

Helping individuals and owner-managed businesses save tax



The *Year-end tax planner* is designed primarily for individuals who have accumulated some wealth or own their own businesses (large or small). It includes year-end tax planning checklists for:

Owner-managed businesses	5	Students	19
Employees.....	11	Seniors	19
Self-employed individuals	13	Individuals and businesses with:	
Investors	13	international connections.....	21
Parents and spouses.....	17	US connections.....	22

Other features:

- calendar of deadlines (page 2)
- integration tables – active business income and investment income (page 25)
- key personal and corporate income tax rates (pages 26 and 27)
- titles of PwC publications and other PwC resources (pages 28 to 30)
- PwC contacts (page 30)

Looming Tax Deadlines – December 2014 to April 2015

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		
2014		1	2	3	4	5	6		
	7	8	9	10	11	12	13		
December	14	15	16	17	18	19	20		
	21	22	23	24	25	26	27		
	28	29	30	31	1	2	3	Jan. 10	Quebec employees with employer-provided automobile: Last day to provide employer with your logbook (deadline is earlier in some cases)
2015	4	5	6	7	8	9	10	Jan. 15	US taxes: estimated tax payments due for individuals
January	11	12	13	14	15	16	17	Jan. 30	Loans: • Interest due on intra-family loans (to avoid attribution of income) • Non-deductible interest due on loans from employer (to reduce interest benefit)
	18	19	20	21	22	23	24		
	25	26	27	28	29	30	31		
February	1	2	3	4	5	6	7	Feb. 14	Employer-provided automobile: Last day to reimburse employer for costs to reduce operating cost benefit
	8	9	10	11	12	13	14	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
	15	16	17	18	19	20	21		
	22	23	24	25	26	27	28		
March	1	2	3	4	5	6	7	Mar. 1	RRSPs: • Last day for all regular 2014 contributions • In respect of taxpayers who died in 2014, 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
	8	9	10	11	12	13	14		
	15	16	17	18	19	20	21	Mar. 15	Quarterly instalment of tax due
	22	23	24	25	26	27	28	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
	29	30	31	1	2	3	4		
April	5	6	7	8	9	10	11	Apr. 15	US taxes: • Final 2014 and 2015 estimated tax payments for individuals due • US individual tax return due (an extension may be available)
	12	13	14	15	16	17	18	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
	19	20	21	22	23	24	25		
	26	27	28	29	30				

What's new?

Federal

Non-eligible dividends – personal taxes increased in 2014. (p. 26)

Tax measures for families with children (pp. 17, 18)

- Income-splitting – annual non-refundable tax credit introduced, equal to the federal tax reduction that would result if up to \$50,000 of taxable income were transferred from one spouse to the other, to a maximum credit of \$2,000, starting 2014.
- Child care expenses – the maximum per child amounts that can be claimed will increase by \$1,000, starting 2015.
- Children's fitness tax credit – can be claimed on up to \$1,000 of fees paid per child, starting 2014, and will be a refundable tax credit, starting 2015.
- Universal Child Care Benefit – monthly benefits will increase and this program will replace the existing child tax credit, starting 2015.

Trusts and estates – starting 2016 taxation years:

- generally, graduated tax rates eliminated and testamentary trusts must have calendar taxation years (p. 15)
- taxable capital gains that arise in spousal trusts, joint spousal trusts, alter ego trusts or self-benefit trusts on the death of certain individuals are deemed to be payable to the deceased individual in the year of his or her death (p. 15)

Immigration trusts – tax benefits eliminated for taxation years ending after February 10, 2014. (p. 16)

Foreign Income Verification Statement (Form T1135) – more details required for taxation years ending after June 30, 2013, but streamlined reporting for certain foreign property is permitted. (p. 21)

Back-to-back loans – arrangements using interposed third parties targeted after 2014, by a new anti-avoidance rule in respect of withholding tax on interest payments and an amendment to an existing avoidance measure in the thin capitalization rules. (p. 21)

Provincial/territorial

Small business rates and thresholds (pp. 7, 27)

- Manitoba – threshold increased from \$400,000 to \$425,000 on January 1, 2014.
- New Brunswick – rate decreasing from 4.5% to 4% on January 1, 2015, and further to 2.5% by 2018.
- Newfoundland and Labrador – rate decreased from 4% to 3% on July 1, 2014.
- Nova Scotia – rate declined from 3.5% to 3% and threshold decreased from \$400,000 to \$350,000 on January 1, 2014.
- Ontario – federal small business deduction clawback is extended to Ontario, for taxation years ending after May 1, 2014 (pro-rated for taxation years straddling this date).
- Quebec – new M&P rate of 6% on June 5, 2014, decreasing to 4% on April 1, 2015.
- Yukon – rate decreased from 4% to 3% for non-M&P income and from 2.5% to 1.5% for M&P income, on July 1, 2014.

Personal income tax (pp. 5, 6, 26)

- British Columbia – rate on incomes over \$150,000 increasing from 14.7% to 16.8% for 2014 and 2015.
- New Brunswick – rates at all income levels increased in 2014.
- Newfoundland and Labrador – rates increased for dividends (eligible and non-eligible) paid after June 30, 2014.
- Ontario – starting 2014:
 - top rate of 13.16% (before surtax) applies to incomes over \$220,000 (down from \$514,090)
 - rate on incomes between \$150,000 and \$220,000 increasing from 11.16% to 12.16% (before surtax)

Personal income tax (continued)

- Yukon – rates increasing for non-eligible dividends, starting 2015.

Other

- Nova Scotia – planned decreases to the 15% HST rate will not occur.
- Quebec – about 30 business tax credit rates reduced by 20%, generally on or after June 4, 2014. (p. 11)

International

Base erosion and profit shifting (BEPS) – referred to as “Fair share of tax” – OECD published reports on seven of the fifteen actions of the BEPS Action Plan. (p. 22)

United States

Offshore voluntary disclosure program – streamlined filing compliance procedures for non-compliant US taxpayers have been expanded for submissions made after June 30, 2014. (pp. 22, 23)

Year-end tax planning checklists

Working with your PwC adviser is essential when considering the following year-end tax planning tactics.

In addition to tax, your financial plan should reflect investment philosophies, sound business practices and motivational considerations. Owner-managers should ensure that sufficient funds are retained to meet business objectives; given the uncertainty in the economic environment, cash flow management is especially important.

Owner-managed businesses

- ☐ **Salary/dividend mix** – Determine the preferred mix of salary and dividends for you and other family members for 2014.

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 (\$138,500 of earned income in 2014 is required to maximize RRSP contribution in 2015), CPP contributions and other deductions and credits (e.g. for child care expenses and donations).

- ☐ Be aware that if you earn dividends (especially eligible dividends) your alternative minimum tax (AMT) exposure can increase.
- ☐ If you do not need 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 25.
 - ☐ In times of economic uncertainty, retaining income in the corporation will help the corporation's cash flow and will allow the corporation to have income and pay corporate tax that may be recovered by possible future business losses.
 - ☐ Consider the effect of retaining income in the corporation on corporate share value for estate and shareholder agreement purposes, as well as possible exposure of retained funds to ongoing business risks.
- ☐ All provinces and territories –
 - ☐ Be aware that distributing dividends that trigger a refund of refundable tax on hand is not a

cash-positive transaction, if you are subject to the top personal tax rate and live in:

- ☐ British Columbia, Manitoba, New Brunswick, Prince Edward Island and Saskatchewan – for non-eligible dividends
- ☐ Nova Scotia, Ontario and Quebec – for eligible and non-eligible dividends

This is because the dividend refund rate (i.e. 33 1/3%) is less than or equal to the top personal tax rate on the dividends.

- ☐ If you reside in a high-tax jurisdiction (see Table 3 on page 26), consider moving to a lower-tax jurisdiction before the end of the calendar year.
 - ☐ British Columbia residents – Be aware that for 2014 and 2015, British Columbia's tax rate on taxable incomes over \$150,000 is 16.8% (expected to decline to 14.7% after 2015).
 - ☐ Ensure that your remuneration strategy accounts for this temporary rate increase.
 - ☐ If you expect income to exceed \$150,000 in 2014 or 2015, consider delaying taxable bonuses and discretionary dividends until 2016. This strategy will defer the payment of tax, but may increase your AMT exposure in 2016.
 - ☐ Nova Scotia residents – If Nova Scotia tables a budget surplus in its 2015-2016 fiscal year, for 2015 the top \$150,000 personal tax bracket and 21% rate will be eliminated, but the 10% personal income tax surtax on provincial income tax exceeding \$10,000 will be reinstated. (See Table 3, footnote 2 on page 26 for top 2015 rates if this situation occurs.) In that case, owner-managers should take into account that personal tax rates may decrease in 2015 and adjust their strategy on the payment of salary and/or dividends accordingly.
 - ☐ Ontario residents – Ensure that your remuneration strategy accounts for Ontario's increase in personal income tax on taxable incomes exceeding \$150,000, starting 2014:
 - ☐ the top rate of 13.16% will apply when taxable income exceeds \$220,000 (down from \$514,090)
 - ☐ the tax rate is 12.16% (up from 11.16%) on taxable income between \$150,000 and \$220,000
- Ontario had stated that the 13.16% top rate will be eliminated once its budget is balanced (scheduled for 2017-2018). To avoid this tax, keep taxable income at \$220,000 or less, by deferring the receipt of taxable bonuses or discretionary dividends until the high income tax is eliminated.

