFs" on page 8.

☐ **Pension income** –

- ☐ If you receive pension income (e.g., from an RPP, RRSP or RRIF), consider allocating up to half of this income to your spouse or common-law partner. Consider if it is beneficial to withdraw additional amounts from your RRIF to allocate up to half of this withdrawal to your spouse or common-law partner.
- ☐ Have $2,000 of pension income if you are age 65 or older so that you can claim the maximum pension credit.

☐ **Life income funds (LIFs)** – If you own a LIF, be aware that:

- ☐ in most jurisdictions the options for you to make withdrawals from a LIF have expanded (e.g., if you face financial hardship, are age 55 or older, or have been a non-resident of Canada for 24 months); and
- ☐ in Alberta, Manitoba, New Brunswick, Ontario and Quebec, special unlocking rules give you access to a portion of your LIF in certain circumstances.

☐ **Your RRIF** – If your RRIF investments declined in value and you think that the investments will rebound, consider an "in-kind" withdrawal (e.g., transfer to another investment account at your financial institution) to satisfy the RRIF's minimum withdrawal requirements. Income tax must still be paid on the fair value of the withdrawal.

☐ **Individual pension plans** – Starting 2012, if you have a defined benefit RPP that was created primarily for you and you are over 71, you must make minimum withdrawals.

Individuals and businesses with international connections ☑

☐ **Foreign reporting requirements** – Review your foreign holdings to determine if you have a reporting obligation. Individuals, corporations, trusts and partnerships that own specified foreign property with a total cost exceeding $100,000 at any time in the year are required to file form T1135. Taxpayers resident in Canada that own shares of a non-resident corporation that is a foreign affiliate must file an information return (Form T1134). Other forms may also be required.

☐ **Non-resident trusts (NRTs) and offshore investment funds** – Be aware of proposed rules for NRTs and offshore investment funds. See pages 9 and 10 for further details.

☐ **Sale of property by non-residents** – Be aware that taxable Canadian property excludes shares of corporations, and certain other interests, that do not derive their value (over a 60-month look-back period) principally from real or immovable property situated in Canada, Canadian resource property or timber resource property. As a result, if you are a non-resident and dispose of such property, you or your business will not be taxable nor subject to the Canadian clearance certificate requirements. However, simplified reporting is required for non-arm's length transfers.

☐ **Electronic commerce** – Ensure that your electronic presence in a foreign jurisdiction does not trigger an unexpected foreign tax bill.

☐ **Accounts receivables and other debts owing from non-residents** – Ensure amounts outstanding more than one year bear interest at reasonable rates. Exceptions apply.

☐ **Thin capitalization** – If your corporation has debt owing to a foreign lender that is a significant shareholder or related to a significant shareholder, consider whether the thin capitalization rules limit the deduction of interest on the debt. The rules limit the permitted debt/equity ratio to 2:1.

☐ **Transfer pricing** – If your corporation has transactions with a related party in a foreign country, ensure your transfer-pricing documentation meets the requirements imposed by the Canadian transfer-pricing rules and by the rules of the foreign country. Non-compliance can result in penalties.

☐ **Tax Information Exchange Agreement (TIEA)** – Be aware that Canada intends to negotiate and sign TIEAs with non-treaty countries and has implemented tax measures to encourage non-treaty countries to enter into TIEAs. Canada is negotiating thirteen TIEAs and has signed ten. Six TIEAs have entered into force (one on

behalf of five jurisdictions). See our *Tax memo* "Canada's TIEAs: Status at June 8, 2011."

- ☐ **Payments to non-residents** – Be aware that:
  - ☐ you may be required to withhold 15% of certain payments made to a non-resident that relate to fees, commissions or other amounts in respect of services rendered in Canada (excludes remuneration that is subject to payroll withholding requirements).
  - ☐ the CRA has issued final versions of three forms that non-residents should file in support of reducing withholding tax rates on payments from Canadians to reflect treaty benefits. See our *Tax memo* "Payments to non-residents: CRA issues new treaty-based withholding forms."
  - ☐ the CRA has issued a new form (Form R102-R) and updated Form R102-J; both can be used to request reduced withholdings on payments to non-resident employees. See our *HRS insights:*
    - ☐ "Non-resident employees in Canada: Regulation 102 waiver applications have changed"; and
    - ☐ "Canadian payroll requirements for non-resident employees in Canada–Are you complying?"

