

Tax Services

Year-End Tax Planner: 2009

—for Individuals and Owner-Managed Businesses



Looming Tax Deadlines – December 2009 to April 2010

This calendar includes many key tax deadlines during the next few months.

Among the deadlines **not** included are those for provincial payroll taxes, payroll withholdings, provincial health insurance premiums, workers' compensation, federal and provincial *corporate* income and capital tax payments, Goods and Services Tax/Harmonized Sales Tax and provincial sales taxes.

Deadlines falling on holidays or Sundays may be extended to the next business day.

	Su	Mo	Tu	We	Th	Fr	Sa
2009 December			1	2	3	4	5
	6	7	8	9	10	11	12
	13	14	15	16	17	18	19
	20	21	22	23	24	25	26
	27	28	29	30	31	1	2
	2010 January	3	4	5	6	7	8
10		11	12	13	14	15	16
17		18	19	20	21	22	23
24		25	26	27	28	29	30
31		1	2	3	4	5	6
February		7	8	9	10	11	12
	14	15	16	17	18	19	20
	21	22	23	24	25	26	27
	28	1	2	3	4	5	6
March	7	8	9	10	11	12	13
	14	15	16	17	18	19	20
	21	22	23	24	25	26	27
	28	29	30	31	1	2	3
	April	4	5	6	7	8	9
11		12	13	14	15	16	17
18		19	20	21	22	23	24
25		26	27	28	29	30	

Dec. 15 **Final quarterly instalment of tax due:** For individuals (other than unincorporated farmers and fishermen)

Dec. 24 **Final trading day on which to settle a trade in 2009:**

- Canadian stock exchanges: Likely December 24
- U.S. and others: Consult your broker

Dec. 31 **Final payment date for a 2009 tax deduction or credit:**

- Alimony and maintenance payments
- Charitable donations
- Child care and child fitness expenses
- Contributions to your own RRSP if you are 71 by December 31
- Employees' legal fees to collect unpaid remuneration
- Employees' registered pension plan contributions
- Interest (for paid-basis taxpayers)
- Investment counsel fees and other investment expenses
- Medical expenses
- Moving expenses (of individuals)
- Political contributions
- Safety deposit box rental fees (not deductible in Quebec)
- Tuition fees and interest on student loans

Employer-provided automobile:

- Employees should notify employers if the alternative operating cost benefit calculation is advantageous (need > 50% business use)
- Last day to make payments to employer to reduce standby charge

Final instalment of tax due:

- For unincorporated farmers and fishermen
- Others: See December 15

Other items for employees and employers:

- Last day to purchase business-use capital assets for CCA claim in 2009

Jan. 10 **Quebec employees with employer-provided automobile:** Last day to provide employer your logbook (deadline is earlier in some cases)

Jan. 15 **Stock option benefits:** Last day for employees to file or revoke designations to defer stock option benefits on options exercised in 2009
U.S. taxes: estimated tax payments due for individuals

Jan. 30 **Loans:**

- Interest due on intra-family loans
- Non-deductible interest due on loans from employer (to reduce interest benefit)

Jan. 31 **Home renovation tax credit (federal):** Last day to acquire goods or incur home renovation expenditures

Feb. 14 **Employer-provided automobile:** Last day to reimburse employer for costs to reduce operating cost benefit

Feb. 28 **Tax reporting slips:** Filing deadline for T4, T4A and T5 Summary and Supplementaries

Employer-provided automobile: Last day to notify employer regarding reduction in standby charge benefit for low personal use of vehicle (<50%), but for practical purposes it must be earlier

Mar. 1 **RRSPs:**

- Last day for all regular 2009 contributions
- In respect of taxpayers who died in 2009, the last date for contributions to a surviving spouse's RRSP for a deduction in deceased's final return
- Home Buyer's Plan repayment due

Mar. 15 **Quarterly instalment of tax due**

Mar. 31 **Income tax returns for *inter vivos* trusts:** Last day to file without penalty
Tax reporting slips: Filing deadline for NR4 Summary and Supplementaries relating to amounts paid or credited to non-residents of Canada

Apr. 15 **U.S. taxes:**

- Final 2009 and 2010 estimated tax payments for individuals due
- U.S. individual tax return due (an extension may be available)

Apr. 30 **Personal income tax returns:** Last day to file without penalty, except:

- June 15 if individual or spouse carried on a business in the year
- deadline may be later if individual or spouse died

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How to Use this Planner

This *Year-End Tax Planner* is designed primarily for individuals who have accumulated some wealth or who own their own businesses (large or small). Contact your PricewaterhouseCoopers adviser or any of the individuals listed on page 20 to discuss how this *Year-End Tax Planner* applies to you.

This edition is current to October 26, 2009, and provides year-end tax planning checklists for:

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Parents and Spouses	10	U.S. Connections	13
Students	11		

Other features include:

- a calendar of upcoming tax filing and other deadlines (inside front cover);
- integration tables relating to active business income and investment income (page 15);
- key personal and corporate income tax rates (pages 16 and 17);
- titles of additional PricewaterhouseCoopers publications, which are available at www.pwc.com/ca/publications (page 18); and
- a list of PricewaterhouseCoopers podcasts, which are available at www.pwc.com/ca/taxtracks (page 19).

Of course, tax is only one aspect of a complete financial plan. Other elements should reflect investment philosophies, sound business practices, cash flow management and motivational considerations. Given the economic environment, cash flow management remains important for 2009 and 2010. Owner-managed businesses should ensure that sufficient funds are retained to meet business objectives. This will affect an owner-manager's decisions on remuneration and cash flow management.

What is New for 2009?

Federal

- **Corporate income tax rates** – general and M&P rate dropped from 19.5% to 19% in 2009 and will decrease in stages to 15% by 2012; small business rate remains 11% in 2009.
- **Small business threshold** – increased from \$400,000 to \$500,000, retroactive to January 1, 2009.
- **Manufacturing and processing (M&P) machinery and equipment** – capital cost allowance (CCA) enhanced from 30% declining balance to 50% straight-line for purchases made before 2012 (previously, before 2010).
- **Computer and systems software** – CCA rate increased from 55% declining balance to 100% (no half-year rule) for purchases after January 27, 2009, and before February 2011.
- **Eligible dividends** – personal taxes increasing in stages from 2010 to 2012.
- **Tax-Free Savings Account** – new, commencing 2009.
- **Home Renovation Tax Credit** – new, for home improvement expenditures incurred after January 27, 2009, and before February 1, 2010; similar credit available in Quebec for 2009.

What is New for 2009? (continued)

Provincial

- **Corporate income tax rates** –
 - **General and M&P rate** – declining in British Columbia (2010 and 2011), Manitoba (2009), New Brunswick (2009 to 2012) and Ontario (2010 to 2013); increased in Quebec (2009).
 - **Small business rate** – declining in Ontario (2010) and Prince Edward Island (2009 and 2010); to decline to 0% on April 1, 2012, in British Columbia, and on December 1, 2010, in Manitoba.
 - **Ontario small business clawback rate** – to be eliminated on July 1, 2010.
- **Small business threshold** – \$500,000 threshold applies:
 - for 2009, in New Brunswick, Newfoundland and Labrador, Northwest Territories, Nunavut, Ontario, Prince Edward Island and Saskatchewan; and
 - after March 19, 2009, in Quebec, after March 31, 2009, in Alberta and after December 31, 2009, in British Columbia.
- **SR&ED** –
 - **Alberta** – 10% refundable credit available for eligible expenditures, commencing 2009.
 - **Saskatchewan** – credit is fully refundable for qualifying expenditures after March 18, 2009.
- **General capital tax** – to be phased out for all provinces by July 1, 2012.
- **Ontario corporate tax harmonization** – corporate income tax, capital tax and corporate minimum tax (CMT) to be administered by the Canada Revenue Agency (CRA) commencing taxation years ending after December 31, 2008.
- **Ontario CMT** – rates and thresholds revised for taxation years ending after June 30, 2010.
- **Quebec aggressive tax planning** – measures to counter aggressive tax planning proposed.
- **Quebec Sales Tax (QST) rate** – to increase from 7.5% to 8.5% on January 1, 2011.
- **Sales tax harmonization** – On July 1, 2010, the 5% federal Goods and Services Tax (GST) and:
 - British Columbia's 7% Social Services Tax will be replaced with a 12% Harmonized Sales Tax (HST).
 - Ontario's 8% Retail Sales Tax will be replaced with a 13% HST.
 Transitional rules will apply.

International

- **International tax system** – recommendations in the Advisory Panel on Canada's System of International Taxation's final report are under review.
- **Canada-U.S. tax treaty** – Protocol entered into force on December 15, 2008; eliminates withholding tax on most interest (over three years for interest on related-party debt), among other changes.

International Financial Reporting Standards (IFRS)

- for fiscal years beginning after December 31, 2010, private enterprises may adopt IFRS, while "publicly accountable enterprises" must adopt IFRS for financial statements.

