



Strategies & Tax Update

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TAX REFUNDS AVAILABLE FROM CAPITAL LOSSES Time is running out

As we approach the end of this tax year there is a tax planning technique that should be considered by anyone who has reported capital gains in the last three years and who is sitting with unrealized capital losses. The term used is tax loss selling.

The Income Tax Act allows an individual or a Corporation to carry a loss back three years to offset capital gains that were previously reported. The result will be a refund of taxes for 2005, 2006 and 2007 if you had paid tax in these years on a capital gain.

As an example, if there was a taxable capital gain reported in 2005 of \$10,000, a taxable gain reported in 2006 of \$3,000 and a taxable capital

gain of \$12,000 reported in 2007, you could sell sufficient securities to recognize a capital loss of \$50,000. Half of this loss is deductible against capital gains, and would be reported in your 2008 return. When we prepare your 2008 Income Tax Return, we would apply to carry back \$10,000 of the loss to 2005, \$3,000 of the loss to 2006 and \$12,000 of the loss to 2007. If you were in the top marginal bracket this loss carry back would result in a recovery of tax over the three years of approximately \$11,500.

For you to be able to claim the losses, the Income Tax Act states that you, or anyone related to you, cannot repurchase the same securities for a period covering 30 days before and

30 days after the sale that created the loss. This is referred to as Superficial Loss rules.

To utilize the losses the transaction creating the loss must occur before December 2008 to ensure it closes before December 31.

If you feel that you may be able to take advantage of this and would like to discuss your specific situation with us, please contact us.

Of course one must always ensure that the decision to sell is not made just to recover the tax. **Time is running out** so if you plan on taking advantage of this technique you must act now.

TAX-FREE MONEY FOR 2009

The last Federal Budget indicated there would be a mechanism for a **Tax-Free Savings Account (TFSA)**. Well behold, the advertising has already started by the financial institutions to open up an account prior to the end of this year. The TFSA plan officially begins effective January 1, 2009. The account will be available for all Canadian residents age 18 and older. In order to activate and keep track of the annual contribution room, the individual will be required to file a personal income tax return each year. You will be able to deposit \$5,000 annually to your individual TFSA. This contribution room will be indexed to the Consumer Price Index annually, rounded to the nearest \$ 500 increment.

The annual contribution is not deductible on the individual's tax return; however, any investment income earned within the TFSA is earned tax-free. Funds can be withdrawn anytime and you will be able to replace this at a later date with no income taxes or penalties. This feature makes it very flexible in operating the account as an emergency savings account. For example, you deposit \$5,000 in the account in the beginning of the year and

earn \$ 200 on investment income. You suddenly need some money and withdrawal \$3,000. You are allowed to replace the \$3,000 at a later date and no income tax consequences.

The source of funds does not matter, and therefore a high wealth individual could contribute funds for the spouse and adult children without any tax consequences. Previously there were always attribution rules with investing money for family members and there would be tax consequences depending on the source of funds.

The investments held within the TFSA are restricted to the same types of investments that can be purchased when purchasing an RRSP. The TFSA can be used as collateral against loans. This will allow the individual to borrow funds against the TFSA for other investment opportunities, to start a new business or other reasons.

It is always beneficial to maximize your annual RRSP contributions since these contributions are deducted for income tax purposes. The TFSA is an additional savings account to be done in addition to the annual RRSP contributions.

There are some individuals who do not utilize their full RRSP contributions since they are in a low tax-bracket. In these situations the TFSA is an effective way to accumulate savings.

I think we will find that the financial institutions will be very busy next year, opening new TFSA for their customers.

Important Dates

Personal Tax Installments

Due December 15, 2008 for 2008

Due March 15, 2009 for 2009

Corporate Tax

Balance due 3 months after fiscal year-end.

Dividends

Must pay before December 31.

Referrals

We would like to take the opportunity to thank our clients who value our service and have recommended our firm to others.

We thank you for contributing to the success of our firm.

Partners

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