

Newsletter

Fall 2003

Tax Actions Required Before 2004

Outlined below are various personal tax-saving areas you should consider before January 1, 2004, to benefit your 2003 financial/tax position:

- √ Make your 2003 RESP payment of \$2,000 per eligible child to obtain the \$400 maximum Federal Education Grant.
- √ If you are 69 years old, you must transfer your RRSP to a RRIF or insurance before December 31, 2003. Otherwise, the full RRSP will be taxable in 2003. Make your RRSP contribution before the transfer.
- √ Reduce the amount of your December 15th personal tax installment, if your 2003 income is substantially lower than in 2002.
- √ Sell investments with unrealized capital gains if you have un-

used capital losses from 2002. Speak to your investment broker to find out the last trading date.

- √ Sell investments with unrealized capital losses to reduce your capital gains in 2003 and from the previous three years.
- √ Make your January 2004 donations in late December 2003. Any unused portion can be carried forward to 2004.
- √ If your business year end is December 31, 2003, purchase business assets before January 1, 2004, to accelerate the tax deductions.
- √ Owners/managers of a business should consider topping up their 2003 salary and taxable benefits to \$86,111 to qualify for the \$15,500 RRSP limit in 2004.
- √ If you use a company vehicle more than 50% for business use, notify

your employer in writing before December 31, if you want the operating benefit to be based on 50% of the standby charge vs. 17 cents/kilometer for personal use.

- √ Investment counseling fees, union fees, medical expenses, and moving expenses must be paid in 2003 to be deducted in 2003.
- √ For business owners, make sure your family members have been paid reasonable wages for work done in 2003.
- √ Maximize tax-free dividend payments to adult family member shareholders who have limited other income. Don't forget their tuition tax credit in the calculations.
- √ Repay any outstanding shareholder loans.

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**Time is running out.
Win the race by
getting started today!**

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Tax Actions

Time can be your best friend. Don't procrastinate!

Did you follow through on tax plans you made since last year's tax return?

A Will? Who Cares! They Can Fight It Out When I'm Dead.



Not having a will is much like throwing the dice to see who will get your life's savings.

Do you want your estate to go to someone other than your spouse and your children if you die?



Money can't buy you love; but money can end it.

Do you have a will? Does it reflect your current wishes? Have events occurred that required changes to your current will, such as: marriage, birth of a child, separation, divorce, common-law relationship, remarriage, step children, death of a loved one, moved, hard-earned wealth, new-found wealth? The list goes on.

Estate planning is a process that should not be taken lightly. If you do not have a will, or a properly drafted will, your estate could be tied up in expensive legal procedures for many years. An heir could even contest a properly drafted

will. Money can't buy love; but, money can end it.

A will has to consider financial matters: current and future income taxes, foreign estate taxes, taxes for foreign assets or foreign beneficiaries, family law matters, etc. These are reasons why you should work with your accountant and lawyer to draft your will. Make sure both of them are experienced in estate planning.

A properly drafted will that creates a testamentary trust for each beneficiary could save over \$10,000 per year in income taxes per benefi-

ciary. How are your parents' wills structured?

A testamentary trust can also be used to deal with the sensitive issue of second marriages or common-law relationships in which there are minor or adult children from the previous marriages. Do you want your estate to go to someone other than your spouse and your children if you die?

A dual will can reduce probate time and costs.

We plan on discussing other aspects of wills in future newsletters. In the meantime, if your will is out of date or non-existent, give us a call to

Estate planning is a process that should not be taken lightly.



Relax, knowing your estate plans are in order!



The US Estate Tax Surprise

If you own US real estate or investments, your estate could be subject to US estate tax. The maximum US estate tax rate is 49%. Estate tax is charged on the fair market value of the US assets, regardless of whether the particular asset has increased in value.

Most people are aware that they may be subject to US estate tax on their US condo or home. We can equally state, most people are not aware that their investments in US-based companies are subject to US estate tax.