Year-End Tax Planning Checklists

The following checklists provide tactics you should consider as part of your year-end tax planning. Many of these points are complex, so working with your PricewaterhouseCoopers adviser is essential.

Owner-Managed Businesses

- Salary/dividend mix** – Determine the optimal mix of salary and dividends for you and other family members for 2009.
 - Consider all relevant factors, including the owner/manager's marginal tax rate, the corporation's tax rate, provincial health and/or payroll taxes, RRSP contribution room (\$122,223 earned income in 2009 is required to maximize RRSP contribution in 2010), CPP contributions and other deductions and credits (e.g., for child care expenses and donations).
 - Be aware that the receipt of dividends (especially eligible dividends) can increase your alternative minimum tax (AMT) exposure.
 - If the individual does not need to extract cash, consider retaining income in the corporation.
 - Tax is deferred if the corporation retains income when its tax rate is less than the individual owner-manager's rate. See Table 1 on page 15.
 - In times of economic uncertainty, this will help the corporation's cash flow. It also will allow the corporation to have income and pay corporate tax that may be recovered by possible future business losses.
 - All provinces –
 - Ensure that owner-manager remuneration strategies account for increases in personal taxes on eligible dividends from 2010 to 2012.
 - Except in New Brunswick, consider accelerating eligible dividends to 2009 to take advantage of lower eligible dividend tax rates in 2009.
 - British Columbia, Ontario, Prince Edward Island – Consider accelerating non-eligible dividends to 2009 to take advantage of lower non-eligible dividend tax rates in 2009.
 - New Brunswick – Consider deferring the payment of salary and/or dividends to 2010 and later years to benefit from staggered decreases in personal tax rates from 2010 to 2012.
 - Qualifying small business corporation share status – Recognize that forgoing bonus and/or dividend payments and stockpiling passive investments could cast doubt on whether substantially all of the assets of a Canadian-controlled private corporation are used in an active business, in turn jeopardizing the ability to claim the \$750,000 lifetime capital gains exemption.
 - Scientific research and experimental development (SR&ED) – Consider not forgoing bonus payments if this
 - causes a Canadian-controlled private corporation's SR&ED investment tax credits (ITCs) to be non-refundable and subject to the lower ITC rate. (If the company has non-refundable ITCs, consider leaving some income to use the non-refundable ITCs.)
- Dividend tax regime** – Be aware of how the dividend tax rules will affect dividend distributions.
 - Designate dividends that qualify as eligible dividends. (Designation procedures differ for public and non-public companies, but both require the designation to be made at the same time as or before payment of the eligible dividend.)
 - Consider electing to treat all or part of any excess eligible dividend designation as a separate non-eligible dividend.
- Canadian-controlled private corporations (CCPCs)** –
 - Determine the CCPC's ability to pay eligible dividends by estimating its general rate income pool (GRIP) as at its 2009 year end.
 - Consider distributing dividends in the following order:^a
 1. Eligible dividends that trigger a refundable dividend tax on hand (RDTOH) refund.
 2. Non-eligible dividends that trigger a RDTOH refund.
 3. Eligible dividends that do not trigger a RDTOH refund.
 4. Non-eligible dividends that do not trigger a RDTOH refund.
 - a. However, depending on the jurisdiction of residence, paying non-taxable capital dividends should be inserted as the second or third preference.
 - Consider making the election that permits a CCPC to be treated as a non-CCPC for purposes of the dividend tax regime. For a newly incorporated CCPC that is expected to earn only active business income and will not benefit from the small business deduction, this would eliminate the need to calculate and monitor GRIP before paying eligible dividends.
 - A CCPC that will become a non-CCPC (i.e., planning to go public or become controlled by non-residents) should consider the effect of the federal dividend tax rules, as well as the deemed year end rules.
- Non-CCPCs** –
 - Determine whether the non-CCPC must pay non-eligible dividends before it can pay eligible dividends, by computing its low-rate income pool (LRIP).
 - A non-CCPC that will become a CCPC should consider the effect of the federal dividend tax rules.

- Cash flow management** – Recognize that managing your business cash flow is critical in times of economic uncertainty. To reduce working capital outflows, reduce or defer tax instalments (if lower taxable income is expected), maximize federal and provincial refundable and non-refundable tax credits (e.g., SR&ED investment tax credits and film, media and digital incentives), trigger capital losses to recover capital gains tax paid in previous years and recover any income, sales or customs tax overpayments from previous years.
- Salaries to family members** – Pay a reasonable salary to a spouse or child who is in a lower tax bracket and provides services to your business. This also allows family members to have earned income for CPP, RRSP and child care expense purposes.
- Remuneration accruals** – Accrue reasonable salary and bonuses before your business year end. Ensure accrued amounts are paid within 179 days after the business' year end and appropriate source deductions and payroll taxes are remitted on time.
- Employees profit sharing plans (EPSPs) and retirement compensation arrangements (RCAs)** – Consider setting up an EPSP or RCA as an alternative to paying a bonus.
- Donations** – Make charitable donations and provincial political contributions (subject to certain limitations) before year end. See our booklet, *Charitable Giving Guide for Donors (2008 edition)*.
- Final corporate tax balances** – Pay final corporate income and capital tax balances and all other corporate taxes imposed under the *Income Tax Act* within two months after year end (three months for certain CCPCs).
- Corporate withdrawals** – Make tax-effective withdrawals of cash from your corporation (e.g., by paying tax-effective dividends or non-taxable capital dividends, returning capital, repaying shareholder loans or redeeming preferred shares).
- Corporate income** – Consider deferring income to 2010 and later years by maximizing discretionary deductions (e.g., CCA) in 2009 to benefit from the following corporate rate reductions:
 - Small business rate** – small business rates will decrease in Manitoba, Ontario and Prince Edward Island in 2010, and small business thresholds will be higher in British Columbia after 2009 (see Table 5 on page 17).
 - General rate** – the federal general income tax rate will decline from 19% to 18% in 2010, to 16.5% in 2011 and to 15% in 2012. General rates will also decline in British Columbia, Manitoba, New Brunswick and Ontario (see Table 4 on page 16).
- Depreciable assets** –
 - Accelerate purchases of depreciable assets. Ensure assets are available for use at year end.
 - Purchase eligible computers and systems software before February 2011. The CCA deduction is enhanced from 55% declining balance to 100% (no half-year rule).
 - Purchase eligible M&P machinery and equipment. The CCA deduction is enhanced from 30% declining balance to 50% straight-line, for purchases made before 2012.
- Reserves** – Identify and claim any additional reserves for doubtful accounts receivable or inventory obsolescence.
- Business income reserve** – If you sold goods in 2009 and the proceeds are receivable after the end of the year, you may be able to claim a reserve over a maximum of three years.
- Dispositions** – Defer, until after year end, planned dispositions that will result in income.
- Accounting method** – Consider changing the corporation's method of accounting in respect of the timing of income inclusions. This may require the Minister's approval.
- Costs of doing business** – Compare costs of doing business in different jurisdictions.
- Capital tax** – Discuss with your PricewaterhouseCoopers adviser ways to reduce provincial taxable capital. Be aware that general capital tax applies only in Manitoba, Nova Scotia, Ontario and Quebec and will be phased out for all provinces by July 1, 2012. It was eliminated in New Brunswick on January 1, 2009, and in Saskatchewan on July 1, 2008. The tax is eliminated in Manitoba for certain M&P companies. It is reduced or eliminated in Ontario for certain manufacturing or resource companies and in Quebec for certain manufacturing companies.
- Sales to related businesses** – Ensure that goods sold to related businesses are resold to third parties before year end.
- Intercompany charges** –
 - Ensure charges are reasonable given changes in the economy.
 - Consider adjustments to intercompany charges to reduce overall taxes paid by the related group. For example, charge reasonable mark-ups for services provided by related corporations.
- Capital gains rollover** – If you sold or will sell eligible small business investments in 2009, invest the proceeds in other eligible small business investments by April 30, 2010, to be eligible to defer all or part of the capital gain.
- Capital gains reserve** – If you sold or will sell capital property in 2009 in exchange for debt, you may be able to

defer recognition of part of the capital gain by claiming a capital gains reserve over a maximum of four years.