- ☐ **Sales taxes/value added tax and customs duty** –
  - ☐ If your company has activities (e.g., selling, importing or exporting goods or supplying services) in foreign countries, determine whether it is required to register for sales tax/value added tax (VAT) or pay custom duties or other levies.
  - ☐ Ensure that documentation of your foreign transactions meets local requirements. Check whether the structure of your transactions is optimal for sales tax/VAT and customs purposes.
  - ☐ If you have dealings with foreign businesses in Canada, ensure that you meet federal and provincial sales tax obligations.

  If you are a non-resident of Canada that makes a taxable supply in Canada and "carries on a business" in Canada, you may be required to register for GST/HST. Once registered, you must collect and remit the tax as well as file periodic GST/HST returns.

Individuals and businesses with U.S. connections ☑

(This document was not intended or written to be used, and it cannot be used, for the purpose of avoiding U.S. federal, state or local tax penalties that may be imposed on the taxpayer.)

- ☐ **U.S. estate tax** – If you are not a U.S. citizen or resident, determine whether your property holdings include shares in U.S. corporations (including stock options to acquire such shares), U.S. real estate, debt obligations issued by U.S. residents, interests in U.S. partnerships, or any personal property that is located in the United States. If so, determine your possible exposure to U.S. estate tax and how to minimize it. Be aware that U.S. legislation reinstated estate tax in 2011. See our *Estate Tax Updates:*
  - ☐ "U.S. Estate Tax Exposure for Canadians (Revised Edition, February 2, 2011)"; and
  - ☐ "Owning a U.S. Vacation Property (Revised Edition, January 31, 2011)."
- ☐ **Canadian RRSPs, RRIFs, RPPs and DPSPs** – If you are a U.S. citizen, green card holder or U.S.-resident alien in 2011, and are the beneficiary of a Canadian registered retirement savings plan, registered retirement income fund, registered pension plan and/or deferred profit sharing plan, determine:
  - ☐ what information you need to provide to the Internal Revenue Service (IRS);
  - ☐ the format for reporting this information; and
  - ☐ the reporting deadlines.
- ☐ **U.S. retirement plans** – If you are a Canadian resident who has investments in U.S. 401(k) or IRA plans, discuss with a PwC adviser as to whether you can transfer them on a tax-deferred basis to an RRSP.
- ☐ **U.S. social security benefits** – If you are a Canadian resident who has received U.S. social security benefits since before 1996 (or you are a spouse or common-law partner who is eligible to receive survivor benefits), you have to include only 50% of the benefits in your income.
- ☐ **Canadian RESPs** – If you are a U.S. citizen, green card holder or U.S.-resident alien in 2011, consult with your PwC adviser if you have an RESP or before contributing to an RESP.
- ☐ **Canadian Tax-Free Savings Accounts (TFSA)** – If you are or became a U.S. citizen, green card holder or U.S.-resident alien in 2011, contact your PwC adviser about your TFSA or before setting up a TFSA. Investment income earned in a TFSA may be taxable for U.S. purposes in the year it is earned. In addition, if the TFSA is considered to be a trust, both you and the trust may have to report additional information to the IRS annually.
- ☐ **Canadian mutual funds** – If you are a U.S. citizen, green card holder or U.S.-resident alien in 2011 and own Canadian mutual funds, ensure that your investment adviser knows this. Commencing 2011, you must file an annual information return to the IRS in respect of these mutual funds. In addition, starting 2014, Canadian financial institutions will be required to report certain information on your investments to the IRS.