There is a basic exemption of \$60,000 US for non-resident aliens of the United States. Canadians are defined as aliens un-

der the US tax code. The \$60,000 US exemption can be increased depending on your mix of Canadian and US-based assets. There is also an exemption on US investments if your total net worth is less than \$1.2 million US.

There are techniques and planning that can be done to minimize or eliminate your US estate tax exposure. In the past, sole-purpose corporations were used to hold personal-use real estate in the US. The IRS has advised they will challenge this structure.

Current techniques to avoid US estate tax include joint ownership of assets, trusts, Canadian investment companies,

and use of a Canadian mutual fund to hold your US portfolio investments. Each method must be properly planned.

Canada/US tax is one of the most difficult areas of tax planning. We work closely with a team of US tax lawyers who practise in the area of Canada/US cross-border tax matters.

Please add up the current fair market value of your US assets. If the amount is greater than \$60,000 US, we recommend that you give us a call to discuss your US estate tax risk, and, if required, planning techniques to reduce or eliminate the risk.

US estate tax could be as high as 49%.



There are techniques and planning that can be done to minimize or eliminate your US estate tax exposure.

We recommend that you give us a call to discuss your US estate tax risk.



Canada/US tax is one of the most difficult areas of tax planning.



CCRA provides some relief by reducing the standby charge.

Relief For Personal Use Of Business-Owned Vehicles

Business-owned vehicles for employee use can be convenient, however, the accounting can be burdensome. Employees using a company-owned vehicle for personal use are required to report any taxable benefit on their personal income tax return. Employers must ensure proper source deductions are remitted, and include the benefit in the employee's T4 for the year.

Taxable benefits include standby charges and, where the employer pays for operating costs of the vehicle, an operating benefit of \$0.17 per personal-use kilometre (benefits include GST/HST and PST). Employees who use a vehicle primarily (more than 50%) for business can have the operating benefit calculated as 50% of the standby charge, provided they inform their employer before year end.

The last budget attempted to provide some relief by reducing the standby charge for employees who use the vehicle primarily for business purposes. Although this reduction was previously in place, the vehicle had to be used more than 90% for business. If personal driving does not exceed 20,004 kilometres a year, and the business use is greater than 50%, employees will experience great re-

lief in the standby charge. For example, if a vehicle costing \$25,000 is driven 25,000 kilometres for business use and 15,000 kilometres for personal use, a reduced standby charge would apply. Under the old rules the standby charge would have been \$6,000. Now the standby charge would be \$4,499.

CCRA's position is that travel between the employee's home and employer's place of business constitutes personal use of the vehicle; however, recent court cases have concluded that the travel was not personal use. Where employers require employees to keep vehicles at their homes outside working hours, the courts consider the employer the one who benefits and not the employee. Only time will tell if CCRA will change its position on this issue.

GGF&L History and Services

As a successful locally-owned business, we understand the challenges you face, from making effective business decisions to maximizing your net worth. We have been helping businesses for more than 55 years.

We have grown into one of the largest locally controlled accounting firms in the National Capital Region. Our membership in DFK International ensures that our clients have access to national and international expertise.

Our success is built on forging highly personal relationships with our clients. Simply put, the more we invest in understanding you, the higher the return on the time and effort you invest to meet your business, family and personal financial goals.

A few of our services include:

- *Accounting, Auditing and Assurance*
 - Monthly financial analysis
 - Accounting software consulting
 - Forensic auditing/litigation support
 - Year-end financial statements
- *Management Advisory*
 - Financial management
 - Monthly/quarterly monitoring/review
 - Strategic business planning
 - Mergers and acquisitions
- *Taxation*
 - Corporate and personal tax returns
 - Corporate reorganization
 - Estate and inheritance planning
 - Family trusts
 - Cross-border taxation issues
- *Valuations*
 - Litigation
 - Family law
 - Estate planning
 - Business valuation

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