



Periodic Information Newsletter

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DECEMBER 2004

For information and interesting links, visit our web site at : WWW.BARATZJUDELMAN.COM

In lieu of Holiday Cards, this year Baratz Judelman, Chartered Accountants has decided to donate to the following charities: Canadian Cancer Society, The Hospital for Sick Kids and The Daily Bread Food Bank.

The partners and staff of Baratz Judelman take this opportunity to extend to you and your family best wishes for the Holiday Season and health, happiness and prosperity.



REMINDER: YEAR-END TAX PLANNING

1. If the following *expenditures* are made by *individuals* by **December 31, 2004** they will be eligible for 2004 tax deductions: moving expenses, child care expenses, safety deposit box fees, charitable donations, political contributions and medical expenses.
2. **2004 eligible Registered Retirement Savings Plan (RRSP) contribution** amounts are noted on the 2003 *personal income tax return assessment notices*. You have until **March 1, 2005** to make tax deductible RRSP contributions for the 2004 year.

Consider contributing to a *spousal RRSP* to achieve income splitting in the future.
3. Persons turning **age 69 in 2004** must *mature* their RRSP into cash, an annuity or a Registered Retirement Income Fund by December 31, 2004.
4. If you own a business, consider paying a *reasonable salary* to family members for their services rendered to the business.
5. An individual whose **2004 net income** exceeds \$59,790 will lose all, or part, of their *old age security*.

Senior citizens will begin to lose their income tax *age credit* if net income exceeds \$29,124.
6. Consider purchasing assets eligible for *capital cost allowance* before the year end. For example, *employees* may claim capital cost allowance on *automobiles* used in their employment. - Must have a T2200.
7. If you had taxable capital gains in the *year*, or any of the *preceding three years*, consider selling capital properties with an *underlying capital loss* prior to the year end. This capital loss may be offset against the capital gains.
8. If income in an *inter vivos trust* is to be taxed on a beneficiary's return, the income must be *paid or payable* to the beneficiary by **December 31, 2004**.
9. **Registered Education Savings Plan (RESP)**

A *Canada Education Savings Grant* (CESG) for RESP contributions will be permitted equal to 20% of annual contributions for children (maximum \$400 per child per year).

The 20% is proposed to be increased to 40% or 30% for lower income families commencing January 1, 2005.
10. **Health and dental premiums for the self-employed**

Individuals will be allowed to *deduct* amounts payable in respect of the year for *Private Health Service Plan* coverage in computing *business income* provided they meet certain criteria.

11. Taxpayer-Requested Adjustments

Currently an *individual* may request an adjustment to a tax return back to 1985.

It is proposed that *after 2004*, adjustments will be limited to ten years back. Therefore, adjustments for *1985 to 1995* should be requested by *December 31, 2004*.



MEDICAL EXPENSES

In a June 29, 2004 *Technical Interpretation*, Canada Revenue Agency notes that an amount *paid to a medical doctor* normally qualifies as a *medical expense* even if it is for *cosmetic or elective surgery*.

This includes *cosmetic eyelid surgery, botox and artecoll injections*.



TUITION FEES REIMBURSED

In a June 7, 2004 *Technical Interpretation*, Canada Revenue Agency notes the *employer-paid tuition* (and related costs) may *not* be a *taxable benefit* to the employee. This includes courses in a field *related* to the employee's *responsibilities* as well as courses *not directly related* to the employer's business such as stress management, employment equity, first aid and language skills.



MOTOR VEHICLE EXPENSE DEDUCTION

In a July 15, 2004 *Technical Interpretation*, Canada Revenue Agency notes that where an employee receives a reasonable *per kilometre reimbursement* for the use of his/her personal motor vehicle in connection with employment duties, the reimbursement is generally *excluded* from *employment income*.



BUSINESS / PROPERTY INCOME

LOSSES ON SHARE SALE

In a June 25, 2004 French *Tax Court* of Canada case, the taxpayer was permitted a *business loss*, not a capital loss, on the *sale of shares* which were *speculative* in nature.

SALARIES PAID TO CHILDREN - DISALLOWED

In a June 23, 2004 *Tax Court* of Canada case, the Court disallowed a *deduction for salaries* to his *sixteen* and *twelve* year old children against his self-employed business income for reasons including:

- (i) The amounts were either *not paid* to them or, upon being paid, were *immediately redeposited* in bank accounts of either the business or the parents.
- (ii) There was *not sufficient documentation* and,
- (iii) The children *did not declare* any amounts on their tax returns.

PRIVATE HEALTH SERVICES PLAN

Where an employer enters into a Private Health Services Plan for an employee, the expenses are generally *deductible* to the *employer* and *not taxable* to the *employee*. This *deductible/non-taxable* status may *not apply* if the Private Health Services Plan is *only* available to *shareholders*.