- ☐ Yukon residents – Consider accelerating non-eligible dividends to 2014 to take advantage of lower non-eligible dividend tax rates in 2014.
- ☐ 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 (CCPC) are used in an active business, in turn jeopardizing the ability to claim the \$800,000 (indexed after 2014) lifetime capital gains exemption, among other things. Consider restructuring to allow excess funds to be moved on a tax-deferred basis out of the operating company to preserve access to the capital gains exemption.
- ☐ Scientific research and experimental development (SR&ED) – Be aware that if a CCPC's taxable income exceeds certain thresholds, the corporation may not be able to access the higher SR&ED investment tax credit (ITC) rate and the ITC may not be refundable. Consider accruing (and paying, within 179 days after the CCPC's year end) bonuses to reduce taxable income below the threshold amounts.
- ☐ 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. You must be able to substantiate that the family member has actually performed services that are commensurate with his or her remuneration.
- ☐ Dividends to family members – Consider paying dividends to adult family members who are shareholders in your company and in a lower tax bracket. Individuals with no other income can receive about \$9,000 to \$50,000 in dividends without triggering any tax, depending on the individual's province or territory of residence and the ability of the corporation to pay eligible dividends.
- ☐ **Dividend tax regime** – Be aware of how the dividend tax rules affect dividend distributions.
 - ☐ To the extent possible, designate dividends (or any portion of a dividend) as eligible dividends. Private companies must designate at the same time as, or before, payment of the eligible dividend. Late eligible dividend designations may be accepted in certain cases if made within three years after the day the designation was first required to be made.
- ☐ Consider electing to treat all or part of any excess eligible dividend designation as a separate non-eligible dividend, to avoid the 20% penalty tax on the excess.
- ☐ **Canadian-controlled private corporations (CCPCs)**
 - ☐ Determine the CCPC's ability to pay eligible dividends in the year by estimating its general rate income pool (GRIP) as at its 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 the first, 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. (If the election is made and the business starts earning passive income, i.e. after the sale of the business assets, consult your PwC adviser to help plan for and manage the build-up of the corporation's low rate income pool (LRIP). Dividends paid by a non-CCPC are first required to be paid from LRIP as a non-eligible dividend.)
- ☐ 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 LRIP immediately before payment of the dividend.
 - ☐ A non-CCPC that will become a CCPC should consider the effect of the federal dividend tax rules, as well as deemed year-end rules.

- ☐ **Cash flow management** – Recognize that managing your business cash flow is critical, especially in times of economic uncertainty. For example, to reduce working capital cash 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 ITCs 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.
 - ☐ **Remuneration accruals** – Accrue reasonable salary and bonuses before your business year end. Ensure accrued amounts are properly documented as being legally payable at the business' year end and are paid within 179 days after the business' year end, and that appropriate source deductions and payroll taxes are remitted on time.
 - ☐ **Retirement compensation arrangements (RCAs)** – Consider setting up an RCA as an alternative to paying a bonus. However, take into account that:
 - ☐ anti-avoidance rules for RCAs engaged in non-arm's length transactions parallel the "prohibited investment" and "advantage" rules applicable to TFSAs, RRSPs and RRIIFs
 - ☐ RCA tax refunds are restricted in certain cases when the RCA property, reasonably attributable to a prohibited investment or advantage, has declined in value
 - ☐ **Employee profit sharing plans (EPSPs)** – Consider setting up an EPSP as an alternative to paying a bonus. However, take into account that a tax is imposed on the portion of an employer's EPSP contribution, allocated by the trustee to a "specified employee," that exceeds 20% of the employee's salary received in the year from the employer. A specified employee generally includes an employee who has a significant equity interest in, or does not deal at arm's length with, the employer.
 - ☐ **Employee stock options** – Be aware that only the employer or employee (not both) can claim a tax deduction for cashed-out stock options. File an election if the company chooses to forgo the tax deduction.
 - ☐ **Donations** – Make charitable donations and provincial political contributions (subject to certain limits) before year end.
 - ☐ **Employment insurance (EI)**
 - ☐ EI premium rebate – Determine if your business qualifies for a reduction in the employer EI premium rate. To be eligible, the business must offer its employees income protection coverage (e.g. wage loss replacement plans) that reduces the EI benefits payable to them.
 - ☐ Small business job credit – Recognize that if your total employer EI premiums in 2015 and/or 2016 are \$15,000 or less, you will qualify for a partial refund of EI premiums. (Your annual payroll must be under \$569,910 (\$695,735 in Quebec) in 2015.)
 - ☐ **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 or repaying shareholder loans).
 - ☐ Capital dividend account – If your company has a capital dividend account balance, consider paying non-taxable capital dividends, and pay them before triggering any accrued capital losses on the sale of assets.
 - ☐ **Corporate income** – CCPCs subject to the small business rate in:
 - ☐ New Brunswick, Newfoundland and Labrador and the Yukon should consider deferring income to 2015 by maximizing discretionary deductions (e.g. CCA); New Brunswick's small business rate will decrease from 4.5% to 4% on January 1, 2015, and is expected to further decrease to 2.5% by 2018, and on July 1, 2014, Newfoundland and Labrador's small business rate and Yukon's non-M&P small business rate decreased from 4% to 3%, and Yukon's M&P small business rate decreased from 2.5% to 1.5%.
 - ☐ Ontario should be aware that for taxation years ending after May 1, 2014 (pro-rated for taxation years straddling this date), the federal small business deduction clawback applies in Ontario.
 - ☐ Quebec should consider:
 - ☐ deferring M&P income to after 2015 by maximizing discretionary deductions
 - ☐ structuring their operations to increase the percentage of activities attributable to M&P
- Quebec's small business M&P rate decreased from 8% to 6% on June 5, 2014, and will further decline to 4% on April 1, 2015. This rate applies to all active business income up to \$500,000 if 50% or more of the CCPC's activities are attributable to M&P (based on M&P assets and labour). If this percentage is:
- ☐ more than 25% and under 50%, the rate decrease is eliminated on a straight-line basis
 - ☐ 25% or less, the rate will be 8%

- ☐ **Final corporate tax balances** – Pay final corporate income tax balances and all other corporate taxes imposed under the *Income Tax Act* within two months after year end (three months for certain CCPCs), to avoid non-deductible interest charges.

- ☐ **Remittance thresholds for employer source deductions** – Note that the frequency of employer remittances, which is based on average monthly withholdings from the second preceding calendar year, will change as follow:

		Thresholds for employer source deductions	
		before 2015	after 2014
Remittances per month	Up to 2	\$15,000 to < \$50,000	\$25,000 to < \$100,000
	Up to 4	≥ \$50,000	≥ \$100,000

- ☐ **Mandatory e-filing of corporate income tax and information returns** – To avoid penalties, e-file:

- ☐ corporate income tax returns if annual gross revenues exceed \$1 million
- ☐ information returns if more than 50 information returns are submitted annually

- ☐ **Partnership information returns** –

- ☐ Note that as of January 2014, partnership information returns can be filed electronically.
- ☐ Be aware that family farm partnerships formed of only individuals do not have to file a partnership information return for the 2013 and 2014 fiscal periods.

- ☐ **Partnership deferral** – If you are a corporate partner in a partnership that was subject to the rules that curtailed the deferral of partnership income, for corporate partners with taxation years ending after March 22, 2011, in respect of partnerships with misaligned year ends, you should determine whether a reserve continues to be available in respect of the additional income reported on the transition to the new rules.

- ☐ **Joint venture deferral** – If you are a corporate participant in a joint venture arrangement that was required to report its actual share of joint venture income or loss up to the end of its own year-end (starting with tax years ending after March 22, 2011), you should determine whether a reserve continues to be available in respect of the additional income reported on the transition to the new rules.

- ☐ **Avoidance transactions** – Be aware that:

- ☐ an “avoidance transaction” meeting certain conditions is a “reportable transaction” that must be reported to the CRA
- ☐ Ontario has implemented disclosure rules for aggressive tax avoidance transactions, similar to the federal rules discussed above, generally for transactions entered into after May 1, 2014, and those that are part of a series of transactions completed after May 1, 2014
- ☐ Quebec requires disclosure of certain aggressive tax planning transactions

- ☐ **Depreciable assets**

- ☐ Accelerate purchases of depreciable assets. Ensure assets are available for use at year end.
- ☐ Purchase eligible M&P machinery and equipment. The CCA deduction is enhanced from 30% declining balance to 50% straight-line, for purchases made before 2016.
- ☐ Consider delaying the sale of a depreciable asset that will be subject to recaptured depreciation until after your 2014 taxation year end.
- ☐ Consider making a special election to treat leased fixed assets as purchased under a financing arrangement.

- ☐ **Reserves** – Identify and claim specific reserves for doubtful accounts receivable or inventory obsolescence.

- ☐ **Business income reserve** – If you sold goods or real property inventory in 2014 and proceeds are payable after the end of the year, you may be able to defer tax on related profits by claiming 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. Alternatively, consider using a different method for tax than for accounting purposes, if permitted for tax purposes. For example, for short-term construction projects, if the percentage of completion method is used for accounting purposes, use the completed contract method for tax purposes to provide a tax deferral.

- ☐ **Costs of doing business** – Compare costs of doing business in different jurisdictions.

☐ **Intercompany charges**

- ☐ Ensure charges are reasonable given changes in the economy and in the facts or circumstances related to the transactions.
- ☐ 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 reserve** – If you sold or will sell capital property in 2014 in exchange for debt, you may be able to defer tax on part of the capital gain by claiming a capital gains reserve over a maximum of four years, which results in the capital gain being included in income over a maximum of five 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 (IPP) as a means of enhancing retirement income. However, take into account that minimum withdrawal requirements apply for IPP members over 71 and include distributing a portion of any surplus in the IPP, and funding of benefits for past service contributions must first be satisfied by transfers from the IPP member's RRSP assets (or by a reduction in the RRSP contribution room) before new past service contributions are permitted, among other things.

☐ **Shareholder loans to your corporation** – Determine whether your corporation would benefit from deductible interest on shareholder loans made to the corporation, rather than salary or bonus payments that may be subject to payroll taxes.

☐ **Shareholder loans from your corporation** – Repay shareholder loans from your corporation no later than the end of the corporation's tax year after the one in which the amount was borrowed (exceptions apply).

☐ **Taxable capital** – If your company's taxable capital for federal tax purposes exceeds certain limits, on an associated group basis, it will start losing access to the small business deduction and the enhanced 35% SR&ED ITC rate. Monitor your taxable capital and discuss with your PwC adviser ways to reduce taxable capital before your company's year end.

☐ **Protect your investment in your business assets** – Consider:

- ☐ transferring assets (e.g. real estate, intellectual property and surplus cash) from an operating

company to a separate company on a tax-deferred basis

- ☐ arranging to secure existing, or additional, loans from a shareholder

☐ **Capital gains rollover** – If you sold or will sell eligible small business corporation shares in 2014, invest the proceeds in other eligible small business corporation shares by April 30, 2015, to be eligible to defer all or part of the capital gain. (Applies to individuals only.)

☐ **Exemption for qualified small business corporation shares**

- ☐ Structure the business so that corporate shares become or remain eligible for the \$800,000 (indexed after 2014) lifetime capital gains exemption.
- ☐ Consider crystallizing the lifetime capital gains exemption and/or restructuring to multiply access to this exemption with other family members. This may be of particular interest if your business is expanding and becoming successful outside of Canada.
- ☐ A cumulative net investment loss (CNIL) may reduce your ability to use your remaining lifetime capital gains exemption. To reduce or eliminate any CNIL, consider receiving dividends and interest income, instead of salary, from your company.

