TAX TIPS *for* CANADIANS

ALLAN MADAN

CPA, CA, Tax Expert

By Allan Madan

Edited and Designed by Huda Khan

TABLE OF CONTENTS

Section 3: US Tax/ International Tax

Section 4: Corporate Tax

Section 5: Real Estate Tax

PERSONAL TAX

Section 1

CHAPTER 1

HOW TO SAVE ON PERSONAL TAX?

Save on personal taxes in Canada is through the use of tax-efficient investments.

What are Tax-Efficient Investments?

As investors today, we have a lot of choices on the types of investments that we can purchase. There are mutual funds, segregated funds, bonds, flow through shares, RRSP's, stocks, TFSA's and the list goes on. As an investor, you should purchase investments that result in a low rate of tax (i.e. tax efficient investments) so that you can increase your after-tax rate of return.

TAX EFFICIENT INVESTMENTS.

1. The ideal investment would be one that offers return on capital. Return of capital can be taken back completely tax-free! This investment is followed by an investment paid by dividends. Those eligible for this investment are taxed at 25% versus interest bearing investments tax as much as 46% on certain funds.

   RRSP's are a great way to keep your tax deductible but also tax-free.

   - Contributions to a RRSP are tax deductible and any income or gains earned inside a RRSP are completely tax free

2. TFSA's are completely tax-free, with free withdrawals. The minimum amount you can contribute to a TFSA is $5,000 a year and is great for short term saving.

   -
   - Any income or gains earned inside a TFSA are completely tax-free
   - Any withdrawals from a TFSA are also tax-free

3. Deducting employment related expenses on your personal tax form.

- Tools, supplies, travel, car, phone, office supplies, and a plethora of more options are available to get a tax break from.

Tip: When you're filling your personal taxes do not forget to keep your claims with your receipts. The CRA will charge interest and penalties if you do not have them on hand.

CHAPTER 2

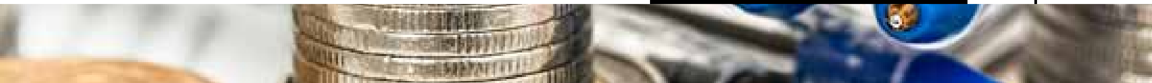
6 OF THE MOST COMMON PERSONAL TAX MISTAKES

1. Making contribution claims during the wrong period.

    RRSP claims must be included in your tax form up until the 60^{th} day of the New Year.

2. Filing your taxes without receipts.

    This can lead to interest and penalties on your taxes if you do not present them right away at the request of a CRA agent. This can also put you on higher notice for being audited in the future.



3. Not filling out the T-2200.

You can get a tax deduction from your employers for travel, car costs, home-office expenses, and meals and entertainment.

4. Not getting your T-slips on time.

It is up to the taxpayer to gather all their tax reports on time. The onus is on you.

5. Improperly reporting the retirement allowance that you received if you were
terminated or if you left your job.

One is the eligible portion, which can be transferred to your RRSP; completely tax free, without affecting your RRSP limit, and the other is the non-eligible portion.

6. An RRSP is not fully deductible because it is taxed once you recover money from

the account.

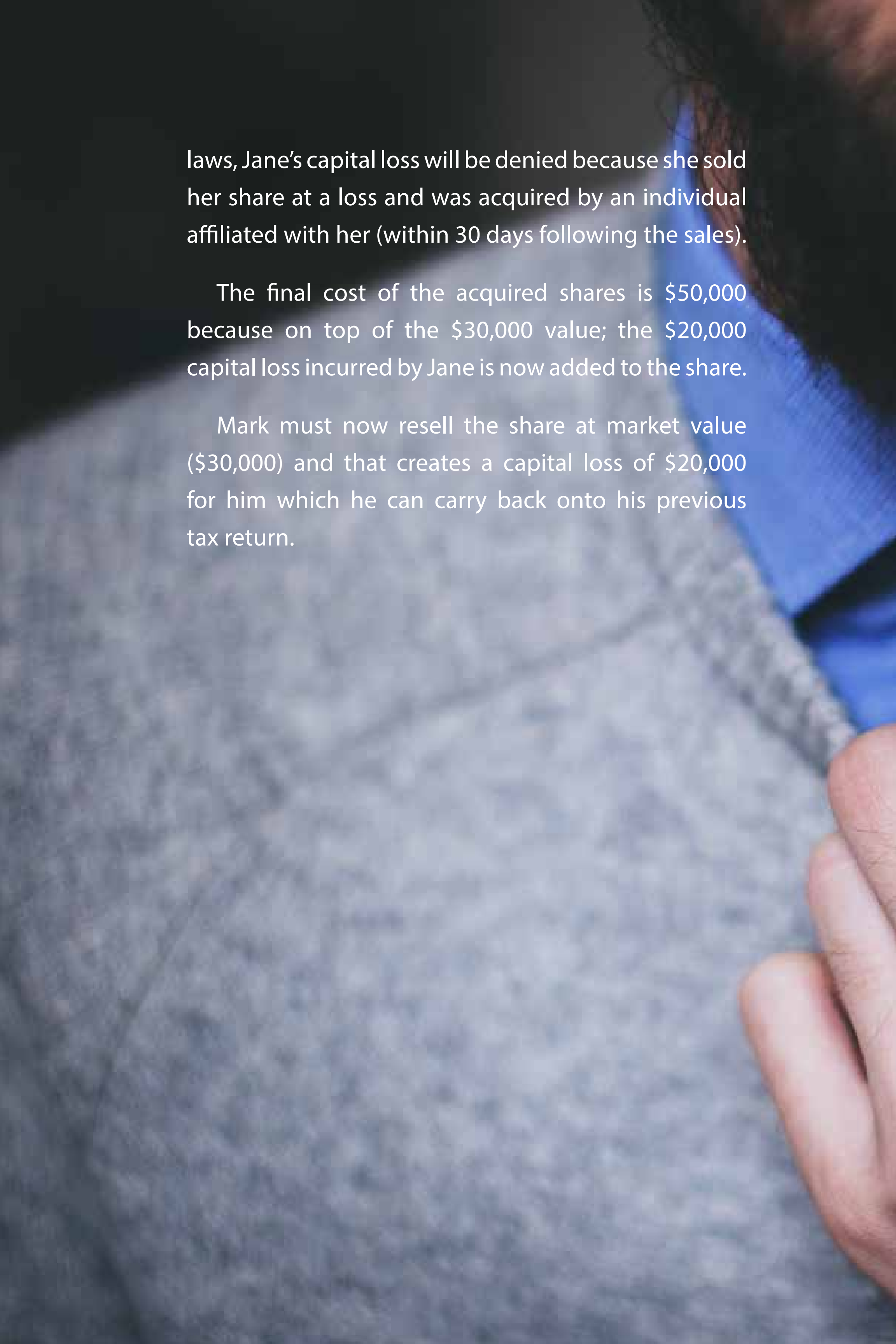
CHAPTER 3

TRANSFERRING CAPITAL LOSSES TO A SPOUSE

If both you and your spouse buy stocks, bonds, or mutual funds, some years there may have been losses on one of your investments. What you can do to save is transfer the capital loss to the partner whose asset is stronger to recover a portion of the taxes they paid on capital gain a previous year.

An example:

> Jane purchased a stock at $50,000, which is now worth $30,000: she has a capital loss of $20,000. Mark, her husband, had a gain on last year's tax return of $30,000.



laws, Jane's capital loss will be denied because she sold her share at a loss and was acquired by an individual affiliated with her (within 30 days following the sales).

The final cost of the acquired shares is $50,000 because on top of the $30,000 value; the $20,000 capital loss incurred by Jane is now added to the share.

Mark must now resell the share at market value ($30,000) and that creates a capital loss of $20,000 for him which he can carry back onto his previous tax return.

CHAPTER 4

TAX LOSS SELLING

It is common to acquire losses as the market value fluctuates. These losses can become an advantage when you recognize that you can sell them. Realized losses can be used to offset capital gains in your portfolio with a strategy known as tax-loss selling.

Tax-loss selling can be used to offset capital gains incurred for up the three years prior or to be carried forward indefinitely to offset any future gains. However, for the capital loss to be available immediately, the settlement must take place no later than December 24th of that year so that it may be processed.

Tip: It is especially important to realize these losses at the end of the year because if they remain unnoticed, you will have to pay taxes on the capital gains in your portfolio.

CHAPTER 5

TAX TIPS FOR YOUNG PROFESSIONALS & FRESH GRADS

As a young professional you are beginning to handle your own finances. You are now making more money than you were in college and you have decisions to make. The smart thing to do would be to invest your money in a RRSP account.

- An RRSP is beneficial because the amount contributed is tax deductible at 18% of your prior year's earnings or maximum of $24,930 (whichever is lower between the two). It is recommended to register for a retirement savings plan right away because if you start early, your money keeps growing with a rate of return. Meaning the longer the funds are sitting the more income is accumulated.

An example:

If you invest the total amount available in your RRSP ($5,000 a year) at the age of 30 – with the assumed 8% return – in thirty years it would be worth $50,000. At the same time, if you invest $5,000 in your twenties and wait 40 years, you'll have an asset of $108,000. In both examples you will be sixty, but by investing ten years earlier, the money accumulated has doubled.

- RRSP's can also assist when purchasing a home.

If you use your RRSP for a down payment on, an example— a condo, you can also make an economic gain.

An example:

If you put $25,000 towards a condo worth $250,000 and the condo price continues to appreciate at 5%, your condo will be worth $276,000 the following year. This will create a completely tax-free economic gain of $26,000 as long as your condo is your primary residence.

Tip: When purchasing your first home, consider the homebuyers plan. This plan allows you to borrow up to $25,000 tax free from your RRSP savings. Otherwise, you will have to pay tax on the amount you take out of your RRSP.

For the first two years there is no payment required, however after that you must pay 1/15th of the balance each year for the next fifteen years. You will also receive a $5,000 tax credit when purchasing your first home.

CHAPTER 6

RENT OR BUY A HOME

Buying or renting a home is a financial decision: whether you are looking to live tax-free or to gain profit from selling your property.

An example:

Jane and Mark are approaching retirement and wish to downsize from their home to a small apartment. They are undecided as to whether they wish to rent or buy. Their $1.0 million home will be valued at around $900,000 after moving expense, real estate fees, and other selling costs are calculated. Both partners plan to invest the proceeds from the sale.

The total return from the investments after tax will give the couple $5,500 monthly.

Short Term:

> If Jane and Mark choose to rent, their monthly investments will cover their rent payment of $3,000 per month. On the other hand, if they choose to invest their money in the purchase of a new condo, they would have to pay regular monthly expenses for maintenance, utilities, property taxes and insurance at $3,500.

In the case of Jane and Mark, the best financial decision for them is to rent, leaving them with $2,500 in investment income per month to spare. The couple will be living rent-free.

Long Term:

> In the long term however, the best investment would be to buy the condo, if the appreciation rate of the condo is 6% per year over the next ten years. At the end of ten years, the condo Jane and Mark have purchased at $900,000 will now be valued at a little over $1.6 million. The couple would have an economic gain of $700,000 by the end of ten years and because it would be their primary residence, they would get a tax exemption on the gain – making it tax-free!

Tip: Whether you are buying a home or renting one, there are benefits and drawbacks that come with each decision. A long-term investment in a home is always a smart decision, but you may already be at a part of your life where that is no longer a necessity. Proceed with a plan that is best for you.

CHAPTER 7

TAX SHELTERS

The CRA is very diligent on auditing every single tax shelter arrangement, and slim minorities are found to be in compliance. Therefore, not only will the donation tax credit be disallowed, but there is also risk of substantial fines and penalties.

When considering entering into a tax shelter, consider the following:

1. Know who you're dealing with and request the offering memorandum and any other documents available in respect to the investment
2. Read statements and professional opinions those explain income tax consequences of the investment.
3. Get everything in writing and do not rely on verbal assurance.
4. Ask the promoter for a copy of any advance income tax ruling provided by the CRA.

Tip: Just because you have a tax shelter identification number, does not mean you are entitled to a tax benefit.

CHAPTER 8

TAXATION OF INVESTMENT INCOME

There are three types of investment income an individual can earn.

1. Interest income

   Interest income is earned by cash savings accounts, government bonds, and bonds issued by large companies to investors. This is taxed fully at a marginal tax rate.

2. Dividend income

   Dividend income is taxable in the year you receive them. There are two types of dividends: eligible dividends and ineligible dividends.

- Eligible dividends are normally paid by publicly traded companies and taxed at a lower rate than ineligible dividends.
- Canadian private companies pay neligible dividends.
-

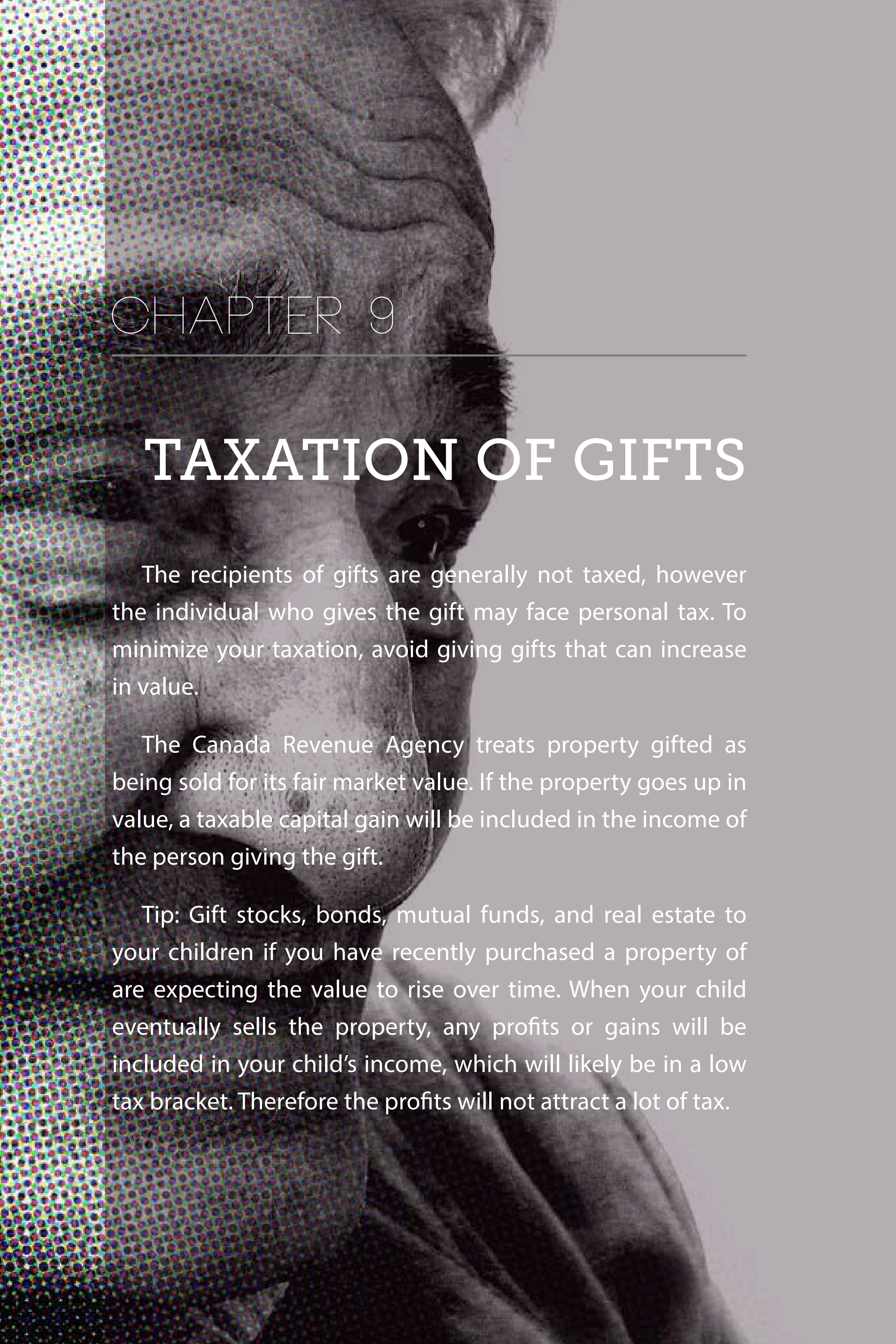
3. Capital gain

   Capital gains are earned when you sell publicly traded shares, mutual funds, or real estate for a profit. In Canada, only 50% of a capital gain is taxable to you and similarly only half of a capital loss is tax deductible.

Tip: To determine which dividend you're eligible for, look at the tax slip issued to you and it should be specified there.

The most common deductions you can claim to reduce the table amount of investment income are:

1. Interest paid on money borrowed to earn investment income.
2. Financing costs incurred to arrange a loan, mortgage, or line of credit.
3. Professional fees paid to a lawyer or accountant.



CHAPTER 9

TAXATION OF GIFTS

The recipients of gifts are generally not taxed, however the individual who gives the gift may face personal tax. To minimize your taxation, avoid giving gifts that can increase in value.

The Canada Revenue Agency treats property gifted as being sold for its fair market value. If the property goes up in value, a taxable capital gain will be included in the income of the person giving the gift.

Tip: Gift stocks, bonds, mutual funds, and real estate to your children if you have recently purchased a property of are expecting the value to rise over time. When your child eventually sells the property, any profits or gains will be included in your child's income, which will likely be in a low tax bracket. Therefore the profits will not attract a lot of tax.

CHAPTER 10

INCOME SPLITTING WITH SPOUSE

Income splitting allows one to distribute income to family members that otherwise would have been taxed in the hands of the same individual.

1. Hiring your spouse or child

By hiring your spouse or child and paying them a salary, you can distribute your income to family members that would otherwise be taxed. The salary must be reasonably based on the work performed. The reasonable amount is determined by assessing what any other person in that circumstance would be paid.

Note: The work must be performed and documented; a daily log or diary must be kept.

2. Paying dividends to your spouse or child

By paying your spouse or child dividends, you are eliminating the need to take on the entire dividend yourself. However there are a few catches when implementing this strategy:

- Only qualified medical practitioners can be shareholders of medical professional corporations.
- Family members of physicians and dentists can become shareholders as long as they own non-voting shares.
- Dividends paid to children under the age of 18 will be taxed at the top marginal rate.
- The first $40,000 taken as dividends by an individual is tax-free as long as the individual has no source of income.

3. Spousal loans

You can loan your spouse income you receive from your corporation, which they can in turn invest at a lower rate (granted, they make less than you). The income your spouse earns on the loaned funds will not be attributed back to you as long as you pay your spouse the CRA's prescribed rate of interest (2%).

4. Spousal RRSP contributions

You can contribute to your spouse's RRSP. Withdrawals by your spouse from their own RRSP will be included and taxed in their income. This will allow you and your spouse to match RRSP withdrawals, and pay a lower tax rate.

