



This Month:

- ◆ Contribute to Your RRSP
- ◆ Contribute to Your Spouse's RRSP
- ◆ Eligible Deductions & Credits
- ◆ \$500,000 Capital Gains Deduction
- ◆ Use Capital Losses

SPECIAL TAX EDITION

2007 is almost upon us as the old year draws to a close. It is time once again to take advantage of the many personal and business tax-planning opportunities that are still available. This edition of the SmallBiz Builder provides numerous ways to save on taxes for the year 2007 and beyond. From all of us at Padgett Business Services, we wish you a happy new year.

CONTRIBUTE TO SPOUSES'S RRSP

You can also contribute to your spouse's or common-law partner's RRSP to the extent of your RRSP deduction limit for 2006 mentioned to the right. The benefits of making such a contribution are threefold. First, your spouse may be younger than you are and the RRSP funds may accumulate for a longer time period on a tax-deferred basis. Second, if you turn 69 in 2006 your RRSP must be terminated no later than December 31 and no further contributions can be made to your RRSP. You may however contribute to your spouse's RRSP until he or she reaches 69 years of age provided you have sufficient RRSP deduction room. Third, you can achieve income splitting because the withdrawal of funds from the spousal RRSP will be included in your spouse's income rather than yours. It should be noted however that the withdrawals will be included in your income if the withdrawals of any funds from your spouse's RRSP are made in the same year, in which you made your contributions, or any of the two subsequent years.

CONTRIBUTE TO YOUR RRSP

The most popular tax tool available to taxpayers is investing in a registered retirement saving plan (RRSP). Contributions to RRSP's are tax-deductible and the income earned within the plan grows tax-deferred until retirement. You can claim a contribution of up to %18 of 2005 earned income to a maximum of \$18,000. Earned income is defined as income from employment from business, net rental income from real estate, CPP disability pension, certain types of royalty, and spousal or child support payments that are included in your income. The contribution limit maybe subject to the year 2005 pension adjustment reversals. Pension adjustments reflect, in most cases, your employer's contributions to a pension plan or actuarial commitments to such plans in the year 2005.



You are permitted to make an over-contribution of \$2,000 without being subject to the 1% special tax.

If you have contributed less than the maximum allowable amount in prior years, your are permitted to make an additional contribution and obtain an additional deduction based on the extent of your unused RRSP deduction room carried forward from those prior years.

From a tax planning point of view, if your tax bracket is lower in 2006 than expected in 2007 you should consider waiting and making use of the unused RRSP deduction room in the year 2007 if you can afford it. To maximize the 2007 RRSP limit of \$19,000 you need to earn \$105,555 in 2006.

ELIGIBLE DEDUCTIONS & CREDITS

If you pay the following expenses by December 31, 2006 they will be eligible for the deductions of credits:

- Childcare expenses
- Deductible support payments
- Charitable donations
- Union and professional dues
- Moving expenses
- Political donations
- Accounting fees
- Medical expenses
- Investment counsel fees
- Interest paid on loans used to purchase investments
- Tuition fees
- Safety deposit box fees

USE CAPITAL LOSSES

You can use your 2006 capital losses to reduce your current year's income taxes by applying such losses against your 2006 capital gains. You must however be careful of the superficial loss rules preventing you from claiming a capital loss on an identical asset that you reacquired 30 days before or after the sale.

If capital gains were realized in the years 2003 to 2005 and net capital losses were incurred in 2006 then you can carry these losses back against previous years' capital gains. You can carry the unused 2006 losses forward to future capital gains.

The last 2006 transaction date effective for publicly traded securities is December 22, 2006.

\$500,000 CAPITAL GAINS DEDUCTION

You can make use of the lifetime \$500,000 capital gains deduction if you dispose of shares in a qualified small business corporation and/or a qualified farm property. If you have already claimed the \$100,000 personal capital gain exemption (ended in 1994) then this reduces the available lifetime capital gains to \$400,000. You must also verify whether you have claimed business investment losses in prior years or have cumulative net investment losses as of December 31, 2006, as these items will also affect the amount of exemption that can be claimed.

OTHER TAX PLANNING ISSUES

- Consider a Registered Education Savings Plan (RESP) for your children.
- Review your December income tax installment.
- Settle outstanding shareholder loans and interest on employee loans. If you have a shareholder loan that was made in the corporation's previous taxation year, be sure to repay it before the end of the company's current taxation year to avoid having the the full amount of the loan included in your income. If you borrowed the money to buy a home, purchase a car for work or acquire company shares and the loan has bona fide repayment terms and interest is charged, the above repayment requirement by the company's year-end does not apply.
- Claim your personal tax credits.
- Pay reasonable salaries to family members.
- Convert non-deductible debt to deductible interest.
- Review your will every five years.



Consult your Padgett Business Services representative to obtain additional tax planning ideas.

Padgett Business Services – Building success stories, one entrepreneur at a time.



Padgett Business Services is dedicated to meeting the tax, government compliance, profit & financial reporting and payroll needs of businesses with fewer than 20 employees in the retail and service sector of the economy. This publication suggests general business planning concepts that may be appropriate in certain situations. It is designed to provide complete and accurate information to the reader. However, because of the complexities of the tax law and the necessity of determining whether the material discussed herein is appropriate to your business, it is important you seek advice from your Padgett office before implementing any of the concepts suggested in this newsletter.