- ☐ **U.S. source income** – If you received income in 2011 from U.S. sources that may be subject to U.S. federal and/or state tax (e.g., employment and self-employment income earned in the United States, income and losses from participation in U.S. limited partnerships, and rent from U.S. real estate, including short-term rentals of vacation homes):
  - ☐ determine whether the income should be reported on a U.S. non-resident return; and
  - ☐ if U.S. tax was deducted at source on the income during 2011, determine whether:
    - ☐ the tax withheld was appropriate;
    - ☐ you should file a U.S. non-resident return to obtain a full or partial refund; and
    - ☐ the U.S. tax can be claimed as a credit on your Canadian tax return.
- ☐ **U.S. taxpayers with Canadian shareholdings or investments** – If you are a U.S. citizen, green card holder or resident, or plan to become a U.S. resident, and own shares of a Canadian private corporation or units of a Canadian partnership, determine if you have additional U.S. income tax reporting requirements or exposure to U.S. income tax or double taxation, and how to minimize it. Penalties that were previously assessed based on the IRS's discretion are now automatically applied to certain late-filed information returns on foreign investments and foreign financial accounts reporting. New rules require U.S. persons who are shareholders of passive foreign investment companies (PFICs) to file an annual information return, starting in 2011.
- ☐ **U.S. family members** – If you have a U.S. citizen or U.S.-resident family member who is a direct shareholder in your company or a beneficiary under a family trust, determine any exposure to double taxation and how to minimize it. See our *Estate Tax Update* "U.S. Family Members in the Canadian Family-Owned Business (Revised Edition, March 10, 2011)."
- ☐ **U.S. federal income tax return/treaty-based tax return** – Determine whether you are conducting activities in the United States that require you to file U.S. federal income tax returns or U.S. treaty-based tax information disclosure returns.
- ☐ **U.S. real estate** – If you sold U.S. real estate (including shares of a U.S. company having 50% or more of its value attributable to U.S. real estate) in 2011, or may sell U.S. real estate, determine your U.S. income tax reporting requirements and exposure to U.S. real property withholding tax (and how to minimize it) and U.S. federal and state income taxes.
- ☐ **U.S. exit tax** – If you plan to relinquish your U.S. citizenship or green card, ask your PwC adviser how you are affected by U.S. rules that impose a U.S. exit or "mark-to-market" tax on certain types of properties.
- ☐ **State and municipal taxes** – Ensure you are complying with all state and municipal laws and taxes. Even if a Canadian business is exempt from U.S. federal income tax under the Canada-U.S. tax treaty, it may be subject to state income, franchise, sales and use, property and other taxes. Contact your PwC adviser for help with multi-state taxation and filing requirements.
- ☐ **Memorandum of Understanding (MOU)** – Be aware that the competent authorities of Canada and the United States have released a MOU regarding the conduct of mandatory binding arbitration proceedings under the mutual agreement procedure of the Canada-U.S. tax treaty. Refer to our *Tax memo* and podcast "Memorandum of Understanding (MOU) on the Canada-U.S. Tax Treaty Arbitration Process."
- ☐ **U.S. international tax reform** – Significant changes in U.S. international tax:
  - ☐ limit the ability of U.S. taxpayers to claim foreign tax credits in certain situations; and
  - ☐ impose penalties on U.S investors that fail to report their investments in foreign financial assets, PFICs and other foreign entities, starting 2011.

  In addition, certain key temporary U.S. international tax provisions may expire at the end of 2011, unless they are extended.

  If enacted, proposed international tax changes that were unveiled by the House Ways and Means Committee, among other things:
  - ☐ reduce the U.S. federal corporate tax rate to 25%; and
  - ☐ shift the U.S. international tax system from a worldwide-based to a territorial-based system,

  exempting 95% of overseas earnings from U.S. taxation when foreign subsidiaries of U.S. multinational corporations repatriate profits to the United States.

These changes and proposals may significantly affect how U.S. and Canadian multinationals structure the holding and financing of their U.S. and foreign operations. Contact your PwC adviser to discuss these and other tax developments that could affect your U.S. cross-border business activities.

Table 1: Integration —Active business income ($)

(twelve-month taxation year ended December 31, 2011, and $10,000 of active business income)

This table shows:[1]

- the income tax deferral if active business income is earned and retained in a corporation as opposed to being paid out of the corporation as salary to the shareholder; and
- the tax saving (cost) if instead of being paid out of the corporation as salary, the after-tax corporate income is paid out as a dividend to the shareholder in the same year.