Note: Your spouse will be unable to withdraw from their funds for the succeeding two years. Otherwise the income will be attributed back to you.

CHAPTER 11

TAX PLANNING FOR RETIREES

PENSION INCOME TAX CREDIT

If you are 55 years of age and older, you are now liable to receive a tax credit of up to $2,000, or your pension income amount, if it's lower. This can save you $400 or more in taxes per year!

There are four types of pension income:

1. Income from a superannuation or pension fund.
2. Annuity income out of an RRSP or a deferred profit sharing plan.
3. Income from a registered retirement income fund.
4. Income from foreign pensions.

CLAIM THE AGE AMOUNT TAX CREDIT

If you are over the age of 65, you can claim tax for seniors if your income is less than $78,000 per year. If your income is less than $33,000 you can claim a tax credit of up to $6,700, which is transferable to your spouse.

SPLIT YOUR RETIREMENT PENSION INCOME WITH YOUR SPOUSE

You and your spouse can apply to receive equal shares of the Canadian pension plan that was earned which can save one spouse a great deal in taxes. Both partners must be Canadian citizens.

MAKE USE OF THE REGISTERED RETIREMENT INCOME FUNDS

The registered retirement income fund is an extension of the RRSP once you are 71 years of age and older. During retirement, as part of a tax planning approach for retirees, you can use your RRIF to withdraw money and fund your retirement lifestyle.

Tip: Once your convert your RRSP to an RRIF, you will no longer be able to contribute to your RRIF.

CHAPTER 12

SMART TAX STRATEGIES FOR INVESTORS

1. Borrow to invest – i.e. Leverage

   Interests paid on money borrowed to purchase investments that produce profits are tax deductible. Investments include but are not limited to: mutual funds, stocks, shares, bonds, and real estate. Leverage also increases your internal rate of return because you're using other people's money.

2. Buy low tax investments

There are four different ways to classify the profit:

a. If the profit earns interest, you'll be left with a little over the original value after tax

b. Dividends

c. Capital gains

d. Return of capital – which retains the whole value with no tax

Purchase low tax rate investments so that you end up with more money once taxes are paid.

3. Tax Free Savings Account

Buy high rate tax investments inside of a TFSA. The account is not subject to taxation. High tax rate investments inside TFSA's create low tax investments outside of a TFSA.

4. Income Splitting with Spouse

See chapter eleven of Personal Tax.

5. Flow-Through Shares

Flow-through shares are investments in resource companies that are involved in exploration and developmental activities. The initial amount of the investment is fully deductible over a period of three years. In the first year alone, 90% of the deductions are received.

Note: You will also receive a tax credit that reduces your taxes payable for about 30% of the initial investment.

CHAPTER 13

TAXATION OF STOCK OPTIONS

What is a stock option?

Stock options or employee stock options are where the employer gives an employee the right to buy shares in the company in which they work– usually at a discounted price specified by the employer.

For the employee:

There are two different routes in which stock options can be presented to employees. One is through the Canadian Controlled Private Corporations and the other is through private companies.

Canadian Controlled Private Corporations

Taxation of Stock Options for Employee in Canada in CCPC's

You will not have to include anything in your income when you receive stock options when:

1. You enter into the stock option plan.
2. The options are granted to you.
3. You exercise the options.

You will however have to pay taxes at the time of the sale of the shares. You are entitled to a deduction equal to 50% of the employment benefit if you meet two conditions:

1. You have held the shares for at least two years after you have exercised them
2. The exercise price is at least equal to the fair market value of the shares when they were granted to you.

Public Companies

When you're granted a stock option in a public company, you will pay taxes at the time of exercise rather than the time of sale.

Tip: Do not hold onto these shares for too long. If the stock price drops, you are still liable for the tax on the employment benefit. Selling after you exercise is the best move so you have enough money to pay the tax.

Stock Options in Public Companies

If you work in a public company and meet the following conditions:

- You receive normal common shares upon exercise.
- The exercise price is at least equal to fair market value at the time the options were granted.
- You deal at arm's length or on a third party basis with your employer.

You are entitled to a 50% tax deduction!

The Cash Out Option (For Public Companies)

While working for a public company, you have the ability to receive a direct cheque from your employer, which is included as an employment benefit. You may be entitled to a 50% deduction equaling to half of the employment benefit reported on your tax return.

Incorporation

Section 2

CHAPTER 1

TIPS FOR INCORPORATION IN CANADA

1. Incorporate your sole proprietorship to save tax.

   Corporations pay a low tax rate of only 15.5% on the first $500,000 of profits, in contrast to the 46.4% paid on personal income tax if the company generates a large sum of income.

2. There are two different types of corporation: federal and provincial.

- To incorporate provincially is more expensive than to incorporate federally due to provincial fees being higher.

- Federal corporation is used when your business is outside of your province. Industry Canada requires all federally incorporated businesses to file annual returns which costs money and takes time.

3. Have separate classes of shares in your incorporation documents

By having different classes of shares, you will allow your corporation to pay dividends in different amounts to each of the shareholders.

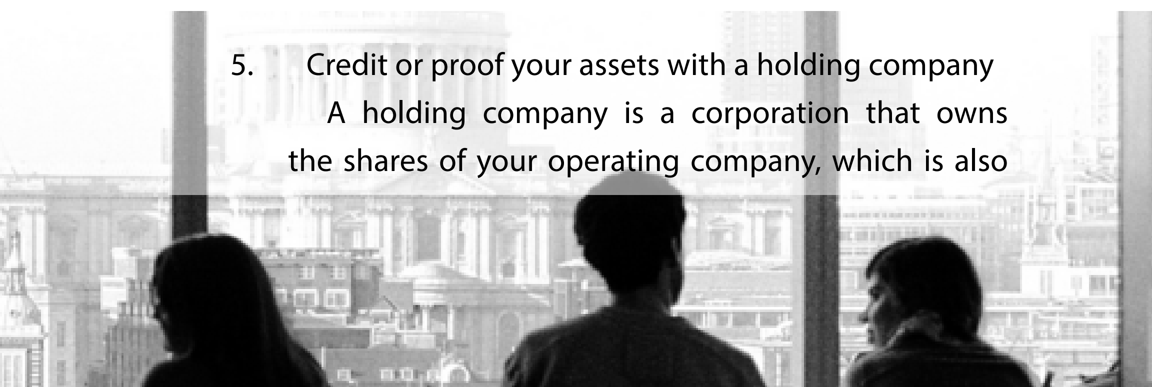
Note: If you are in a situation where a shareholder is to receive more money, the separate classes allow for that flexibility. Separate classes of shares is a great tool for income splitting, as it allows both shareholders pay less overall.

4. Select your board of directors wisely

Remember that these members will have control over operations and strategy of your business. If you have a smaller business, it is recommended that you and your business partner are the board members.

5. Credit or proof your assets with a holding company

A holding company is a corporation that owns the shares of your operating company, which is also



incorporated. Whenever your main business has excess cash, it should pay a dividend – which is tax free – of that excess cash to the holding company.

By transferring money from the main company to the holding company, you are reducing the risk of loss in a lawsuit.

CHAPTER 2

HOW TO PREPARE CORPORATION INCOME TAX RETURN FOR BUSINESS IN CANADA

If you own a resident corporation in Canada, you are required to fill out a corporate income tax return or T2. The benefit of incorporating is that you can choose any date in a year to be your company's year-end. You may file your incorporation tax up to six months after the year-end; however taxes must be paid within 3 months of the year-end.

1. Getting organized.

T2 corporate income tax forms require many supporting documents, be sure to have the following:

a. Organized expense receipts by month
b. Bank and credit card statements by month – printed and sorted
c. Receipts attached to corresponding monthly bank and credit card statements

Be sure to know:

- Your business number of your corporation.
- The address of your corporation's head office.
- Address where your corporation's books and records are kept.
- The fiscal year end of your company.

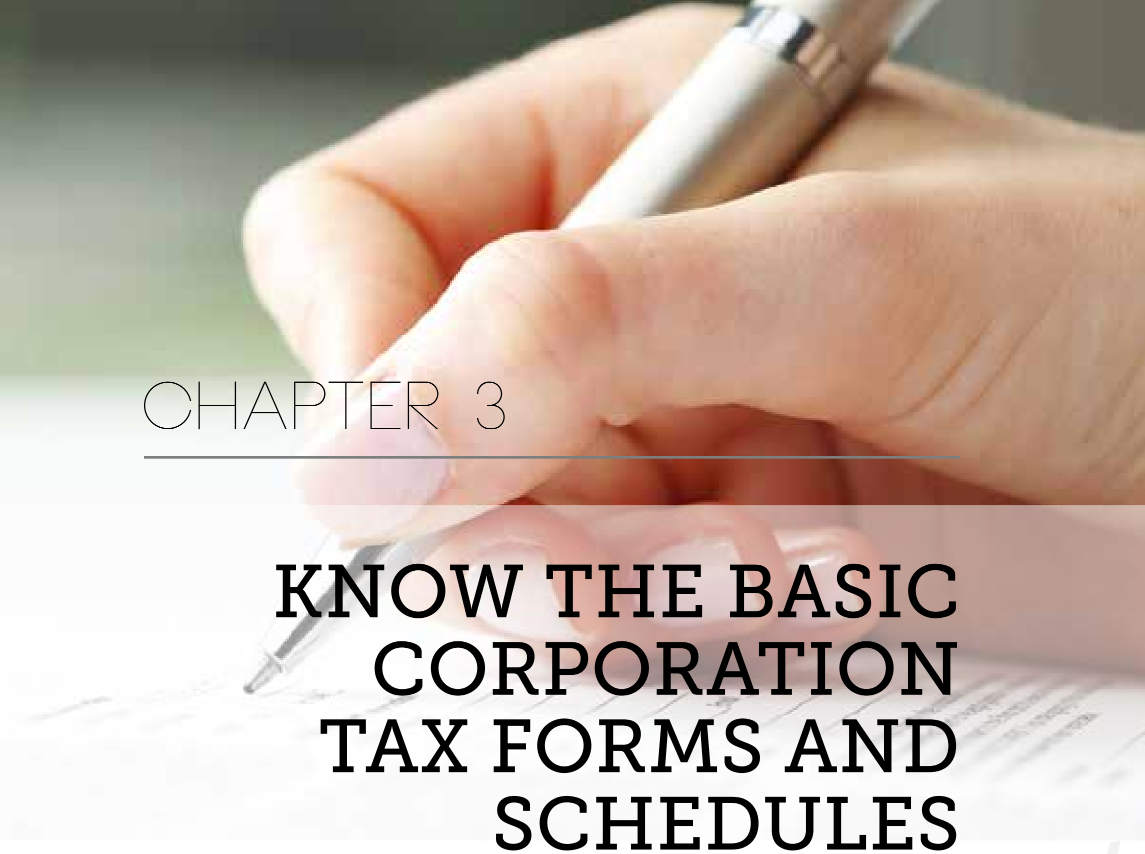
2. Financial Statements

Before you start your corporation income tax return, you'll need your Income Statement and Balance Sheet.

Note: When filling out financial statements in schedule 100 and 123 you'll be required to provide the General Index of Financial Information (GIFI) numbers. The numbers are listed at the bottom of your schedule, where there will be corresponding accounts listed next to them.

3. Where Do I Find Corporate Tax Forms and Schedules?

You can find your schedules and forms on the Canada Revenue Agency website. On the CRA's website, enter the 'T2 returns and schedules' into the search field and click search. Only use the forms that are applicable to your business.



CHAPTER 3

KNOW THE BASIC CORPORATION TAX FORMS AND SCHEDULES

The most commonly used schedules are as follow:

a. Schedule 100 – Balance Sheet Summary

Include the total assets, total liabilities, and equity on this schedule.

b. Schedule 125 – Income Statement Summary

Include the total sales, operating expenses, and net income on this schedule with a copy of the company's income statement on hand.

Tip: Use Wave Accounting to maintain your financial statements by connecting your bank account to the software. The transactions will automatically be created for your business; all you need is to categorize them.

c. Schedule 50 – Shareholder Information

Input the names of each shareholder, their social insurance number, the type of shares they own (common or preferred), and their percentage of share owned.

d. Schedule 8 – Capital Cost Allowance

This form represents the wear and tear of the company's physical assets.

Tip: Computers have a special capital cost allowance rate of 100% if purchased before February 2011, while all other assets are subject to a half year rule. Ie, only half the capital cost allowance can be claimed in the year of acquisition.

e. Schedule 1 – Net Income for Tax Purposes

Non-deductible expenses are: golf dues, life insurance premiums, personal expenses (work related), and sports club memberships.

f. Schedule 3 – Dividend Received, Taxable Dividend Paid, and Part IV Tax Calculation

Dividends paid by a corporation to a shareholder must be reported on box 500 of Schedule 3 which is a common way of paying the owner/managers as opposed to salary. Dividends received by Canadian corporations are generally tax-free; therefore the recipient does not have to pay corporate income tax on them.

Note: There is a special tax known as Part 4 tax. It is equal to 33.33% of the dividend received if the corporation own less than 10% of the stock.

Tip: Part 4 tax is refundable to your corporation. It is triggered when your corporation pays you a dividend. The refund rate is $1 of tax for every $3 of dividends paid to you.

g. Schedule 11 – Transactions with Shareholders, Officers, or Employees

Common transactions reported on Schedule 11 are:

- Shareholder loans made to the corporation
- Shareholder loans received from the corporation
- Assets transferred by the shareholder to the corporation

- A 'Section 85 Rollover' – complex transaction relating to asset transfer

What you can expect to fill out on Schedule 11 are the relationship of the transactions, the amounts, reimbursement, and whether section 85 applies to the asset transfer.

h. Schedule 24 – First time Filer

i. New Corporation

If you're a newly incorporated business you must complete part 1 of schedule 24. You must include the following information:

- Name of new corporation
- Business number
- Fiscal year-end
- Type of operation (crown corporation, credit union, insurance company)

ii. Amalgamations

Fill out part 2 of schedule 24 if you've amalgamated two or more corporations during the current tax season. If applicable to you, you must name all previous corporations and their business numbers.

Note: This MUST be filed in the first year after amalgamating.

iii. Winding Up a Corporation

If you have sold all a business's assets with the intention of paying off all creditors so it can dissolve the business, you must fill out part 3 of schedule 24. You must:

- Name all subsidiary corporations that were wound up as well as their business numbers.
- Start date of wind-up.
- End date of wind-up.

I. Schedule 200 – T2 Corporation Income Tax Return

Page One

- On the first page of Schedule 200 The corporation's legal name and business number must be reported.
- On box 11 to 18 of page 1

The address of corporation's head office is reported here.

- Boxes 60 and 61 of page 1

  Enter the taxation year (e.g. January 1st, 2015 to December 31st, 2015)

- Box 80

  Check yes, if your corporation is a resident of Canada

- Box 40

Check one of the boxes for the type of corporation.

Tip: Most small businesses in Canada should check box 1 for Canadian Controlled Private Corporation.

Page Three

- On page three 'Additional Information'
  You should check no to IFRS and no to inactive.
- Box 284 of page 3

  The description of the services or goods sold by the corporation must be entered.

Page Four to Eight

The rest of schedule 200 is used to calculate tax.

1. The base amount of Part I tax is calculated by multiplying the next income for tax purposes by 38%

2. Summary of tax and credits is the abated and deducted amount from the base amount in Part I

a. Federal tax abatement

b. Small business deduction

3. The provincial tax from section 5 is entered on box 760

Reminder: Report the corporation's name, address, and telephone number at the bottom of page 8. You must sign and date the corporation income tax return in the same area.

Tip: If your corporation was engaged in any work related research and development, you may be eligible for the lucrative SR&ED tax credit.

CHAPTER 4

HOW TO SAVE TAXES FOR THE SELF-EMPLOYED

HOME OFFICE EXPENSES

You can deduct from your household expenses if you work from home. This is determined by calculating the percentage of the size of your home office versus the total size of your residence. The following household expenses are deductible:

- Mortgage Interest
- Property Taxes
- Maintenance and Repairs
- Condo Fees
- Utilities

Note: the CRA will require home office users to submit a floor plan of their home upon audit. Also, if you make too much of your home a part of your office, you will be ineligible to receive principal residence exemption.

Pay Salaries to Family Members

See Chapter Eleven of Personal Tax

Lease a Vehicle

By leasing your vehicle for your business, you can deduct from:

- Repairs and maintenance
- Fuel
- Insurance
- Parking
- Toll Charges
- License and Registration
- Lease Charges

The maximum monthly amount that can be deducted is $800.00 plus tax. Anything over is non-deductible.

The percentage of vehicle operating costs is calculated by total KM's driven for business purposes divided by total KM's driven that year, multiplied by 100. The driver must keep a log that includes:

- Date of Trip
- Location of Trip
- KM's driven during Trip
- Purpose of Trip

KEEP ACCURATE BOOKS

Make sure that nothing is missing and ensure all your expenses are captured: this can assist you with deductions made to your tax forms.

INCORPORATE

If you are a self-employed Canadian, you can appoint your partner as a shareholder in your company and pay them through dividends. This is advantageous when one individual earns significantly more than the other. The higher income spouse can pay an appropriate dividend to the lower income spouse through the corporation, thus allowing the corporation to be taxed at a lower marginal rate.

INDIVIDUAL PENSION PLAN (IPP)

Contributions made to an IPP are tax deductible by an employer. However being self employed means that you are financing your own policy. Also, your income will not be taxed until it is withdrawn.

An IPP bases the employee earning history (T4) and the tenure of service and age to determine a distribution upon retirement. The annual contributions made to an IPP are established by an actuary and are of higher amounts. This is how IPP's produce greater returns than an RRSP.

HEALTH AND WELFARE TRUST

Corporations use this trust to finance its employee's health care expenses –tax-free!

How is a Health and Welfare Trust helpful for self employed Canadians?

- Contributions made to the trust are tax deductible on your corporate return
- Funds can be withdrawn on a tax-free basis
- Employees can submit their medical claims for their dependent

Be sure to follow these guidelines:

- Funds cannot be personally used by the employer or used for any other purpose than health and welfare expenses
- Funds contributed to the trust must equal the amount required for the benefit, no more

- Once you have rendered payment terms they cannot be changed during the year
- Withdrawals from the trust must meet the criteria of medical expenses defined by the Canadian Tax Act

MULTIPLYING THE SMALL BUSINESS DEDUCTION

Canadian Controlled Private Corporations (CCPC) pays a federal tax of 11% on the first $500,000 of active business income as opposed to 17%. For small business owners, the CRA have put rules in place to prevent multiple small business deductions. Under section 256(1) (a-e) of the Income Tax Act, you will find a list of associated corporation rules.

a. Paragraph 256(1)(a) –

One corporation controls the other

If your corporation has already used up the small business deduction, setting up a small business owned by your corporation will not allow you to gain another. deduction.

b. Paragraph 256(1)(b) –

The same person or group of people controls both corporations

If two related people are involved in two businesses, they are considered related people and are only allowed one small business deduction for their corporations.