☐ **SR&ED**

- ☐ Ensure claims in respect of SR&ED expenditures or ITCs are filed by the deadline, which is 18 months after the corporation's year end.
- ☐ Be aware that SR&ED claims filed after 2013 will require more detailed information about SR&ED program tax preparers and billing arrangements, and a \$1,000 penalty per claim will apply for missing, incomplete or inaccurate information. See our *Tax Insights* "SR&ED Form T661 revised: Claim preparer information required."
- ☐ If you have an interest in a partnership that includes a corporation, file SR&ED claims (Form T661) with the partnership information return no later than 12 months after the earliest of all filing-due dates for the return of income of the members for the tax years in which the partnership's fiscal period ends. ITCs allocated to corporations by the partnership must be supported by a partnership information slip (T5013).

☐ **Leveraged life insurance arrangements** – Be aware that certain tax benefits are eliminated for:

- ☐ "leveraged insured annuities" – generally for taxation years ending after March 20, 2013, annual accrual-based taxation applies, premiums are not deductible

and death benefits no longer increase a private corporation's capital dividend account (CDA)

- ☐ 10-8 arrangements – no deductions are allowed for interest on related borrowings and insurance premiums that relate to a period after 2013, and the CDA is not increased for death benefits that become payable after 2013 and are associated with the borrowing

- ☐ **Life insurers and policyholders** – Be aware that draft legislation will amend the taxation of life insurance policies generally issued after 2016. Key changes are in respect of the determination of:

- ☐ whether a life insurance policy is an exempt policy
- ☐ what types of transactions give rise to a disposition of an interest in a policy
- ☐ the tax treatment of a disposition of an interest in a policy (having regard to both the “adjusted cost basis” of the interest and the “proceeds of disposition” based on proposed amended definitions for each term)
- ☐ the tax treatment of disability or other benefits paid from the policy's cash values

Although the new rules are effective for policies issued after 2016, extensive grandfathering provisions are available for existing policies. Review your insurance needs and existing coverage to determine if you should purchase a new policy or change your existing policy within the grandfathered period.

- ☐ **Farming and fishing businesses** – Be aware that, starting with 2014 taxation years:

- ☐ for dispositions and transfers of farming and fishing property, eligibility for the intergenerational rollover of farming and fishing property and the lifetime capital gains exemption is extended to individuals involved in a combination of farming and fishing
- ☐ the tax deferral for farmers who dispose of breeding livestock due to drought, flood or excess moisture conditions existing in prescribed regions, is extended to disposals of bees, and of horses that are over 12 months of age, if kept for breeding

- ☐ **GST/HST** – Determine if your business is required to report recaptured input tax credits. This generally applies to large businesses (annual sales of \$10 million or more on an associated group basis), including financial institutions.

- ☐ **QST** – Determine if your business is required to restrict input tax refunds. This generally applies to large businesses.

☐ **GST/HST and QST**

- ☐ Ensure that GST/HST and QST has been correctly collected and remitted on taxable supplies and that input tax credits/input tax refunds have been claimed on eligible expenses throughout the year.
- ☐ Electronic filing requirement – To avoid penalties, file your company's GST/HST and QST returns electronically if certain criteria are met (e.g. annual taxable supplies on an associated basis exceed \$1.5 million).
- ☐ Pooled registered pension plans (PRPPs) – If you provide a PRPP for your employees, ensure you comply with draft legislation tabled on October 23, 2014, concerning the application of GST/HST to PRPPs. (Quebec will harmonize with these changes.)
- ☐ Determine if the following common GST/HST and QST traps apply to your business:
 - ☐ Management/intercompany fees – Ensure that GST/HST and/or QST is charged on management and inter-company fees within your corporate group. Determine if it is possible to make a special election to avoid having to charge GST/HST and/or QST.
 - ☐ Place of supply rules – If your company sells to different Canadian jurisdictions, understand the provincial place of supply rules to ensure that it is collecting the correct rate of tax.
 - ☐ Input tax credit documentation – Ensure your company has obtained the required written documentation to support input tax credit claims. You can check the CRA (or Revenu Quebec) website to verify the GST/HST (or QST) registration number of the supplier from which you made the purchase.
 - ☐ Taxable benefits – Determine if your company is required to remit GST/HST and/or QST on amounts reported as taxable benefits for employees.

Also, see our article “GST/Harmonized Sales Tax (HST) trips and traps for privately owned businesses” in *Wealth and tax matters* 2012 Issue 2 (page 12).

- ☐ **Tax compliance** – Be aware that the CRA has introduced a three-point plan to help small- and medium-sized businesses comply with tax rules:

- ☐ The Liaison Officer Initiative – In-person information will be provided at key points in the business cycle.
- ☐ The Registration of Tax Preparers Program (RTPP) – The CRA has begun consultations regarding a RTPP, which would require tax preparers to register so that

the CRA can identify and address common and recurring errors with them before tax returns are filed.

- ☐ An enhanced focus on high-risk files – The CRA will use advanced business intelligence and other approaches to identify and focus on high-risk sectors.

- ☐ **Provincial or territorial tax incentives** – Benefit from provincial or territorial tax incentives and enhancements to these incentives. For example, determine whether your company qualifies for:

- ☐ Manufacturing and processing (M&P) investment tax credits – available in Manitoba (extended to December 31, 2017), Nova Scotia, Prince Edward Island, Quebec (although credit rates have been reduced by 20% and several enhancements were eliminated) and Saskatchewan.
- ☐ SR&ED tax credits – available in all provinces (except Prince Edward Island) and the Yukon. For recent SR&ED tax credit changes in British Columbia and Quebec, see our *SR&ED Tax clip* “Provincial and territorial R&D tax credits – 2014.”
- ☐ Media tax incentives – enhanced in British Columbia (film) and Nunavut (film), extended in Nova Scotia (film and digital media), new grant program replaces former tax credit program in Saskatchewan, but credit rates reduced by 20% in Quebec (film, digital media and multi-media).
- ☐ Manitoba co-op education and apprenticeship tax credit – extended indefinitely (it was to expire on December 31, 2014) and enhanced for employers of apprentices and journeypersons (the pre-approval process has been eliminated, and starting 2015, credit rates and/or maximum credits will increase).
- ☐ Manitoba book publishing tax credit – extended three years to December 31, 2017.
- ☐ Manitoba small business venture capital tax credit – lifetime limit of tax creditable shares a corporation can issue is increasing from \$5 million to \$10 million.
- ☐ Manitoba community enterprise development tax credit – corporations with a permanent establishment in Manitoba that pay at least 25% of their payroll to Manitoba residents are eligible for this program, effective June 12, 2014.
- ☐ New Brunswick small business investor tax credit –
 - ☐ starting 2014 taxation years, corporations can claim a 15% non-refundable income tax credit on eligible small business investments of up to \$500,000 (maximum annual credit of \$75,000)
 - ☐ investments in registered community economic development funds will be eligible for this credit

- ☐ Nova Scotia capital investment tax credit – new tax credit equal to 15% of the capital cost of qualified property (generally, new buildings and equipment relating to M&P) acquired after December 31, 2014, and before January 1, 2025, is available for businesses that invest more than \$15 million.

- ☐ Nova Scotia capital rebate program – the maximum rebate is increasing from \$1 million to \$3 million, and is available to businesses that invest up to \$15 million.

- ☐ Quebec additional deduction for manufacturing small- and medium-sized enterprises (SMEs) located in remote areas – new deduction from income of up to 6% of gross income, depending on the location of the SME and the level of its manufacturing activities, among other things.

- ☐ Quebec health services fund (HSF) reductions – after June 4, 2014, HSF contributions are reduced or eliminated for SMEs with payrolls of \$5 million or less, that hire specialized employees from the natural and applied sciences sector.

- ☐ Quebec business tax credits – Be aware that about 30 business tax credit rates have been reduced by 20%, generally effective on or after June 4, 2014, and the following refundable tax credits are eliminated/under review:

- ☐ Quebec tax credit for buildings used in M&P activities – this tax credit, which was available to manufacturing SMEs, is eliminated generally for expenses incurred after June 4, 2014.
- ☐ Quebec tax credit for the integration of information technologies in M&P – as of June 4, 2014, this tax credit is under review and no certificates will be issued.

- ☐ Saskatchewan new growth tax incentive – new tax incentive for manufacturers that create jobs, including head office jobs in Saskatchewan, to expand sales outside Saskatchewan. Details are forthcoming.

☒ **Employees**

- ☐ **Income timing** – Defer the receipt of certain employment income if your marginal personal tax rate will be lower in 2015 than in 2014, or accelerate receipts if your marginal personal tax rate will be higher in 2015 than in 2014.

- ☐ **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 for education that may benefit your and other employees' children. Funds allocated to the program cannot replace salary, wages or other remuneration.
- ☐ **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 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 2014 is paid on or before January 30, 2015.
- ☐ **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.
- ☐ **Moving expenses** – If you moved to be closer to work, your moving expenses may be deductible.
- ☐ **Employee home purchase loans** – Take out or replace an employee home purchase loan before January 1, 2015, to take advantage of the current prescribed rate (1% for the fourth quarter of 2014).
- ☐ **Employee stock options** – If there is a possibility of claiming the lifetime capital gains exemption (\$800,000, indexed after 2014), consider exercising your CCPC stock options. A taxpayer must own shares (not options) for at least 24 months to qualify for a capital gains exemption claim.
- ☐ **Stock option benefits of public companies**
 - ☐ If you settled stock options for cash rather than receiving shares, ask your employer to elect to forgo the tax deduction so that you may claim a deduction for 50% of the benefit, if you would otherwise qualify.
 - ☐ Recognize that an exemption for withholdings on stock option benefits will not be granted solely because the benefit is not paid in cash; withholdings are required unless there are other reasons for exemption.
- ☐ **Reduce income tax deductions at source** – If you will have excess tax deductions or non-refundable tax credits in 2015, request reductions in your payroll income tax withholdings early in 2015 (federal form T1213; Quebec form TP-1016-V).
- ☐ **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.

