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Newsletter

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FORGET TO REPORT AN INCOME SLIP OR DEDUCTION ON YOUR 2007 TAX RETURN?

Author: Hugh Faloon, CA, CFP, TEP, Partner, Ginsberg Gluzman Fage & Levitz, LLP

Your 2007 tax has been filed. Another T3 Trust Income slip just arrived in the mail. What should you do?

The CRA has a matching program. If your SIN is on a slip, the CRA's program will attempt to match it to your tax return. Therefore, if you did not report a T3, T5, T4A slip, etc., the CRA could reassess your tax return to include it – even if it is a small amount.

If your children have bank accounts, make sure each child's SIN is on their respective account – not yours. If a T5 is issued for one of these accounts, and your SIN is on it, the CRA will potentially add the income to your return.

The first time the CRA reassesses your return, they will just recalculate your tax liability and make you pay the difference. If it is the second time you missed a slip within three years of the first time the CRA caught you, the CRA will add a 20% penalty (10% Federal and 10% provincial). The penalty is based on the unreported income, even though the additional income may not increase your income taxes for the year.

The CRA also has an international matching program. The CRA is working with its tax treaty countries to obtain income information on Canadian taxpayers. If the CRA catches any unreported income, the penalty noted above can apply. If the unreported income is a large amount, the CRA may also attempt to assess gross negligence penalties of 50% of the taxes owing. The CRA needs to argue gross negligence to assess you beyond the three-year statute-barred period. If you have unreported foreign income, contact us before they contact you. You may qualify for the Voluntary Disclosure Program (VDP), which can be used to avoid the CRA's punitive non-reporting penalties.

Another issue if you missed reporting foreign income is the various CRA foreign reporting information forms. The most common is the T1135 form to report foreign assets costing more than $100,000 (Canadian dollars). If you do not file this form by your filing deadline, the penalty can be up to $2,500 - even if you reported the income on your return. We have used the VDP to avoid this penalty for many taxpayers who did not file this form.

You can also amend your return for missed deductions or tax credits. These could include donations, medical receipts, child care expenses, RRSP contributions, investment carrying charges, capital losses, etc. The CRA is not that interested in missed deductions, so they will not search them out for you. Therefore, a quick call to your accountant will help determine if the adjustment should be made.

How do you make the adjustment? You can use a CRA T1 Adjustment form, which is available on the CRA's website at www.cra.gc.ca.

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"The best things in life aren't things."
- Ann Landers

Special points of interest:

- ***Maximum RRSP limits:***
  2008 - $20,000
  2009 - $21,000
- ***Federal interest on unpaid taxes:***
  1st Qtr - 8%
  2nd Qtr - 8%
  3rd Qtr - 7%
- ***Tax-exempt car reimbursement:***
  1st 5,000 km - 52 cents/km
  5,001+ km - 46 cents/km
- ***Personal tax instalments:***
  - June 15, 2008
  - September 15, 2008
  - December 15, 2008

2008 PRIVATE COMPANY SALARY/DIVIDEND MIX

Authors: Hugh Faloon, CA, CFP, TEP, Partner, Ginsberg Gluzman Fage & Levitz, LLP

Now that you have filed your 2007 personal income tax return, it is a good time to review how you are going to pay yourself from your company.

One of the first things you will have to do is figure out how much cash you will need to pay your 2008 personal bills. That will vary for each individual, based on whether you are single or a couple, have children or not, have a mortgage, children in private schools or university, etc. We have developed a simple four-year personal expense projection spreadsheet to help determine your 2008 personal cash needs.

There are several ways to be paid out of your corporation; however, the two main ways are by salary or dividends. Other methods of payment include the company providing you with an automobile, a group sickness plan, an individual pension plan, or paying for your life insurance within the company. This article will focus on the 2008 salary/dividend strategies.

In BC, the top personal income tax bracket begins at income over is $123,184. The top tax rate on salaries in 2008 is 43.7%, and for ineligible dividends from your company, it is 32.71% after July 1, 2008. The 2008 RRSP contribution limit is $20,000. The 2009 RRSP contribution limit is $21,000. In order to reach the 2009 limit, you must have a salary of $116,667 (assuming your salary is the only source of personal "earned income").

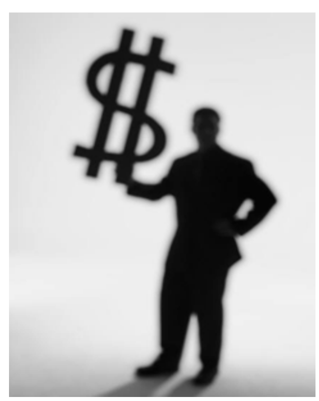
If you are single, and you require approximately $70,000 after-tax cash to meet your personal needs, you should consider taking a salary of $120,000 (Yes. I know it's over the $116,667!) and contributing $20,000 to your RRSP, leaving $100,000 of taxable income. The tax on the $100,000 would be approximately $30,000, leaving you with $70,000 to cover your 2008 cash needs.

If you require more personal cash than the $120,000 salary would provide, you should consider taking dividends, since, in BC, with the small business tax rate, there is combined personal and corporate tax savings of 1.23% on dividends vs. salary. If you don't care about RRSPs, you could consider taking only dividends.