- Foreign exchange** – Consider triggering a foreign exchange loss that is on account of capital before year end to offset capital gains in the current year or previous three.
- Retirement income** – Consider setting up an individual pension plan as a means of enhancing retirement income.
- Shareholder loans to your corporation** – Determine whether your corporation would benefit from deductible interest on shareholder loans made to the corporation, to reduce active business income to the \$500,000 threshold. This threshold is lower in some jurisdictions (see Table 5 on page 17).
- Shareholder loans from your corporation** – Repay shareholder loans from your corporation no later than one tax year after the amount is borrowed (exceptions apply).
- Protect your investment in your business assets** – Consider:
 - transferring assets (i.e., real estate and intellectual property) from the operating company to a separate company; and
 - arranging to secure a loan from a shareholder.
- Exemption for qualified small business corporation shares** –
 - Structure the business so that corporate shares become or remain eligible for the \$750,000 capital gains exemption.
 - Consider crystallizing the capital gains exemption and multiplying access to the \$750,000 capital gains exemption with other family members.
- SR&ED** – Ensure claims in respect of SR&ED expenditures or investment tax credits are filed by the 12-month deadline, which starts six months after the corporation's year end. Federal changes (also see provincial on page 6) to the SR&ED program:
 - for CCPCs, increase the taxable income phase-out range for the \$3 million limit on SR&ED expenditures to \$500,000 and \$800,000, when a CCPC's previous taxation year ends after 2008 (up from \$400,000 and \$700,000);
 - require new Form T661, *Scientific Research and Experimental Development (SR&ED) Expenditures Claim* to be filed for taxation years ending after 2008; Form T661 requires a significant amount of additional information to be disclosed for each project. See *Developments*, "Revised Form T661: Implications for Your Company's SR&ED Claim"; and
 - require a separate Part 2 (Project Information) of Form T661, *Scientific Research and Experimental Development (SR&ED) Expenditures Claim* to be filed for

every project claimed (instead of only the 20 largest projects), effective for taxation years ending after 2009. See *Developments*, "CRA Provides Relief for Claims with More than 20 Projects."

- Ontario corporate tax harmonization** – Commencing taxation years ending after December 31, 2008, Ontario corporations will file a combined federal and provincial income tax return. As a result, Ontario companies must be aware of tax rule changes (e.g., elimination of the Ontario addback for non-arm's length payments to non-residents, a new 4.5% non-refundable R&D tax credit, conversion of the tax deduction for political contributions into a non-refundable tax credit) and transitional rules that adjust Ontario tax attributes (e.g., tax depreciation pools, SR&ED pools) to federal tax attributes. See our:
 - Tax Memo*, "Ontario Tax Harmonization: What It Means for Corporations"; and
 - Developments*, "SR&ED Planning for Ontario Corporate Tax Harmonization."
- Ontario Corporate Minimum Tax (CMT)** – For taxation years ending after June 30, 2010, revisions to the Ontario CMT rate and thresholds may result in fewer companies being subject to CMT. If you have CMT credit carryovers, consider strategies to use these credits before they expire.
- Quebec aggressive tax planning schemes** – Be aware that Quebec has issued a consultative document that sets out proposed measures to counter aggressive tax planning. See our *Tax Memo*, "Revised Quebec Aggressive Tax Planning Proposals" and podcast, "Quebec Proposals on Aggressive Tax Planning."
- Additional registrations** – Check whether any additional registrations are required, such as for provincial sales tax.
- GST/HST** –
 - Ensure that GST/HST has been correctly paid on taxable supplies and that input tax credits have been claimed on eligible expenses throughout the year.
 - British Columbia, Ontario – Set up a transition team to prepare for the harmonization of provincial sales tax with the federal GST on July 1, 2010. In addition:
 - evaluate the impact of the harmonized sales tax on costing and pricing;
 - assess the tax effect related to inter-provincial sales, central purchasing and importing goods;
 - review all contracts and agreements that straddle July 1, 2010, and all contracts with one- to two-year terms that will be entered into or renewed, to consider the effect of harmonization on these contracts; and
 - review the timing of planned expenditures and capital acquisitions, and plan appropriate strategies to either accelerate or defer large purchases.

See our *Tax Memos* listed on page 18 under **Sales tax harmonization**.

- Quebec sales tax (QST)** – Be aware that the QST rate will increase from 7.5% to 8.5% on January 1, 2011. Consider accelerating large purchases.
 - Property tax** –
 - To challenge the company's property tax bill, appeal the property value assessment, which is generally mailed early in the year. Filing deadlines vary by province, are compulsory and usually fall before the property tax bill is mailed.
 - Ontario** –
 - Be aware that all property owners received a property assessment notice in 2008 based on the property's value as of January 1, 2008. A property owner will not receive a new assessment notice unless the assessment has changed. This notice will be used to calculate property taxes for the 2009 to 2012 tax years. A company can appeal its 2008 property assessment (used for the 2010 tax bill) by March 31, 2010. On appeal, the onus is on the assessment agency to prove that the assessed value is correct.
 - A company that has a vacancy in a commercial or industrial facility in 2009 may be able to claim a tax refund by filing a request to the municipality by February 28, 2010. It is the owner's responsibility to file for this rebate.
 - Verify your company's property tax rate classification (i.e., industrial, commercial). Use of the correct tax rate may result in reduced property taxes.
 - Discuss with your PricewaterhouseCoopers adviser ways to reduce municipal property tax.
 - International Financial Reporting Standards (IFRS)** – Be aware that private enterprises may adopt IFRS and "publicly accountable enterprises" must adopt IFRS, for interim and annual financial statements for fiscal years beginning after December 31, 2010; earlier adoption may be permitted. The move to IFRS from current Canadian GAAP could affect the measurement and reporting of income taxes for financial statement purposes and the calculation of Canadian taxes payable. See our *Tax Memos*, "The Move to IFRS: Tax Implications," and "Not Just Another Accounting Exercise: Managing Change for the Tax Function."
 - Environmental incentives** – Be aware of federal and provincial environmental incentives that can help your company go green and save money. See our *Going Green Tables*, which are available federally and for all provinces, and our podcast, "Going Green Incentives."
 - Provincial tax incentives** – Benefit from provincial tax incentives and enhancements to these incentives. For example, determine whether your company qualifies for:
 - Media tax incentives** – enhanced or extended in British Columbia, New Brunswick, Ontario, Quebec, Saskatchewan and Yukon.
 - Apprenticeship training tax credits** – enhanced and/or extended in British Columbia, Manitoba and Ontario.
 - Co-op education tax credits** – enhanced in Manitoba and Ontario.
 - SR&ED tax credits** – available in the Yukon and all provinces, except Prince Edward Island. Enhancements in:
 - Alberta, introduce a refundable SR&ED tax credit for eligible expenditures incurred after 2008 (maximum annual credit of \$400,000);
 - Manitoba, make the 20% credit fully refundable for eligible expenditures incurred in Manitoba after 2009 under a contract with a qualifying research institute for new technologies and biotechnologies;
 - Ontario, increase the taxable income phase-out range for the \$3 million Ontario Innovation Tax Credit (OITC) limit on SR&ED expenditures to \$500,000 and \$800,000, when a CCPC's previous taxation year ends after 2008 (up from \$400,000 and \$700,000); and
 - Saskatchewan, make the credit fully refundable for qualifying expenditures after March 18, 2009.
 - Environment tax credits** – Provincial credits that were extended or introduced include:
 - Manitoba – Green Energy Equipment Tax Credit and Odour-control Tax Credit; and
 - Quebec – Green Vehicle Tax Credit.
 See our *Going Green Tables* for more incentives.
 - Quebec tax exemption for commercialization of intellectual property** – a new 10-year income tax exemption is available for corporations that:
 - are incorporated in Canada after March 19, 2009, and before April 1, 2014;
 - commercialize intellectual property developed in Quebec universities or Quebec public research centres; and
 - derive all or almost all of their income from active businesses that are eligible commercialization businesses.
 Ontario introduced a similar 10-year income tax exemption for commercialization of intellectual property in 2008.
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Employees