Tip: If you and your related person own 100% of each corporation, your businesses would qualify for two small business tax deductions.

c. Paragraph 256(1)(c) –

Each corporation is controlled by a person which are related and one owns at least 25% of the issued shares in any class of capital stock in each corporation

Related parties cannot own more than 25% of the shares in each others companies.

Tip: You can take advantage of multiple small business deductions in this situation if one party owns less than 25% of the other party's shares.

d. Paragraph 256(1)(d) –

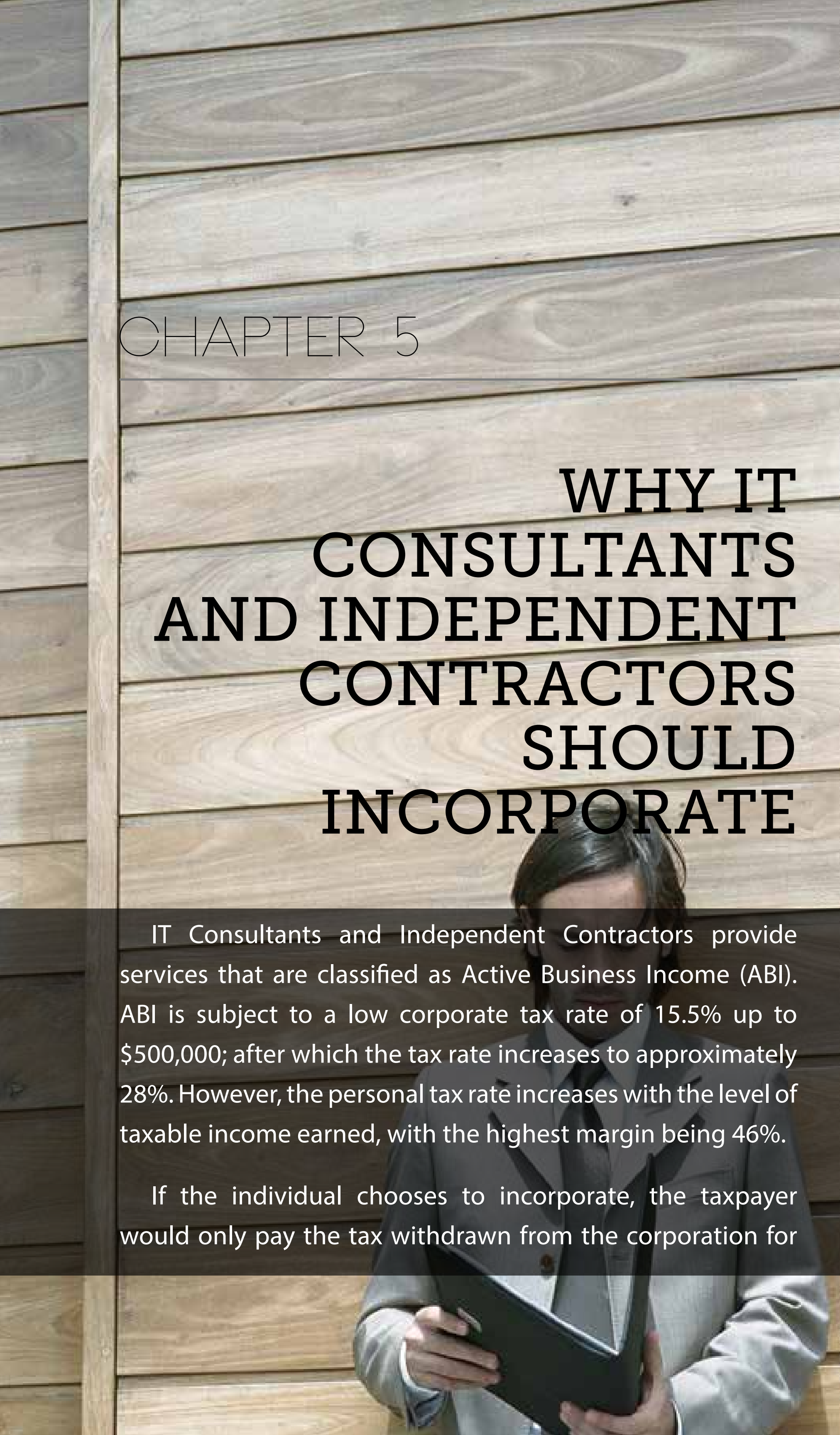
A person and another by a group of people control One Corporation

If the individual is related to everyone in the group and owns no less than 25% of the issued shares in the other corporation, they are considered associated. However, if the individual owns less than 25% of the shares in the second corporation, both businesses are eligible for small business deductions.

e. Paragraph 256(1)(e) –

A related group controls each corporation where each member of one group is related to all the members of the other group.

In this situation, if one of the group's own over 25% of the shares in the other group, they are considered associated.



CHAPTER 5

WHY IT CONSULTANTS AND INDEPENDENT CONTRACTORS SHOULD INCORPORATE

IT Consultants and Independent Contractors provide services that are classified as Active Business Income (ABI). ABI is subject to a low corporate tax rate of 15.5% up to $500,000; after which the tax rate increases to approximately 28%. However, the personal tax rate increases with the level of taxable income earned, with the highest margin being 46%.

If the individual chooses to incorporate, the taxpayer would only pay the tax withdrawn from the corporation for their living expenses. The remaining funds would be sheltered from personal tax.

Taking Dividend Instead of Salary

Once the taxpayer becomes a shareholder of a Canadian Controlled Private Corporation, they are eligible to receive $40,000 in dividends each year for their corporation –without paying personal income tax on it. This dividend can be used as salary and therefore CPP premiums become eliminated.

> Note: If you have childcare expenses or wish to make RRSP contributions, dividends are not considered 'earned income', which is deducted from childcare and used as a calculation for contribution limits.

Creditor Proof Your Personal Assets

Due to the risky nature of their services, IT consultants and independent contractors are put at higher risks for lawsuits. If incorporated, the individual's personal assets are not put at risk.

> Note: If the individual chooses to remain a sole proprietor, there is the route of entering into contracts with companies. There are many legal liabilities, which expose the taxpayer's personal assets such as their home, rental properties, and vehicle.

CHAPTER 6

TAX WRITE OFF OF A SMALL BUSINESS IN CANADA

1. Home Office Expenses Reference Chapter Four of Incorporation

2. Car Expenses Reference Chapter Four of Incorporation

3. Capital Assets Capital asset is something of tangible value that lasts more than a year.

   Items included as capital assets are: furniture, fixtures, equipment, computers, etc.

   These assets cannot be written off every year.

   The CRA has created a depreciation rate list:

   - Building – 4% per year
   - Furniture and fixtures – 20% per year

- Software – 55% per year
- Computers and computer equipment – 55% per year
- Vehicles – 30% per year

Note: The computer equipment can be written off entirely in a single year as long as the purchase was made from January 27th, 2009 to February 2011.

4. Insurance

GENERAL BUSINESS LIABILITY INSURANCE

This insurance protects your business from: injuries to customer, employees, vendors, or visitors that occur on your premises. It also covers injuries that occur out of actions or negligence of an employee, and third party property damage caused by an employee. It is also fully deductible on your personal tax return.

Note: The premiums paid each month can be claimed on line 8690 of your T2125 Statement of Business Activities.

BUSINESS PROPERTY INSURANCE

This insurance covers all building assets including the building and equipment in case of destruction. If you work from home, house insurance does not cover your business portion. Property insurance premiums can be written off from small business through your personal tax return.

BUSINESS INTERRUPTION INSURANCE

This is an add-on to property insurance and would be a wise investment. Interruption Insurance covers you for all income expected if your business is closed due to natural disaster or fire. Premiums paid can be written off for small businesses on their tax return included in the insurance section.

LIFE INSURANCE

If your life insurance policy is used as collateral for a business loan, you may be able to claim a portion of the premium paid.

5. Meals and Entertainment

When you are entertaining clients for the purpose of business income, 50% of the cost can be deducted.

In certain circumstances, 100% of the entertainment or meal can be deducted if:

- Staff parties (6 per year)
- When meals are provided from fundraisers (for benefits to a charity)

6. Accounting and Legal Fees

Accounting Fees

Deduct fees from your business income if you use an accountant to prepare your tax return.

Legal Fees

If you seek the advice of a lawyer related to a potential lawsuit or related to your business, then your legal fees incurred are fully deductible.

Note: if you used a lawyer to purchase a capital asset, the fees will be added to the cost of the capital asset purchased.

7. Advertising

Online and Internet Advertising

All internet based advertisements are fully tax deductible including your website's domain name registration and web hosting.

Television and Radio Advertising

You can deduct from TV and radio as long as they are Canadian owned.

NEWSPAPER ADVERTISING

Only Canadian owned publishers are tax deductible.

Magazine or Periodical Advertising

You can write off the entire expense if the advert is directed to the Canadian market, and at least 80% of the total non-advertised space in the magazine or periodical is original content. If less than 80%, you can write off 50% of the expense. This is the only advertising in which it does not matter whether the publication is Canadian or foreign owned.

8. Rent

You can claim tax deductions for rent paid on a property used in your business. Other rental expenses, such as base rent and common area maintenance (CAM) can be written off as long as the cost is related to the operation and maintenance of your business.

Base rent: The minimum rent due each month under the terms of a lease with additional costs such as holding costs and building service charges.

Common area maintenance (CAM): Costs are the fees paid to the landlord for operating, repairing, and maintaining common areas of the building.

CHAPTER 7

BETTER TO BE A SOLE PROPRIETORSHIP OR TO INCORPORATE?

As a sole proprietor, all income earned will become personal income which will be included on your individual tax return. Individual marginal tax rates are higher than business tax rates and therefore you will be paying a higher amount of taxes.

By incorporating your business you will enjoy tax rates from 15.5%, which is lower than the lowest combined individual rate. In addition, corporations control the timing of the distribution of the income earned. This means that the income a corporation earns is not taxable right away to the individual shareholder. Income can be distributed as a dividend, salary, or bonus at any time.

CONVERTING A SOLE PROPRIETORSHIP TO A CORPORATION

Sole Proprietorship

A sole proprietorship is a person in business for himself or herself. They may have employees, but own the company alone. Set-up is relatively low cost and largely free of government regulation. The only requirement is that they might have to register their name with the provincial government, and can bypass this by running it under their own name.

All profits of the business are the owners personally. Therefore, the owner must report all income and expenses of both the owner and the establishment on their return. The sole proprietors do not pay themselves a salary and the money is taken out of the business for personal use.

Advantages of a Sole Proprietorship

Generally incorporating your business is much more beneficial. However sole proprietorships do hold a few minor advantages.

- The sole proprietor has full managerial control over their business and can control the business costs at an individual and micro-level
- The owner does not have to file a separate tax return but rather includes their business income on their general T1 income tax return
- You don't have to register your business if you operate it under your own name. If you have to register it, it is still significantly cheaper than registering a corporation
- Ease of initial startup, administration and dissolution

Converting a Sole Proprietorship to a Corporation

Here are three key points that are benefits of incorporating.

1) A corporation presents you with limited liability protection. If you are sued, the only assets that are at risk in the lawsuit are the corporation's assets, not your personal assets. If you remain with sole proprietorship, meaning you are non-incorporated, your personal assets are at risk as well as your business assets if you were to get sued.

2) The tax rate for a corporation is lower than the tax rate for an individual. The corporate tax rate combines the provincial and federal. In the province of Ontario it is only 15.5% for the first $500,000 of business profits. Business income for an individual level is taxed at

marginal tax rates, which is much higher (Refer to Chapter 4 – Section 2).

3) It is much easier to split business income with your family members through the use of dividends (see chapter 11, Section 1, Personal tax).

Closing the Sole Proprietorship:

- You need to cancel your business registration with the Ontario Ministry of Governmental Services. If you live in another province, get in touch with the Ministry of Governmental Services, and similar procedures will apply
- The second thing you need to do is contact the Canada Revenue Agency. Cancel your business number, HST number, and payroll number, through the Canada Revenue Agency. You can do this over the phone

Transferring Of Assets:

Consider what assets are transferred from proprietorship to a corporation when you form your new corporation. There are two categories of assets:

1. The first category is physical assets.
    - Examples include equipment, computers, vehicles, furniture, and so forth.

- Vehicles can also be transferred to the corporation but there must be an ownership change to the corporation, which has to be done at the ministry of transportation office. The transfer will be exempted from tax as long as the owner of the newly formed corporation is the same owner of the vehicle while controlling the sole proprietorship

1. The second category is intangible assets; and you may not think about it but one of the biggest assets for your business is an intangible one, and that is goodwill. Goodwill by definition, is what someone would pay for your business over the cost or price of the physical assets. So it is simply viewed as the approximate value of a company's brand names, reputation, or long-term relationships that cannot otherwise be represented financially.

The Value of the Goodwill

Since goodwill is an intangible asset, it is difficult to accurately quantify since it differs in its composition and varies from industry to industry and businesses.

The total value of any business can be described as the accumulative sum of its physical tangible assets plus the value of its goodwill.

Some common goodwill items include: phantom assets, local economy, loyal customer base, reputation, supplier list, location, trademarks, name recognition, copyrights, trade secrets, industry ratios, royalty agreements, licenses, contracts, growing industry, and recession resistant industry.

Workplace Safety and Insurance Board (WSIB) Account

In most cases, your corporation should assume the liabilities and assets of your sole proprietorship when you transfer your assets. Your corporation will also assume your previous WSIB account. If this is not the case, you will have to open up a new account.

The Section 85 Rollover:

When you are transferring assets from your proprietorship to your corporation, you should do so under the provision of Section 85 of the Income Tax Act. You must do this and also file the related Section 85 forms. By doing so, you will not have to pay any tax on the sale of your assets, both, physical and intangible, from your sole proprietorship to your corporation.

If you don't file Section 85 rollover, either because you were unaware, or because you did not wish to go through the tedious process, the CRA will reassess the transaction and bump up the sale price to the fair market value of the assets.

Pitfalls to Avoid:

In converting a sole proprietorship to a corporation there are certain pitfalls you should avoid.

- A common mistake that people make is selling their business assets to their corporation for a dollar. The CRA does not approve of this and will reassess the sale price from one dollar to fair market value (what a third party would pay). As a result, you end up paying capital gains tax on the difference between the fair market value of the assets transferred and what you paid for them.
- Another common mistake is that individuals will simply gift their business assets to their new corporation. They transfer assets from their sole proprietorship to their new corporation without receiving any consideration such as money or shares in return for the transfer. By doing this, the CRA will reassess the sale price from zero to the fair market value of the assets. In result you will end up paying capital gains tax on the difference between the fair market value of the assets transferred and what you paid for them.

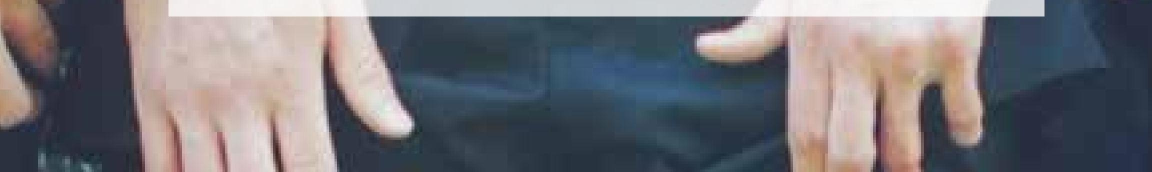
CHAPTER 8

INCOME TAX TIPS FOR SOLE PROPRIETORSHIPS

Learn how to save taxes on a one-person business. Here are five income tax tips for sole proprietorships:

Tip #1: Smart Deductions

The first strategy to save on income tax in a sole proprietorship is to maximize deductions for your home office. Many entrepreneurs choose to run some or all of their business operations from their home. Before you start claiming however, there are some rules for qualifying your space as a home office. The first one is that your home must be your principal (synonymous with chief, primary) place of



business. The other is that you use a section of your house exclusively for earning income and you meet clients there on a regular and ongoing basis.

The following is a list of business deductions that might apply to sole proprietors:

- Rent
- Mortgage interest
- Property taxes
- Utilities (hydro, heat, water)
- Home insurance
- Repairs and maintenance (100% if directly related to area of office)
- Landscaping
- Snow plowing
- Capital cost allowance
- Telephone (if it is a separate line, this is 100% deductible)
- Internet

You will also be entitled to a deduction for using your car, though you will have to determine how much time you use your car for business purposes. To do this, it is best to keep a logbook for each trip and maximize your business usage.

Tip #2: Qualify for the Capital Cost Allowance

The next suggestion for entrepreneurs we are going to look at is maximizing your eligibility for capital cost allowance (CCA). There are a number of things you can purchase that depreciate (lessen in value), and these can be claimed under the CCA for a deduction. The thing to remember here is that these assets are for the business, so try to avoid personal usage if you can. Examples of assets that qualify for capital cost allowance include vehicles, printers, software, and office supplies. Each of these assets fall into its own category (known as a class) and is subject to its own rate of depreciation.

Tip #3: How to Take Losses

In the first few years, it is very likely that you will face some losses. Whenever your expenses are greater than your income, we call this a non-capital loss. If you are not incorporated, you can apply non-capital losses to reduce any other sources of income you may have reported on your personal return.

If possible, you should use your non-capital losses to offset other incomes in the year as you incur them. If you do not have any other sources, then you can use the losses offset taxable income three years in the past or up to twenty years in the future. If the losses are not used up by the twentieth year, they expire.

Your goal here is to apply the losses against the dollars that will provide the most savings. You should not use them to reduce your income below the threshold set by your basic personal tax credit. Your tax bill is nil below this threshold and it would be a waste of your losses. Instead, consider saving the losses if you can to offset future taxes.

Tip #4: Pay Salaries to Family Members

If you are self-employed, you may have family members who work for you. Think of paying them salary. By doing so, there are a number of tax benefits available to you.

There are personal tax savings if you pay salary to a person in your household who will face either no tax or less tax than you will have attracted. Paying salary provides RRSP contribution room to the family member; this keeps the money in the family and prevents it from going to a third party.

For example, let us say that you run a small pizza shop and you pay your child a salary. If this is below the child's only source of income and it is below their basic personal credit, then it will not be taxed. If you had kept it, the money would have been taxed as business income. The child is then able to use it for other goals, such as saving for education.

Tip #5: Consider Incorporating Your Business to Maximize Tax Savings

As a sole proprietorship, you have several deductions that are unavailable to you until you become a CCPC (Controlled Canadian Private Corporation) (Refer to chapter 14).

Additionally, the government allows corporations what is known as the capital gains exemption. This allows shareholders of your company (including you), to sell their shares without having their gains taxed at a regular rate.

Ultimately, the decision to incorporate depends on how profitable your company is. If you are just starting out or your company is not very profitable, it does not make much sense to try to incorporate. Since you do not have a lot of taxable income in the first place, you will not be able to take full advantage of the reductions to reduce it.