		Eligible for small business deduction[3]		No small business deduction[3]	
		Deferral	Saving/ (cost)	Deferral	Saving/ (cost)
Alberta		2,500	117	1,250	(52)
British Columbia		3,020	104	1,720	(37)
Manitoba		3,652	168	1,902	(10)
New Brunswick		2,730	140	1,630	100[4]
Newfoundland and Labrador	General	2,843	297	1,293	(164)
	M&P			2,193	548
Northwest Territories		3,005	485	1,705	171
Nova Scotia		3,450	390	1,750	(602)
Nunavut		2,750	289	1,400	(439)
Ontario	General	3,193	441	1,918	(104)
	M&P			2,093	21
Prince Edward Island		3,537	(86)	1,487	(358)
Quebec		3,133	188	2,193	(88)
Saskatchewan	General	2,976	225	1,550	(120)
	M&P			1,750	33
Yukon	General	2,740	155	1,090	112[5]
	M&P	2,890	259	2,340	1,183[5]

Table 2: Integration —Investment income ($)

(twelve-month taxation year ended December 31, 2011, and $10,000 of investment income)

This table shows:[2]

- the income tax deferral (prepayment) if investment income is earned and retained in a corporation as opposed to being earned directly by an individual; and
- the tax saving (cost) if the after-tax corporate income is paid out as a dividend to the shareholder in the same year.

	Portfolio dividends		Capital gains		Interest	
	Deferral/ (prepayment)	(Cost)	Deferral/ (prepayment)	Saving/ (cost)	Deferral/ (prepayment)	Saving/ (cost)
Alberta	(1,561)	Nil	(283)	(58)	(567)	(117)
British Columbia	(942)	Nil	(48)	(63)	(97)	(127)
Manitoba	(659)	Nil	(13)	(246)	(27)	(492)
New Brunswick	(1,237)[4]	Nil	(93)	7	(186)	14
Newfoundland and Labrador	(1,237)	Nil	(318)	(183)	(637)	(367)
Northwest Territories	(1,202)	Nil	(155)	(8)	(312)	(17)
Nova Scotia	152	Nil	(33)	(148)	(67)	(297)
Nunavut	(761)	Nil	(308)	(133)	(617)	(267)
Ontario	(514)	Nil	(1)	29	Nil	61
Prince Edward Island	(600)	Nil	(164)	(478)	(330)	(957)
Quebec	(148)	Nil	83	(38)	165	(76)
Saskatchewan	(997)	Nil	(133)	(83)	(267)	(167)
Yukon	(1,905)[5]	Nil	(363)	(246)	(727)	(493)

Notes to Tables 1 and 2:

1. Table 1 assumes that the individual is taxed at the top marginal income tax rate (only federal and provincial/territorial income tax, the employer portion of provincial health tax and the employee portion of Northwest Territories and Nunavut payroll taxes are considered). Different results may arise in special circumstances (e.g., for credit unions).
2. Table 2 assumes that the individual is taxed at the top marginal income tax rate, portfolio dividends are designated as “eligible” dividends, the capital gains deductions for qualifying small business corporation shares or qualified farming or fishing property are not available, and the taxable dividend paid is sufficient to generate a full refund of refundable tax.
3. The federal small business threshold of $500,000 applies in all provinces and territories, except for Manitoba and Nova Scotia, which have a $400,000 threshold.
4. The figures reflect a 12% provincial eligible dividend tax credit rate. According to New Brunswick's 2010 T1 individual tax return (and confirmed by a New Brunswick Finance official), the province will maintain its eligible dividend tax credit rate at 12% for 2010 and subsequent years.
5. For Yukon, the figures assume that Yukon’s top combined federal/Yukon eligible dividend tax rate is 14.28% (federal of 17.7161% plus Yukon of -3.4348%) and that the taxpayer has other income that can be sheltered by Yukon’s negative eligible dividend tax rate. If the taxpayer has no other income, Yukon’s top combined federal/Yukon eligible dividend tax rate will be 17.72% (federal of 17.7161% plus nil for Yukon).

Table 3: Top combined federal and provincial/territorial marginal personal income tax rates (%)

In 2011, top rates apply to income above $128,800 ($150,000 in Nova Scotia).

