

The Tax Break

BUSINESS TRANSITIONS

PLANNING IN ADVANCE FOR OWNER-MANAGERS

Statistics Canada has noted that by 2020 close to 350,000 business owners will be aged over 55 and that within the next 8 years approximately 550,000 business owners will exit their business.

For business owners moving to retirement and transitioning their business, there are three major options for succession:

- transition ownership within the family;
- sell the business to an unrelated party; and,
- cease operations and sell off any assets available.

In order to successfully transition the business, owners should clearly outline their objectives, determine what the business is worth, identify likely successors, and understand the legal and tax implications of the transition.



To increase the possibility and value of a sale, there are several actions that the owner may take. For example, owners should understand that the business may be viewed as a bundle of assets, some of which may, and others that may not, be desired by a purchaser. As such, reorganizing the ownership of assets in advance may be warranted.

If you are considering transitioning your business in the short or medium term, contact us. Early planning can help build value in the business, save significant dollars, and ease the transition challenges.

FOREIGN REPORTING



Recently, CRA began sending letters to some Canadians **strongly suggesting** that they **review** their income tax filing to ensure that any **foreign income** and **gains** have been properly **reported** and that proper Forms have been **filed**.

The letter is signed by the Manager of the CRA **Offshore Compliance Section (OCS)**. It was recently noted by a large Law Firm in Canada that these letters are being sent to **individuals identified** as being “**high risk**” for **noncompliance** in respect of reporting foreign assets or income.

The letter notes the potential for **gross negligence** penalties, and even **criminal prosecution**, where offshore assets or income are not reported and suggests **using the Voluntary Disclosure** process to avoid criminal charges or civil penalties.

Call us if you receive such a letter.

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We are proud to announce that the readers of **Burnabynow** voted us **Favourite Accountant** in the **Best of Burnaby 2015** issue.

Thank you, Burnaby!

PHEW! TAX SEASON OVER AT LAST!

We've been spoiled the last two years with extensions, but we can't expect them every year. Please remember for 2016 that **April 30** is the deadline – and get your information to us well before then!

Congratulations to **Richard D.**, who was this year's winner of our **Early Bird Draw** for bringing in his tax information **before March 31!**

If you are receiving this newsletter by mail and would like to receive it by email instead (or vice versa), or if you no longer wish to receive our newsletter, please contact Julie at julie@accountantsplus.ca or 604.299.9274.



TAX TICKLERS

QUICK POINTS TO CONSIDER

- An employee or self-employed person meeting the requirements to claim a deduction for a workspace in their home could include space used to store inventory, as well as space used for the more traditional office in the home, as part of their workspace in their home.
- Closely related corporations and Canadian partnerships may elect to treat the provision of certain intercompany taxable supplies as having been made for no consideration, so no GST/HST is payable on these transactions.

Contact us if you have questions or wish to discuss!



DAY TRADING IN RRSP, RRIF OR TFSA

COULD IT BE BUSINESS INCOME?

Normally, earnings from within an RRSP, RRIF, or TFSA are tax-free. However, CRA believes that **speculative activities** within these types of accounts can constitute a **business activity**. Profits of a

business carried on within these plans are **not exempt from tax**, unlike the regular income and capital gains from investment activities.

It also appears that individuals with **large balances** in their TFSAs may have been targeted by CRA. CRA has argued that, in some cases, the frequency of trades indicate that the taxpayer is running a **trading business**, and, therefore, the earnings are taxable as **business income**.

In one case, an investor increased the value of his TFSA to \$180,000 via approximately 200 trades. CRA assessed the gains as taxable.

Caution should be afforded to individuals who may appear to be day trading or otherwise earning business income in certain registered accounts.



LOANS FOR VALUE

INCOME SPLITTING OPPORTUNITY

Loans from a higher income family member to a lower income family member can be an effective approach to enable **income splitting**. Lower income family members often include **spouses, minor children, or grandchildren**.

This planning technique generally **requires a loan** to bear **interest** at no less than CRA's **prescribed rate** at the time it is advanced. The lower income family member can then invest the amounts received, earn income on it, and pay tax at their lower marginal tax rate. Interest must be paid on the loan (by a particular date) between the

family members or the strategy will not work.

The prescribed rate will **remain** at 1% until at least **June 30, 2015**.

Proper execution of this type of strategy requires careful planning – contact us if you wish to investigate.



DIRECT DEPOSIT

NO MORE GOVERNMENT CHEQUES?

CRA has indicated that it is attempting to minimize the amount of cheques issued and, instead, **encourages** people to receive **payments** via **direct deposit**.

CRA stated that when a taxpayer registers for direct deposit, the taxpayer is **not authorizing** CRA to withdraw money from their bank account. CRA can **only withdraw money** from a taxpayer's account when a **garnishment** (legal procedure) is in place.

Registering to receive payments via **direct deposit** can be done by mail (by filling out the Direct Deposit Enrolment Form), online (by using My Account), or by phone (1-800-959-8281).

Businesses can sign up for direct deposit by filling out Form **RC366, Direct Deposit Request for Businesses**, and then mailing it to a Tax Centre.

Consider enrolling for direct deposit to receive Government payments, including personal and corporate tax refunds.

We recommend that you obtain professional advice before acting on information contained in this newsletter.

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