- ☐ **Overseas employment tax credit** – If you claim this credit, be aware that it will be eliminated in 2016 (if your employer committed in writing to the project or activity before March 29, 2012); otherwise, it will be eliminated gradually by 2016.
- ☐ **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
 - ☐ 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
 - ☐ choose a less expensive vehicle
 - ☐ Tracking motor vehicle use – Keep an automobile logbook to support motor vehicle expense and taxable benefit calculations.

For more information, and for a paper or electronic employee log, refer to our booklet, *Car expenses and benefits – A tax guide (2014)*.

☐ Retirement savings plans, profit-sharing plans and RRIFs

- ☐ Take advantage of higher contribution limits:

	Registered retirement savings plans (RRSPs)	Defined contribution registered pension plans (RPPs)	Deferred profit-sharing plans (DPSPs)
2014	\$24,270	\$24,930	\$12,465
2015	\$24,930	Indexed	

- ☐ If your taxable income is below the highest tax bracket, consider maximizing your RRSP contributions each year and not claiming the amount as a deduction until a future year when your taxable income is in a higher tax bracket.
- ☐ Pooled registered pension plan (PRPP) – If you do not have access to an employer-sponsored pension plan, consider joining a PRPP, a voluntary savings plan that is similar to a defined contribution RPP (or a group RRSP plan).

- ☐ **GST/HST rebate** – Determine whether you can claim a GST/HST rebate to recover GST/HST included in employment expenses you have deducted (e.g. home office expenses, supplies and automobile expenses).

- ☐ **Manitoba employee share purchase tax credit** – Be aware that effective June 12, 2014, changes:

- ☐ increase the tax credit rate from 30% to 45% of the cost of eligible shares
- ☐ establish a maximum annual credit of \$202,500 for shares acquired under a registered employee share ownership plan designed to facilitate succession planning or an employee buyout or takeover (maximum annual credit of \$27,000 for other plans), but the maximum that can be claimed per year is \$67,500, with up to \$27,000 being refundable

☒ **Self-employed individuals**

- ☐ **Private health services plan (PHSP) premiums** – 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 (except in Quebec).
- ☐ **Pooled registered pension plan (PRPP)** – Consider joining a PRPP, a voluntary savings plan that is similar to a defined contribution RPP (or a group RRSP plan).
- ☐ **Employment insurance (EI) special benefits** – Assess whether you want to opt-in to the EI program to be eligible for maternity, parental, sickness or compassionate care benefits (exceptions apply for Quebec residents).
- ☐ **Tracking motor vehicle use** – Keep an automobile logbook to support motor vehicle expense and taxable benefit calculations. Except in Quebec, a logbook maintained for a sample period will be sufficient to support these calculations if:
 - ☐ you maintain a full logbook for a 12-month “base” period (starting in 2009 or later)
 - ☐ you complete a sample logbook for a continuous three-month period in each subsequent year
 - ☐ business use in the sample logbook is within 10% of the results for the same three-month period in the base year
 - ☐ business use for the entire year as extrapolated from the subsequent sample log is within 10% of the base-year result

For a paper or electronic employee log, see our booklet, *Car expenses and benefits – A tax guide (2014)*.

- ☐ **Incorporating a proprietorship** – Consider incorporating your unincorporated business. Discuss with your PwC adviser the additional commercial and tax benefits that incorporation could offer.

☒ **Investors**

- ☐ **Investment portfolio mix** – Because several types of investments are 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 or territory of residence.
- ☐ **“Eligible” dividends** – Be aware that:
 - ☐ eligible dividends can trigger an alternative minimum tax (AMT) liability
 - ☐ for individuals in lower tax brackets, eligible dividends could be tax-free or reduce tax on other income
- ☐ **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. In addition:
 - ☐ if you are planning a withdrawal from your TFSA, consider doing so before the end of 2014 instead of early 2015 – amounts withdrawn are not added to your TFSA contribution room until the beginning of the following year after the withdrawal
 - ☐ be aware that taxpayers who use TFSAs in tax-planning schemes may be penalized (e.g. income attributable to deliberate overcontributions or prohibited investments is subject to a 100% tax)
 - ☐ consider holding investments that are subject to higher tax rates (i.e. interest and foreign dividends) in your TFSA

For more information on TFSAs, see our *Tax memo* “Tax-free savings accounts (TFSAs): Making the most of them.”

- ☐ **RRSP investment portfolio mix** – Determine the optimal mix of investments within your RRSP. Consider holding investments intended for capital growth outside your RRSP (to benefit from lower tax rates on capital gains and eligible dividends) and holding interest-generating investments inside your RRSP.

- ☐ **Safety deposit boxes** – Be aware that you can no longer deduct the cost of renting safety deposit boxes.
- ☐ **Labour-sponsored venture capital corporations (LSVCCs) tax credit** – If you have an interest in an LSVCC, be aware that the 15% federal credit will decrease to 10% in 2015, 5% in 2016 and nil after 2016. In addition, new federal registrations of LSVCCs will cease, and provincially registered LSVCCs can no longer be prescribed for the federal LSVCC if applications are submitted after March 20, 2013.
- ☐ **Investment holding company**
 - ☐ Ontario residents who earn investment income from portfolio investments that is subject to Ontario's high-earner income tax (i.e. on incomes exceeding \$220,000, in 2014) should consider holding these investments in a corporation. Discuss the merits with your PwC adviser before setting up an investment holding company.
 - ☐ Residents of other provinces or territories in the top marginal income tax rate (see Table 3 on page 26) may benefit by using an investment holding company, depending on the jurisdiction and type of income earned. Consult your PwC adviser to see if an investment holding company makes sense for you.
- ☐ **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 2014 transaction for tax purposes (likely December 24, for Canadian exchanges).
- ☐ **Interest deductibility**
 - ☐ If possible, repay 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.
 - ☐ Remember that you can continue to deduct interest on an investment loan even after you sell the investment at a loss, provided that you reinvest the proceeds from the sale in a new investment.
 - ☐ 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. Be aware of the superficial loss rules, which limit the recognition of a loss.
- ☐ Close out option contracts with inherent capital losses in 2014, rather than 2015, to shelter taxable capital gains.
- ☐ **Accrued capital gains** – Delay selling securities or other assets with accrued gains until 2015.
- ☐ **Capital gains deferral** – If you sell capital property in 2014, you may be able to defer tax on part of the capital gain by having the purchaser defer payment of the proceeds. This may allow you to claim a capital gains reserve over a maximum of four years, which results in the capital gain being included in income over a maximum of five years.
- ☐ **Mutual funds**
 - ☐ Delay mutual fund purchases to January 2015 or consider selling mutual funds before year end to minimize your allocation of taxable income for 2014. 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.
- ☐ **Life insurers and policyholders** – Be aware of draft legislation that will amend the taxation of life insurance policies generally issued after 2016. See page 10 for further details.
- ☐ **Charitable donations**
 - ☐ Donating securities – Consider the tax benefits of donating publicly listed securities with an accrued capital gain.
 - ☐ First-time donor's super credit – If you are a first-time charitable donor, claim this additional 25% credit on up to \$1,000 of donations made after March 20, 2013. The credit can be claimed only once, after 2012 and before 2018.
 - ☐ If you make the following donations after February 10, 2014, be aware that for:
 - ☐ ecologically sensitive land, or easements, covenants and servitudes on that land, the carry-forward period for unused donations has been extended from five years to ten
 - ☐ certified cultural property, the value of the donated property is limited to its cost amount to

the donor if the property was acquired as part of a tax shelter gifting arrangement

- ☐ Quebec cultural donation incentives – If you make donations to support Quebec art and culture, claim Quebec's enhanced incentives for certain cultural donations made after July 3, 2013:
 - ☐ Large donations to cultural organizations – an additional 25% non-refundable tax credit can be claimed by individuals for an initial cultural donation of at least \$5,000 (up to \$25,000) made before January 1, 2018.
 - ☐ Cultural patronage – a 30% non-refundable tax credit can be claimed by individuals on donations of at least \$250,000 (or at least \$25,000 annually over no more than 10 years) to a cultural organization.
 - ☐ Public artwork – individuals and corporations that donate public artwork can claim:
 - ☐ 125% of the fair market value (FMV) of the artwork, for artwork installed in certain places accessible to the public, or
 - ☐ 150% of the FMV, for artwork installed in certain educational places accessible to students
 - ☐ Studio space – individuals and corporations that donate buildings that can house artists' studios or cultural organizations can claim 125% of the FMV of the buildings.

- ☐ **Foreign exchange gains and losses** – Consider changes in foreign exchange rates when selling foreign securities. Depreciation in the Canadian dollar relative to US 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 the Canadian dollar appreciates relative to US currency.

☐ **Transactions involving trusts**

- ☐ Be aware that, starting for 2016 taxation years, a flat top-rate tax (instead of graduated tax rates) will apply to testamentary trusts, estates and grandfathered inter vivos trusts, and an estate that is a testamentary trust will be required to have taxation years ending on December 31 (starting with a deemed taxation year ending on December 31, 2015, or after the first 36 months after death, if this is later).

Graduated tax rates will continue to apply for testamentary trusts that:

- ☐ arise as a consequence of an individual's death (the first 36 months of the estate only), or

- ☐ have beneficiaries who qualify for the disability tax credit

See our *Tax Insights* "New tax rules for testamentary trusts: The bad and the good (and some surprises)."

- ☐ Also, be aware that starting for 2016 taxation years, draft legislation:
 - ☐ limits the amount that a trust can designate as not having been paid or payable to a beneficiary
 - ☐ deems taxable capital gains that arise in spousal trusts (testamentary or inter vivos), joint spousal trusts, alter ego trusts or self-benefit trusts on the death of certain individuals, to be payable to the deceased individual in the year of his or her death, whether or not the deceased's estate receives property from the trust. Consequently, those who benefit from the deceased's estate may bear the tax on capital gains on property that may be inherited by the surviving beneficiaries of the trust. To date, no grandfathering provisions have been provided for trusts that are currently in existence.

See our *Tax Insights* "New tax rules for testamentary trusts: The bad and the good (and some surprises)."

- ☐ If you were or will be involved in transfers to or from trusts, contact your PwC adviser for an evaluation of the tax implications. The transfers may trigger a taxable event or a reporting requirement.
- ☐ If the trust has non-resident beneficiaries, contact your PwC adviser to assess the tax implications. Having a non-resident beneficiary may trigger Canadian and foreign taxes. See our article "Baby, please don't go: when trust beneficiaries give up Canadian residency" in *Wealth and tax matters* 2013 Issue 1 (page 22).
- ☐ You should not make a loan to, or incur debts on behalf of, a testamentary trust. This could cause the trust to lose that status.
- ☐ If the trust's 21st anniversary occurs in 2015, consider planning to avoid the deemed disposition of assets at fair market value on that date.