- Income deferral** – Defer the receipt of certain employment income if your marginal personal tax rate will be lower in 2010 than in 2009.
- Job-related courses** – Ask your employer to pay for job-related courses directly rather than paying you additional remuneration.
- Scholarship programs** – Ask your employer to set up a program that provides non-taxable scholarships that may benefit your and other employees' children. Funds allocated by your employer to a discretionary bonus pool could instead be used to fund this program.
- Employee gifts and awards** – Ask your employer to provide you with non-cash gifts and/or awards. These will not be taxable to you if you receive:
- in 2009, up to two non-cash gifts with a total cost to your employer of \$500 or less and up to two non-cash awards with a total cost to your employer of \$500 or less; or
 - after 2009, non-cash gifts and non-cash awards with a total value to you of \$500 or less annually.
- Exceptions apply.
- Employee loans** – Ensure that any interest you intend to pay relating to employee loans for 2009 is paid on or before January 30, 2010.
- Home office** – If you work out of your home, try to arrange your employment terms so that you can deduct certain expenses related to your home office.
- Employee home purchase loans** – If you expect interest rates in 2010 to rise, take out or replace an employee home purchase loan before January 1, 2010, to take advantage of the current prescribed rate (1% for the fourth quarter of 2009). See our *Tax Memo*, "1% Taxable Benefit Rate: Action Required Before January 1, 2010."
- Stock option benefits of public companies** – If you exercised stock options during 2009 on publicly traded shares, you may be able to defer the benefit related to exercising these options by notifying your employer before January 16, 2010.
- Reduce income tax deductions at source** – If you will have excess tax deductions or non-refundable tax credits in 2010, request reductions in your payroll income tax withholdings early in 2010 (Form T1213).
- Public transit pass tax credit** – Claim this federal non-refundable tax credit for the cost of public transit passes (monthly or longer) and certain weekly and electronic payment cards. Yukon has a parallel credit. Retain passes or receipts to support claims.
- Company car** – Try to reduce or eliminate your operating cost benefit and/or your standby charge benefit if you have a company car. Regarding the operating cost benefit:
- reimburse your employer for some or all of the personal use portion of the actual operating costs; and
 - reduce your personal driving (to under 50% of total driving, if possible).
- To reduce or eliminate your standby charge benefit:
- reduce the number of days the car is available to you;
 - have your employer sell the automobile and repurchase it or lease it back;
 - do not use the automobile for personal driving; and
 - choose a less expensive vehicle.
- For more information, refer to our booklet, *Car Expenses and Benefits – A Tax Guide (2009)*.
- Tracking motor vehicle use** – Keep an automobile log book to support motor vehicle expense and taxable benefit calculations. Commencing 2009, a logbook maintained for a sample period that is representative of the motor vehicle's use, will be sufficient to support these calculations for all jurisdictions except Quebec. (Quebec's rules are more stringent.)
- Retirement savings plans and profit-sharing plans** –
- Take advantage of higher contribution limits:
- | | Registered Retirement Savings Plans (RRSPs) | Money Purchase Registered Pension Plans (RPPs) | Deferred Profit-Sharing Plans (DPSPs) |
|------|---|--|---------------------------------------|
| 2009 | \$21,000 | \$22,000 | \$11,000 |
| 2010 | \$22,000 | Indexed | Indexed |
- If your taxable income is below the highest tax bracket, consider maximizing your RRSP contributions each year, but delay claiming the amount as a deduction until a future year when your taxable income is in a higher tax bracket.
- Personal services business** – Discuss with your PricewaterhouseCoopers adviser the merits of incorporating a personal services business. Income from a personal services business may be distributed as eligible dividends.
- GST rebate** – Determine whether you can claim a GST rebate to recover GST included in employment expenses you have deducted (e.g., home office expenses, supplies and automobile expenses).

Investors

- Investment portfolio mix** – Because each type of investment is taxed differently, determine the optimal mix of investments in your portfolio and ensure that you are getting the best after-tax returns. Consider whether it is more beneficial to hold investments that yield eligible dividends rather than capital gains. This will depend on your marginal tax rate and province of residence.
- “Eligible” dividends** – Be aware that:
 - the receipt of eligible dividends can trigger an alternative minimum tax (AMT) liability;
 - personal taxes on eligible dividends are increasing in stages from 2010 to 2012; and
 - for individuals in lower tax brackets, eligible dividends received could be “tax-free” or reduce tax on the taxpayer’s other income.
- “Non-eligible” dividends received by residents of British Columbia, Ontario or Prince Edward Island** – Consider whether increases in personal taxes on non-eligible dividends affect your preference for earning capital gains and/or interest through a holding company (see Table 3 on page 16).
- Tax-Free Savings Account (TFSA)** – If you are a Canadian resident age 18 or older, contribute to a TFSA. Contributions will not be deductible, but withdrawals and income earned in the TFSA will not be taxed. See our *Tax Memo*, “Tax-Free Savings Account – A Good Way to Save.”
- Flow-through entities (FTEs)** – Consider the implications of federal rules that apply starting in the 2007 taxation year for FTEs (i.e., income trusts and partnerships) first publicly traded after October 31, 2006, and beginning in the 2011 taxation year, for other publicly traded FTEs. See our *Tax Memo*, “More Tinkering with SIFT Rules.”
- Stock exchange cut-off** – Consult your stockbroker to determine the last day on which a sale executed through a stock exchange will be considered a 2009 transaction for tax purposes (likely December 24 for Canadian exchanges).
- Interest deductibility** –
 - If possible, pay off non-deductible debt before deductible debt (or debt for which the interest qualifies for a non-refundable credit; i.e., interest on student loans). Borrow for investment or business purposes and use cash for personal purchases that would otherwise generate interest costs.
 - Consider rules that limit the deductibility of investment expenses for Quebec tax purposes to the investment income earned in the taxation year. This limit does not apply to expenses incurred to earn active business income or to trusts, other than personal trusts.
- Accrued capital losses** –
 - Sell securities with accrued losses before year end to offset capital gains realized in the current or previous three years. Beware of superficial loss rules, which limit the deductibility of a loss.
 - Close out option contracts with inherent capital losses in 2009, rather than 2010, to shelter taxable capital gains.
- Accrued capital gains** – Delay selling securities or other assets with accrued gains until 2010.
- Capital gains deferral** – If you will sell capital property in 2009, you may be able to defer recognition of part of the capital gain by having the purchaser stagger payment of the proceeds. This may allow you to claim a capital gains reserve over a maximum of four years.
- Mutual funds** –
 - Delay mutual fund purchases to January 2010 or consider selling mutual funds before year end to minimize your allocation of taxable income for 2009. Be careful if you acquire a mutual fund during the year; you may be allocated income that was earned by the fund before your purchase.
 - If you are a non-resident investor in Canadian mutual funds, determine whether you can recover any excess Canadian withholding tax paid.
- Donating securities** – Consider the tax benefits of donating publicly listed securities with an accrued capital gain. See our booklet, *Charitable Giving Guide for Donors (2008 edition)*.
- Foreign exchange gains and losses** – Consider changes in foreign exchange rates when selling foreign securities. Depreciation in the Canadian dollar relative to U.S. currency may reduce the capital loss or add to the capital gain that will be triggered on the disposal of these securities and *vice versa* when there is appreciation in the Canadian dollar relative to U.S. currency.
- Foreign investment entities (FIEs)** – If you invest through offshore funds, be aware that the federal government will reconsider the draft rules relating to investments in these entities to further broaden the existing rules, in light of the report of the Advisory Panel on Canada’s System of International Taxation. The draft rules would change the tax treatment of shares or other interests held in FIEs for taxation years beginning after 2006.
- Transactions involving trusts** –
 - If you were or will be involved in transfers to or from trusts, contact your PricewaterhouseCoopers adviser for an evaluation of the tax implications. The transfers may trigger a taxable event.

- If the trust has non-resident beneficiaries, contact your PricewaterhouseCoopers adviser to assess the tax implications. The existence of a non-resident beneficiary may trigger Canadian and foreign taxes.
- Be careful if making a loan to or incurring debts on behalf of a testamentary trust. This could cause the trust to lose that status.
- If the trust's twenty-first anniversary occurs in 2010, consider planning to avoid the deemed disposition of assets at fair market value on the twenty-first anniversary of the trust.
- Non-resident trusts** – Be aware that in light of recommendations made by the Advisory Panel on Canada's System of International Taxation, the federal government will reconsider the draft rules to further broaden the existing rules. The draft rules would change the tax treatment of non-resident trusts and their beneficiaries, generally for taxation years beginning after 2006.
- Foreign accrual property income (FAPI)** – If you or your corporation holds 10% or more of the shares of a foreign company, be aware that the federal government will reconsider the remaining outstanding foreign affiliate measures, which were released in February 2004, in light of recommendations made by the Advisory Panel on Canada's System of International Taxation in December, 2008. These proposals may significantly change the FAPI tax regime.
- Principal residence** –
 - Home Renovation Tax Credit** – Claim on your 2009 tax return, a non-refundable tax credit on eligible home improvement expenditures exceeding \$1,000, made after January 27, 2009, and before February 1, 2010, under agreements entered into after January 27, 2009 (maximum credit is \$1,350). Retain receipts.
 - Home buyers' incentives** – If you are a first-time home buyer:
 - withdraw tax-free up to \$25,000 (previously \$20,000) from your RRSP, under the Home Buyers' Plan to acquire a home (also applies to a spousal RRSP); and
 - claim the First-Time Home Buyers' Tax Credit (maximum credit is \$750) if you purchased a qualifying home after January 27, 2009, to be used as your principal place of residence.
- Property tax** –
 - To challenge your property tax bill, you must appeal the property value assessment, which is generally mailed early in the year. Filing deadlines vary by province, are compulsory and usually fall before the property tax bill is mailed.
- If you reside in Ontario, be aware that all property owners received a property assessment notice in 2008 based on the property's value as of January 1, 2008. A property owner will not receive a new assessment notice unless the assessment has changed. This notice will be used to calculate property taxes for the 2009 to 2012 tax years. To challenge your 2008 residential property assessment (used for the 2010 tax bill), you must file a "Request for Reconsideration" with the assessment agency by March 31, 2010. If you are not satisfied with the agency's response, you can file an appeal within 90 days of the date of the response. On appeal, the onus is on the assessment agency to prove that the assessed value is correct.
- Provincial tax incentives** – Ensure you benefit from provincial tax incentives and changes to these incentives. For example, determine whether you qualify for:
 - Labour-sponsored venture capital tax credits** – enhanced in New Brunswick, Newfoundland and Labrador and Saskatchewan and extended in Nova Scotia.
 - Manitoba community enterprise tax credits** – enhanced, starting 2009:
 - Development credit – maximum value of issuable shares that a business can apply for has increased to \$1 million; and
 - Investment credit – maximum annual approval limit has increased to \$33 million.
 - New Brunswick small business investor tax credit** – allowable investment increased from \$80,000 to \$250,000 per year (increasing the maximum annual credit from \$24,000 to \$75,000) for investments made after March 17, 2009.
 - Nova Scotia equity tax credit** – maximum annual claim will increase to \$17,500 (from \$15,000), commencing 2010 and the program is extended to February 29, 2012.
 - Quebec SME Growth Stock Plan** – renamed the Stock Savings Plan II, effective March 20, 2009, enhanced and extended to December 31, 2014.
 - Quebec tax credit for shares issued by Fondation** – increased from 15% to 25%, for shares acquired after May 31, 2009, and no later than the end of the fiscal year in which the Fondation is at least \$1.25 billion capitalized.
 - Quebec home renovation tax credit** – new refundable 20% tax credit can be claimed on eligible expenditures exceeding \$7,500 paid before July 1, 2010, to qualifying contractors under home construction and renovation contracts entered into during 2009 (maximum credit is \$2,500 per eligible dwelling). Retain receipts.

