



## **JANUARY 2008**

### **NOTICE TO READER**

The following commentary has been prepared by Parker Garber & Chesney, LLP based on information available to the public on the date of publishing.

Readers are cautioned that this commentary is informational only and that any issues specific to the reader's needs be addressed with the appropriate tax professional.

The reader is cautioned that this document is not meant to provide advice specific to the reader's particular situation and that advice cannot be given in such a manner.

## **ONTARIO BUSINESS TAX PACKAGE**

The Ontario Government announced a number of business tax initiatives that will take effect over the next three years. They include the following:

- The elimination of capital tax for companies engaged in manufacturing and resources activities effective January 1, 2008;
- Reducing capital tax rates for all business by 21% retroactive to January 1, 2007 and to be fully eliminated in 2010;
- Increasing the small business deduction to \$500,000 retroactive to January 1, 2007 and increasing the claw-back limit to \$1.5 million;
- Increasing the film tax credits effective January 1, 2008; and
- Extending the phase-out of the Labour-Sponsored Investment Fund tax credit.

In addition it should be noted that Ontario corporations will no longer remit instalments to Ontario effective with their 2009 fiscal period instalments but will remit them with the Federal instalments.

## **CORPORATE TAX**

### **YEAR-END TAX PLANNING**

There are a number of matters that corporate taxpayers should be mindful of as the corporate year-end approaches.

### **SHAREHOLDER DRAWS**

If the shareholders have drawn funds in excess of amounts owing to them by the corporation they will have two potential tax implications applied. The first is that the amount will be treated as a loan and the imputed interest rate (currently 4%) will be considered a taxable benefit. In addition the amount of the outstanding loan will be considered a taxable benefit if not repaid by the end of the second fiscal period of the corporation after the loan is advanced.

Attempts to shelter the loan through a series of loans and repayments will not avoid the taxable benefits mentioned above.

A review of the loan accounts and consideration of paying bonuses or dividends should be undertaken prior to year-end. If it is common practice to draw funds from the corporation and determine the treatment later it may be advisable to record the bonus or dividend at the beginning of the year so that the loan does not go into overdraft and trigger an unintended tax event. Care should be taken that, if a bonus is paid, that the payroll deductions are remitted on a timely basis.



## **LOSS UTILIZATION**

The company generally can apply non-capital losses (usually active business losses) back three years and forward seven years from the fiscal year the loss is incurred. In the event that losses are approaching the expiry date the shareholders should consider action to trigger capital gains or transfer assets into the corporation that can earn income to use up the available losses.

## **CAPITAL DIVIDEND ACCOUNTS (CDA)**

As a general rule corporations should review the capital dividend account for any opportunity to pay tax-free capital dividends to Canadian shareholders. The CDA is the accumulation of the untaxed portion of capital gains, including those triggered by donations of marketable securities, less net capital losses, plus capital dividend distributions, proceeds from the sale of goodwill and proceeds from life insurance policies.

The election to pay the dividend must be filed with CRA prior to the date of payment and must be accompanied by a resolution by the Board of Directors.

## **GENERAL ISSUES**

### **2008 AUTOMOBILE DEDUCTION LIMITS**

The Minister of Finance has announced the limits for 2008 which will remain unchanged from 2007. It appears the mandarins at the Ministry still live in that vacuum that has indicated a lack of recognition of the cost of purchasing or leasing a vehicle.

The maximum price of a vehicle for capital cost allowance remains at \$30,000 before tax.

The maximum lease amount that can be deducted remains at \$800 before tax.

The maximum deductible interest expense on a loan to purchase a vehicle remains at \$300 per month.

The tax-exempt allowance per kilometre has been increased by \$0.02 per kilometre to \$0.52 per kilometre for the first 5,000 kilometres and \$0.46 for each additional kilometre.