☐ **Non-resident trusts (NRTs)**

- ☐ Consider rules that will generally deem an NRT to be resident for Canadian tax purposes if (i) it has Canadian resident contributors or (ii) certain former Canadian residents have contributed to an NRT that has Canadian resident beneficiaries. Think about whether elections available in the NRT rules should be made, for example, for relief for NRTs that have property contributed by non-residents.

- ☐ Take into account that for taxation years ending after March 20, 2013, an NRT other than an “immigration trust” is deemed to be resident in Canada if a Canadian-resident taxpayer transfers or lends property to the trust (regardless of the consideration received) and the property held by the trust may revert to the taxpayer, pass to persons to be determined by the taxpayer, or be disposed of only with the taxpayer’s consent.
- ☐ If you have an immigration trust, be aware that the 60-month exemption from the NRT rules for immigration trusts will be eliminated generally for taxation years ending after February 10, 2014. See our *Tax Insights* “2014 federal budget: The demise of immigration trusts.”
- ☐ **Foreign accrual property income (FAPI)** – If you or your corporation holds, alone or together with other persons, directly or indirectly, more than 50% of the shares of a foreign company, be aware that newly enacted legislation and draft legislative proposals may significantly change the FAPI tax regime. See our *Tax Insights*:
 - ☐ “Bill C-48 gets royal assent: Implications for Canadian companies with foreign affiliates”
 - ☐ “July 12, 2013 draft legislative proposals: Implications for foreign affiliates”
- ☐ **Home buyers’ incentives** – If you are a first-time home buyer:
 - ☐ consider withdrawing tax free up to \$25,000 from your RRSP, under the Home Buyers’ Plan to acquire a home (also applies to a spousal RRSP). Amounts withdrawn must be repaid to your RRSP
 - ☐ claim these first-time home buyers’ incentives:
 - ☐ Federal first-time home buyers’ tax credit – maximum credit is \$750, if you purchased a qualifying home to be used as your principal place of residence.
 - ☐ Saskatchewan first-time homebuyers’ tax credit – maximum credit is \$1,100, if you purchase a qualifying home that will be used as your principal place of residence.
- ☐ **Provincial or territorial tax incentives** – Ensure you benefit from provincial and territorial tax incentives and changes to these incentives. For example, determine whether you qualify for:
 - ☐ British Columbia mining flow-through share tax credit – extended by one year to December 31, 2014.
 - ☐ Manitoba mineral exploration tax credit – extended three years to flow-through share agreements entered into before April 1, 2018.
 - ☐ Manitoba community enterprise development tax credit – extended six years to December 31, 2020; and for eligible shares acquired after June 11, 2014, the credit is fully refundable and enhanced by increasing the tax credit rate from 30% to 45%, and the maximum annual shares that can be acquired from \$30,000 to \$60,000 (maximum annual credit from \$9,000 to \$27,000).
 - ☐ Manitoba small business venture capital tax credit – for eligible shares issued after June 11, 2014, enhancements increase:
 - ☐ the tax credit rate from 30% to 45% (maximum annual credit from \$45,000 to \$67,500; maximum total credit from \$135,000 to \$202,500)
 - ☐ the investor’s maximum equity percentage from 10% to 35%
 - ☐ New Brunswick small business investor tax credit – enhanced:
 - ☐ starting 2014 taxation years, trusts can claim a 15% non-refundable income tax credit on eligible small business investments of up to \$500,000, for a maximum annual credit of \$75,000
 - ☐ investments in registered community economic development funds will be eligible for this credit
 - ☐ Quebec LogiRenov tax credit – a new refundable tax credit for home renovations performed on your principal place of residence by a qualified contractor under an agreement entered into after April 24, 2014, and before July 1, 2015 (maximum cumulative credit of \$2,500 per dwelling).
 - ☐ Quebec flow-through shares – for flow-through shares issued after June 4, 2014, the additional deductions (on top of the base deduction of 100% of the cost of the shares) are reduced:
 - ☐ for mining exploration expenses incurred in Quebec – to 10% (from 25%) for the first additional deduction, and the second additional deduction for surface expenses
 - ☐ for oil or gas exploration expenses incurred in Quebec – to 20% (from 50%)
 - ☐ for certain issue expenses – maximum of 12% (formerly 15%) of the issue proceeds of the shares

☒ **Parents and spouses**

☐ **Estate planning arrangements** – Review these arrangements annually to ensure they meet your objectives.

☐ **Estate donations** – Note that starting with donations made related to a death occurring after 2015, donations made under a will, and those made by designation under a RRSP, RRIF, TFSA or life insurance policy, will no longer be deemed to be made by the individual immediately before his or her death. These donations will be deemed to have been made by the individual's estate at the time the property that is the subject of the donation is transferred to a qualified donee and, if the transfer occurs within 36 months after death, the trustee of the estate will have the flexibility to allocate the available donation among:

- ☐ the taxation year of the estate in which the donation is made
- ☐ an earlier taxation year of the estate
- ☐ the individual's last two taxation years

☐ **Income splitting**

☐ **Family tax cut credit** – Claim this new annual non-refundable tax credit, starting 2014, if you qualify. The credit is equal to the federal tax reduction that would result on the transfer of up to \$50,000 of taxable income from the high-earner spouse to the low-earner spouse, to a maximum credit of \$2,000. See our *Tax Insights* "Income-splitting and other tax measures for families introduced."

☐ 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, 2015, to take advantage of the current prescribed rate (1% for the fourth quarter of 2014).

☐ Interest on intra-family loans must be paid on or before January 30, 2015, to avoid attribution of income.

☐ Income earned by discretionary inter vivos family trusts must be paid or made payable to beneficiaries by December 31, 2014, to be included in the beneficiary's income.

☐ If you own shares in a private corporation, discuss with your PwC adviser the use of a trust to split income with your adult children.

☐ Give money or make an interest-free loan to your spouse or adult child to contribute to their TFSA. Because the income earned is tax-free, the attribution rules do not apply (while the funds are invested in the TFSA).

☐ Be aware that, commencing for 2014 taxation years, the income attribution rules will apply to "split income" that is paid or allocated to a minor from a trust or partnership, if:

- ☐ the income is derived from a business or a rental property, and
- ☐ a person related to the minor:
 - ☐ is actively engaged on a regular basis in the activities of the trust or partnership to earn income from any business or rental property, or
 - ☐ has a direct or indirect interest in the partnership

☐ **Registered education savings plan (RESP)**

☐ Contribute to an RESP for your child or grandchild.

☐ Plan for the RESP to receive the maximum lifetime Canada education savings grant of \$7,200, which depends on the amount of 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 British Columbia, ensure the RESP receives a one-time \$1,200 grant for a beneficiary that is born after 2006.

☐ If you reside in Quebec, ensure the RESP receives the Quebec education savings incentive, which has a lifetime maximum of \$3,600.

☐ If you reside in Saskatchewan, contribute at least \$2,500 annually so that the RESP receives the Saskatchewan advantage grant for education savings, a 10% matching grant on RESP contributions, to a maximum of \$250 per child per year.

☐ Discuss with your PwC adviser the tax consequences of withdrawing funds from an RESP, especially if your children who are the beneficiaries of the RESP do not pursue post-secondary education or do not require all the funds in the RESP for their education.

For more information on RESPs, see our *Tax memo* "RESPs: A user's guide."

☐ **Child care expenses**

- ☐ Be aware that starting 2015, the maximum annual child care expenses that can be claimed will increase by \$1,000 to:
 - ☐ under age seven – \$8,000
 - ☐ age seven to 16 (and infirm dependent children over age 16) – \$5,000
 - ☐ children eligible for the disability tax credit – \$11,000
- ☐ Pay child care expenses for 2014 by December 31, 2014, and get receipts.
- ☐ 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.
- ☐ If you reside in Newfoundland and Labrador, claim the province's child care tax credit; the non-refundable tax credit amount equals the child care expenses that are deductible from the parents' income.

☐ **Universal child care benefit (UCCB) and Canada child tax benefit (CCTB)**

- ☐ Be aware that starting 2015, the UCCB payments will increase for each child under six, to \$160 per month (from \$100), and a new \$60 per month benefit will be available for children age six to 17. (Because of these enhancements, the child tax credit will be repealed in 2015.) If you do not currently qualify for the UCCB, but will in 2015, you must file the Canada Child Benefits Application (Form RC66).
- ☐ 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.
- ☐ If you are a single parent and receive the UCCB, include the UCCB in the income of a dependant for whom an eligible dependant credit is claimed or, if the credit cannot be claimed, of a child for whom the UCCB was paid.

☐ **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)

- ☐ plan to optimize the lifetime CDSG paid to an RDSP by taking into account annual CDSG limits, which depend on net family income

☐ **Children's fitness and arts tax credits** – If your child is enrolled in eligible programs of fitness and non-fitness activities, claim the:

- ☐ **Federal children's fitness tax credit** – a non-refundable tax credit on up to \$1,000 (up from \$500 before 2014) of fees paid per child under 17, for enrollment in an eligible physical activity program. Starting 2015, this credit will be refundable.
- ☐ **Federal children's arts tax credit** – a non-refundable tax credit on up to \$500 of fees paid per child under 17, for enrollment in an eligible program of artistic, cultural, recreational or developmental activities.

For both federal credits, different rules apply for children with disabilities.

☐ **Provincial or territorial fitness and arts tax credits** – If your child is eligible, don't forget to also claim the following:

- ☐ British Columbia children's fitness tax credit
- ☐ British Columbia children's arts tax credit
- ☐ Manitoba fitness tax credit
- ☐ Manitoba children's arts and cultural activity tax credit
- ☐ Nova Scotia healthy living tax credit
- ☐ Ontario children's activity tax credit
- ☐ Quebec youth activities tax credit – maximum refundable credit increased from \$20 in 2013 to \$40 for each child in 2014 and will further increase annually to 2017, when it will be \$100 per child
- ☐ Saskatchewan active family benefit
- ☐ Yukon children's fitness tax credit – maximum fees claimable is \$1,000 (up from \$500 before 2014) of fees paid per child
- ☐ Yukon children's arts tax credit

Pay the expenses by December 31, 2014, and retain receipts.