If you do choose to incorporate, income tax rules allow a sole proprietor to incorporate without tax being triggered provided a number of conditions are met. As long as you make your election, document it properly, and file it within the correct time, you should not trigger any tax.

CHARGING HST

The Harmonized Sales Tax (HST) is the combination of Federal GST and Provincial PST into a single value added tax. Not all provinces have HST, but the ones that do are:

- Ontario
- Newfoundland
- Nova Scotia
- New Brunswick
- Prince Edward Island

The provinces that charge GST and their own Provincial Sales Tax are:

- Saskatchewan
- Manitoba
- Quebec

In general, GST and HST is charged in the province where the goods are delivered. It is important here to differentiate between legal delivery and physical delivery. "Legal delivery" is a term that signifies when the buyer takes legal responsibility for the good from the seller. This is different from physical delivery, which occurs when the buyer actually receives the good. In most situations, the place of physical delivery determines what taxation laws are applied.

GST/HST registrants, or businesses required to have a GST/HST registration number, must charge and account for the GST on taxable supplies (other than zero-rated supplies) of goods and services made in Canada. Where GST/HST registrants make taxable supplies (other than zero-rated supplies) in a participating province, they must charge and account for the HST instead of the GST.

GST/HST registrants must meet certain responsibilities. Generally, they must file returns on a regular basis, collect the tax on taxable supplies they make in Canada, and remit any resulting net tax owing.

FORGETTING TO CHARGE HST

If you forgot to charge your clients HST, you will need to re-do your books for the period during which the returns were due, recalculating your invoices to include HST. You will also be able to claim input tax credits for supplies you bought to run your business, this will reduce your overall HST owing.

Once you have recreated your books correctly, you will need to file the overdue returns. You will also have to pay the outstanding HST amounts that you owe, plus any penalties and interest owed. You will need to re-file the adjusted personal income tax returns for those years, correctly reporting your new gross income and HST collected/paid. The interest rate charged on overdue HST accounts is currently 5% (2016).

The penalties and interest are calculated from when the remittances were due to CRA.

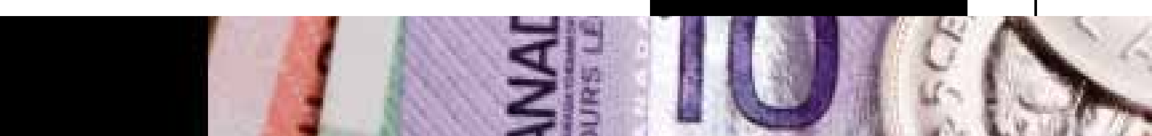
It is also recommended that you send the revised invoices, including HST, to your customers. Your customers are legally obligated to pay you for HST not previously collected in error.

CHAPTER 9

TAX LOOPHOLES FOR SMALL BUSINESS OWNERS IN CANADA

#1 TAX DEFERRAL:

The number one loophole is tax deferral. The corporate income tax rate is 15.5% (that is the combined provincial and federal rate). However, your personal rate can reach as high as 46.4%. Having said that, it makes a lot of sense to keep most of the money inside your corporation, pay a low rate of tax, and take out only what you need from the corporation to pay for your living expenses. This way, you're taking advantage of the low corporate tax rate and not paying much in the form of personal income taxes.



#2 CHARGING RENT:

Charge rent to your corporation. If you work from home and use your home-office for work, you can charge rent related to your home-office to your corporation. These include mortgage interest, property taxes, utilities like gas, water, & hydro, home insurance, and general repairs and maintenance.

#3 BUYING A HOME:

Buy a home using your company's money. An employee of the corporation can borrow money from the business for the purpose of acquiring a home that he/she is going to live in. If you are looking at buying that $500,000 dream house, there's a way to get $100,000 or more from your corporation (completely tax free) to buy your home.

#4 YEAR END SHOPPING:

Make major purchases towards the end of the year. So, if you have to buy office equipment, computers, other manufacturing equipment, furniture, etc. It is best to make those purchases around December. You would get a full year's worth of depreciation, even though you have held the assets for a few days or weeks.

#5 KEEP YOUR HST:

Keep the HST that you collected. Most small business owners don't know about the quick method of accounting for HST, but this method allows you to keep the lion's share of the HST you collect. Here's how it works: You charge 13% to your clients or customers for the good and services that you provide, but you only remit 8.8% of your total sales to the Canada Revenue Agency. That means you get to keep the difference between 13% and 8.8% (4.2%).

CHAPTER 10

HOW TO BECOME AN INDEPENDENT CONTRACTOR AND NOT AN EMPLOYEE

It all comes down to the contract between you and your employer or "customer". The agreement must contain specific clauses so that the Canada Revenue Agency ("CRA") views the agreement as an independent-contractor arrangement, and not an employee-employer arrangement. To be treated as an independent contractor (i.e. self employed), your agreement with your customer must contain five specific factors.

Five Factors To be considered an independent contractor:

1. Control

If it appears that your employer is exercising a great deal of control over your work, then you are going to be deemed to be an employee for tax purposes. Therefore, the agreement should clearly state that you, the independent contractor, will work independently with minimal or no supervision.

2. Tools and Equipment

- In many cases, employers provide their employees with tools and equipment necessary for their employees to conduct their work. If this is the case, the CRA will view the relationship as that of an employer and employee.

- To become an independent contractor, the agreement should state that you, the independent contractor, are responsible for supplying your own tools and equipment (e.g. printer, laptop, flash drive, etc.)

3. Financial Risk

- Generally speaking, employees do not take any financial risk, unlike independent contractors.

- To become an independent contractor, consider changing the agreement between you and your employer. The independent contractor will be responsible for paying specific costs, including rent and a share of overhead expenses.

4. Opportunity for Profit

- Employees have fewer opportunities for profit compared to independent contractors (i.e. self employed individuals).

- To become an independent contractor, consider placing a clause in the agreement, which allows for milestone payments or success payments paid to you.

5. Intention – Self Employed Vs. Employee

- The most important factor that you should consider placing in your contract is that, "The intention of both parties is for you to be treated as an independent contractor who is self employed and for the payer to be treated as a customer."

- A large number of court cases involving the determination of employee vs. self-employed have been decided on the basis of the intention of the agreement.

Final Takeaway: An independent contractor (i.e. self employed) can be more beneficial than being an employee. Independent contractors have more tax write-offs and pay much lower taxes than employees.

CHAPTER 11

TAX PLANNING TIPS FOR SELF-EMPLOYED INDIVIDUALS

Declare a Bonus:

By having your corporation declare bonus at the year-end, there are two main advantages.

1. Your corporation can claim a tax deduction for the bonus payable without even paying it.
2. You do not have to include the bonus payable in your personal income.

There is one catch. Within 180 days or six months the corporation must pay the bonus to you. For example, if your corporation has a December 31st year-end, then it must pay the bonus by June 30th of the following year, at which point you will include the bonus received in your income.

Give Non-Cash Gifts to Employees:

By giving non-cash gifts to employees, your company can receive a tax deduction, and since it's not a taxable benefit to the employee who receives the gift, it's an ideal tax-planning tip for self-employed individuals. Non-cash gifts include things like consumer goods, consumer electronics, clothing, jewelry, and so forth.

The CRA does restrict when you can give a non-cash gift to an employee. It is only accepted on special occasions such as anniversaries, birthdays, weddings, a religious holiday, and such. The maximum amount that you can give to an employee for non-cash gifts is $500 per employee in a given year. However, you can give multiple gifts in a year as long as you do not exceed the threshold of $500 per employee.

Deduct Health & Dental Costs:

Your company can pay health and dental premiums to an insurance company for you and your employees and receive a deduction for the payment. It is not a taxable benefit to you, your family, or your employees. There is a restriction that you must be actively engaged in your business to qualify as well as your business must be your primary source of income.

If you have employees, you must extend the same health and dental benefits that your family receives to all employees. If you don't have any employees, the health and dental benefits received cannot be excessive. They must be reasonable and similar to what you would receive if you were working for a third party employer.

Hire an Apprentice or Co-Op Student:

Your company can receive a tax credit of up to 10% of salaries and wages paid to co-op students and apprentices. The maximum amount is $2000 per year, per co-op student or apprentice. Take advantage of this profitable tax-planning tip for self employed individuals.

Claim Convention Expenses:

Convention expenses include the cost of the convention, cost to go to a convention such as airfare, hotel fees, and food. Food is subject to a 50% limitation. Only 50% of the food cost can be claimed as an expense while attending the convention. A maximum of two conventions can be claimed per year and in order for convention expenses to be deductible, it must relate to your business.

CHAPTER 12

HOW CAN I GIVE MONEY TO MY STARTUP BUSINESS?

Startup companies require a lot of cash to pay for business expenses, as there is little to no revenue in the beginning. There are two ways that you can give money to your startup venture.

1. Establish a shareholder loan. Simply write a cheque or make an e-transfer from your personal bank account to the company's bank account, then create a promissory note. The promissory note is a one-page document that states you are the lender and the company is the debtor. The promissory note should be signed twice by you; once as the lender and second on behalf of the company. For administrative ease, there should be no

fixed terms of repayment and no interest charge on the loan. Shareholder loans can be repaid to you on a tax-free basis once the company has available cash flow to do so.

2. Capitalize your startup company by having it issue shares to you. For example, if the company requires $10,000 cash to pay for expenses, it can issue 10,000 common shares to you for $1 per share. In this example you would write a cheque for $10,000 from your personal bank account to your company bank account. When the company has cash available, it can repay the $10,000 to you completely tax-free as a return of capital.

Tip: Make a shareholder loan to your startup company instead of issuing shares. This is because shareholder loans are relatively easy to set-up where as issuing shares requires plenty of legal documents to be prepared and can drive up your costs.

CHAPTER 13

REAL ESTATE AGENTS

6 TAX TIPS FOR REAL ESTATE AGENTS

Professionals across all industries and sectors can utilize a number of different strategies to minimize their overall tax obligations

1. Non-Resident Tax on Rental Properties: If you are a non-resident who owns real estate in Canada, you will be required to file a Section 216 return. The tax on rental income collected is 25%. However, you can choose to file the Form NR6 to reduce the withholding tax.
2. Tax on Real Estate Sale: Some helpful tips include:

- Make improvements on the real estate before selling

- Claiming Capital Cost Allowance on the properties

3. How to Buy a Home with Corporation:
    - The incorrect way to buy a home is to have your corporation pay a bonus or lump sum salary payment to you. Approximately half of the payment must be remitted to CRA to pay for payroll taxes, leaving you with only 50% in your hands to purchase a home
    - The correct way is to use an Employee Home Purchase Loan. This is a tax-free loan from your corporation. However, you must pay a reasonable interest rate to your corporation in respect of the loan received. The loan repayment term should be in line with conventional mortgages offered by major banks

4. Tax Guide for Canadians Buying US Real Estate: There are several ways for you to take advantage of the foreign tax credit on your Canadian returns for the US taxes paid. Also, you could purchase the property under your own name, a corporation, or as a limited partner to save tax.

5. Canadians Buying US Real Estate:

If you are a Canadian that: owns US real estate, or are planning on buying US real estate, follow these best practices:

- Apply for an individual taxpayer identification number (US)
- Submit form "Net election on rental income" to reduce US withholding tax

US Tax/ International Tax

Section 3

CHAPTER 1

TAX ID# IN THE US FOR CANADIAN

WHAT IS AN ITIN?

An International Taxpayer Identification Number (ITIN) is a number that is assigned to non-resident aliens of the US who earn income in the US.

Note: This number is not a replacement for the SSN (Social Security Number) and does not grant any residency status in the US (unlike a green-card or work visa).

Can applying for US Tax ID Number help me?

As a Canadian earning income in the US, the tax ID number provides several key benefits including:

- Lower withholding taxes on US earned income

- Claiming foreign tax credits on your Canadian tax return for US taxes paid
- Prove your foreign status in the US
- Reduce the chance of double taxation

Note: IRS stipulates that the ITIN is required to file your 1040-NR, process a tax refund, and withhold taxes on certain types of Income in the US.

How can Canadians get a tax identification number (ITIN)?

In order to properly apply for your ITIN you must prepare Form W-7 and present proof of residence in Canada. The important facts that you should know about when applying for an ITIN are:

- The IRS streamlined the number of documents it accepts as proof of identity and foreign status to obtain an ITIN so make sure to get the acceptable documentation.
- Each document must be current and contain an expiration date. The IRS will accept documents issued within 12 months of the application if no expiration date is normally available.
- Documents must also show your name, photograph, and support your claim of foreign status. The most commonly used document by Canadians applying for ITIN is a Canadian Passport.

- Notarized copies from a lawyer are not acceptable. The IRS will only accept copies that are certified by the issuing agency.

If the above documents are not provided your ITIN Application will be denied.

CHAPTER 2

US PERSONAL TAX FOR CANADIAN EXPATS WORKING IN THE US

Key Point: As a Canadian expatriate working in the U.S, you will be subject to U.S tax on the employment earned in the US.

HOW IS MY EMPLOYMENT INCOME TAXED IN THE US?

For tax purposes, employment income earned will be attributed to the country where the services are performed. If you were physically working in the U.S, you will be subject to U.S. tax on the employment income earned in the US. The income that is subject to U.S tax is determined by allocating your total salary among the days you worked in the U.S. and Canada in the year. On top of the US federal tax you are required to pay, you may also be held liable for state income tax on the income earned.

Do Canadian expatriates working in the US pay double tax?

Under Canada's tax system, your tax liability is based on whether you are a resident of Canada or a non-resident of Canada.

If you are assessed as a resident of Canada, then, yes, you are subject to tax on your worldwide income. [You have to include your US income on your Canadian tax return.]

Paying Double Income Tax

To avoid unwanted double taxation, a Canadian citizen working in the US can apply for a foreign tax credit on his/her Canadian tax return for any US federal & state taxes paid. This will reduce your Canadian taxes payable.

Canada-US Tax Treaty Provides Tax Relief

In addition, there is the Canada- US treaty in place to offer Canadians working in the US some relief from the US federal tax. As a Canadian resident, you are not subject to US tax if either scenario applies to you:

a) Earned less than USD $10,000 from US.

b) Spent less than 183 days (in any 12-month period) in the US and were not being paid by a Corporation resident in the US.

Note: Even if you qualify for an exemption from tax under the treaty, you must file a US income tax return (Form 1040NR) if you have US income.

CHAPTER 3

US/CANADIAN TAX IMPLICATIONS FOR CANADIAN COMPANIES SENDING EMPLOYEES TO WORK IN THE US

The three common mistakes that Canadian companies face when sending employees to the US:

1. Not issuing W-2 form for the days worked in the United States

It is easy for Canadian small to medium size companies to think that they only have to issue a T4 to report their employees' salaries for the year. However, if an employee worked partly across the border, then in addition to the T4, the company must issue a W-2 (equivalent to T4 in the United States) for the portion of the wages earned in the United States.

Note: The penalty for late filing of W-2 forms to the IRS can become significant if they accumulate.

2. Not filing the US Personal Income Tax Return

If an employee physically works in the United States for part of the year, the salary earned from the work will be treated as US-source income and subject to US tax. This means that the employee will be required to file a US Personal Income Tax Return for that year even if the employer makes a mistake of not issuing a W-2 (see mistake #1).

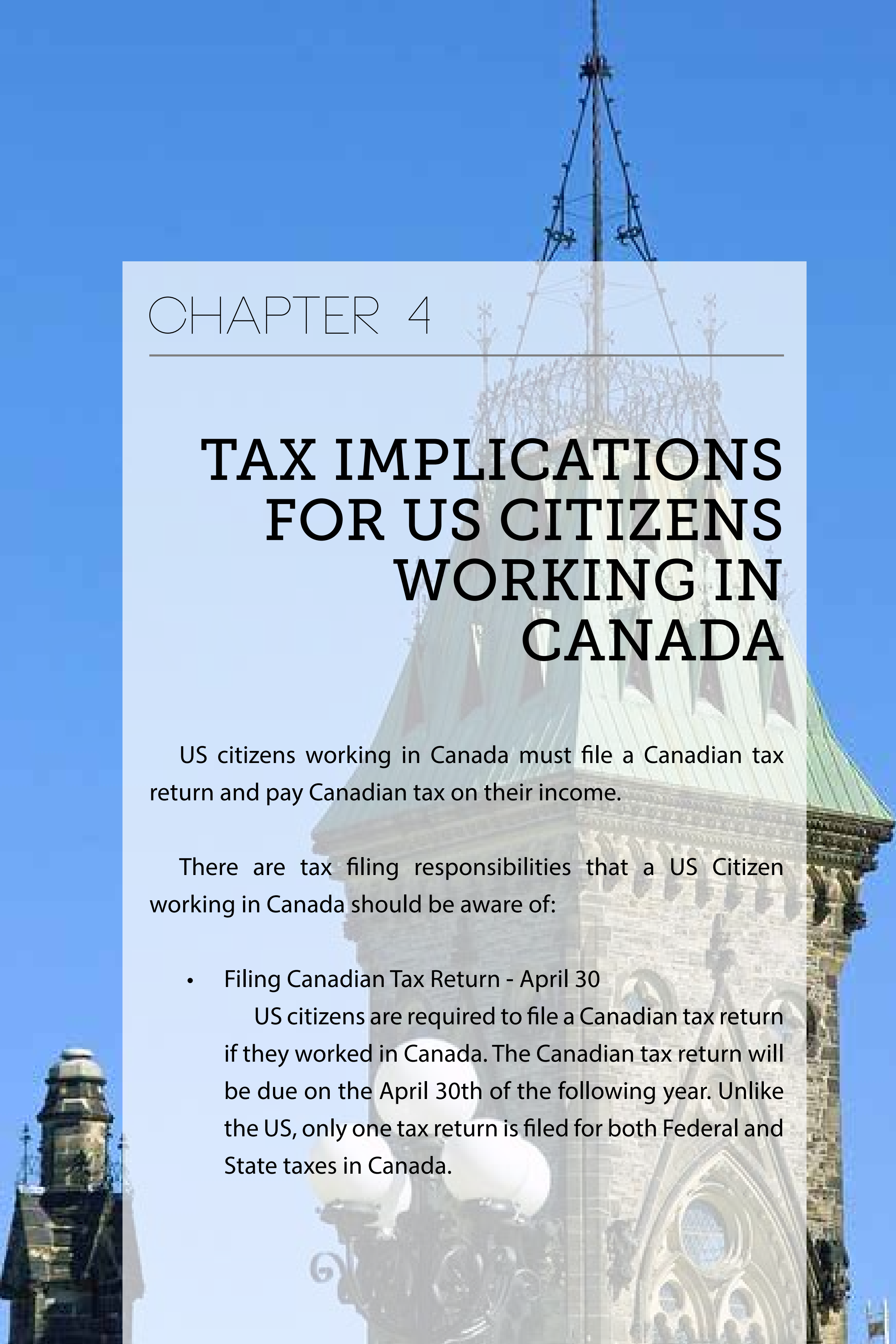
The penalty for not filing in the United States is more severe than the penalty in Canada. In the US, it is 5% of your tax balance for each month the tax return is late, up to a total maximum penalty of 25%, plus interest on the penalty.

