

# Business Matters

## Should I Move to Nunavut?

If you wish to reduce your taxes, you may want to move to another province by December 31st.

If you “truly” moved to another province by December 31st, all of your personal income taxes would be paid to that province, except for personal business income. That means, if you worked and lived in B.C. for 360 days,

then “truly” moved to Alberta, your income earned in British Columbia would be taxed in Alberta, which has a lower tax rate. In the US, many states tax individuals based on the number of days (duty days) worked in the actual state.

Business income can be allocated to more than one province, based on where it is earned.

So, where do you want to live on December 31st? The following chart ranks all provinces from the lowest to highest tax rate.

The choice is yours. However, remember there is more to life than taxes - or at least, hopefully, that is what your children or grandchildren will say. Could you really cheer for the Edmonton Oilers?

**Individuals—Top Federal and Provincial Marginal Rates**

Province	Interest and Ordinary Income	Capital Gains	Canadian Dividends
Alberta	39.00%	19.50%	24.08%
Nunavut	40.50%	20.25%	28.96%
Yukon	42.40%	21.20%	28.63%
Northwest Territories	42.55%	21.28%	29.02%
British Columbia	43.70%	21.85%	31.58%
Saskatchewan	44.00%	22.00%	28.33%
Manitoba	46.40%	23.20%	35.08%
Ontario	46.41%	23.20%	31.34%
New Brunswick	46.84%	23.42%	37.26%
Prince Edward Island	47.37%	23.69%	31.96%
Quebec	48.22%	24.11%	32.81%
Nova Scotia	48.25%	24.13%	33.06%
Newfoundland & Labrador	48.64%	24.32%	37.32%

**So, where do you want to live on December 31st?**

Fall 2004

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*Remember, there is more to life than taxes!*

### Points of Interest

Next personal instalments:

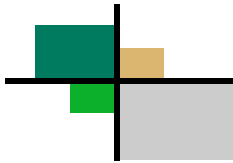
- December 15th
- March 15, 2005

**2005 RRSP limit is \$16,500. Require 2004 earned income of \$91,667.**

## What is a Family Trust?



*To talk the trust language, here are some basic terms you should know.*



### Should I have one? What is a trust anyway?

To talk the trust language, here are some basic terms you should know:

- Trust:** A relationship between trustees and beneficiaries with respect to specific property.
- Settlor:** The person who transfers property to the control of trustees to hold for the benefit of one or more beneficiaries.
- Trustee:** A person or entity responsible for the custodianship of the trust property who has an ongoing obligation to administer the trust in accordance to the trust deed.
- Beneficiary:** The person or entity who has rights to the income and capital (property) of the trust, based on the terms of the trust deed.
- Trust Deed:** The legal document that outlines the terms, rules and responsibilities of the trustee with respect to administering the trust property for the beneficiaries.
- Protector:** The person or entity who consults with the trustee in particular situations, as well as appoints and dismisses the trustee in accordance with the terms of the trust deed.
- Discretionary:** The settlor gives the trustees decision-making rights to allocate the future income and/or capital to any or all beneficiaries.
- Testamentary Trust:** A trust created by a deceased individual based on the terms of his/her will.
- Intervivos Trust:** A trust created by a living settlor.
- Domestic:** A domestic trust is a trust located in Canada.
- Offshore:** Generally refers to a trust located outside of Canada.



**Now that you understand the vocabulary, the next article examines some of the reasons to have a trust.**



## Why Should I Have a Family Trust?

The advantages of having a family trust include income tax savings, asset protection, and flexibility.

Some of the income tax advantages are:

1. The ability to allocate income to family members in lower tax positions. Allocations to minor children may not be possible under the tax rules. However, the tax savings of allocating trust income to a child who is over 18 for living expenses, including education, could save thousands in income tax, compared to having the expenses funded from your after-tax income.
2. Assets owned personally on one's death may be subject to a deemed sale for tax purposes. This would result in unrealized gains becoming taxable. If the assets were

held in a trust, there would be no deemed sale on the death of the beneficiary; therefore, the tax would be deferred. However, every 21 years, there is a deemed sale of all trust assets for income tax purposes; so one has to plan for the 21 year event.

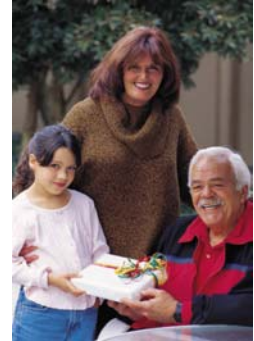
3. Multiplying the use of the \$500,000 enhanced capital gains exemption for small business shares by allocating eligible capital gains to beneficiaries of the trust.
4. Testamentary trusts qualify for the lower marginal tax rates, which could create tax savings of over \$10,000. Creative will planning could create several testamentary trusts, which can multiply the savings.

A properly set up trust provides protection from creditors.

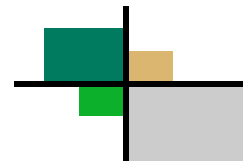
In a trust, assets are held by the trustee for the benefit of the beneficiaries. In a discretionary trust, the beneficiaries have no direct ownership of the trust assets; therefore, creditors of a beneficiary would have no value to attach to. The timing of the trust creation and terms of the trust are very important and must be discussed with a lawyer who specializes in trust law.

A discretionary trust allows trustees to exercise flexibility when allocating the income and capital of the trust. The trust deed would define the limits of the discretionary/flexibility powers of the trustee(s).

Trusts have existed for hundreds of years. They may not be for everyone; however, they should be considered when setting up your estate or business.



**Trusts have existed for hundreds of years. They may not be for everyone; however, they should be considered when setting up your affairs.**



**A properly set up trust provides protection from creditors.**



**A few advantages of a family trust include income tax savings, asset protection and flexibility.**



**It's Never Too Early to Organize**

Many tax receipts needed to prepare your tax returns have likely passed through your fingers since January 1, 2004. Organizing them sooner could save you money and aggravation.

Personal receipts you should collect during the year include charitable donations, medical receipts, copies of cancelled cheques for child and spousal support, moving expenses, investment gain and loss reports, and automobile expenses (for those claiming their automobile for employment purposes).

Tuition slips are often a challenge; however, universities are making it easier to obtain them from their website.

If you will be claiming the \$5,000 tuition and education credit, your child must sign the tuition slip and transfer it to you.

Do you have bank "trust" accounts for your children? If so, ensure your child's social insurance number "SIN" is registered on the account. CRA is matching the SIN on the T5 and T3 slips, and, if your SIN is on your child's account, you may have to prove to CRA it is not your income.

If your return is e-filed, CRA may issue you a "pre-assessment" request for receipts before assessing your return. While it is considered an "audit," if they are only asking for receipts that you had to provide when paper filing, it is just a check up. That is why we may ask to see the receipts before the return is e-filed.

If you find an unclaimed 2003 tax receipt, please let us know. CRA could penalize you if a slip is missed. If the amount of a 2003 deduction slip is significant, we could amend your 2003 return to get the extra refund.

A simple tax receipt filing system could save you time, aggravation, and tax.



**Organizing your receipts sooner could save you money and aggravation.**



**Personal receipts you could collect include automobile expenses (for those claiming their automobile for employment purposes).**



**Congratulations**

The Partners of KNV Chartered Accountants wish to congratulate Andre Van Ryk, Jennifer Hobson and Darrell Oschanney on their recent appointments as managers.



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