Parents and Spouses

- Estate planning arrangements** – Review annually to ensure that these arrangements meet their objectives.
- Income splitting** –
 - If you have cash to invest and a spouse or children in a lower tax bracket, consider an income-splitting plan. Income-splitting arrangements requiring a loan to a family member should be set up before January 1, 2010, to take advantage of the current prescribed rate (1% for the fourth quarter of 2009). See our:
 - Tax Memo*, “1% Taxable Benefit Rate: Action Required Before January 1, 2010”; and
 - Wealth and Tax Matters (Spring 2009)*, “Opportunity knocks: How to use low interest rates to reduce taxes.”
 - Interest on intra-family loans must be paid on or before January 30, 2010, to avoid attribution of income.
 - Income earned by discretionary *inter vivos* family trusts must be paid or made payable to beneficiaries by December 31, 2009, to be included in the beneficiary’s income.
 - If you own shares in a private corporation, discuss with your PricewaterhouseCoopers adviser the use of a trust to split income with your adult children.
- Registered education savings plan (RESP)** –
 - Contribute to an RESP for your child or grandchild. For more information, refer to our *Tax Memo*, “Understanding RESPs.”
 - Plan for the RESP to receive the maximum lifetime Canada Education Savings Grant of \$7,200, which depends on annual RESP contributions and the beneficiary’s age.
 - If you reside in Alberta, ensure the RESP receives funds from the Alberta Centennial Education Savings Plan (lifetime maximum of \$800 per child).
 - If you reside in Quebec, ensure that the RESP receives the Quebec Education Savings Incentive, which has a lifetime maximum of \$3,600.
- Child care expenses** –
 - Pay child care expenses for 2009 by December 31, 2009, and get a receipt.
 - Remember that boarding school and camp fees qualify for the child care deduction (limits may apply), as does the cost to advertise or use a placement agency to find a child care provider.
- Universal Child Care Benefit (UCCB) and Canada Child Tax Benefit (CCTB)** – If you receive these benefits, invest the funds in a separate account in trust for your children. Investment income on these funds will not be taxable to you.
- Registered disability savings plan (RDSP)** – If your child qualifies for the disability tax credit and if RDSP assets or income will not disqualify your child from receiving provincial or territorial income support, you should:
 - set up an RDSP to qualify for Canada Disability Savings Bond (CDSB) payments (lifetime maximum of \$20,000 per child);
 - contribute to an RDSP to qualify for Canada Disability Savings Grant (CDSG) payments (lifetime maximum of \$70,000 per child); and
 - plan to optimize the lifetime CDSG paid to an RDSP by taking into account annual CDSG limits, which depend on net family income.

For more information, see our *Wealth and Tax Matters (Spring 2009)*, “Registered Disability Savings Plans: Helping persons with disabilities save for their future.”
- Children’s fitness tax credit** – Claim this federal non-refundable tax credit on up to \$500 of fees paid per child under 16 for enrolment in a physical activity program. Different rules apply for children with disabilities. Manitoba and Yukon have parallel credits, Nova Scotia has a similar credit and, commencing 2009, Saskatchewan provides a refundable tax credit for children aged six to 14 for cultural, recreational and sports activity fees. Pay fitness expenses by December 31, 2009, and retain receipts.
- Employment leave by spouse** – If your spouse is leaving the workforce, time contributions to and withdrawals from a spousal RRSP to provide your family with extra disposable income.
- Children abroad** – Consider whether your will and estate plan need to be updated for children who no longer reside in Canada.
- Private health services plan (PHSP) premiums** – If you are self-employed, determine whether PHSP premiums you paid can be deducted from your self-employment income. Premiums that are not deductible may be claimed as a medical expense.

- Provincial tax credits** – Ensure you benefit from provincial tax credits and changes to these credits. For example:
 - New Brunswick medical expense tax credit** – Commencing 2009, claim up to \$10,000 (up from \$5,000) of medical or disability-related expenses for a dependent relative as a medical expense tax credit.

- Quebec child care expense tax credit** – Ensure you benefit from enhancements to this credit. Commencing 2009:
 - the limit on child care expenses paid for a child under seven years at the end of the year (other than a child who qualifies for the disability tax credit) will increase from \$7,000 to \$9,000; and
 - families with incomes between \$84,040 and \$140,450 will benefit from higher credit rates.

Students

- Education and textbook tax credits** – Claim these credits if you attend post-secondary school.
- Scholarships and other amounts** – Exclude from your income the full scholarship, fellowship or bursary for attending an elementary or secondary educational program or for a program that entitles you to the education tax credit. (Quebec does not tax scholarships or other prizes eligible for the federal exemption.)
- Unused and unclaimed tax credits** –
 - If you are unable to use your education, tuition or textbook tax credits, you may transfer them to your spouse, parent or grandparent (subject to limitations).
 - Remember that the carry-forward period is generally:
 - indefinite for unclaimed education, tuition and textbook credits; and
 - five years for unclaimed student loan interest.
- Registered education savings plan (RESP)** – If you attend a post-secondary program part-time, determine whether you are eligible for Educational Assistance Payments (EAP) from your RESP.
- Lifelong Learning Plan (LPP)** – Make a tax-free withdrawal from your RRSP to finance the full-time training or education (part-time for students who meet one of the disability conditions) for yourself, your spouse or your common-law partner. You may withdraw up to \$10,000 in a calendar year and up to \$20,000 in total.
- Moving expenses** – If you moved to attend school or moved from school to work or home, your moving expenses may be deductible.
- Foreign university** – If you attended a foreign university:
 - your tuition fees may be eligible for a tuition credit in Canada; and
 - you may be able to claim the education and textbook tax credits.
- Graduates** – If you graduate from an eligible post-secondary program and live and work in:
 - Manitoba** – claim an income tax rebate on up to 60% of tuition fees over a minimum of six years (maximum lifetime rebate of \$25,000).
 - New Brunswick** – claim a 50% tax rebate on tuition fees (maximum lifetime rebate of \$20,000).
 - Nova Scotia** – claim:
 - an income tax rebate over six years of up to \$15,000 (university) or up to \$7,500 (college diploma or certificate), if you graduated after 2008; and
 - a tax credit of up to \$2,000 within three years of graduation if you graduated in 2006, 2007 or 2008.
 - a remote resource region in Quebec** – claim a tax credit of up to \$8,000 over three years if you work in your field of specialization.
 - Saskatchewan** – claim a refundable tax credit that will rebate up to \$20,000 of tuition fees over seven years.

Seniors

- Inter vivos trust** – If you are over the age of 64 and live in a province with a high probate fee, consider establishing an *inter vivos* trust as part of your estate plan.
- Old Age Security (OAS)** –
 - If you no longer receive OAS benefits because your income is too high, consider ways to average or reduce your income so that you can continue to receive this government pension.
 - Consider whether the allocation of pension income from a spouse or receipt of “eligible” dividends (subject to a 45% gross-up) will trigger an OAS clawback. Instead of receiving eligible dividends, consider receiving capital gains. Only 50% of the gain is included in income for OAS purposes.