Tip: As an employee, be clear that if your employer sends you to work temporarily in the United States, you will face US tax filing requirements.

3. Withholding social security tax on wages earned in the United States

Majority of employees sent to work in the United States on a temporary basis will return to Canada and continue to live in Canada. Therefore, there is minimal benefit to contributing to the US social security system while working across the border. In response, Canada has established Social Security Agreements with the United States and with over 50 countries around the world to allow employees working in a foreign country on a temporary basis to continue contributing to their Canadian Pension Plan through monthly source deductions.

CPT56 - The employee and employer should complete Certificate of Coverage well before departing Canada. By filing this form, the employer will withhold employee CPP contributions instead of US social security and Medicare tax.



CHAPTER 4

TAX IMPLICATIONS FOR US CITIZENS WORKING IN CANADA

US citizens working in Canada must file a Canadian tax return and pay Canadian tax on their income.

There are tax filing responsibilities that a US Citizen working in Canada should be aware of:

- Filing Canadian Tax Return - April 30

  US citizens are required to file a Canadian tax return if they worked in Canada. The Canadian tax return will be due on the April 30th of the following year. Unlike the US, only one tax return is filed for both Federal and State taxes in Canada.

- Statement of Employment Earnings - February 28

  Note that your employer will issue a T4 Slip (statement of Canadian employment earnings, similar to a W2) to you by February 28 of the following year. The T4 Slip is used to prepare your Canadian tax return and calculate Canadian taxes owing (Federal and State).

- Residents & Non Residents of Canada

  As a US citizen, you can either be a resident or nonresident of Canada, both of which have differing tax implications.

If you are deemed to be a resident of Canada, then you are required to pay tax on your worldwide income (income from Canada, the US, and other countries).

To be considered a Canadian resident, you:

· Must have significant ties to Canada (e.g. your permanent home is in Canada, your spouse and children have moved to Canada with you, etc.)

· Have resided in Canada for 183 days during a calendar year.

Non-residents of Canada are only liable for tax on employment income earned in Canada. If you are a non-resident working for an American company in Canada, there are additional tax considerations.

United States tax responsibilities

The United States treats all of its citizens and green-card holders as residents of the US for tax purposes. As residents of the US, you must pay tax on your worldwide income. Note that your Canadian tax residency status (i.e. non resident or resident of Canada) has no bearing on your US tax residency.

United States tax disclosure requirements

As a US Citizen or green-card holder living in Canada, you are required to disclose a substantial amount of financial information to the IRS. Below are some of the disclosures that may apply to your situation:

Form 5471 - Information Return of US Persons with Respect to Certain Foreign Corporations

- This form is used to disclose ownership in any non-US corporations that an individual and certain family members control.

Form 8865 - Return of US Persons with Respect to Certain Foreign Partnerships

- This form is used to disclose an interest in any foreign Partnership that an individual holds

Report of Foreign Bank and Financial Accounts

- This form must be filed separately from your tax return if the total value of your foreign bank and financial accounts (e.g. RRSP, brokerage accounts, TFSA, etc.) exceed US$10,000 at any time during the year.
- The due date is June 30 of the following year

Specified foreign financial assets

- This form must be filed along with an individual's US income tax return if the person has more than $50,000 worth of foreign assets (If you are a US citizen living in Canada, the $ threshold is higher).
- Specified foreign financial assets include bank accounts, RRSP, Pension accounts, etc.

CHAPTER 5

US PARTNERSHIP-TAX IMPLICATIONS

Many Canadians are realizing the real estate opportunity available in the US and are turning towards Partnership structure for their real estate investments. However, not many Canadians are fully aware of tax implication on US Partnership.

LIMITED LIABILITY PARTNERSHIP (LLP)

Prudent Canadian investors understand the twofold benefits provided by an LLP:

1. LLP does not cause double taxation as do US Corporations.

2. LLP provides asset protection for all of the partners. As such, there is no real reasons for choosing another type of

Partnership for your US Real Estate investment (eg. General Partnership and Limited Partnership).

The LLP, as a Partnership is not a taxable entity. Rather all Partnership income flows through to each Partner based on the % of their Partnership interest and the tax is paid by the individuals. However, the entity is still required by the US law to file a US Partnership Tax Information return annually.

Finally, each Canadian investor will be required to include their portion of the US LLP's income on their Canadian Personal Income Tax Return. The good news is that you will be able to use the US taxes paid above as a credit against the Canadian taxes.

Limited Liability Corporation (LLC)

In the United States, LLC can be treated differently depending on the number of Partners and whether or not the Partner(s) elect to be treated as a Corporation or not.

SINGLE-OWNER LLC

When a LLC is owned by a single Partner, the entity will be treated as a disregarded entity and essentially, the IRS will treat the entity as a sole proprietorship for tax purposes. This means that the LLC does not pay tax nor have the obligation to file any Partnership Income Tax Return. Rather, the individual

Partner will report the income on his/her Personal Tax Return (Form 1040).

MULTI-OWNER LLC

When a LLC is owned by more than one Partner, the entity will be treated as a Partnership for US tax purposes. This means that the entity will have the same tax filing responsibility as the LLP mentioned above.

Election to be treated as C or S Corporation

For both Single and Multi-Owner LLC, an election can be made to have the entity be treated as either a C or an S Corporation for tax purposes. In order to do so, the owner(s) must file a Form 8832 - Entity Classification Election to the IRS and annually file the Form 1120 by the 15th day of the 3rd month following the entity's year end.

CANADIAN PERSPECTIVE

In Canada, all LLCs, regardless of their election status in the US are treated as a corporation. As such, double taxation will occur when you are a Canadian investor with a Partnership interest in a LLC. This structure is generally not advised for Canadian investors.

Tip: LP structure is a great entity for Canadian investors seeking legal liability as well as for avoiding double taxation whereas LLC is not recommended.

CHAPTER 6

U.S. TAX IMPLICATIONS FOR CANADIANS WHO TEMPORARILY WORK OR LIVE IN THE U.S.

Canadian residents that travel to the US frequently should be aware of the “Substantial Presence Test”. This assessment is issued by the IRS and is used to establish the tax status of a non-resident. Calculations are based upon the number of days an individual intends to spend time in the US during a three year period. There are specific requirements in order for someone to meet the test. If one does meet the requirements, they will be required to pay taxes in Canada as well as the

US. However, there are four categories that will allow non-residents to be considered "exempt individuals".

THE SUBSTANTIAL PRESENCE TEST EXPLAINED

The basic mathematics of the substantial presence test is not difficult to master. Suppose you are trying to figure out whether you are going to be a resident of the United States for the calendar year 2014. In order to figure out whether the U.S. will treat you as a resident for income tax purposes, follow these five simple steps:

1. Count the number of days that you were in the United States in 2014.
2. Count the number of days that you were in the United States in 2013. Divide by three.
3. Count the number of days that you were in the United States in 2012. Divide by six.
4. Add the three numbers you wrote down.
5. If the sum of the three numbers is equal to, or greater than 183, the substantial presence test says you will be treated as a U.S. resident for income tax purposes in 2014.

CLOSER CONNECTION EXCEPTION

Although non-residents may meet the substantial presence test, the closer connection exception statement for aliens can establish a “closer connection” – a greater tie - to the tax home in Canada as opposed to the US. Individuals who file this form with the IRS can ultimately avoid being labeled as a US resident to avoid filing a US income tax return.

Note: If you intend on spending a long time in the US in a three year period, then filing this form applies to you.

The form requires you to fill out four sections and asks for general information such as first name, last name, address in country of residence, address in the United States, etc. A “closer connection” is usually based on the location of many aspects such as:

- Your permanent house
- Your family
- Your personal belongings (cars, furniture, clothing)
- The jurisdiction in which you hold a driver’s license

The next time you are planning a trip to the United States, or accepting a temporary job offer - do not forget to consider the potential tax consequences that come along with the duration of your trip.

CHAPTER 7

CANADIAN TAXES FOR NON-RESIDENTS

HOW DO YOU BECOME A NON-RESIDENT OF CANADA?

There are four factors that could cause you to become a non resident of Canada:

1. You sold your home (or broke your lease) in Canada and purchased a home (or entered into a new lease) in your new country of residence.
2. Your spouse and children moved with you to your new country of residence.
3. You sold your personal possessions in Canada, such as your furniture, appliances, investments etc, and

purchased personal possessions in your new country of residence.

4. You severed your social ties with Canada and established social ties in your new country of residence.

There are 10 major tax implications that will directly affect you when you become a non resident of Canada, which are discussed below:

1. Canada Child Tax Benefit – Becoming A Non-Resident Of Canada

You will stop receiving the Canada Child Tax Benefit and Universal Child Care Benefit upon becoming a non-resident of Canada.

2. GST/HST Credits

You will stop receiving GST/HST tax credits (sent in the form of cheques to you by the CRA) upon becoming a non-resident of Canada.

3. Repay Home Buyers Plan and Lifelong Learning Plan

You have 60 days from the date you become a non-resident (which is usually the date when you leave Canada) to repay any amounts that you owe under the home buyer's plan or the lifelong learning plan. If you do not make payment within the 60 day period, the balances owing will be included in your income on your final tax return in Canada.

Tip: If you expect your income to be very low in the year of departure from Canada, then it may be advantageous to include the balances owing from the Home Buyer's Plan and Lifelong Learning Plan as income in your final Canadian tax return. This will allow you to pay lower tax on the income included, and will have no obligation to repay the balances owing.

4. Tax Free Savings Account – Becoming A Non Resident Of Canada

The funds within your TFSA can remain even after you leave Canada. Any earnings accrued in your account and withdrawals will not be taxed in Canada. They may however be taxed in your current country of residence. You will not be able to accrue additional TFSA contribution room for the years in which you are non-resident of Canada.

If as a non-resident you make a contribution that is neither a qualifying transfer nor an exempt contribution. You will be subject to a 1% tax for each month the contribution remains in the account.

5. Stop Contributing To Registered Retirement Savings Plan (RRSP)

You are allowed to contribute to your RRSP's even after you become a non-resident of Canada, as long as you have RRSP room available. However, it does not make sense to contribute to your RRSP after you leave Canada, because you won't be able to deduct the RRSP contributions made. The reason being is that you most likely won't have any income in Canada, after you leave.

Tip: If you expect to have a significant amount of income on your final Canadian tax return, then consider making a RRSP contribution in the year of departure. The RRSP contribution will be tax deductible.

6. Call Your Bank, Financial Advisor And Pension Administrator

Upon becoming a non-resident of Canada, you should call your bank, financial advisor and financial advisor to inform them of your change in residency status.

- Your bank must begin withholding 25 percent tax from any interest that it pays you, as must other financial institutions. The same tax applies for dividends paid to you.
- Tax of 25% will also be withheld from Old Age Security payments and Canada Pension Plan payments.

- Payments made to you from a Registered Pension Plan will also be subject the 25% withholding tax.

As you can see, 25 percent tax is withheld from passive income paid to non residents of Canada. However, the withholding tax rate can be reduced by a Tax Treaty that Canada has with your new country of residence.

7. Disclose All Canadian Assets – Becoming A Non-Resident Of Canada

When you become a non-resident of Canada, you must disclose all property you own having an aggregate cost of $25 000 or more on your final personal tax return. These are classified as 'reportable properties' and penalties up to $2,500 can be levied by the CRA for non disclosure.

Note: Real Estate, RRSPs, RESPs, and certain types of property do not have to be disclosed.

8. Deemed Disposition of Property

When you become a non-resident of Canada, you are deemed to dispose of all of your property at its fair market value. Any unrealized gains will be subject to income tax even if you have not sold the property. This is known as departure tax and can add up to a significant amount. If you were to emigrate from Canada, you would have to pay tax on the profits of selling all the property that you own today.

Assets that are subject to departure tax include:

- Stocks of all companies, private and public
- Mutual funds, exchange-traded funds, partnership interests
- Real estate situated outside of Canada
- Foreign Trusts
- Certain personal property, if it has appreciated in value

Departure Tax is not applicable to the following:

- Real property situated in Canada, Canadian resource properties and timber resource properties
- The property of a business that is maintained through a permanent establishment. This includes capital property, eligible capital property and property described in the inventory of the business
- Certain property of a returning former resident who last emigrated after October 1, 1996, will no longer be treated as having realized accrued gains on departure.
- Property belonging to a short-term resident (an individual who is a resident in Canada for less than 60 months in the 120 month period preceding the disposition) when that resident came to Canada or any property acquired through inheritance after that individual became a resident of Canada.
- Property that is deemed to be an "excluded right or interest" of the taxpayer. This refers to future benefits and payments under certain plans and arrangements, including pensions, RPPs, IPPs, RRSPs, RRIFs, RESPs,

DSPs, and RCAs. For the full extensive list, please consult Section 128 of the Canada Income Tax Act.

- Life Insurance policies also fall under this category. However this is only applicable to Canadian residents. Non-residents of Canada that own foreign life insurance will be subjected to departure tax.

9. Selling Your Home after Leaving Canada

If you sell your home in Canada after you become a non-resident of Canada, you will have to pay 25 percent tax on the gross selling price of your home.

Fortunately, there is a special tax election that you can make to reduce the amount of tax to 25 percent of the gain on sale of your home. The gain is calculated as the selling price, less the original purchase price. You can claim the principal residence exemption for the period of time that you lived in the home. With the principal residence exemption, the increase in value of your home while you lived in it will not be subjected to capital gains tax.

Tip: If you rent your home while you are a non-resident, file a Section 216 Tax Return to report the rental profits earned.

10. File Final Canadian Personal Tax Return

You must file a final Canadian tax return for the taxation year in which you leave Canada

- You have to disclose your date of departure on the final tax return.
- Your personal tax credits will be reduced by the number of days that you were outside of Canada.
- You must list all of the assets that you own, if those assets have an aggregate cost of $25 000 or more.
- You must pay departure tax or file the applicable forms for deferring departure tax.

TAXES FOR US EXPATRIATES

A US expatriate or expat is a person who works and lives overseas. US citizens and green card holders are liable for US taxes. The must pay taxes on their worldwide income.

How You Get Paid Affects Taxes For US Expatriates:

We know that there are two ways in which US expats can be paid.

- Payment received directly by their US employer. In that case the employer will withhold income taxes and social security taxes from the US expat's paycheque. The US expat will receive a W2 slip or employment income slip.

- The second way in which a US expat can be paid is directly by the foreign employer. In this case the US expat is liable for US income taxes over and above the foreign earned income exclusion and the foreign housing exclusion.

The Foreign Housing Exclusion:

The foreign housing exclusion means that reasonable housing costs paid by your employer are excluded from your US taxable income.

The Foreign Earned Income Exclusion:

The foreign earned income exclusion means that your foreign earnings up to $95,100 (as of 2012) will be excluded from your US taxable income. If you are earning more than $95,100 you will receive a foreign tax credit on your US personal income tax return. The foreign tax credit will give you partial relief for the income taxes paid on the foreign income over and above $95,100. If you are married and both you and your spouse live overseas then each of you will receive this foreign earned income exclusion.

Note:

- If you do not use the entire foreign earned income exclusion in a year the unused portion cannot be carried forward.

- The unused portion cannot be transferred to a spouse. So you either use it or lose it.

You have to meet one of the two tests in order to receive the foreign earned income exclusion, it's not automatic. The two tests are the physical presence test and the bona fide residence test.

Filing Deadlines for US Tax Returns:

You must file your US income tax return if you are an expat by June 15th. However, you receive an automatic extension to October 15th. If taxes for US expatriates are filed after that date they are subject to penalties by the IRS.

Foreign Reporting:

You must disclose all foreign financial accounts and bank accounts as a US expat. More specifically, for each country where your foreign financial accounts and foreign bank accounts are in excess of $10,000, they must be reported for that particular country.

Filing Foreign Tax Returns in the Foreign Country, Canada:

Each country's laws are different. You may be liable for income tax, source deductions, and be required to file income tax returns in those countries. Tax consequences for Americans working overseas vary from place to place. For instance, if you are a US expat working and living in Canada, you will be required to file a T1 general tax return.

This is the same as 1040 US personal tax return. In addition, your Canadian employer will issue a T4 slip to you. The T4 slip is a slip of employment earnings like the W2 slip. Additionally, your Canadian employer will withhold income taxes and social security taxes from your paycheques. In Canada you have to file a tax return by April 30th.

FOREIGN EARNED INCOME EXCLUSION

Tax breaks for US expatriates is about foreign earned income exclusion, and if you are a US expat or are planning on moving abroad this will definitely help.

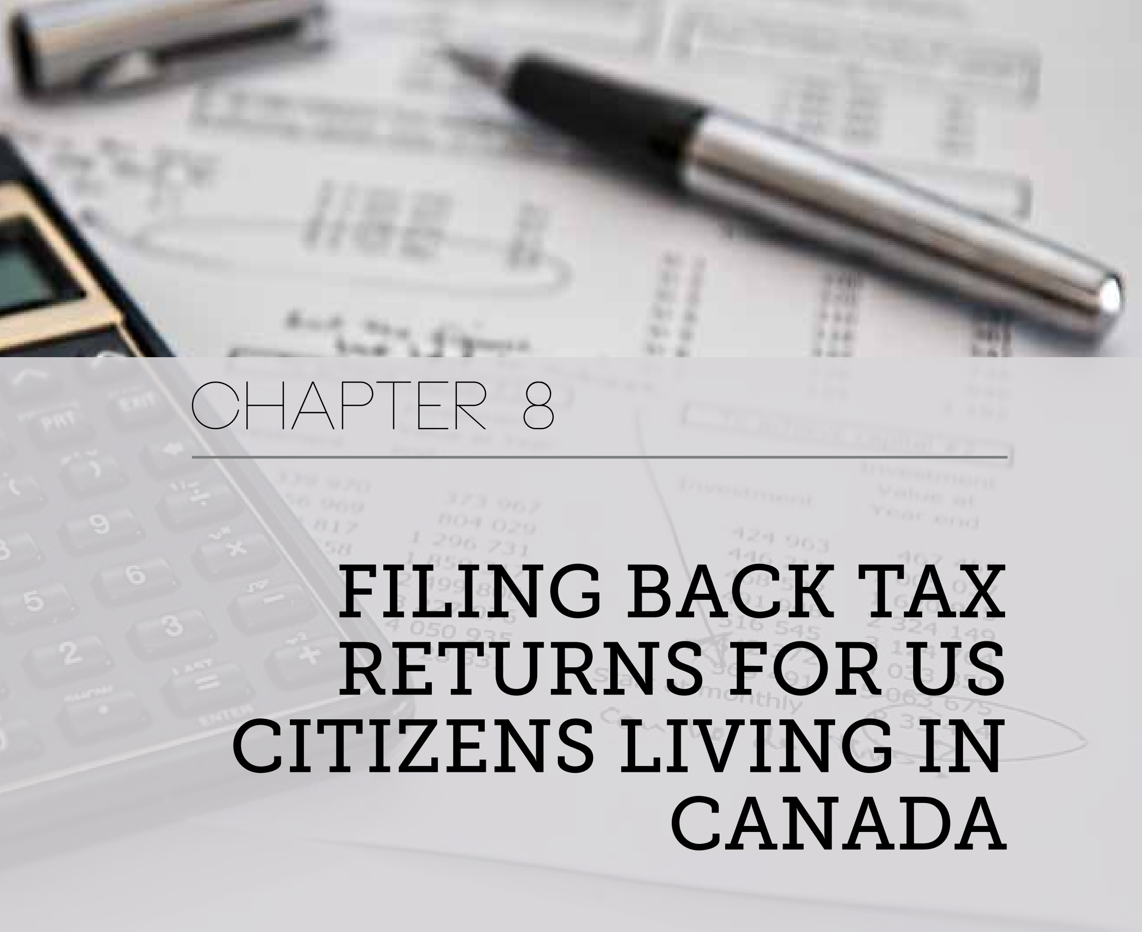
The Physical Presence Test:

In order to meet this test you must reside in a foreign country for 330 days or more in any twelve month period. In other words, you can't stay in the US in a twelve month period for 35 days or longer.