☐ **Employment leave by spouse** – If your spouse is leaving the workforce, consider timing 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. If your children live in the US, see our *Estate tax update* publications listed on page 28.

☐ **Adoption expense tax credit** – Note that the maximum eligible adoption expenses that qualify for this credit increased from \$11,669 for 2013 to \$15,000 for 2014 (indexed after 2014) per child.

☐ **Medical expense tax credit** – Recognize that this credit is expanded to include eligible expenses incurred after 2013 for:

- ☐ the design of a therapy plan for individuals who qualify for the disability tax credit
- ☐ service animals trained to assist individuals with severe diabetes

☒ **Students**

☐ **Education, tuition and textbook tax credits** – Claim these credits if you attend post-secondary school. Remember that certain fees for exams will qualify for the tuition tax credit.

☐ **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. Exceptions apply.

☐ **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
 - ☐ five years for unclaimed student loan interest

☐ **Lifelong Learning Plan (LPP)** – Consider making 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. Amounts withdrawn must be repaid to your RRSP, to avoid future income inclusions.

☐ **Moving expenses** – If you moved to attend school or moved from school to work or home, your moving expenses may be deductible.

☐ **Post-secondary students in Canada** – If you are enrolled as a student in an educational program at a post-secondary educational institution in Canada, request educational assistance payments from your RESP.

☐ **Foreign university** – If you are a full-time student at an educational institution outside Canada in a course leading to a degree that is at least three consecutive weeks:

- ☐ claim the tuition, education and textbook tax credits
- ☐ request educational assistance payments from your RESP

☐ **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 and a maximum of 20 years (maximum lifetime rebate of \$25,000). A tax rebate advance of up to \$500 per year (\$5,000 lifetime advance) is available.
- ☐ **New Brunswick** – claim a 50% tax rebate on tuition fees (maximum lifetime rebate of \$20,000).
- ☐ **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 (up to \$10,000 if you start eligible employment after March 20, 2012, and other conditions are met).
- ☐ **Saskatchewan** – claim a non-refundable tax credit on up to \$20,000 of tuition fees over seven years. Graduates who have insufficient income to use the non-refundable tax credit can claim a refundable tax credit equal to the unused portion.

☒ **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 reduce or defer 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 38% gross-up) will trigger an OAS clawback. Instead of receiving eligible dividends, consider earning capital gains. Only 50% of the gain is included in income for OAS purposes.

☐ Note that you can now defer starting your OAS benefit for up to 60 months after your date of eligibility (i.e. age 65 years). This will permanently increase your monthly payment by 0.6% for every month of deferral.

☐ Be aware that starting July 2013, you no longer have to apply for OAS benefits. Instead you will be automatically enrolled (exceptions apply in the early implementation stage).

☐ **Canada pension plan (CPP)/Quebec pension plan (QPP)**

☐ If you receive CPP or QPP payments:

- ☐ consider splitting the CPP or QPP income with your spouse by requesting to share the payments
- ☐ be aware that if you are employed or self-employed, and are age 60 to 70, you must contribute to the CPP (however, if you are age 65 to 70, you can elect to stop these contributions; the election can be revoked in the following year)

☐ If you do not receive CPP payments and are age 60 to 70, determine the best time to start collecting CPP benefits (if you start before 65, benefits are reduced; if you start after 65, benefits are increased). Be aware that if you choose to receive CPP benefits before age 65, your monthly CPP benefit will decrease by a larger percentage, starting 2012 to 2016 (by 2016, your CPP retirement pension will be reduced by 0.6% [instead of 0.5% before 2013] for each month before age 65 that you began receiving CPP benefits).

☐ Be aware of recent enhancements to the CPP:

- ☐ commencing 2014, up to 8 years (up from 7.5 years in 2012) of your lowest earnings will be automatically dropped from the calculation that determines your CPP benefits
- ☐ if you decide to take your CPP benefits before age 65, you do not need to stop working or reduce your earnings (for at least two months)

☐ Note that starting 2014, if you have turned 60, you do not need to stop working to receive QPP benefits.

☐ **Your RRSP** – If you turn 71 in 2014, 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, 2014

☐ contribute (before the normal March 1, 2015 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 RRIF or a life income fund

☐ make a contribution for 2015 by December 31, 2014, and pay any applicable penalty

For more information, see “Retirement savings plans, profit-sharing plans and RRIFs” on page 12.

☐ **Pension income**

☐ If you receive pension income (e.g. from an RPP, RRSP or RRIF), consider allocating up to half of this income to your spouse or common-law partner. Consider if it is beneficial to withdraw additional amounts from your RRIF to allocate up to half of this withdrawal 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.

☐ Quebec – Recognize that starting 2014, you can split retirement income with your spouse for income tax purposes only if you turned 65 before the year end, or on the date you ceased to be resident in Canada or died.


☐ **Your RRIF** – If your RRIF investments declined in value and you think that the investments will rebound, consider an “in-kind” withdrawal (e.g. transfer to a non-registered investment account at your financial institution or a TFSA, subject to the contribution room available) to satisfy the RRIF's minimum withdrawal requirements. Income tax must still be paid on the fair value of the withdrawal.

☐ **Individual pension plans** – Be aware that if you have a defined benefit RPP that was created primarily for you and you are over 71, you must make minimum withdrawals.

☐ **Provincial/territorial incentives** – Ensure you benefit from provincial/territorial incentives and changes to these incentives. For example, starting 2014, Quebec seniors age 70 years or older with incomes of \$40,000 or less (indexed after 2014) can claim a seniors' activities refundable tax credit (maximum \$40), on fees paid after June 4, 2014, for enrolment in a physical, artistic, cultural or recreational activity.


Individuals and businesses with international connections


 **Foreign reporting requirements** – Review your foreign holdings to determine if you have a reporting obligation.



 Canadian-resident individuals, corporations, trusts and certain 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. (Additional detailed information is required on Form T1135, for taxation years ending after June 30, 2013; streamlined reporting for certain foreign property is permitted.) See our *Tax Insights* “More changes to Form T1135, Foreign Income Verification Statement.”

 Taxpayers resident in Canada that own shares of a non-resident corporation that is a foreign affiliate at any time in the year, as well as certain partnerships, must file an information return (form T1134).


Other forms may also be required.


 **Non-resident trusts (NRTs)** – Don’t ignore enacted and draft rules for NRTs. See pages 15 and 16 for further details.


 **Sale of property by non-residents** – If you purchase taxable Canadian property from a non-resident vendor, withhold tax from the amount paid and remit the tax within 30 days from the end of the month in which the purchase occurred, unless:


-  the non-resident vendor has obtained a clearance certificate, or
-  after reasonable inquiry, there was no reason to believe that the vendor was not a resident of Canada


Canadian tax can be reduced or eliminated if Canada has a tax treaty with the non-resident’s country of residence. Relief from certificate requirements may also be available for gains that, due to a tax treaty, among other relief, are not taxed.


 **Electronic commerce** – Ensure that your electronic presence in a foreign jurisdiction does not trigger an unexpected foreign tax bill.



 **Accounts receivable and other debts owing from non-residents** – Ensure amounts outstanding for more than one year bear interest at reasonable rates. Exceptions apply.


 **Loans from foreign subsidiaries** – Be aware that legislation enacted in 2013 introduces additional tax complexities associated with loans from foreign affiliates to Canadian corporate shareholders and to certain non-arm’s length persons. Contact your PwC adviser to discuss these changes and how they affect you. See our *In Print* “Are you ready for the upstream loan rules?”

 **Shareholder loans** – Note that non-resident controlled Canadian corporations are permitted to make certain loans to foreign parent companies or related non-resident companies without being subject to the deemed dividend withholding tax if appropriate elections are filed. To benefit from this elective relief, the Canadian corporation must include in income interest at a prescribed rate (currently approximately 5%). The rules also apply to loans made by, or to, certain partnerships.

 **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 and possibly trigger a withholding tax burden. The rules limit the permitted debt/equity ratio to 1.5:1 and also apply to debts of a partnership in which a Canadian-resident corporation is a member. Be aware that for taxation years beginning after 2013, the rules will also apply to Canadian-resident trusts and to non-resident corporations and trusts that operate in Canada, including when these are members of partnerships.

 **Back-to-back-loans** – If your corporation is involved in a back-to-back loan arrangement that uses an interposed third party, be aware that:

-  a specific anti-avoidance rule relating to withholding tax on interest payments will be introduced, for amounts paid or credited after 2014
-  an existing anti-avoidance provision in the thin capitalization rules will be amended, for taxation years that begin after 2014

 **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 is negotiating and signing TIEAs with non-treaty countries and has implemented tax measures to encourage non-treaty countries to enter into TIEAs. Canada is currently negotiating eight TIEAs; one has been signed and awaits entry into force; and twenty-one others have

already entered into force (one on behalf of five jurisdictions).

☐ **Treaty shopping** – Note that on September 16, 2014, the Organisation of Economic Cooperation and Development (OECD) released “Action 6: 2014 Deliverable, Preventing the Granting of Treaty Benefits in Inappropriate Circumstances,” largely adopting a treaty-based approach to address treaty abuse. It is unclear what direction Canada’s Department of Finance will pursue. Canada’s February 11, 2014 federal budget had proposed a domestic anti-treaty shopping rule. However, on August 29, 2014, the Department of Finance stated that it had instead decided to await further work by the OECD and the Group of 20 (G20) in relation to the Base Erosion and Profit Shifting (BEPS) initiative.” See our:

☐ *Tax Insights* “Recommendations on countering treaty abuse – Where are we now?”

☐ *Tax Policy Bulletins* “OECD’s agreed recommendations on BEPS 2014 deliverables: Few surprises – but no let up” and “OECD Report on Action 6 – Treaty Abuse”

☐ **Base erosion and profit shifting (BEPS)** – Stay up-to-date on the status of BEPS and what to expect. BEPS continues to be on the top of the agenda of the OECD and the European Commission. Your PwC tax adviser can help you stay informed and deal with the changing tax environment. For more on BEPS, see:

☐ “Treaty shopping” above

☐ our webpage, www.pwc.com/beps

☐ **Insurance swaps** – If your corporation is involved in a tax planning arrangement that is sometimes referred to as an “insurance swap,” be aware that for taxation years beginning after February 10, 2014, an anti-avoidance rule in the foreign accrual property income (FAPI) regime intended to prevent Canadian taxpayers from shifting income from the insurance of Canadian risks offshore, is clarified to ensure that it applies to these arrangements.