RRSP - HOME BUYERS' PLAN (HBP)

The *HBP* permits an individual to *borrow* up to *\$20,000* from his/her *RRSP* to purchase *a home in Canada*. To qualify, the borrower, or his/her spouse, *cannot have an owner-occupied home* in the four preceding years. Each spouse may withdraw up to *\$20,000* from their *RRSPs* to *jointly purchase* a home.



ELDERLY TAXPAYERS

Some considerations for *elderly taxpayers* follow.

1. Sign a *Power of Attorney* for management of property and *personal care matters*.
2. *Avoid probate fees* by naming *beneficiaries* to life insurance policies and pension plans, *joint ownership* and by *multiple wills*.

Also, assets could be rolled over to an *Alter Ego Trust* or a *Joint-Spousal or Common-Law Partner Trust*.

3. A *Will* may be used to *defer gains* by transferring assets to a spouse or a Spousal Trust, to deem a *charitable donation* to have been made in the year of death, to establish a *Testamentary Trust* eligible for a separate year end and graduated tax rates, to provide for a *windup* of a holding company, and to gift *publicly traded securities* to a charity to take advantage of the 25% taxable capital gain.



CRITICAL ILLNESS

Critical Illness insurance is being called one of the hottest things in the Canadian Insurance market. Invented by South African heart Specialist Marius Barnard, the product pays out a tax-free lump sum 30 days after the diagnosis of a dreaded disease as long as you survive the period. Basic policies cover the big three **cancer, heart attack and stroke**. Further coverage is available for other conditions, among them **coronary bypass surgery, Alzheimer disease and coma**. Chances of having a critical illness before age 65 is one in three. Canadian insurers still offer long term premium guarantees and a return of premium option where 100% of the premiums are returned if there has been no claim at the end of a policy's period.

(Article courtesy of Mr. Raymond Pitch)



WEB TIPS

BUSINESS VALUATION CALCULATOR

This website has a **seven step calculator** that allows you to make a **quick business valuation**.

<http://www.cdnbx.com/valuations/quickValuation1.asp>

This website also contains a **market comparison section, rules of thumb for valuing Canadian businesses, and a search tool to find brokers, advisors** and other related professionals throughout Canada.



CREDITOR PROOFING

Some **creditor proofing strategies** for **owner-managed business**:

1. Transferring assets out of a company

- By placing capital assets in a **separate holding company**, subsequent legal claims arising in the operating company may not affect these assets.
- Paying **tax-free dividends** to a holding company may protect assets from future claims.

2. Securitizing the position of the business owner

- Shareholder loans may be secured by a **general security arrangement** to give the shareholder priority over all unsecured creditors.
- Consider an **estate freeze** such that the future growth will go to other family members.
- Transfer assets into a **Discretionary Family Trust**.



UPDATES

1. Small business deduction increased to \$300,000 effective 2005 instead of 2006.
2. Non-capital loss carry-forwards was increased from 7 years to 10 years for taxation years ending after March 22nd, 2004. Existing losses continue to have 7 year carry-forwards.
3. The capital cost allowance (depreciation) rate for computers increased from 30% to 45% declining balance effective March 22nd, 2004.
4. All statutory fines and penalties now non-deductible after March 22nd, 2004.
5. Ontario Health premiums was introduced in 2004 and applies to individuals resident in Ontario on December 31st each year. Trusts and non-residents are exempt from the premium.



SUCCESSION - a true story to consider

John, a World War II survivor, arrived in Toronto in the early 50's. He hardly knew how to read or write but managed to establish a successful trucking business. He purchased a yard and building for the business, had a few "shekels" in the bank and was generally well off. John was a respected member of his Synagogue and made yearly major donations to various charities. John sent his children to University to have a higher education so that their "lot in life" would be better. One son, Sam was studying for his MBA.

John never wore a tie or jacket to work and was in at 6:00 am daily. The fleet of 20 or so trucks was now old, the trucks were beaten-up, the original colours faded. Daily, at least 2 to 3 trucks were being repaired.

When John's son, Sam, finished his MBA, he joined his father's business. Sam who always was immaculately dressed, used modern management theories, delegated work and acted as an executive, starting at 9:00 am and finishing at 5:00 pm.

About 2 months later, based on a financial formula from one of Sam's textbooks, the business purchased a fleet of 20 brand new red trucks. According to the formula, it did not pay to repair the trucks. The smart thing was to buy new trucks, which will be more efficient, requiring less repair, etc., etc.

It took only months of this new management style to leave the once thriving business with no trucks, no building, no yard and no money.

John passed away without seeing the demise of his little empire.

Sam took a job with another trucking company...

OUR HOLIDAY SCHEDULE: Please be advised that the office will be closed on the following dates:
Friday, December 24th, 2004, Monday, December 27th, 2004 and Friday, December 31st, 2004.

You may contact all partners and staff at the following email addresses :

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