The Bona Fide Residence Test:

This is the second way in which you can qualify for the foreign earned income exclusion. To meet the bona fide residence test you have to satisfy a few conditions.

1. You are a US citizen or a green card holder.
2. You have a home in a foreign country.
3. You live in a foreign country uninterrupted for an entire calendar year.
4. You plan on staying in a foreign country for an extended period of time or indefinitely.



CHAPTER 8

FILING BACK TAX RETURNS FOR US CITIZENS LIVING IN CANADA

The Importance of Filing Back Taxes for US Citizens Living In Canada:

US citizens must file a US tax return every single year and report their worldwide income to the IRS. They must also file FBAR. This is a report of their bank and financial accounts held overseas. Failure to file could result in a penalty of up to $10,000 per year, per account.

Note: The IRS has enough power to require the Canada Revenue Agency to disclose your personal financial information to them.

There are three ways that you can become complaint with the IRS, and they as listed below:

1. The Streamlined Process:

US citizens living in Canada should file US tax returns to become compliant with the IRS through the Streamlined Process. The Streamlined Process allows full compliance without any penalties. With the Streamlined Process you must file six years of past due FBARs and three years of past due US tax returns, plus the current year. To qualify for this program you must meet four conditions:

1. You are a US citizen or a Green Card holder.
2. You have not lived in the US since January 1st 2009.
3. You have not filed a US tax return or a FBAR since 2008.
4. You are a low compliance risk.

The IRS considers you a low compliance risk if your tax returns are fairly simple and if you do not have a significant amount of tax owing to the IRS. With the Streamlined Process you must pay all taxes plus interest that are due.

Note: While there is no end date for this program the IRS could close the Streamlined Process at any point in time.

2. Quiet Disclosure:

Americans living in Canada can catch up with back taxes through Quiet Disclosure. Quiet Disclosure means that you are filing past due US returns and past due FBARs and paying the related taxes and interest due. Do not notify the IRS of your submission either formally or by any other means; it must be quiet. While there is no guarantee, the IRS may process your returns normally without any penalty. Under the worst case scenario you could be assessed the maximum allowable penalty amount.

3. Overseas Voluntary Disclosure Program:

The third way of filing past due returns for US citizens living in Canada in order to become tax compliant with the IRS is through the Overseas Voluntary Disclosure Program. This program is meant for US citizens who have significant undisclosed assets that are overseas. In this program you must file past due US returns and past due FBARs along with paying what's known as the offshore penalty. There are three types of offshore penalties:

1. Standard Penalty is 27.5% of the highest value of your offshore assets during the period of disclosure.
2. Reduced Penalty is 12.5% of the value of your offshore assets if the value is less than $75,000 each year.

3. Super Reduced Penalty is 5% of the value of your offshore assets. To qualify for this super reduced penalty of 5% you must meet three main conditions:
    - You lived in Canada during the year.
    - You filed your Canadian tax returns on time and do not have any outstanding Canadian taxes.
    - You have earned less than $10,000 in US source income.

Corporate Tax

Section 4

CHAPTER 1

REDUCING TAX WITH CORPORATE LIFE INSURANCE

1. Tax-Free Death Benefit

When a corporation owns a life insurance policy, the insurer will pay the death benefit directly to the corporation. The money received from the insurer can then be paid to your estate as a tax-free dividend and your estate will eventually distribute the proceeds to each beneficiary.

Tip: When one owns corporate life insurance, the money received from the insurer is paid as a tax-free dividend

2. Tax-Free Growth

Under the Income Tax Act, investments in stocks, bonds and mutual funds can enjoy tax-free growth within a universal life insurance policy. In fact, a portion of the insurance premiums paid by your company is directly invested in marketable securities inside the insurance policy.

Tip: In order to save tax, your corporation should pay life insurance premiums instead of you as it is tax efficient.

3. Creditor Proofing Assets

Your company's creditors cannot touch corporate savings inside a life insurance company. This is a great way to protect your company's assets from creditors.

CHAPTER 2

TAX ON DIVIDENDS PAID BY A US COMPANY TO A CANADIAN PARENT COMPANY

There are two main things to know if you are a Canadian company that receives dividends from a US or foreign subsidiary. First of all, Canada categorizes the retained earnings of the foreign corporation under the following:

1. Exempt surplus

Any portion of the foreign corporation's retained earnings that was earned through active business (i.e. not passive investment) constitutes exempt surplus.

Dividends paid out of the foreign affiliate's exempt surplus are treated as a tax free dividend to the Canadian parent company. When this dividend is ultimately paid out to Canadian shareholders, the shareholders will qualify for the dividend tax credit system.

2. Taxable surplus

Any portion of the retained earnings that was considered Foreign Accrual Property Income (net of foreign tax) constitutes taxable surplus.

Dividends paid out of the foreign affiliate's taxable surplus are fully taxable to the Canadian parent company. However, deductions are available based on the amount of foreign taxes paid on income that adds to taxable surplus (i.e. investment income).

Facts:

- A Canadian corporation owns 100% of a foreign corporation that earns rental income

- All amounts are in $CAD
- Rental income for the year: $1,000
- Foreign taxes paid: $250
- Withholding tax on dividend: 5%

CHAPTER 3

CANADIAN CORPORATE LOANS TO NON-RESIDENTS

Corporations need to be aware that granting a loan to non-residents can lead to a requirement for the Canadian company to pay tax.. This situation is far from ideal and it is important to know the tax implications that can come from Canadian corporate loans made to non-residents.

1. Income Inclusion

The Income Tax Act has a particular application that involves corporate loans to non-residents that are outstanding for one year or longer. According to 17(1), the loan's interest rate cannot be less than the CRA's prescribed rate of interest, which is presently 1%. If the two rates are different, the corporation must include the difference as earnings. You can find the difference by subtracting the loan's interest rate from the prescribed one.

EXCEPTIONS TO INCOME INCLUSION

Even if a low-interest loan is made, a corporation can still avoid income inclusion if they meet one of the following.

1. If the corporation has paid Part XIII withholding tax.

- The most common type of withholding tax under part XIII is the dividend withholding tax of 25%.

- Where a loan is owing by a non-resident company or individual to a Canadian corporation in which the non-resident has shares, part XIII tax of 25% will apply to the loan balance if the loan has been outstanding for more than one year. The reasoning behind this to prevent non-residents from stripping cash retained earnings from Canadian companies without paying any tax to Canada.

2. If the non-resident debtor is a Controlled Foreign Affiliate (CFA) of the Canadian corporation. (By definition,

a CFA is a foreign subsidiary corporation of the Canadian parent company).

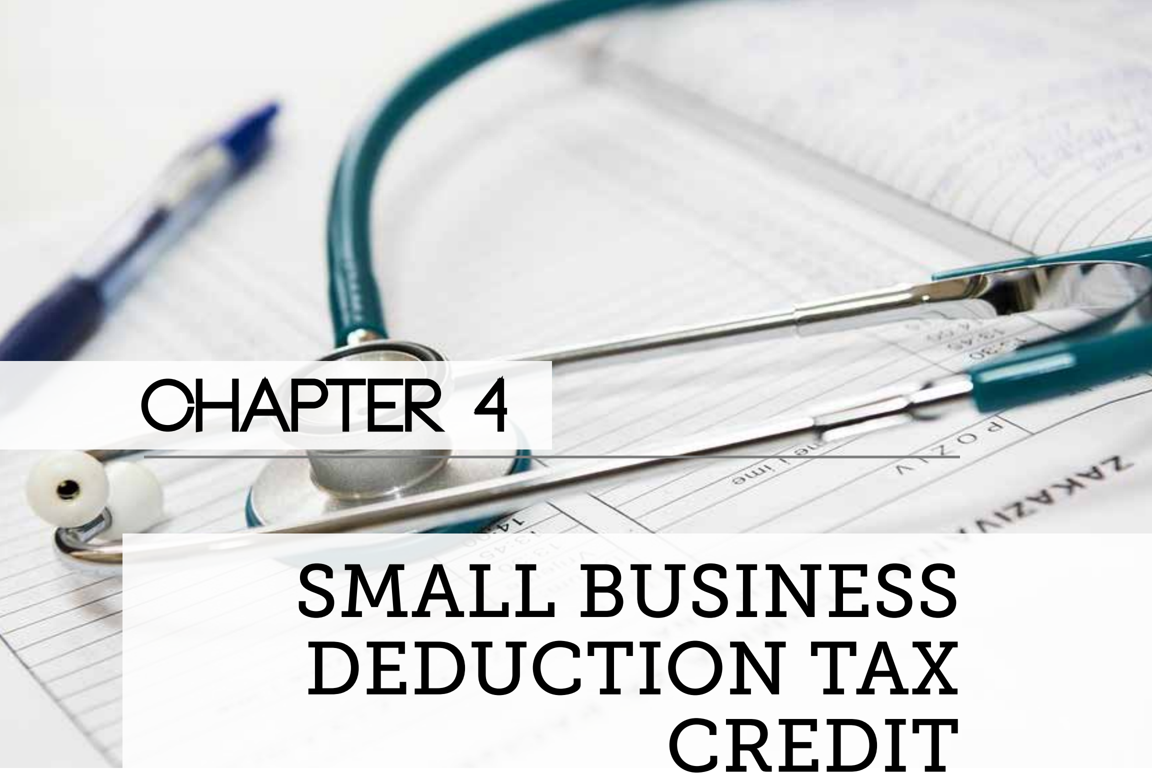
3. If the amounts owing are related to transactions arising in the ordinary course of business (i.e.: trade receivables and/or trade payables).

2. Controlled Foreign Affiliate (CFA)

If a Canadian Resident Corporation lends to one of its CFA's, there is no income inclusion for low-interest loans and part XIII tax does not apply. The non-resident has to be a CFA throughout the corporation's tax year during which they owe the loan. This applies where the company makes a loan or advance of money and the CFA uses the funds to earn income from an active business. Alternatively, they could loan to another CFA of the corporation for them to earn active business income. Specifically, the non-resident must be a CFA of a resident corporation lender or a corporation related to it.

3. Trade Receivables

Finally, there is an exemption for amounts owing to Canadian resident corporations about particular transactions. An example is providing goods or services to an unrelated non-resident. However, terms of the agreement have to be similar to people dealing at arm's length typically negotiate. Tip: If your organization is thinking of loaning to a non-resident, be sure that the loan is at a suitable rate. Otherwise, see if you meet one of the previous conditions to avoid income inclusion.



CHAPTER 4

SMALL BUSINESS DEDUCTION TAX CREDIT

The small business deduction is a reduction in corporate taxes for Canadian Controlled Private Corporation, known as CCPC.

The small business deduction is provided as an annual tax credit that is calculated as 17% of the least of the corporation's:

1. Active business income for the year
2. Taxable income for the year
3. Business limit ($500,000)

If your business is a Canadian Controlled Private Corporation (CCPC), the active business income that your company generates may be qualified to receive the small business deduction. This deduction is a tax credit that reduces the general corporate tax rate for corporation to only 15%.

DIVIDENDS/ MANAGEMENT FEES VS. SALARY

As an owner of a corporation you can choose to pay yourself management fee, dividends, or a salary.

SALARY

- Advantages
    - Taxes are automatically withheld from each pay cheque so you don't have to worry about putting money aside to pay your personal tax bill come April 30th.
    - Salary is 'provable income' for financing purposes. If you are planning on applying for a line of credit or a mortgage, then paying yourself a salary will help you qualify. Salary is subject to Canada Pension Plan (CPP) premiums. By paying into the Canada Pension Plan your entitlement to CPP will increase.
    - Any salary or bonus that is paid out will be taxed deductible for the corporation

- Disadvantages
- Paying salary is administratively cumbersome. You may have to hire an accountant in Mississauga to manage payroll remittances to the Canada Revenue Agency, preparation of T4 slips, calculation of source deductions, etc.
- Salary is subject to CPP premiums at a rate of 9.9 cents for every $1 of salary. This can be expensive.
- Salary will be considered as personal income and will be subject to personal income tax rates based on your total taxable income.

Management Fees

- Advantages
- You can claim tax deductions on your personal tax return against the management income received in the year. This will ultimately reduce your tax bill. Common tax deductions include car expenses and home office expenses.
- You don't have to worry about payroll taxes or filing monthly payroll forms with the CRA, which can be a nuisance.
- Disadvantages
- Recently the CRA has been aggressively targeting individuals who pay themselves management fees from their corporation.

- The CRA could reclassify the management fees that you received in the year as salary, and then enforce a penalty for failure to withhold payroll taxes.

Dividends

- Advantages
    - Dividends are taxed at a lower rate than salary. In fact, the first $40,000 of dividends can be received completely tax-free.
    - Dividends are not subject to CPP premiums, which can add up to big savings.
    - Dividends are administratively simple. You do not have the burden that you do with payroll. To pay yourself a dividend, you simply write a cheque to yourself from your corporation, record it in your corporate minute book and file a T5 return.
- Disadvantages
    - While not paying CPP Premiums may be seen as big savings in the short-term, this is not necessarily the case in the long-term. Although this may depend on the individual, contributing to CPP premiums now will only add to your CPP benefits when you are eligible to claim it.
    - If you have children and are paid only through dividends, you will not be eligible to claim

childcare costs because you do not have any earned income.

Tip: Review the pros and cons of dividends, management fees and salary carefully, and then choose the method of payment that suits your personal circumstances the best.

HEALTH AND WELFARE TRUST

A Health and Welfare Trust (HWT) is a mechanism to allow your corporation to deduct your personal medical expenses. In the absence of a HWT your personal medical expenses would be non-deductible by your corporation.

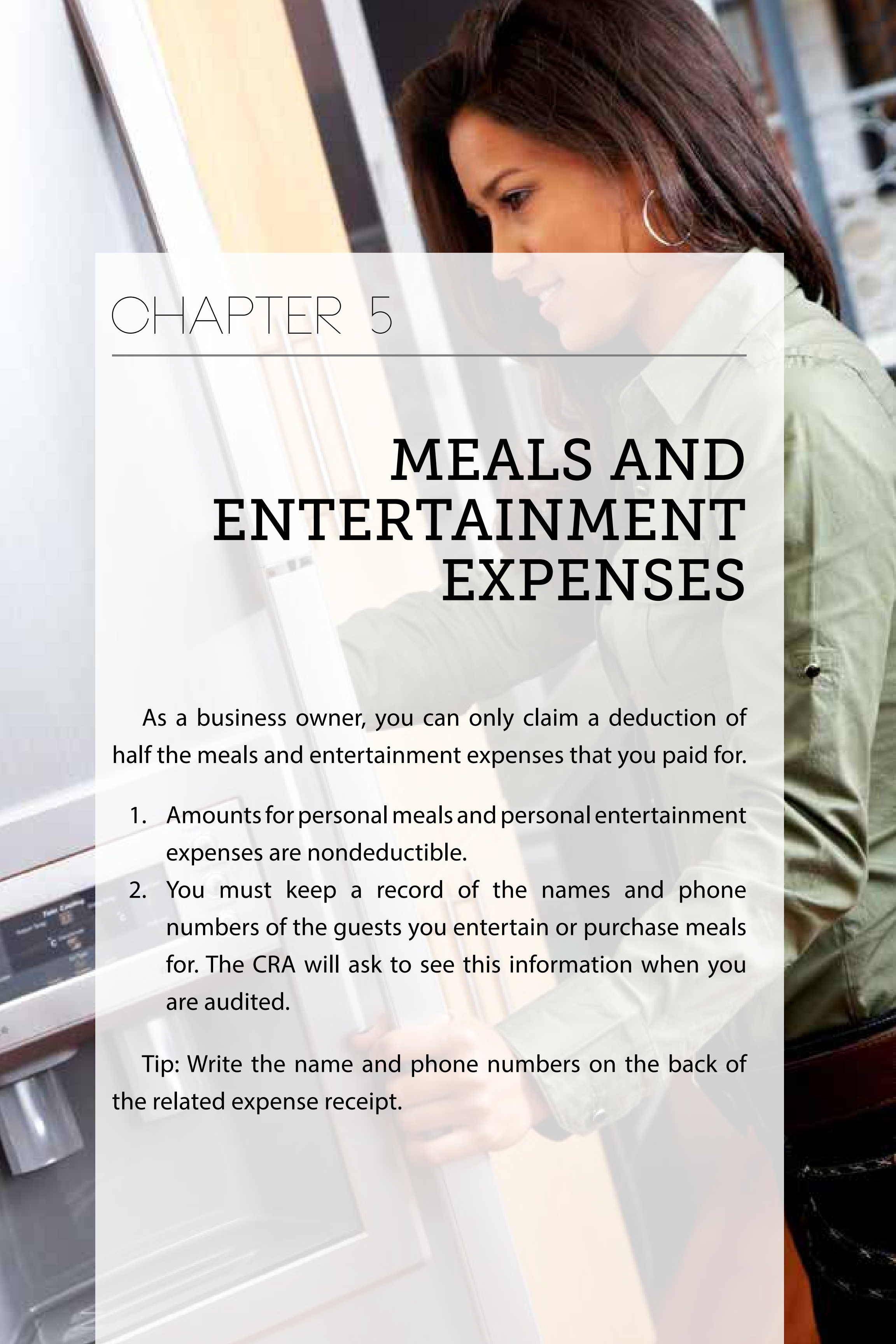
What's the tax advantage of using a Health and Welfare Trust?