- Canada Pension Plan (CPP)/Quebec (QPP)** – If you receive CPP or QPP payments, consider splitting that income with your spouse by requesting to share the CPP or QPP payments.
- Your RRSP** – If you turn 71 in 2009, you must wind up your RRSP by the end of the year. This means that you can:
 - contribute to your RRSP only until December 31, 2009;
 - contribute (before the normal March 1, 2010 deadline) to your spouse's RRSP until the end of the year your spouse reaches age 71, if you have unused RRSP contribution room or earned income in the previous year;
 - defer taxes on all or a portion of the amount in your RRSP by transferring the funds to a registered retirement income fund or a life income fund; and
 - make a contribution for 2010 by December 31, 2009, and pay any applicable penalty.
- Pension income** –
 - If you receive pension income (e.g., from a registered pension plan, registered retirement savings plan or registered retirement income fund), consider allocating up to half of this income to your spouse or common-law partner.
 - Have \$2,000 of pension income if you are age 65 or older so that you can claim the maximum pension credit.
- Life income funds (LIFs)** – If you own:
 - a LIF, be aware that in most jurisdictions the options for you to make withdrawals from a LIF have increased (e.g., if you face financial hardship, are age 55 or older, or have been a non-resident of Canada for 24 months).
 - Ontario-regulated LIFs, you can unlock 50% of your LIF (up from 25%), commencing January 1, 2010.
- Your RRIF** – If your RRIF investments declined in value and you think that the investments will rebound in value, consider an “in-kind” withdrawal (e.g., transfer to another investment account at your financial institution) to satisfy the RRIF's minimum withdrawal requirements. Income tax must still be paid on the fair value of the withdrawal.

Individuals and Businesses with International Connections

- Foreign reporting requirements** – Review your foreign holdings to determine if you have a reporting obligation. Individuals, corporations, trusts and partnerships that own specified foreign property with a total cost exceeding \$100,000 at any time in the year are required to file form T1135. Taxpayers resident in Canada that own shares of a non-resident corporation that is a foreign affiliate must file an information return (Form T1134). Other forms may also be required.
- Sale of property by non-residents** – Commencing 2009, if you are a non-resident and dispose of “taxable Canadian property,” you or your business may be exempt from the withholding, clearance certificate and Canadian income tax return requirements if the gain will not be taxable in Canada by virtue of a tax treaty.
- Withholding tax** – Be aware that, commencing 2008, Canadian withholding tax is eliminated on most interest paid to arm's length non-residents.
- Electronic commerce** – Ensure that your electronic presence in a foreign jurisdiction does not trigger an unexpected foreign tax bill.
- Accounts receivables and other debts owing from non-residents** – Ensure amounts outstanding more than one year bear interest at reasonable rates. Exceptions apply.
- Thin capitalization** – If your corporation has debt owing to a foreign lender that is a significant shareholder or related to a significant shareholder, consider whether the thin capitalization rules limit the deduction of interest on the debt. The rules limit the permitted debt/equity ratio to 2:1.
- Anti-Tax-Haven Initiative** – Be aware that a new federal rule, which would have restricted the deductibility of certain interest payable after 2011 on investments in debt or equity of foreign affiliates, was repealed.
- Transfer pricing** – If your corporation has transactions with a related party in a foreign country, ensure your transfer pricing documentation meets the requirements imposed by the Canadian transfer pricing rules and by the rules of the foreign country. Non-compliance can result in penalties.

- Tax Information Exchange Agreement (TIEA)** – Be aware that Canada intends to sign TIEAs with non-treaty countries – the first signed is with the Kingdom of the Netherlands in respect of the Netherlands Antilles. For determining when the TIEA applies, the entry into force of a TIEA is important, rather than the date that it is signed. See our *Tax Memo*, “Canada Signs its First Tax Information Exchange Agreement (TIEA).”
- Payments to non-residents** – Be aware that you may be required to withhold 15% of certain payments made to a non-resident that relate to fees, commissions or other amounts in respect of services (excluding remuneration) rendered in Canada.
- Sales taxes/value added tax and customs duty** –
 - If your company has activities (e.g., selling, importing or exporting goods or supplying services) in foreign countries, determine whether it is required to register for sales tax/value added tax (VAT) or pay custom duties or other levies.
 - Ensure that documentation of your foreign transactions meets local requirements. Check whether the structure of your transactions is optimal for sales tax/VAT and customs purposes.
 - If you have dealings with foreign businesses in Canada, ensure that you meet federal and provincial sales tax obligations (e.g., withhold 4% guarantee from payments made to non-resident contractors working in Ontario if they do not provide a letter of compliance).

Individuals and Businesses with U.S. Connections

(This document was not intended or written to be used, and it cannot be used, for the purpose of avoiding U.S. federal, state or local tax penalties that may be imposed on the taxpayer.)

- Deferred compensation** – If you are a U.S. citizen or green card holder and participate in a deferred compensation plan (e.g., supplementary executive retirement plan, retirement compensation arrangement, deferred share unit plan, stock appreciation right, severance arrangement) or are entitled to receive deferred compensation, discuss with your PricewaterhouseCoopers adviser how U.S. rules that regulate the deferral of income, plan funding and plan distribution may affect you.
- U.S. estate tax** – If you are not a U.S. citizen or resident, determine whether your property holdings include shares in U.S. corporations (including stock options to acquire such shares), U.S. real estate, debt obligations issued by U.S. residents, interests in U.S. partnerships, or any personal property that is located in the U.S. If so, determine your possible exposure to U.S. estate tax and how to minimize it.
- Canadian RRSPs, RRIFs, RPPs and DPSPs** – If you are a U.S. citizen, green card holder or U.S. resident alien in 2009, and are the beneficiary of a Canadian registered retirement savings plan, registered retirement income fund, registered pension plan and/or deferred profit sharing plan, determine:
 - what information you need to provide to the Internal Revenue Service (IRS);
 - the format for reporting this information; and
 - the reporting deadlines.
- U.S. retirement plans** – If you are a Canadian resident who has investments in U.S. 401(k) or IRA plans, discuss with a PricewaterhouseCoopers adviser if you can transfer these funds to an RRSP on a tax deferred basis.
- Canadian RESPs** – If you are a U.S. citizen, green card holder or U.S. resident alien in 2009, consult with your PricewaterhouseCoopers adviser before contributing to an RESP.
- Canadian Tax-Free Savings Accounts (TFSA)** – If you are or became a U.S. citizen, green card holder or U.S. resident alien in 2009, contact your PricewaterhouseCoopers adviser about your TFSA or before setting up a TFSA. It appears that investment income earned in a TFSA will be taxable for U.S. purposes in the year it is earned. For more information, see our *Tax Memo*, “Tax-Free Savings Account – A Good Way to Save.”
- U.S. source income** – If you received income in 2009 from U.S. sources that may be subject to U.S. federal and/or state tax (e.g., employment and self-employment income earned in the U.S., income and losses from participation in U.S. limited partnerships, and rent from U.S. real estate, including short-term rentals of vacation homes):
 - determine whether the income should be reported on a U.S. non-resident return; and
 - if U.S. tax was deducted at source on the income during 2009, determine whether:
 - the tax withheld was appropriate;
 - you should file a U.S. non-resident return to obtain a full or partial refund; and
 - the U.S. tax can be claimed as a credit on your Canadian tax return.

- U.S. taxpayers with Canadian shareholdings or investments** – If you are a U.S. citizen, green card holder or resident, or plan to become a U.S. resident, and you are a shareholder of a Canadian private corporation or a unitholder of a Canadian partnership, determine if you have additional U.S. income tax reporting requirements or exposure to U.S. income tax or double taxation, and how to minimize it. Penalties that are normally assessed based on the IRS's discretion may automatically apply to certain late-filed information returns on foreign investments and foreign financial accounts reporting. The IRS has extended the filing deadline for certain late-filed foreign financial accounts until June 30, 2010. New rules may apply that extend the definition of U.S. taxpayers for purposes of foreign financial accounts reporting to non-residents who conduct U.S. activities.
 - U.S. family members** – If you have a U.S. citizen or U.S. resident family member who is a direct shareholder in your company or a beneficiary under a family trust, determine any exposure to double taxation and how to minimize it. See *Estate Tax Update*, "U.S. Family Members in the Canadian Family-Owned Business (Revised Edition, April 6, 2009)."
 - U.S. federal income tax return/treaty-based tax return** – Determine whether you are conducting activities in the United States that require you to file U.S. federal income tax returns or U.S. treaty-based tax information disclosure returns.
 - U.S. real estate** – If you sold U.S. real estate (including shares of a U.S. company having 50% or more of its value attributable to U.S. real estate) in 2009, or may sell U.S. real estate, determine your U.S. income tax reporting requirements and exposure to U.S. real property withholding tax (and how to minimize it) and U.S. federal and state income taxes.
 - U.S. exit tax** – If you plan to relinquish your U.S. citizenship or green card, ask your PricewaterhouseCoopers adviser how you are affected by U.S. rules that impose a U.S. exit or "mark-to-market" tax on certain types of properties.
 - Canada-U.S. treaty** – The fifth Protocol to the Canada-U.S. Income Tax Convention, which entered into force on December 15, 2008, affects the following:
 - Withholding tax** – Consider delaying interest payments to related U.S. residents until after 2009. The Protocol eliminates withholding tax on cross-border interest payments between:
 - arm's length persons – retroactive to January 1, 2008 (but see **Withholding tax** on page 12 for Canada's domestic changes); and
 - related persons – subject to the Limitation of Benefits article, phased out over three years from 10% to 7%, retroactively on amounts paid or credited after 2007, to 4% in 2009 and to nil after 2009.
 - Unlimited liability companies (ULCs)** – Consider restructuring Nova Scotia and Alberta ULCs. The Protocol increases the rate of withholding tax to 25% (not before 2010) on dividends paid by these and certain other entities to their U.S. shareholders.
 - Limited liability companies (LLCs)** – Consider the changes regarding Canadian investments in LLCs. The Protocol provides LLCs new treaty benefits that allow U.S. and Canadian residents more flexibility in structuring these investments. However, the Protocol also provides certain traps that may apply to Canadians holding U.S. investments in LLCs.
 - Personal tax relief** – Consider personal tax changes that provide relief to residents of Canada or the United States who emigrate to, temporarily move to, or regularly commute to work in the other country. For example, relief is provided in connection with the deemed disposition of assets on ceasing Canadian residency, employee stock options granted in Canada or the U.S. and contributions to a Canadian or U.S. employer's pension plan.
 - Contact your PricewaterhouseCoopers adviser to discuss these and other changes to the Canada-U.S. tax treaty. See our *Tax Memo*, "Canada-U.S. Income Tax Treaty: Fifth Protocol Enters into Force."
 - State and municipal taxes** – Ensure you are complying with all state and municipal laws and taxes. Even if a Canadian business is exempt from U.S. federal income tax under the Canada-U.S. tax treaty, it may be subject to state income, franchise, sales and use, property and other taxes. Contact your PricewaterhouseCoopers adviser for help with multi-state taxation and filing requirements.
 - Proposed international tax reform** – Key international tax changes proposed by the U.S. government include:
 - restricting the ability to deduct expenses in the U.S. (e.g., interest and head office costs) that relate to foreign income not repatriated to the U.S.;
 - pooling of all offshore income for foreign tax credit purposes;
 - revising the "check-the-box" rules on entity classification for U.S. tax purposes (i.e., changing the treatment of certain companies as "disregarded entities"); and
 - codifying the economic substance doctrine.
- If enacted, these changes could significantly affect how U.S. and Canadian multinationals structure the holding and financing of their U.S. and foreign operations. Contact your PricewaterhouseCoopers adviser to discuss these and other tax developments that could have a bearing on your U.S. cross-border business activities.