☐ **Payments to non-residents** – Be aware that:

☐ you may be required to withhold 15% of payments made to a non-resident that relate to fees, commissions or other amounts in respect of services rendered in Canada (excludes remuneration that is subject to payroll withholding requirements); a provincial withholding equivalent may also apply

☐ non-residents generally file CRA Form NR301 (individual, corporation, trust), NR302 (partnership) or NR303 (hybrid entity) to support reducing

withholding tax rates on payments from Canadians to reflect treaty benefits

☐ non-resident employees could obtain a waiver from Canadian withholding requirements if remuneration is expected to be exempt in Canada under a treaty (submit a waiver application to the CRA on Form R102-R or R102-J)

See our *Tax Insights* “Alert for multinational companies: Payroll and immigration compliance requirements” and “Regulation 102 processes: What has changed?”

☐ **Immigration reforms** – If you are (or have an employee that is) relocating to Canada, you may be affected by recent changes that restrict immigration and employee transfers. New rules affect the Temporary Foreign Worker Program, the Intra-Company Transfer work permit category and the definition of “dependent child.” See *Insights* “New reforms to immigration and Canada’s Temporary Foreign Worker Program.”

☐ **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.

☐ If you are a non-resident of Canada that makes a taxable supply in Canada and “carries on a business” in Canada, you may be required to register for GST/HST, PST or QST. Once registered, you must collect and remit the tax as well as file periodic GST/HST, PST or QST returns.

☒ **Individuals and businesses with US connections**

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

☐ **US income tax** – If you are a US citizen, green card holder or US-resident alien in 2014, consider US

compliance obligations and determine if you have complied with all US reporting requirements. If you have not:

- ☐ contact your PwC adviser to see if you qualify for changes announced by the Internal Revenue Service (IRS) to its offshore voluntary disclosure programs that make it easier for US citizens living in Canada to meet their US filing obligations. See our:
 - ☐ *Tax Insights* “New IRS relief for US citizens living outside the US”
 - ☐ webpage, www.pwc.com/ca/USdisclosure
- ☐ you are strongly encouraged to take advantage of US voluntary disclosure programs because starting July 1, 2014, Canadian financial institutions are required to report certain information on your investments to the IRS; an Intergovernmental Agreement between Canada and the United States entered into force on June 27, 2014, with respect to this reporting. See our *Global IRW Newsbriefs* “Canada and the US sign FATCA Intergovernmental Agreement”

☐ **US estate tax** – If you are:

- ☐ not a US citizen or resident, determine whether your property holdings include shares in US corporations (including stock options to acquire such shares), US real estate, debt obligations issued by US residents, interests in US partnerships, or any personal property that is located in the United States; if so, determine your possible exposure to US estate tax and how to minimize it
- ☐ a US citizen who is a Canadian resident, determine your possible exposure to both US estate tax and Canadian deemed disposition on death tax and how to minimize the incurrence of double taxation

See our *Estate tax update* series listed on page 28.

☐ **US gift tax** – If you are a US citizen or green card holder, consider your exposure to US gift tax. For 2014, a US citizen has an annual exclusion amount for a gift up to US\$145,000 to a non-US spouse and up to US\$14,000 to a child.

☐ **Canadian snowbirds** – If you are a “snowbird” – Canadians who spend a significant amount of time in the United States, during the winter – ensure that you do not meet the US “substantial presence test,” which may make you liable for US income tax. See our *Tax Insights* “The snowbirds sing...and the IRS listens.”

☐ **US citizenship status** – If there is a possibility that you may be a US citizen, determine your status. See *Insights* “Are you a US citizen?”

☐ **US Net Investment Income Tax (NIIT)** – If you are a US citizen, green card holder or US-resident alien with net investment income that is subject to both the 3.8% NIIT and foreign income tax, be aware that a foreign tax credit cannot be claimed to reduce the NIIT payable. As a result, your net investment income may be subject to double income taxation. The 3.8% NIIT (also known as the Medicare Contribution Tax) applies generally on capital gains, dividends, interest, rents and royalties. See our article “Alert for US taxpayers: New 3.8% Net Investment Income Tax (NIIT)” in *Wealth and tax matters* 2013 Issue 2 (page 34).

☐ **Canadian RRSPs, RRIFs, RPPs and DPSPs**

- ☐ If you are a US citizen, green card holder or US-resident alien in 2014, and are the beneficiary of a Canadian RRSP, RRIF, RPP and/or DPSP, determine:
 - ☐ what information you need to provide to the Internal Revenue Service (IRS)
 - ☐ the format for reporting this information
 - ☐ the reporting deadlines
- ☐ Be aware that a recent US IRS announcement allows US citizens and resident aliens who hold interests in Canadian RRSPs or RRIFs and meet certain other conditions, to automatically qualify for a tax deferral. Previously, to receive this deferral, you had to file an election on Form 8891, which will be eliminated after December 31, 2014. However, you will now have to disclose your RRSP and RRIF accounts on Form 8938. See our *Tax Insights* “Good news for US taxpayers with RRSPs or RRIFs.”

☐ **US retirement plans** – If you are a Canadian resident who has investments in US 401(k) or IRA plans, discuss with a PwC adviser whether you can transfer them on a tax-deferred basis to an RRSP.

☐ **Canadian RESPs** – If you are a US citizen, green card holder or US-resident alien in 2014, consult with your PwC adviser if you have an RESP or before contributing to an RESP.

☐ **Canadian TFSAs** – If you are or became a US citizen, green card holder or US-resident alien in 2014, contact your PwC adviser about your TFSA or before setting up a TFSA. Investment income earned in a TFSA may be taxable for US purposes in the year it is earned. In addition, if the TFSA is considered to be a trust, both you and the trust may have to report additional information to the IRS annually.

☐ **Canadian mutual funds** – If you are a US citizen, green card holder or US-resident alien in 2014 and own Canadian mutual funds, ensure that your investment adviser knows

this. You must file an annual information return to the IRS in respect of these mutual funds.

- ☐ **US source income** – If you received income in 2014 from US sources that may be subject to US federal and/or state tax (e.g. employment and self-employment income earned in the United States, income and losses from participation in US limited partnerships, and rent from US real estate, including short-term rentals of vacation homes):

- ☐ determine whether the income should be reported on a US non-resident return
- ☐ if US tax was deducted at source on the income during 2014, determine whether:
 - ☐ the tax withheld was appropriate or if a reduction in the withholding tax rate is available under the Canada-US tax treaty
 - ☐ you should file a US non-resident return to obtain a full or partial refund
 - ☐ the US tax can be claimed as a credit on your Canadian tax return

You may be required to provide form W-8BEN, W-8IMY or W-8ECI for any US source payments that you receive to have the appropriate non-resident withholding tax rates applied to the income.

- ☐ **US taxpayers with Canadian shareholdings or investments** – If you are a US citizen, green card holder or resident, or plan to become a US resident, and own shares of a Canadian private corporation or units of a Canadian partnership, or if you have a Canadian bank account or investments, determine if you have additional US income tax reporting requirements or exposure to US income tax or double taxation, and how to minimize it. Penalties apply to certain late-filed information returns on foreign investments and foreign financial accounts reporting. US persons who are US shareholders of controlled foreign corporations (CFCs), US partners of controlled foreign partnerships (CFPs) or US beneficiaries receiving distribution from foreign trusts must file certain annual information returns. In addition, US persons who have investments in passive foreign investment companies (PFICs) may also have new investment reporting requirements for taxation years ending after December 30, 2013. See our *Tax Insights* “New regulations for passive foreign investment companies: What they mean for Canadian mutual fund owners.”

- ☐ **US family members** – If you have a US citizen or US-resident family member who is a direct shareholder in your company or a beneficiary under a family trust, contact your PwC adviser to discuss possible exposure to punitive US tax regimes and how to minimize it.

- ☐ **US federal income tax return/treaty-based tax return** – Determine whether you are conducting activities in the United States that require you to file US federal income tax returns or US treaty-based tax information disclosure returns.

- ☐ **US real estate** – If you sold US real estate (including certain shares of a US company having 50% or more of its value attributable to US real estate) in 2014, or may sell US real estate, determine your US income tax reporting requirements and exposure to US real property withholding tax (and how to minimize it) and US federal and state income taxes under the US *Foreign Investment in Real Property Tax Act* (FIRPTA). US tax laws may require you to obtain a US taxpayer identification number to comply with FIRPTA withholding tax and/or income tax reporting requirements. State income tax withholding and/or income tax reporting requirements may also apply.

- ☐ **US exit tax** – If you are considering renouncing your US citizenship or relinquishing your green card, ask your PwC adviser how you are affected by US rules that may impose a US exit or “mark-to-market” tax on certain types of properties, and other potential US tax implications in the future.

- ☐ **US federal tax changes** – Be aware that:

- ☐ the potential for legislative and regulatory tax changes in the United States through broad tax reform or more targeted provisions may be heightened in the coming year (e.g. the research credit and more than 50 other business and individual tax provisions expired on December 31, 2013; the US Congress likely will address the future of these expired provisions (possibly retroactively))
- ☐ the IRS has issued notice that it plans to release regulations modifying how existing rules apply when a US company moves its headquarters offshore (an “inversion transaction”); these regulations will generally be effective for transactions completed on or after September 22, 2014

- ☐ **State and municipal taxes** – Ensure you are complying with all state and municipal laws and taxes. Even if a Canadian business is exempt from US federal income tax under the Canada-US tax treaty, it may be subject to state income, franchise, sales and use, property and other taxes. Contact your PwC adviser for help with multi-state taxation and filing requirements.