If you're self-employed, and do not have dental or medical benefits, then a Health Welfare Trust (HWT) can save you a lot in taxes.

Here's how it works:

1. Your corporation pays a specified amount (e.g. $5,000) to an Insurance Company that administers the HWT for your company
2. Your corporation will receive a tax deduction for the amount paid and held in the HWT
3. You pay for medical expenses personally (e.g. doctors fees, prescription drugs, etc)
4. You submit a claim to the insurance company and it will reimburse you for your out-of-pocket costs (up to the amount in the HWT, e.g. $5,000). This reimbursement is received tax-free by you.

Ultimately, you have converted a personal medical expense into a tax deduction for your corporation.



CHAPTER 5

MEALS AND ENTERTAINMENT EXPENSES

As a business owner, you can only claim a deduction of half the meals and entertainment expenses that you paid for.

1. Amounts for personal meals and personal entertainment expenses are nondeductible.
2. You must keep a record of the names and phone numbers of the guests you entertain or purchase meals for. The CRA will ask to see this information when you are audited.

Tip: Write the name and phone numbers on the back of the related expense receipt.

3. Food that you buy while traveling is also considered a personal expense and non-deductible, unless you are working in a very remote location.

4. You can claim the entire amount of meals and entertainment purchases for a Christmas party, or up to six events per year.

5. Meals and entertainment expenditures incurred for business purposes, such as meetings with clients, suppliers, and prospects, are 50% deductible.

Tip: Keep all of your receipts for meals and entertainment purchases and give them to your accountant at the end of the year, so he or she can determine which expenses can be deducted.

CHAPTER 6

HOW TO BORROW MONEY FROM A CORPORATION TO BUY A HOUSE

If one is self-employed and looking to buy a house, follow these steps on how to buy a home with your company's money, tax-free. The strategy entails taking money from your corporation and giving it to you on a tax-free basis in order to help you acquire a house that you plan to live in.

THE WRONG WAY

First of all let's look at the wrong way to buy a home, which is a common mistake that many business owners make. The wrong way is to have your corporation pay a bonus or lump-sum salary payment to you. This way is ineffective, because approximately half of the payment must be remitted to the Canada Revenue Agency to pay for payroll taxes, leaving you with only 50% in your hands to purchase a home in Canada.

THE RIGHT WAY

Tip: The right way to purchase a home is to use an Employee Home Purchase Loan.

Here is how the strategy works:

Step 1 – Loan

Your corporation makes a tax-free loan to you. The loan must be supported by a written agreement and there must be a mortgage in place. This means that the home is used as collateral for the loan.

Step 2 – Interest

You must pay a reasonable amount of interest to your corporation in respect of the loan received. The amount of interest charged should be equal to the market rate of interest. To determine the market rate, you can refer to the interest rates charged by major banks for mortgages.

Step 3 – Repayment Terms

There must be a reasonable repayment period for the loan, such as 10, 15 or 20 years. To determine the repayment period, refer to the amortization periods offered by major banks on conventional mortgages.

Step 4 – Employment

In order to qualify for an Employee Home Purchase Loan from your corporation, you must be an employee of your corporation. As such, an employment agreement is required and you must be receiving regular payroll cheques.

Conclusion – How To Buy A Home With A Corporation In Canada

In conclusion, the Employee Home Purchase Loan is an excellent strategy that allows you to take money from your corporation, without paying any tax, in order to purchase a home.

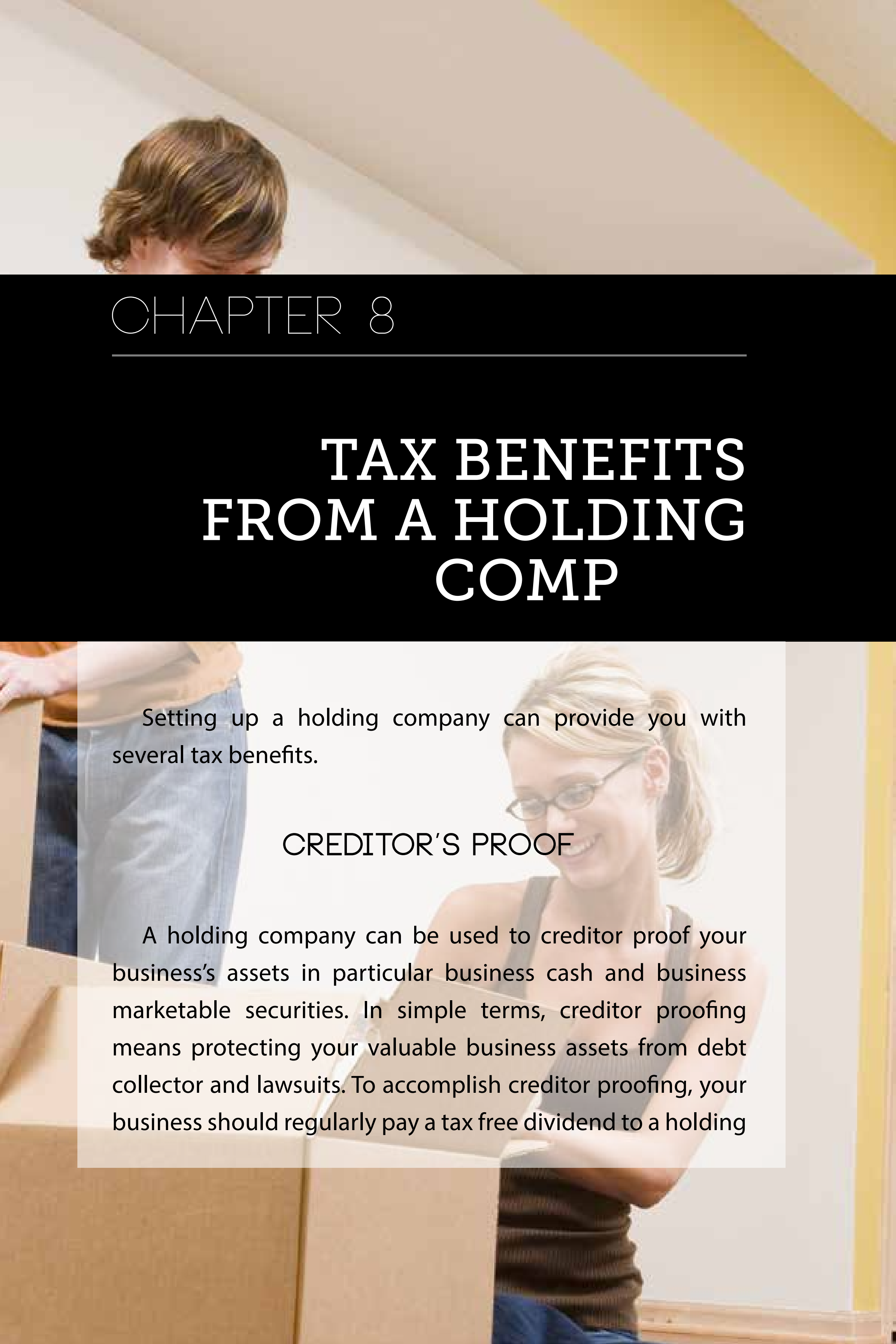
CHAPTER 7

ADVANTAGES OF A CORPORATION

If you have a business then it might be a good idea to consider incorporating into a corporation, otherwise known as a limited liability corporation.

There are two primary advantages of a corporation:

- Firstly, having a corporation provides limited liability. Corporate debts are not in obligation of individual shareholders.
- Another advantage is a corporation pays a very low tax rate of only 15.5 %. In addition, you can pay yourself a lower salary, allowing you to fall in a lower tax bracket, thereby saving a lot of tax dollars.



CHAPTER 8

TAX BENEFITS FROM A HOLDING COMP

Setting up a holding company can provide you with several tax benefits.

CREDITOR'S PROOF

A holding company can be used to creditor proof your business's assets in particular business cash and business marketable securities. In simple terms, creditor proofing means protecting your valuable business assets from debt collector and lawsuits. To accomplish creditor proofing, your business should regularly pay a tax free dividend to a holding company. By transferring cash out of your business, you have protected it from creditors.

INCOME SPLITTING WITH MULTIPLE SHAREHOLDERS

Secondly, a holding company can be used to income split with family members, by making your family members as shareholders of your company; you can pay dividends to them. You can set up a holding company for the purpose of splitting income so long as your family members are shareholders of the company. The costs of setting up and maintaining a holding company would be equal to setting up a family trust.

TRANSFERRING SHAREHOLDER ASSETS TO A HOLDING COMPANY

The shareholders of your operating company can transfer their shares to your newly incorporated holding company. The operating company then declares and pays a dividend in favor of the holding company. Any of the dividend proceeds received by the holding company, which are needed by the operating company, are then loaned back to the operating company. This loan is secured by a general securing agreement covering the operating company's personal property.

This process can be replicated over time as additional profits are earned by the operating company and in turn paid out to the holding company as dividends and then loaned back.

Tip: If you're worried about protecting your business assets from creditors or if you would like to income split to save taxes then consider asking your accountant to incorporate a holding company for you.

CHAPTER 9

TAX FOR ONLINE BUSINESS CANADA

Many companies today have a presence online or they are conducting business completely online. While that's great for increasing sales and profits, it does pose many tax issues.

FIRST ISSUE: "IN WHICH COUNTRY DOES MY ONLINE BUSINESS HAVE TO PAY TAX?"

That depends on where your internet business is incorporated. For example, if your online business is incorporated in the United States, then it would have to pay tax in the United States.

However, if you are living in Canada and are conducting your online (internet) business primarily from Canada, then the Canada Revenue Agency will impose tax on the profits from your online business even if it is incorporated outside Canada.

Tip: You must be careful when selecting the jurisdiction of incorporation for your online business in Canada.

SECOND ISSUE: THE HARMONIZED SALES TAX (HST)

HST is applicable at a rate of 13% on product sales and services sold by online businesses to Canadians. Most provinces in Canada impose harmonized sales tax.

It's very important for online business owners to track Canadian sales and non-Canadian sales. More specifically, your sales tracking system must be able to identify the country of residence of the customers that purchased your products and services, in order to ensure that HST is properly charged on Canadian sales.

THIRD ISSUE: INTELLECTUAL PROPERTY

The most valuable asset for an online business in Canada is its intellectual property (IP), including a website or software. It's an excellent idea to have your IP held by one corporation, and to have your other business assets held by a different corporation.

Tip: If you own more than one IP, you could consider creating a separate corporation for each IP owned. This will enable you to sell a particular IP without having to sell your entire business.

Furthermore, in the Canadian tax system, capital gains of up to $750,000 on the sale of Canadian private company shares are not subject to income tax. So when you are selling the shares of a corporation that owns a particular IP, you will not have to pay income tax on the first $750,000 of profit on the sale.

Fourth issue: Research and Experimental Developmental Tax Credits, also known as SR&ED

For online businesses in Canada that are developing software or IP, the Canada Revenue Agency offers a government grant of up to 60% of the money spent on salaries, subcontractors, equipment and related expenses incurred.

Tip: Ensure your SR&ED claim is processed correctly and quickly to receive the grant as many business miss out on the chance.

FIFTH ISSUE: REVENUE AGENCY'S RECENT ADMINISTRATIVE POSITION

It appears that the CRA is aggressively auditing online businesses, especially those conducting business on eBay, for unreported income. Therefore, as an online business owner in Canada, it's important to hire an accountant to ensure your tax returns are correct and up-to-date, and your books and records are properly organized.

CHAPTER 10

TRANSFERRING BUSINESS TO FAMILY MEMBER

A strategy to successfully transferring all or a portion of one's business to family members is the use of an Estate Freeze.

The mechanics of performing an Estate Freeze are described in detail below.

USING AN ESTATE FREEZE

An Estate Freeze will allow you to:

- Transfer your family business to your family members without incurring any income tax whatsoever;
- Retain control of your business, even after you have transferred your business to your family members.
- Have a steady stream of retirement income.

HOW TO IMPLEMENT AN ESTATE FREEZE?

1. Create a Family Trust

A family trust is a legal document that states that the shares of your business are to be held by the family trust on behalf of your family members.

2. Cancel Old Company Shares For New Preferred Shares

The second step is to cancel your old shares in your company in exchange for new preferred shares. Preferred shares are fixed in value, and are equal to the fair market value of your business immediately before the transfer of your business to your family members.

Tip: Dividends should be paid on your preferred shareholdings, in order to ensure that you have a steady stream of income during your retirement years

3. Issuing Common Shares To Family Trust

The next step is to issue common shares in your company to your newly created family trust. This will result in having the future growth in the value of your family business accruing to your family trust.

The Wrong Way The biggest mistake that business owners make time and time again is that they sell their business to their family members for a nominal value, such as $1.However, there are significant, negative consequences for selling your business for $1, when it's worth a lot more.

As a result of selling your business for less than its actual value, the CRA will reassess the selling price to the fair market value of your business.

To determine fair market value of your business, the CRA will evaluate:

- The worth of your business' tangible assets
- The future growth potential of your business
- The current revenues and profitability of your business
- The reputation of your business in the marketplace

Once the CRA has completed their valuation of your business, they will readjust the selling price from $1 to $500,000, and will levy capital gains tax on the sale. When your family member wants to sell the family business at a later time, capital gains tax will be levied again.

CHAPTER 11

LEASE VS. BUY A CAR

Seeing that an automobile is one of the biggest purchases that one can make, it is an important to consider it is better to lease or buy a car for business purposes in Canada.

BUYING A CAR - TAX SAVINGS

- Step 1: Calculate the cost of the car including fees and HST
- Step 2: Calculate The Maximum Amount For Capital Cost Allowance
    - Calculate the maximum amount of the cost of the car that you can depreciate for tax purposes. Depreciation (also known as capital cost allowance or CCA) for cars is 30% per year, and it is tax deductible
- Step 3: Calculate Capital Cost Allowance Deductions

- The total capital cost allowance (CCA) deductions are calculated
- Step 4: Calculate the Tax Saving
    - Calculate the tax savings from deducting the CCA (from step 3) on your personal tax return.
- Step 5: Calculate the After-Tax Cost Of The Car
    - While contemplating a decision to lease or buy a car for a business in Canada is to calculate the after-tax cost of the car over the period of ownership.

LEASE A CAR - TAX SAVINGS

- Step 1: Calculate Cost Of Lease
    - Calculate the cost of a lease over the lease term.
- Step 2: Determine Tax Savings From Lease
    - Calculate the tax savings from deducting the lease payments on your personal tax return.
- Step 3: Calculate After Tax Cost Of Lease
    - When deciding whether to lease, calculate the after-tax cost of the lease.
- Step 4: Compare Cost of Buying Car To Cost Of Leasing Car
    - `The final step is to compare the after-tax cost per year from buying a car to the after-tax cost per year from leasing a car.

Non-Tax Factors

- Non-tax factors that should also be considered when comparing buying vs. leasing an automobile:
- 1. The residual value expected on the sale of a purchased automobile
- 2. The maximum number of KM allowed per year under the lease contract and any surcharges for exceeding the maximum.
- 3. The interest rate implicit in the lease and the interest rate when financing a vehicle purchase.

As such, the answer as to whether buying or leasing an automobile is better must be determined on a case-by-case basis, and cannot be generalized.

Tip: Through your decision making process, compute the total tax deduction over the term of the lease and compare that to the total CCA deductions over the same time period. This direct comparison will allow you to assess whether leasing or buying is more advantageous.

Real Estate Tax

Section 5

CHAPTER 1

US TAX

TAX IMPLICATIONS FOR CANADIAN SELLING US PROPERTY

As a Canadian, be aware of the several tax consequences of selling US real estate properties.

1. 15% Withholding tax

As a Canadian or a non-resident of America, you are subject to U.S. income taxes when selling U.S real estate properties. When you are selling an income earning property, you will be subject to a non- resident withholding tax, which is 10% of the sale price.

You must file a US tax return to report the sale of your property. The withholding taxes paid can be credited towards the U.S. income tax payable on any gain you may realize on the sale.

2. How to reduce withholding tax

Fortunately, there is a way to reduce withholding taxes paid by Canadians on the sale of US real estate. Apply for a withholding certificate before the transfer of property. If you expect your U.S. tax liability to be less than 10% of the sale price, you should apply for this certificate. In this certificate you will need to indicate what amount of tax should be withheld by the purchaser rather than the full 10%.

Note: The application must be filed before the sale's closing date.

3. Canadian income tax on the sale of US real estate

As a Canadian resident, you must report and pay tax on your worldwide income. This includes capital gains realized on the sale of US real estate. The gain will be calculated in Canadian dollars that the actual capital gain or loss reported would include a foreign exchange component in addition to any change in the U.S dollar value of the property.

Tip: To prevent double-taxation, you can claim a foreign tax credit for the US income tax paid on the sale on your Canadian income tax return.

Key learning points

- Retain complete records of property purchased and any receipts for capital improvements made so that the U.S tax can be easily determined at the time of disposition.
- Apply for a U.S. "withholding certificate" on the sale of real estate to lower your withholding tax
- Ensure a U.S. tax return is filed for every disposition of U.S. real property

CHAPTER 2

MOST TAX EFFICIENT WAYS FOR CANADIANS TO BUY A US PROPERTY

1. Direct ownership of the property by an individual

This is the simplest method of buying a US property and therefore, will relieve you of costly accounting and legal fees. The first way that you can own US property is personally, in your name; that means you'll be entitled to the property. In this situation you will file a US non-resident personal income tax return and pay US income taxes on the rental profits derived from the US property. You will also report the US rental profits on your Canadian income tax return and pay Canadian income taxes.

The disadvantage is that you do not have limited liability protection. So, should there be any legal issues, your personal assets like your home, your car, and your investments will all be at risk.

Tip: If you decide to purchase a US rental property personally, then make sure you buy liability insurance to protect yourself.

2. Ownership through a Canadian corporation

Purchasing a US Property through a Canadian corporation is probably one of the most popular methods suggested by cross-border tax accountants and other advisors. The reason being is that it is familiar and relatively easy to administer. However, one of the major disadvantages of this method is that it would create a double taxation problem for investors in the US.

- Corporate Tax – The first is that any income earned by the corporation is subject to tax at the corporate rate.
- Personal Tax – The individual(s) that are paid either dividends or salary will also be taxed at the personal level. [Dividends are a not deductible expense for a C Corporation). Unlike in Canada, there is no American dividend tax credit to offset the double taxation.

- Withholding Tax - Additionally, dividends paid to Canadians are also subject to a 15% withholding tax. Therefore, there are three layers of tax which can potentially accumulate to a significant amount.

3. With a General Partner

There are 3 main components:

a. Limited partnership that owns the American property
b. A Canadian corporation that is a general partner in the limited partnership. The general partner bears all of the risk
c. Individual investors known as limited partners. Limited partners are only at risk for the amount they invest

What's great about this structure is that it's classified as a flow-through for tax purposes. This means that the partnership does not pay tax, but the investors are responsible for paying all tax liabilities.