Integration Tables

All calculations are for a twelve-month taxation year ended December 31, 2009.

Table 1

Active Business Income

(based on a December 31, 2009 year end and \$10,000 of active business income)

This table shows:¹

- the income tax deferral if active business income is earned and retained in a corporation as opposed to being paid out of the corporation as salary to the shareholder; and
- the tax saving (cost) if instead of being paid out of the corporation as salary, the after-tax corporate income is paid out as a dividend to the shareholder in the same year.

	Eligible for Small Business Deduction		No Small Business Deduction		
	Deferral	Saving	Deferral	Saving/ (Cost)	
Alberta	2,500	117	1,000	(33)	
British Columbia	3,020	191	1,370	(24)	
Manitoba	3,552	190	1,602	(30)	
New Brunswick	3,000	126	1,450	(43)	
Newfoundland and Labrador	General	2,959	211	1,259	(274)
	M&P			2,159	420
Nova Scotia	3,225	448	1,325	(518)	
Ontario	General	3,093	476	1,443	(102)
	M&P			1,643	52
Prince Edward Island	3,400	95	1,237	(352)	
Quebec	3,133	188	1,943	(109)	
Saskatchewan	General	2,850	245	1,300	(104)
	M&P			1,500	55
Northwest Territories	3,005	485	1,455	187	
Nunavut	2,750	289	1,150	(384)	
Yukon	General	2,740	148	840	(297)
	M&P	2,890	253	2,090	737

1. This table assumes the individual is taxed at the top marginal income tax rate. Levies other than federal and provincial income tax, the employer portion of provincial health tax and the employee portion of Northwest Territories and Nunavut payroll taxes are not considered (e.g., Canada Pension Plan contributions). Different results may arise in special circumstances (e.g., for credit unions).

Table 2

Investment Income

(based on a December 31, 2009 year end and \$10,000 of investment income)

This table shows:¹

- the income tax deferral (prepayment) if investment income is earned and retained in a corporation as opposed to being earned directly by an individual; and
- the tax (cost) if the after-tax corporate income is paid out as a dividend to the shareholder in the same year.

	Portfolio Dividends		Capital Gains		Interest	
	(Prepayment)	(Cost)	Deferral/ (Prepayment)	(Cost)	Deferral/ (Prepayment)	(Cost)
Alberta	(1,878)	Nil	(283)	(58)	(567)	(117)
British Columbia	(1,341)	Nil	(98)	(73)	(197)	(147)
Manitoba	(950)	Nil	(38)	(233)	(76)	(466)
New Brunswick	(1,153)	Nil	(58)	(93)	(116)	(186)
Newfoundland and Labrador	(1,044)	Nil	(208)	(183)	(417)	(367)
Nova Scotia	(498)	Nil	(120)	(109)	(242)	(220)
Ontario	(1,027)	Nil	(113)	(34)	(226)	(66)
Prince Edward Island	(889)	Nil	(164)	(357)	(330)	(715)
Quebec	(364)	Nil	83	(38)	165	(76)
Saskatchewan	(1,298)	Nil	(133)	(33)	(267)	(67)
Northwest Territories	(1,508)	Nil	(155)	(8)	(312)	(17)
Nunavut	(1,109)	Nil	(308)	(133)	(617)	(267)
Yukon	(1,610)	Nil	(363)	(250)	(727)	(499)

1. This table assumes that:

- the individual is taxed at the top marginal income tax rate;
- the portfolio dividends are designated as "eligible" dividends;
- the capital gains deductions for qualifying small business corporation shares or qualified farming or fishing property are not available; and
- the taxable dividend paid is sufficient to generate a full refund of refundable tax.

Income Tax Rates

For more details on personal and corporate tax rates, please refer to the PricewaterhouseCoopers publication *Tax Facts and Figures: Canada 2009*. The percentages shown reflect the combined federal and provincial/territorial rates for a twelve-month taxation year ended December 31.

Table 3

Top Combined Federal and Provincial/Territorial Marginal Personal Income Tax Rates

	2009	2010	2009	2010	2009	2010	2009	2010
	Interest & ordinary income		Capital gains		Canadian dividends (eligible)		Canadian dividends (non-eligible)	
Federal only	29.00		14.50		14.55	15.88	19.58	
Alberta	39.00		19.50		14.55	15.88	27.71	
British Columbia	43.70		21.85		19.92	21.45	32.71	33.71
Manitoba	46.40		23.20		23.83	25.09	38.21	
New Brunswick	46.00	43.30	23.00	21.65	21.80	19.46	34.21	30.83
Newfoundland and Labrador	44.50		22.25		22.89	24.37	32.71	
Nova Scotia	48.25		24.13		28.35	29.80	33.06	
Ontario	46.41		23.20		23.06	26.57	31.34	32.57
Prince Edward Island	47.37		23.69		24.44	25.95	38.15	39.66
Quebec	48.22		24.11		29.69	30.68	36.35	
Saskatchewan	44.00		22.00		20.35	21.64	30.83	
Northwest Territories	43.05		21.53		18.25	19.81	29.65	
Nunavut	40.50		20.25		22.24	23.64	28.96	
Yukon	42.40		21.20		17.23	18.80	30.49	
Non-Resident	42.92 ¹		21.46		21.53 ¹	23.50 ¹	28.98 ¹	

In 2009, top rates apply to income above \$126,264.

1. Non-resident rates for interest and dividends only apply in certain circumstances. Generally, interest (commencing 2008, other than most interest paid to arm's length non-residents) and dividends paid to non-residents are subject to Part XIII withholding tax.

Table 4

Combined Federal and Provincial/Territorial Corporate Income Tax Rates¹

(based on a December 31 year end)

Application to Canadian-Controlled Private Corporations (CCPCs)

For CCPCs, this table does not apply to:

- the first \$500,000² of active business income; and
- investment income.

See Table 5 for more CCPC rates and thresholds.

	2009		2010	
	General	M&P	General	M&P
Federal only	19.00		18.00	
Alberta	29.00		28.00	
British Columbia	30.00		28.50	
Manitoba	31.50		30.00	
New Brunswick	31.50		29.50	
Newfoundland and Labrador	33.00	24.00	32.00	23.00
Nova Scotia	35.00		34.00	
Ontario	33.00	31.00	30.99	28.99
Prince Edward Island	35.00		34.00	
Quebec	30.90		29.90	
Saskatchewan	31.00	29.00	30.00	28.00
Northwest Territories	30.50		29.50	
Nunavut	31.00		30.00	
Yukon	34.00	21.50	33.00	20.50

1. Different rates may apply in special circumstances (e.g., for credit unions).
2. The threshold is lower in some jurisdictions as shown in Table 5.