	Interest & ordinary income 2011	Interest & ordinary income 2012	Capital gains 2011	Capital gains 2012	Canadian dividends (eligible) 2011	Canadian dividends (eligible) 2012	Canadian dividends (non-eligible) 2011	Canadian dividends (non-eligible) 2012
Federal only	29.00		14.50		17.72	19.29	19.58	
Alberta	39.00		19.50		17.72	19.29	27.71	
British Columbia	43.70		21.85		23.91	26.11	33.71	
Manitoba	46.40		23.20		26.74	28.12	39.15	
New Brunswick	43.30		21.65		20.96	22.47	30.83	
Newfoundland and Labrador	42.30		21.15		20.96	22.47	29.96	
Northwest Territories	43.05		21.53		21.31	22.81	29.65	
Nova Scotia[1]	50.00		25.00		34.85	36.06	36.21	
Nunavut	40.50		20.25		25.72	27.56	28.96	
Ontario	46.41		23.20		28.19	29.54	32.57	
Prince Edward Island	47.37		23.69		27.33	28.70	41.17	
Quebec	48.22		24.11		31.85	32.81	36.35	
Saskatchewan	44.00		22.00		23.36	24.81	32.08	33.33
Yukon	42.40		21.20		14.28 to 17.72[2]	15.93 to 19.29[2]	30.41	
Non-Resident	42.92[3]		21.46		26.22[3]	28.55[3]	28.98[3]	

1. If Nova Scotia tables a budget surplus in its 2012-2013 fiscal year, the top combined marginal income tax rates for 2012 will be 48.25% for interest and ordinary income, 24.13% for capital gains, 32.42% for eligible dividends, and 33.06% for non-eligible dividends.
2. For the Yukon, the rate that applies depends on the level of the taxpayer's other income, with 17.72% (2011) and 19.29% (2012) applying if the taxpayer has no other income.
3. Non-resident rates for interest and dividends only apply in certain circumstances. Generally, interest (other than most interest paid to arm's length non-residents) and dividends paid to non-residents are subject to Part XIII withholding tax.

Table 4: Combined federal and provincial/territorial corporate income tax rates (%)[1] (twelve-month taxation year ended December 31)

For Canadian-controlled private corporations (CCPCs), this table does not apply to:

- the first $500,000 of active business income; and
- investment income.

The $500,000 threshold is lower in some jurisdictions. See Table 5 for more CCPC rates and thresholds.

	2011 General	2011 M&P	2012 General	2012 M&P
Federal only	16.50		15.00	
Alberta	26.50		25.00	
British Columbia	26.50		25.00	
Manitoba	28.50		27.00	
New Brunswick	27.00		25.00	
Newfoundland and Labrador	30.50	21.50	29.00	20.00
Northwest Territories	28.00		26.50	
Nova Scotia	32.50		31.00	
Nunavut	28.50		27.00	
Ontario	28.25	26.50	26.25	25.00
Prince Edward Island	32.50		31.00	
Quebec	28.40		26.90	
Saskatchewan	28.50	26.50	27.00	25.00
Yukon	31.50	19.00	30.00	17.50

1. Different rates may apply in special circumstances (e.g., for credit unions).

Table 5: Combined federal and provincial/territorial corporate income tax rates and thresholds for CCPCs[1] (twelve-month taxation year ended December 31)

	2011 (%)			2012 (%)			Threshold for 2011 and 2012 year ends	
	Active business income[2]		Investment income[3]	Active business income[2]		Investment income[3]		
	to $400,000	$400,000 to $500,000		to $400,000	$400,000 to $500,000		Amount	Effective
Federal	11.00		34.67	11.00		34.67	$500,000	Any time
Alberta	14.00		44.67	14.00		44.67	$500,000	Any time
British Columbia	13.50		44.67	11.62[4]		44.67	$500,000	Any time
Manitoba	11.00	23.00	46.67	11.00	23.00	46.67	$400,000	Any time
New Brunswick	16.00		45.16	15.50		44.67	Same as federal (see above)	
Newfoundland and Labrador	15.00		48.67	15.00		48.67	Same as federal (see above)	
Northwest Territories	15.00		46.17	15.00		46.17	Same as federal (see above)	
Nova Scotia	15.50	27.00	50.67	15.00	27.00	50.67	$400,000	Any time
Nunavut	15.00		46.67	15.00		46.67	Same as federal (see above)	
Ontario	15.50		46.41	15.50		45.92	Lower: $500,000 Upper: $1,500,000	January 1, 2007
							$500,000	July 1, 2010
Prince Edward Island	12.00		50.67	12.00		50.67	Same as federal (see above)	
Quebec	19.00		46.57	19.00		46.57	$500,000	Any time
Saskatchewan	14.24		46.67	13.00		46.67	$500,000	Any time
Yukon Non-M&P	15.00		49.67	15.00		49.67	$400,000	January 1, 2007
Yukon M&P	13.50		n/a	13.50		n/a	$500,000	January 1, 2011