In addition, any U.S. taxes paid will be credited to you on your Canadian personal tax return, thereby avoiding double taxation. Additionally, the majority of the risk is borne by the general partner.

Tip: This structure works great when you have two or more individuals investing in the U.S. real estate.

4. Through a Canadian trust

Holding American real estate through trust is a great option to avoid U.S. estate tax as part of a tax plan for Canadians buying US real estate. The structure of a trust involves a settlor (the person who provides assets to the trust) and the trustees (the people who hold and becomes 'owners' of these assets and administers them for the benefit of the beneficiaries). The trustees can use the funds from the trust to acquire real estate assets which will then be registered under the trust's name.

Advantages:

- The trust continues to exist even following the death of the individual(s) so it does not trigger U.S. estate tax. Additionally, Canadian capital gains tax will not be triggered and foreign tax credits will remain available if there is any capital gain when and if the property is sold.

Disadvantages:

- The Canadian trust must be established prior to the offer and purchase of the targeted real estate property. So it is essential to plan far ahead.

5. Ownership through a US Limited Liability Partnership (LLP)

The method is to establish a US Limited Liability Partnership for purchasing a property in the US. The benefits of this entity are:

A. It provides asset protection and legal liability protection similar to that of corporations.

B. Investors avoid double taxation as the income from the US property is taxed on the individual level.

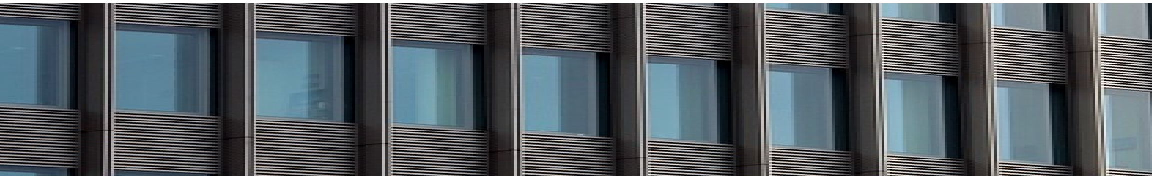
With this method, all partners are classified as limited partners. As a result, limited partners in a LLP can be involved in the management of the LLP and the property owned, without losing their limited liability status. As limited partners, their personal assets are not at risk in the event of a lawsuit against the LLP, and they are only liable up to their investment in the LLP.

CHAPTER 3

TAX TIPS FOR PURCHASING REAL ESTATE

Difference between a Debt and Equity Partner in a Real Estate Joint Venture

- Debt Partner
    - A partner who provides a loan to the other partners within a joint venture. Depending on the terms of the loan, the debt partner would receive the principal back in full when the project is closed and would receive periodic interest payments
- Equity Partner



    - A partnership structure in which the partner shares in the appreciation and profits made while holding the property and after selling it.

    - The higher the equity percentage within the partnership, the higher their share of the profit

Debt or Equity Partnership?

- Generally debt partnerships are more safeguarded because on the dissolution of the partnership, the debt partner receives priority over the equity partner.

- For greater security, the debt partner can ask for collateral which can safeguard their principal

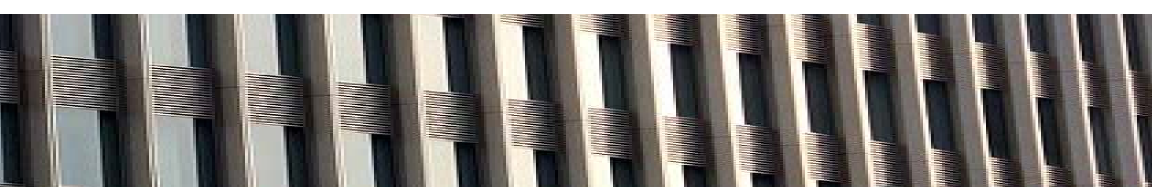
General Partnership vs. Limited Partnership

- General Partnership

    - A structure in which the partners have unlimited liability, meaning that their personal assets are liable to the partnership's obligations. They share equally in profits, liability, and solvency of the partnership

- Limited Partnership

    - A structure in which one or more of the partners is liable only to the extent of the amount of money that they have invested. Their personal assets are not at risk. The limited partner



cannot take part in the management of the partnership nor can they act on behalf of it

Joint Venture – Tax

- In Joint Ventures (JV), each participant is responsible for the profits, losses, and expenses that are associated with it
- Each participant is responsible for their share of the pro rata tax
- Participants of real estate joint ventures, can report their profits, losses and expenses on their T1 return by using form T776 (Statement of Real Estate Rentals). They can also choose to claim CCA

Limited Partnership – Tax

- A limited partnership is classified as a flow-through entity, so all profits and losses flow directly to each limited partner
- The limited partnership does not pay tax on its income, but rather each limited partner is subject to tax on a personal level based on their share of the income
- For tax purposes, the income received may be treated as ordinary income or as capital gains
- Each limited partner will be provided with a T5013 Slip (Statement of Partnership Income)

Joint Venture/Partnership Agreement

- The agreement may establish:

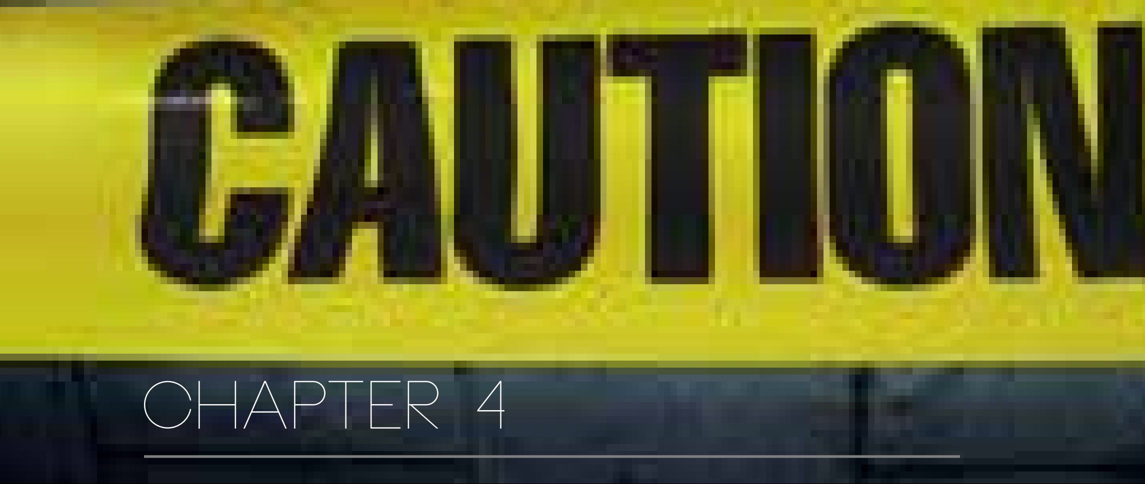
- Business purpose
- Governance structure
- Operational rules
- Initial capital contribution
- Decision-making
- Exit strategy
- Voting rights
- Profit sharing formula
- Other legal considerations

How is US estate tax calculated?

- Each Canadian resident can apply a credit amount of $2,081,800 (in 2014) in estate tax. This effectively shelters $5.34M of taxable estate.

- Estate tax rate is 40% of the estate

- This exemption is allocated based on the value of the Canadian deceased's US estate over the value of the deceased's worldwide estate



CHAPTER 4

CANADIAN REAL ESTATE INVESTMENT IN AMERICA- TOP 4 MISTAKES

1. Not being aware of withholding tax obligations

If you are a Canadian investor and you are purchasing to rent under your own name, there is a 30% withholding tax charged to you. The IRS requires either the tenant or property manager to withhold 30% of gross rent each month to submit to them. Once you file your US return at the end of the year, the IRS will refund any excess withholding tax.

2. Not being aware of property tax returns

There are some states that require you to file an annual property return with your income tax return. The government calculates additional taxes based on the total cost of your assets used in rental activities. This includes furniture, appliances, and any other asset used in renting out the property. The most notable state that does this is Florida.

3. Expensing capital expenditures

People try to claim travelling fees that were used to examine positional opportunities or contact an account or lawyer as rental expenses when these costs are likely capital in nature. Therefore, you must add them to the cost of the property.

Note: The meaning of Property Cost to the IRS is: It represents the actual purchase price, and various costs incurred in buying the property.

Therefore, because you would purchase a plane ticket and paying a fee for the purpose of buying the property, these would be added to the purchase cost.

4. Believing that the rental income/expense does not need to be reported in Canada As a Canadian investor, you are required to report your worldwide income. Therefore, US rental income must be reported on both Canada's and America's income tax returns.

CHAPTER 5

CANADIAN TAX ON REAL ESTATE SALES IN CANADA

PAYING CAPITAL GAINS TAX - TAX ON REAL ESTATE SALES IN CANADA

When you sell an investment property in Canada you are required to pay capital gains tax on real estate sale in Canada. 'Capital Gains Tax' simply means that only half of the profit (i.e. gain) the sale of your real estate investment in Canada will be taxable.

PROFIT ON THE SALE OF REAL ESTATE INVESTMENTS IN CANADA

How do you calculate the profit on real estate sales in Canada?

It is a very simple formula:

Net Sales Proceeds - the Cost = Profit (Gain).

The Net Sales Proceeds is equal to the selling price less legal fees paid to your lawyer and commissions paid to your Realtor.

The cost is computed as the original purchase price, which should be shown on your purchase and sale agreement when you first bought the property, plus land transfer tax, legal fees paid and the cost of any improvements made to the property.

WHAT ARE IMPROVEMENTS?

When calculating year end tax on real estate sales in Canada, you should consider improvements. Improvements increase the cost of your property and therefore reduce the gain and tax on the sale of your real estate investment.

Improvements (also know as capital expenditures) are something that better the quality of the property or extend the life of your real estate investment in Canada.

Tip: Repairs are not improvements and they would not increase the cost of your property for tax purposes..

Capital Cost Allowance

If you are considering selling a property in Canada, you must factor in depreciation, also known as Capital Cost Allowance. Depreciation represents the wear-and-tear on your property and is tax deductible.

When selling depreciable assets such as real estate in Canada, the Capital Cost Allowance that you claim in the prior taxation years must be included in your taxable income in the year of the sale. This is known as recapture. For example, if you claimed $100,000 of Capital Cost Allowance in prior taxation years, then $100,000 of previously claimed Capital Cost Allowance will be included in your taxable income in the year of sale.

Tip: Remember that when selling eligible CCA real estate in Canada, the sale must be reported on your personal tax return, including the capital gain realized and recapture.

CHAPTER 6

GST/HST ON REAL ESTATE DEVELOPMENT

WHAT IS GST/HST?

The GST/HST is a tax that applies to most supplies of goods and services made in Canada. The GST/HST also applies to supplies of real property (for example, land, buildings, and interests in such property).A business must register for the GST/HST if it provides taxable supplies in Canada and is not a small supplier (i.e. total revenues are below $30,000). If you are a GST/HST registrant, you generally have to charge and collect the GST/HST on taxable supplies (other than zero-rated supplies) you make in Canada and file periodic GST/HST returns to report that tax.

THE ROLE OF A BUILDER

For GST/HST purposes, even though a "builder" is generally an individual who constructs new or substantially renovated housing for sale, one does not have to physically do the construction or substantial renovation himself/herself to be considered a builder for GST/HST purposes. As a supplier of newly built or substantially renovated houses (taxable supplies), a builder may be subject to collecting GST/HST upon sale.

INPUT TAX CREDITS (ITCS)

Builders can also claim input tax credits on their periodic GST/HST return to recover GST/HST paid on the acquisition of supplies during construction. However, if the business's gross revenue exceeds $10 million, the provincial part of the ITC may be limited.

SUBSTANTIAL RENOVATIONS

For renovations, GST/HST rules vary depending on whether the renovations are substantial or not. A substantial renovation occurs when all or substantially all (ex. 90% or more) of the interior of a building (excluding particular structural parts such as roof, floors, etc.) are removed or replaced. As well, when a building is converted from non-residential to residential use, the building is also deemed to have been substantially renovated, regardless of how much work has been done.

NON-SUBSTANTIAL RENOVATIONS

When a renovation or repair has been made to a previously occupied home which is not significant enough to be classified as a substantial renovation, any subsequent sale generally qualifies as GST/HST-exempt, only if the owner did not claim ITCs against original improvements and repairs of the house.

However, when a developer makes a non-substantial renovation to a property it owns in the course of a business of developing supplies of the property, a special self-supply rule applies to partially tax the value added under the renovation.

GST/HST CHARGED ON SALE TO CUSTOMER

substantially renovated housing in Ontario on or after July 1, 2010. However, the provincial part of the HST does not apply to a grandparented sale where a written agreement of purchase and sale had been entered into before June 19, 2009, and both ownership and possession transfer to the purchaser under the agreement after June, 2010.

GST/HST NEW HOUSING REBATE

If one builds or substantially renovates a housing that is not for resale (i.e. not in the business of supplying new constructed or substantially renovated housing), the above GST/HST rules will not apply.

If the property is newly constructed or substantially renovated for residential rental purposes, the GST/HST New Housing rebate is not applicable. Instead, the builder may be eligible for GST/HST New Residential Rental Property rebate.

Tip: Real estate development is a rapidly growing business that is currently appealing to many investors and developers. In order to be in compliance with the CRA and Income Tax Act laws, it is critical to be aware of the GST/HST rules which real estate development may be subject to.

CHAPTER 7

HOW TO PREPARE TAX RETURN FOR RENTAL PROPERTIES

There are 5 easy steps to preparing a tax return for real estate investments:

1. Complete Form T776, Statement of Real Estate Rental

Form T776 is used to report the income and expenses related to your rental property for tax purposes. It's an integral part of your tax return.

The net income from your rental property, calculated on form T776, should be entered on line 126 of your income tax return (T1).

2. Calculate Expenses

Now that you know the tax form to complete for your rental property, you must review your expenses to determine what you can deduct from rental income.

The most common expenses that are deductible from rental income are:

1. Bank charges
2. Car expense (to the extent that you used your car for real estate activities)
3. Condo fees
4. Insurance
5. Maintenance and repairs
6. Mortgage interest (not mortgage principal)
7. Property taxes
8. Utilities

The following criteria must be when determining, "Which expenses are tax-deductible from rental income?":

- The expense should be incurred for the purpose of earning rental income
- The amount of the expense should be reasonable

3. Determine Rental Income

The next step in preparing tax returns for rental properties in Canada is to determine the gross rental income.

The gross rental revenue that you earned in the year must be reported on Form T776. Gross rental revenue earned is equal to the amount of rent payments that you received in the year, less prepaid rent received.

Prepaid rent is not rental income, but is a tenant deposit that you are holding onto, usually to be applied against the last month's rent.

4. Claim Capital Cost Allowance (Tax Depreciation)

One of the most important tax decisions that you need to make is whether to claim capital cost allowance (tax depreciation or CCA). CCA is an annual tax-write off, calculated as a % of the cost of the property (excluding land). The following CCA % rates apply:

- 4% for residential properties
- 6% for commercial properties
- 10% for properties used in the manufacturing industry

Tip: The advantage of claiming CCA is that it reduces your taxable income from the rental property. The disadvantage is that at the time of sale, all of the previous CCA claimed must be recaptured into taxable income and is therefore subject to tax.

5. Calculate Gain Or Loss On Sale

The last step in "How to prepare tax returns for rental properties in Canada" is to calculate the capital gain or loss.

When you sell your rental property, you will either have a capital gain or a capital loss. The capital gain/loss is calculated as follows:

- Capital Gain: ½ x [Sale proceeds (after commissions and legal fees) in excess of the original cost of the property]
- Capital loss: ½ x [Original cost of property in excess of the sale proceeds (after commissions and legal fees)]

Only half of a capital gain is taxable and similarly only half of a capital loss is recognized.

The capital gain or loss is reported on Schedule 3 of the tax return and is also entered on line 127 of your personal tax return (T1).

Note: Capital losses can only be applied against capital gains.

CHAPTER 8

USING RRSP TO INVEST IN REAL ESTATE

You can borrow money from your RRSPs to buy real estate. Here is how it works:

1. Your RRSP purchases a mortgage. Mortgages are eligible investments for RRSP purposes.
2. Money from the mortgage is transferred from your RRSP to you. You can use this money to make a downpayment on a property.
3. The RRSP mortgage is secured against the real estate purchased, this is known as collateral.
4. You make monthly payments of both interest and principal to your RRSP until it is fully repaid overtime. The interest rate charged and amortization time period must be reasonable.

For this strategy to work, the RRSP mortgage must be insured by CMHC, or a similar insurer.

As a bonus, the interest paid can be deducted from your income if you plan on renting the property that you purchased.

Other uses of RRSP mortgages include, making substantial renovations to your home, or using your RRSP money to pay down your mortgage faster.

Tip: Unlock the money in your RRSPs to make your next real estate investment.

CHAPTER 9

FIRST TIME HOME BUYER'S TAX CREDIT

TIP NUMBER ONE: NON-REFUNDABLE TAX CREDIT

If you are buying a home for the very first time you can claim a non-refundable tax credit of up to $750. This new tax credit is based on a percentage of $5,000. The following conditions apply:

- You or your spouse or common-law partner acquired a qualifying home
- You did not live in a home owned by you or your spouse or common-law partner in the year of purchase or in any of the four previous years

TIP NUMBER TWO: HOME BUYER'S PLAN:

The home buyer's plan is another incentive for those households buying their very first home. With this plan each spouse can withdraw up to $25,000, 100 percent tax free, from their RRSPs, to make their home buying dream come true. The amounts withdrawn are not taxable, but you have to complete form T-1036 in order to make the home buyer's plan request for withdrawal.

TIP NUMBER THREE: THE HEALTHY HOME RENOVATION TAX CREDIT:

The healthy home renovation tax credit is a refundable tax credit available to seniors and family members who live with them and have bought a home. You can claim up to $10,000 of eligible home improvements on your tax return. The amount of money you get back is equal to 15 percent of the eligible expenses you make. For example, if you spend $10,000 on eligible home improvement expenses, you will receive $1,500 on your tax return.

TIP NUMBER FOUR: THE NEW HOME REBATE

The next strategy for families that are looking to buy their first home or have already bought a home and have done extensive home renovations is to claim the GST/HST paid under the new housing rebate.

TIP NUMBER FIVE: CLAIM HOME OFFICE EXPENSES:

If you are self-employed and work from home you are entitled to a wide range of deductions. Some common home-office expenses include:

- Mortgage interest on your residence
- Utilities
- Property taxes
- Repairs and maintenance
- Home insurance

The percentage of the deductible home-office expenses is equal to the size of your workspace at home relative to the size of your entire home. For example, if your house is 2,000 square feet, but your office is 500 square feet, you would be able to claim 25 percent of your home-office expenses.