Table 5**Combined Federal and Provincial/Territorial Corporate Income Tax Rates and Thresholds for CCPCs¹**

(based on a December 31 year end)

	2009		Investment Income ³	2010		Investment Income ³	Threshold for 2009 and 2010 year ends	
	Active Business Income to \$400,000 ²	\$400,000 to \$500,000 ²		Active Business Income to \$400,000 ²	\$400,000 to \$500,000 ²		Amount	Effective
Federal	11.00		34.67	11.00		34.67	\$400,000	January 1, 2007
							\$500,000	January 1, 2009
Alberta	14.00	14.00 or 15.73 ⁴	44.67	14.00		44.67	\$430,000	April 1, 2007
							\$460,000	April 1, 2008
							\$500,000	April 1, 2009
British Columbia	13.50	22.00	45.67	13.50		45.17	\$400,000	January 1, 2005
							\$500,000	January 1, 2010
Manitoba	12.00	23.50	47.16	11.92	23.00	46.67	\$400,000	Any time
New Brunswick	16.00		47.16	16.00		46.16	Same as federal (see above)	
Newfoundland and Labrador	16.00		48.67	16.00		48.67		
Nova Scotia	16.00	27.00	50.67	16.00	27.00	50.67	\$400,000	Any time
Ontario	16.50 ¹		48.67	16.00 ¹		47.66	Lower: \$500,000 Upper: \$1,500,000 ¹	January 1, 2007
							\$500,000	July 1, 2010
Prince Edward Island	13.37		50.67	12.27		50.67	Same as federal (see above)	
Quebec	19.00	19.83	46.57	19.00		46.57	\$400,000	January 1, 2006
							\$500,000	March 20, 2009
Saskatchewan	15.50		46.67	15.50		46.67	\$450,000	July 1, 2007
							\$500,000	July 1, 2008
Northwest Territories	15.00		46.17	15.00		46.17	Same as federal (see above)	
Nunavut	15.00		46.67	15.00		46.67		
Yukon	Non-M&P	15.00	26.00	49.67	15.00	26.00	49.67	\$400,000
	M&P	13.50		n/a	13.50		n/a	

1. See Table 4 for rates that apply on active business income of a CCPC above \$500,000 (above \$1,500,000 in Ontario until June 30, 2010). Ontario claws back the benefit of its small business deduction when taxable income falls between \$500,000 and \$1,500,000. Rates that apply after taking the clawback into account are shown in the table below.

		2009	2010
		\$500,000 to \$1,500,000	
Ontario	Non-M&P	37.25	33.10
	M&P	34.25	30.60

2. If taxable capital employed in Canada in the preceding year of associated CCPCs exceeds \$10 million, the federal small business rate will be higher and all provincial and territorial rates will be higher, except Ontario's, which has a clawback that increases its small business rate, as described in footnote 1.

3. Rates on investment income are 15.67% (16.67% in 2010) higher than the general rates in Table 4 because:

- CCPC investment income does not benefit from the 9.0% (10.0% in 2010) federal general rate reduction; and
- the rates on investment income include a 6-2/3% tax that is refundable when the CCPC pays taxable dividends.

Generally, 26-2/3% of a CCPC's aggregate investment income is added to its refundable dividend tax on hand (RDTOH). This amount is refundable at a rate of \$1 for every \$3 of taxable dividends paid by the CCPC.

4. For Alberta, the rate is 14% when taxable income is up to \$460,000 and 15.73% when taxable income is between \$460,000 and \$500,000.

Other Publications

PricewaterhouseCoopers tax publications on our website, www.pwc.com/ca/publications provide more detail on a variety of topics. Here are some examples:

Topics of broad interest

- *Tax Facts and Figures: Canada 2009*
- *Car Expenses and Benefits – A Tax Guide (2009)*; 2010 edition coming soon
- *Tax-Free Savings Account – A Good Way to Save* (December 18, 2008)
- *Understanding RESPs* (November 27, 2008)

International tax

- *Canada Signs its First Tax Information Exchange Agreement (TIEA)* (September 3, 2009)
- *Enhancing Canada's International Tax Advantage* (December 16, 2008)

U.S. tax

- *Canada-U.S. Income Tax Treaty: Fifth Protocol Enters into Force* (December 15, 2008)
- *U.S. Estate Tax Exposure for Canadians (Revised Edition, April 13, 2009)*
- *The Departing Canadian (Revised Edition, April 9, 2009)*
- *U.S. Estate Tax Exposure for U.S. Citizens Living in Canada (Revised Edition, April 8, 2009)*
- *Owning a U.S. Vacation Property (Revised Edition, April 7, 2009)*
- *U.S. Family Members in the Canadian Family-Owned Business (Revised Edition, April 6, 2009)*

Scientific research and experimental development

- *Scientific Research and Experimental Development (SR&ED): Enhancing Global Competitiveness* (September 14, 2009)
- *CRA Provides Relief for Claims with More than 20 Projects* (June 11, 2009)
- *Federal R&D investment tax credits: 1996 – 2009* (May 22, 2009)
- *2009 Provincial and territorial R&D tax credits* (May 22, 2009)
- *Contract Payments and their Complexities – A Refresher* (April 8, 2009)
- *SR&ED Planning for Ontario Corporate Tax Harmonization* (December 11, 2008)
- *Revised Form T661: Implications for Your Company's SR&ED Claim* (November 13, 2008)
- *Revised SR&ED Claim Form (Form T661): What to Expect* (November 5, 2008)

Sales tax harmonization

- *HST Transitional Rules for Ontario and British Columbia Released* (October 16, 2009)
- *British Columbia Sales Tax Harmonization* (July 24, 2009)
- *Application of Ontario's Single Sales Tax to New Homes* (June 19, 2009)
- *Ontario Sales Tax Harmonization* (March 26, 2009)
- Industry specific *Tax Memos* on Ontario sales tax harmonization include:
 - *Harmonization – Retail Trade* (March 26, 2009)
 - *Harmonization – Manufacturing* (March 26, 2009)
 - *Harmonization – Information Technology* (March 26, 2009)
 - *Harmonization – Telecommunications* (March 26, 2009)

Going Green Tables

- *Select Federal Incentives* (July 2009)
- *Select Alberta Incentives* (June 2009)
- *Select British Columbia Incentives* (May 2009)
- *Select Manitoba and Saskatchewan Incentives* (August 2009)
- *Select Ontario Incentives* (June 2009)
- *Select Quebec Incentives* (May 2009)
- *Select Atlantic Province Incentives* (September, 2009)

Entertainment and media

- *The Big Table of Film and Video Incentives in Canada (2009)* (September 1, 2009)
- *The Big Table of Digital Media and Animation Incentives in Canada (2009)* (September 1, 2009)
- *Tax Incentives for Digital Media in Ontario* (April 29, 2009)
- For *Entertainment and Media Tax Clips*, see www.pwc.com/ca/entertainment-media-publications

Wealth and Tax Matters for individuals and private companies

- Autumn 2009 edition
- Spring 2009 edition
- Winter 2009 edition

Anti-avoidance rules

- *Revised Quebec Aggressive Tax Planning Proposals* (October 22, 2009)
- *Important Supreme Court Ruling on GAAR – Highlights* (January 9, 2009)

Income trusts

- *Income Trust Conversion Rules Enacted* (April 2, 2009)
- *More Tinkering with SIFT Rules* (January 15, 2008)

International Financial Reporting Standards (IFRS)

- *Not Just Another Accounting Exercise: Managing Change for the Tax Function* (July 17, 2009)
- *The Move to IFRS: Tax Implications* (April 17, 2008)

Other specialty topics

- *Professional Corporations – An Attractive Option* (October 14, 2009)
- *1% Taxable Benefit Rate: Action Required Before January 1, 2010* (October 13, 2009)
- *Ontario Tax Harmonization: What It Means for Corporations* (January 11, 2008)
- *Charitable Giving Guide for Donors* (2008 Edition)

Budget summaries and economic statements (federal and provincial)

- *2009 Federal Budget Highlights* (January 27, 2009)
- *2009 Federal Budget: Big Spending, Little Tax Relief* (January 27, 2009)
- *British Columbia Budget Update – September 1, 2009: Tax Highlights* (September 3, 2009)
- *2009 British Columbia Budget: Tax Highlights* (February 19, 2009)
- *2009 Manitoba Budget: Tax Highlights* (March 26, 2009)
- *2009 Ontario Budget: Harmony in Sales Tax and Cuts in Corporate Tax* (March 26, 2009)
- *2009 Quebec Budget* (March 20, 2009)
- *2009 Saskatchewan Budget: Tax Highlights* (March 19, 2009)

Podcasts

To listen to the following PricewaterhouseCoopers podcasts, visit our website: www.pwc.com/ca/taxtracks.

- *Making Technology Investments for the Tax Function* (September 24, 2009)
- *Canadian Export Controls: What They Are and Why You Need to Know About Them* (August 28, 2009)
- *Going Green Incentives* (June 30, 2009)
- *Ontario Sales Tax Harmonization* (June 9, 2009)
- *CRA announces major changes in T106 reporting* (June 2, 2009)
- *Quebec Proposals on Aggressive Tax Planning* (March 26, 2009)

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