1. See Table 4 for rates that apply on active business income of a CCPC above $500,000.
2. If taxable capital employed in Canada in the preceding year of associated CCPCs exceeds $10 million, the federal small business rate will be higher and all provincial and territorial rates will be higher, except Ontario's.
3. Rates on investment income are 18.17% (19.67% in 2012) higher than the general rates in Table 4 because:
   - CCPC investment income does not benefit from the 11.5% (13% in 2012) federal general rate reduction; and
   - the rates on investment income include a 6-2/3% tax that is refundable when the CCPC pays taxable dividends.

   Generally, 26-2/3% of a CCPC's aggregate investment income is added to its refundable dividend tax on hand (RDTOH). This amount is refundable at a rate of $1 for every $3 of taxable dividends paid by the CCPC.
4. For British Columbia, the table assumes that for 2012 the province will decrease its small business rate from 2.5% to 0% on April 1, 2012.

Table 6: General capital tax rates (twelve-month taxation year ended December 31)

Only Nova Scotia still has general capital tax. It will be eliminated on July 1, 2012.

		2011		2012	
		Rate (%)	Exemption[1]	Rate (%)	Exemption[1]
Nova Scotia	If taxable capital < $10 million	0.15	$5 million	0.05	$5 million
	If taxable capital ≥ $10 million	0.075	Nil	0.025	Nil

1. Associated or related corporations may be required to share the exemption.

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- *Understanding RESPs* (November 27, 2008)

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- *The Departing Canadian (Revised Edition, April 4, 2011)*
- *U.S. Family Members in the Canadian Family-Owned Business (Revised Edition, March 10, 2011)*
- *U.S. Estate Tax Exposure for U.S. Citizens Living in Canada (Revised Edition, February 28, 2011)*
- *Canadians Living in the United States (Revised Edition, February 7, 2011)*
- *U.S. Estate Tax Exposure for Canadians (Revised Edition, February 2, 2011)*
- *Owning a U.S. Vacation Property (Revised Edition, January 31, 2011)*

International tax

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- *Canada's TIEAs: Status at June 8, 2011*
- *Permanent establishments in Canada: New CRA views raise concerns* (June 2, 2011)
- *Memorandum of Understanding (MOU) on the Canada-U.S. Tax Treaty Arbitration Process* (November 30, 2010)

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- *Canadian payroll requirements for non-resident employees in Canada–Are you complying?* (September 2, 2011)
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- *Alert for RRSP and RRIF holders: Action is required if a new "prohibited investment" rule applies to you* (August 29, 2011)
- *Federal Budget Includes RRSP Anti-Avoidance Rule* (April 26, 2011)
- *New Federal Reporting Regime for Aggressive Tax Planning: Draft Legislation Released* (September 21, 2010)
- *Quebec's Regime for Aggressive Tax Planning: Prescribed Form Released* (June 3, 2010)

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- *Consultation draft released: Implements 2011 budget proposals to end deferral of corporate income tax through use of partnerships* (August 17, 2011)
- *Partnership Information Returns – Who Must File Starting 2011?* (September 22, 2010)

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- *New Tax Court of Canada rulings on GAAR–1207192 Ontario Limited and Triad Gestco* (September 16, 2011)
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- *Partnership Information Returns* (April 5, 2011)
- *Memorandum of Understanding (MOU) on the Canada-U.S. Tax Treaty Arbitration Process* (March 16, 2011)

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1. Member of PwC's Canadian National Tax Services (see **www.pwc.com/ca/cnts**).
2. A law firm affiliated with PwC (see **www.wilsonandpartners.ca**).

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