

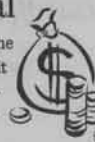
Voman must explain yearly to RCA why her husband's expense deductions are legal

ne begins her tax filing process each year with a long argument: Accountants do not know how her self-employed husband have a T4 (he has CPP and EI deducted but no tax. After phone calls to Revenue Canada, Diane relates in an e-mail, the accountants figure out how to over-ride the tax software and produce a

TAX HORROR STORY 2

tax return. Invariably, Revenue Canada challenges her husband's travelling and living expenses as a contract worker and bills him for more tax and CPP. After years of stressful conversations with

assessors, Diane has learned to download the form explaining the deduction and include it in the return. She writes, "I really dislike having to teach Revenue Canada how to do their job." *Financial Post*



TAX TIPS FOR THE TOP EARNER

In the eternal quest to keep more of your hard-earned money in your own hands, a tax expert lays out a straightforward plan which, if followed, will pad your savings

By CHARLES P. MARQUETTE

FLOW-THROUGH SHARES/ RRSP DOUBLE DEDUCTION:

1. A 150% net deduction is possible if a taxpayer subscribes for flow-through shares prior to the current year-end and receives a deduction for the investment in that year. The taxpayer then contributes the flow-through shares to his or her RRSP in the first 60 days of the next year and receives a deduction for the investment a second time. Only 50% of the second year's resulting capital gain is subject to income tax so the net effect is a 150% deduction.

150%

ALTER EGO OR JOINT PARTNER TRUSTS:

2. Alter ego trusts or joint partner trusts are options for those 65 years or older. Assets are contributed to a trust that provides the holder and spouse with exclusive rights to income and capital during their lifetime. When properly designed, these trusts allow assets to be contributed on a tax-deferred basis and can offer a reduction in probate tax.

CONTRIBUTE EARLY:

3. Funds invested early in the year in an RRSP year earn up to 12 months of investment income without being taxed. Early RESP contributions allow tax-deferred investment income to be increased faster and accelerates the availability of Canada Education Savings Grants.



SHAREHOLDERS AND ACTIVE BUSINESS CORPORATIONS:

4. An owner of a business operated by his or her corporation can affect an estate freeze by exchanging the current value of shares for fixed value-preferred shares. These new growth shares are then allocated to family members or a family trust. Dividend income from the shares can be admissible for income splitting among low-income family members and the capital gains resulting from any disposition of the shares held by the family trust can be allocated to family members.

MAXIMIZE USE OF \$500,000 CAPITAL GAINS EXEMPTION:

5. Individuals owning qualified small business corporation shares can benefit from a lifetime capital gains exemption of up to \$500,000. Combined with an estate freeze and family trust, family members of the main shareholder can multiply the capital gains exemption in the event of a sale of the corporation by having the capital gains in the family trust allocated to family members, each claiming up to \$500,000 of capital gains exemption.

REVISE YOUR WILL:

6. Maximize use of progressive rates of personal income tax by using multiple testamentary trusts in your will. If you plan to leave your estate to more than one heir, for example your spouse and two children, provide in your will that your liquid assets be divided up into three trusts. Income earned in the children's trusts that is not distributed is taxed at progressive rates of income tax, which are more favourable than having all investment income earned by one single taxpayer. For the spouse's trust, the will should provide sufficient latitude to transfer assets that have increased in value to defer tax.

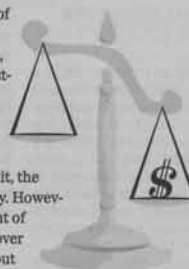


INTEREST DEDUCTIBILITY:

7. If your plans for 2006 include buying or renovating a home or vacation property and you need to borrow for it or you are carrying a mortgage on a house or vacation property? In either case, your effective carrying costs can be significantly reduced by arranging a new loan or restructuring an existing one so that the interest is tax deductible. Interest deduction is only allowed if the money is borrowed to earn business or property income; interest on a loan for personal purposes, including home or vacation property ownership, is not deductible. However, if you already own a business or an investment portfolio that is not financed with debt, the new borrowing can be structured for interest deductibility.

OVER CONTRIBUTION:

8. An over-contribution of \$2,000 to your RRSP, though not deductible, can earn tax-free investment income over the course of the period held by the RRSP. Generally, if a taxpayer contributes an amount to his or her RRSP beyond the deductible limit, the excess will be subject to a penalty. However, there is a safe harbour amount of \$2,000 that can be contributed over and above the usual limits without attracting the penalty. If one wishes, this over contribution can be used in future years as part of the permitted contribution.



INDIVIDUAL PENSION PLAN:

9. Shareholders of business corporations, who are actively running the corporation and earning employment income, can implement an Individual Pension Plan. IPPs can allow for greater fund contributions than an RRSP. The contributions made by the corporation are deductible from its income and are not taxable income until the benefits are paid out upon retirement. Generally, these plans are best suited for shareholders/employees over 45 years old.

ASSET PROTECTION TRUST:

10. An asset protection trust shields an individual from creditor claims. The income tax advantages are not significant but probate tax on death may be reduced as the estate of the deceased does not own the assets that are in the asset protection trust.



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