Now, let's throw in a few other variables:

- If family members are active in the company, or they are shareholders of the company, we could look at income splitting to lower the family taxes.
- If you have other personal income, i.e., investment income, rental income, or other deductions, the salary/dividend mix could change.

So, back to the beginning. You just filed your 2007 tax return. Now is a great time to set the strategy for your personal compensation for 2008.



We have developed a simple four-year personal expense projection spreadsheet.

DEALING WITH TAX AUDITS

Author: Sharat Gupta, Tax Manager, Ginsberg Gluzman Fage & Levitz, LLP

Getting audited by tax authorities is an experience that can result in bad memories for taxpayers - both financially and mentally. Having been a tax auditor with the Ontario Ministry of Revenue for over eight years conducting audits, I can say that tax audits can result in enormous amounts of income taxes, interest and penalties.

Tax audits are done pretty much the same way all across Canada. There may be a few small variations based on the jurisdiction. Generally, every jurisdiction has an Information Bulletin regarding the conduct of an audit, which outlines the audit procedures, rights and duties of an auditor and taxpayer. Most of the auditors are very professional in dealing with the taxpayer; but, once in awhile, you come across an auditor who wants to change the world, or is not experienced.

Things to consider:

2. **Receiving a phone call or a letter in the mail regarding an audit**
   Do not get stressed. If it's a phone call, ask the caller to send you a written request. However, if you receive a letter, it is best to talk to your accountant or controller. ***Don't be a hero and call the auditor back.*** It is always better to have someone with tax knowledge discuss the issues with the auditor.

2. **Planning for the audit or information request**
   The auditor may be in a rush to start the audit. ***Ask the auditor to provide a written request for all information required.*** Check that the start date suggested by the auditor does not disrupt your business's busy season. Try to move the start date to a slow period. This is a valid request, and most auditors will postpone the start date. Any date within a six-month period can be considered reasonable by the auditor.

3. **Starting an audit**
   DO NOT have your first interview without your accountant or a person with tax knowledge present. Most taxpayers give out more information to the auditors than is required. I cannot emphasize this more. ***Do not have your first interview without a tax professional.*** You may be the best in your field, but a tax audit is different ball game. Assign a designated contact person for the audit.

4. **Issues during the audit**
   Always ask for information requests in writing. Ask the auditor to keep you informed with regards to all the issues on an ongoing basis. ***Do not sign or accept any statement.*** Tell the auditor that you cannot comment on any particular issue until you have discussed it with your accountant or tax expert.

5. **Completion of an audit**
   Once the audit work is completed, the auditor should provide you with a "Summary of Proposed Adjustments." Ask the auditor to provide you with a draft copy first. This gives you some extra time to discuss the issues with your accountant. Once you get an official "Summary of Proposed Adjustment," usually, you have 30 days to respond with your reply. The Auditor is not supposed to close the file before the end of the 30-day period. You can request an extension and talk to the supervisor or team leader, if necessary. Generally, extensions are granted unless the file is close to the "statute-barred" date. ***Signing a "Waiver" should be the last resort.*** You may also want to consider signing a "Revocation of Waiver."

Tax professionals are the best people to deal with tax audits.

ARE PERSONAL TAX RATES TOO HIGH? LET'S COMPARE 1987, 1997 AND 2007

Author: Hugh Faloon, CA, CFP, TEP, Partner, Ginsberg Gluzman Fage & Levitz, LLP

Just for fun, I decided to take a look back to 1987 and 1997 taxes and compare them to the 2007 taxes. My comparison is based on what a taxpayer (single, Ontario resident, between 18 and 64) would have paid if they earned $100,000 net business income as their only income source.

$100,000 of income in 2007 dollars, adjusted for inflation, would have been $81,484 in 1997 and $60,195 in 1987. So, how much tax and Canada Pension Plan (CPP) did this self-employed person pay? Self-employed persons pay twice as much CPP as an employee. (See table below.)

There are a lot of other factors that result in taxes owing, including changes to the rate of the other tax brackets and increases in tax credits (such as the personal exemption). Taxes are complex and this chart is merely a simple illustration.

2007 turned out as no surprise to have the lowest taxes payable as a percentage. However, I was shocked at the increase in the CPP – 446% since 1987! CPP accounts for on an inflation adjusted basis 3.98% of the 2007 taxes owing. The net result is that we are paying much less in tax in 2007 compared to 1987 and 1997.

Year	Inflation Adjusted Net Income	Ontario Top Tax Bracket Starting at and %	Taxes	Self-Employed CPP	Total Payable and %	Net In Your Pocket
1987	$ 60,195	$ 63,347 52.53%	$ 24,503 40.7%	$ 889	$ 25,392 42.2%	$ 34,803
1997	$ 81,484	$ 59,180 51.64%	$ 28,493 35.0%	$ 1,938	$ 30,431 37.3%	$ 51,053
2007	$100,000	$120,887 46.41%	$ 28,361 28.4%	$ 3,980	$ 32,341 32.3%	$ 67,659

Congratulations to Shane King, CA who is a Partner at KNV Chartered Accountants LLP. He was recently granted an Early Achievement Award by the Institute of Chartered Accountants of British Columbia.
Every year the Institute grants awards for early achievement to CAs who have made significant professional accomplishments and community contributions within ten years of earning the CA designation. Shane is very active in various firm and community events and in particular with Kwantlen University College Foundation.

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