Table 1: Integration – Active business income (\$)

(twelve-month taxation year ended December 31, 2014, 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
- 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 ³		No small business deduction ³	
	Deferral	Saving/(cost)	Deferral	Saving/(cost)
Alberta	2,500	(25)	1,400	(47)
British Columbia	3,230	(56)	1,980	(142)
Manitoba	3,652	23	2,052	(303)
New Brunswick	3,134	91	1,984	(13)
Newfoundland and Labrador ⁴	General M&P	150	1,443	(701)
			2,343	(73)
Northwest Territories	3,005	394	1,855	178
Nova Scotia	3,600	240	1,900	(588)
Nunavut	2,750	99	1,550	(462)
Ontario ⁵	General M&P	108	2,399	(87)
			2,549	12
Prince Edward Island	3,187	(87)	1,637	(344)
Quebec	General	78	2,511	(64)
	M&P	3,416 ⁶		
Saskatchewan	General	63	1,700	(111)
	M&P		1,900	39
Yukon	General	51	1,240	125 ⁷
	M&P	2,940	2,490	1,176 ⁷

Table 2: Integration – Investment income (\$)

(twelve-month taxation year ended December 31, 2014, and \$10,000 of investment income)

This table shows:²

- the income tax deferral (prepayment) if investment income is earned and retained in a corporation as opposed to being earned directly by an individual
- the tax saving (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	
	Deferral/ (prepayment)	(Cost)	Deferral/ (prepayment)	Saving/ (cost)	Deferral/ (prepayment)	Saving/ (cost)
Alberta	(1,404)	Nil	(283)	(154)	(567)	(308)
British Columbia	(465)	Nil	7	(199)	13	(397)
Manitoba	(107)	Nil	(13)	(311)	(27)	(622)
New Brunswick	(598)	Nil	9	(99)	17	(197)
Newfoundland and Labrador ⁴	(314)	Nil	(318)	(236)	(637)	(472)
Northwest Territories	(1,052)	Nil	(155)	(58)	(312)	(118)
Nova Scotia	273	Nil	(33)	(185)	(67)	(370)
Nunavut	(577)	Nil	(308)	(223)	(617)	(445)
Ontario ⁵	49	Nil	168	(114)	336	(228)
Prince Edward Island	(463)	Nil	(164)	(303)	(330)	(607)
Quebec	189	Nil	170	(90)	340	(180)
Saskatchewan	(852)	Nil	(133)	(196)	(267)	(393)
Yukon	(1,740) ⁷	Nil	(363)	(263)	(727)	(527)

Notes to Tables 1 and 2:

1. Table 1 assumes that:

- the individual is taxed at the top marginal income tax rate (only federal and provincial/territorial income tax, the employer portion of provincial health tax and the employee portion of Northwest Territories and Nunavut payroll taxes are considered)
 - when there is no small business deduction, the after-tax corporate income is paid out as an eligible dividend
- Different results may arise in special circumstances (e.g. for credit unions).

2. Table 2 assumes that:

- the individual is taxed at the top marginal income tax rate
- portfolio dividends received are designated as eligible dividends
- no capital gains deductions are available
- the non-taxable portion of the capital gain is distributed as a tax-free capital dividend
- the taxable dividend paid (eligible for portfolio dividends, non-eligible for capital gains and interest) is sufficient to generate a full refund of refundable tax

3. The federal small business threshold of \$500,000 applies in all provinces and territories, except for:

- Manitoba, where the threshold is \$425,000
- Nova Scotia, where the threshold is \$350,000

4. For Newfoundland and Labrador, the figures assume that the dividends are paid after June 30, 2014. If the dividends are paid before July 1, 2014, the figures are as follows:

- Table 1: Eligible for small business deduction [deferral: 2,893, saving: 241]; No small business deduction [General – deferral: 1,443, cost: (152); M&P – deferral: 2,343, saving: 546]
- Table 2: Portfolio dividends [prepayment: (1,086), cost: nil]; Capital gains [prepayment: (318), cost: (195)]; Interest [prepayment: (637), cost: (389)].

5. For Ontario, the figures assume that the individual is taxed at Ontario's personal income tax rate on incomes over \$220,000. If the individual's income is \$220,000 or less, but over \$150,000, the figures are as follows:
 - Table 1: Eligible for small business deduction [deferral: 3,346, saving: 110]; No small business deduction [General – deferral: 2,246, cost: (82); M&P – deferral: 2,396, saving: 21]
 - Table 2: Portfolio dividends [prepayment: (166), cost: nil]; Capital gains [deferral: 90, cost: (118)]; Interest [deferral: 180, cost: (236)]
6. For Quebec, the figures assume that the income is eligible for Quebec's small business M&P income tax rate of 6.85% for 2014, which is the case if 50% or more of the corporation's activities are attributable to M&P (based on M&P assets and labour). If this percentage is under 50% and more than 25%, the M&P rate will increase proportionately (straight line) from 6.85% to 8% for 2014.
7. For Yukon, the figures assume that Yukon's top combined eligible dividend tax rate is 15.93% (federal of 19.29% plus Yukon of -3.36%) and that the taxpayer has other income that can be sheltered by Yukon's negative eligible dividend tax rate. If the taxpayer has no other income, Yukon's top combined eligible dividend tax rate will be 19.29% (federal of 19.29% plus nil for Yukon).

Table 3: Top combined federal and provincial/territorial marginal personal income tax rates (%)

In 2014, top rates apply to income above \$136,270 (\$150,000 in British Columbia and Nova Scotia; \$220,000 in Ontario).

	2014	2015	2014	2015	2014	2015	2014	2015
	Interest & ordinary income		Capital gains		Canadian dividends (eligible)		Canadian dividends (non-eligible)	
Federal only	29.00		14.50		19.29		21.22	
Alberta	39.00		19.50		19.29		29.36	
British Columbia¹	45.80		22.90		28.68		37.99	
Manitoba	46.40		23.20		32.26		40.77	
New Brunswick	46.84		23.42		27.35		36.02 ⁴	
Newfoundland and Labrador	42.30		21.15		22.47 or 30.19 ⁵	30.19	31.01 or 32.08 ⁵	32.08
Northwest Territories	43.05		21.53		22.81		30.72	
Nova Scotia²	50.00		25.00		36.06		39.07	
Nunavut	40.50		20.25		27.56		31.19	
Ontario³	49.53		24.76		33.82		40.13	
Prince Edward Island	47.37		23.69		28.70		38.74	
Quebec	49.97		24.98		35.22		39.78	
Saskatchewan	44.00		22.00		24.81		34.91	
Yukon	42.40		21.20		15.93 to 19.29 ⁶		32.04	33.14 ⁷
Non-Resident	42.92⁸		21.46		28.55 ⁸		31.41 ⁸	

1. For British Columbia, the top rate of 16.8% is expected to decline to 14.7% after 2015, resulting in top combined marginal income tax rates after 2015 of 43.70% for interest and ordinary income, 21.85% for capital gains, 25.78% for eligible dividends and 35.51% for non-eligible dividends.
2. If Nova Scotia tables a budget surplus in its 2015-2016 fiscal year, the top combined marginal income tax rates for 2015 will be 48.25% for interest and ordinary income, 24.13% for capital gains, 32.42% for eligible dividends and 36.32% for non-eligible dividends.
3. For Ontario, the rates assume that the individual is taxed at Ontario's personal income tax rate on income over \$220,000 in 2014 and 2015. If the individual's income is \$220,000 or less, but over \$150,000, the figures for 2014 and 2015 are as follows: Interest & ordinary income [47.97%]; Capital gains [23.98%]; Canadian dividends (eligible) [31.67%]; Canadian dividends (non-eligible) [38.29%].
4. For New Brunswick, the rate reflects a 5.3% provincial non-eligible dividend tax credit rate. According to a New Brunswick Finance official, the government has not yet made a decision to change the 5.3% rate after 2013. Amendments to the legislation will be required to ensure the calculation in the legislation yields the intended rate.
5. For Newfoundland and Labrador, the 2014 top marginal rates for dividends paid:
 - before July 1, 2014, are 22.47% (eligible) and 31.01% (non-eligible)
 - after June 30, 2014 are 30.19% (eligible) and 32.08% (non-eligible)
6. For the Yukon, the rate that applies depends on the level of the taxpayer's other income, with 19.29% applying if the taxpayer has no other income.
7. Yukon's non-eligible dividend tax credit rate decreased from 4.03% to 3.14% because Yukon decreased its small business income tax rate from 4% to 3% on July 1, 2014. According to a Yukon Finance official, the 3.14% rate becomes effective starting 2015.
8. Non-resident rates for interest and dividends apply only in certain circumstances. Generally, interest (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 rates (%)¹
(twelve-month taxation year ended December 31)**

		2014 and 2015		
		General	Manufacturing and processing (M&P)	Canadian-controlled private corporations (CCPCs) Active business income (ABI) earned in Canada to \$500,000 ^{2, 3} Investment income ⁴
Federal			15.00	11.00 34.67
Alberta			25.00	14.00 44.67
British Columbia			26.00	13.50 45.67
Manitoba			27.00	11.00 ² or 23.00 ² 46.67
New Brunswick	2014	27.00		15.50 46.67
	2015			15.00 ³ 46.67
Newfoundland and Labrador	2014	29.00	20.00	14.50 48.67
	2015			14.00 48.67
Northwest Territories			26.50	15.00 46.17
Nova Scotia			31.00	14.00 ² or 27.00 ² 50.67
Nunavut			27.00	15.00 46.67
Ontario		26.50	25.00	15.50 ³ 46.17
Prince Edward Island			31.00	15.50 50.67
Quebec	2014	26.90		19.00 (non-M&P) / 17.85 ⁶ (M&P) 46.57
	2015			19.00 (non-M&P) / 15.49 ⁶ (M&P) 46.57
Saskatchewan		27.00	25.00	13.00 46.67
Yukon	2014	30.00	17.50	14.50 (non-M&P) / 13.00 (M&P) 49.67
	2015			14.00 (non-M&P) / 12.50 (M&P) 49.67

1. Different rates may apply in special circumstances (e.g. for credit unions).

2. The CCPC threshold is \$500,000, except in Manitoba and Nova Scotia where:

- the lower rate applies to active business up to the CCPC threshold of \$425,000 in Manitoba and \$350,000 in Nova Scotia
- the higher rate applies to active business income from these thresholds to \$500,000

3. If taxable capital employed in Canada in the preceding year of associated CCPCs exceeds \$10 million, the federal and all provincial and territorial small business rates will be higher, except in Ontario for taxation years ending before May 2, 2014. (The federal small business deduction clawback was extended to Ontario, for taxation years ending after May 1, 2014 (pro-rated for taxation years straddling this date).

4. Rates on investment income are 19.67% higher than the general rates (see above) because:

- CCPC investment income does not benefit from the 13% federal general rate reduction
- 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.

5. New Brunswick's CCPC small business rate is expected to further decrease from 4% in 2015 to 2.5% by 2018.

6. Quebec's CCPC M&P rate applies to all active business income up to \$500,000 if 50% or more of the CCPC's activities are attributable to M&P (based on M&P assets and labour). If this percentage is under 50% and more than 25%, the rate increases proportionately (straight line). The combined rate will be 19.00% when the M&P percentage is 25% or less.

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