

PLANNING FOR 2006 CAN HELP REDUCE YOUR TAXES

Tax planning is a prudent and necessary procedure for both the individual and corporate taxpayer due to the complexities and constant changes in our income tax legislation. Although tax planning is something which should be considered during the year, towards year end it becomes more common to evaluate certain tax planning ideas which may result in a reduced or deferred tax burden.

Most tax planning transactions should be reviewed with your professional tax advisor as the proposals incorporated in this year's Federal and Provincial budgets may not necessarily be the same as when they ultimately become law. Further changes which may have occurred to previously available tax planning measures may have changed.

In this year end tax planning issue of *tax & business Alert* we present several items for your consideration.

CONTRIBUTE TO YOUR RRSP

If you haven't yet contributed to your RRSP for 2006, don't wait until the end of February 2007, contribute now. The earlier you contribute to your RRSP, within the allowable limits, the more quickly the capital to finance your retirement will grow sheltered from tax.

Your maximum contribution for 2006 is 18% of income earned in 2005, principally from employment or a business, up to a maximum of \$18,000 (compared to \$16,500 in 2005). The maximum RRSP contribution for

2006 applies to earned income of \$100,000 in 2005. If you participate in a pension plan, you should keep

Travel and Automobile Allowance

The Income Tax Act provides that allowances which are not in excess of reasonable amounts, in respect of travelling and motor vehicle expenses incurred in the performance of the duties of an office or employment, are not required to be included in computing the income of an individual from that office or employment.

CLAIM THE \$500,000 CAPITAL GAINS DEDUCTION

Small business corporation shares and qualified farm property (including shares of a corporation and partnership interests) still qualify for the lifetime capital gains deduction of \$500,000. Claiming this deduction often requires a good dose of planning and help from your tax advisor. If you are thinking about selling the assets

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CONTRIBUTE TO YOUR RRSP (CONTINUED)

the pension adjustment in mind — and the pension adjustment reversal, if applicable. To find out the exact amount that you can contribute, look at the “RRSP Deduction Limit Statement for 2006” section of your federal assessment notice for 2005.

Plan Ahead for 2007

The RRSP limit will increase again in 2007, when it will reach \$19,000. If you have your own corporation, have no other source of earned income, and are able to do so, pay yourself a salary of at least \$105,556 this year if you wish to ensure that you can contribute the maximum amount to your RRSP in 2007.

MATURING RRSP

An RRSP must be matured before December 31 of the year in which the annuitant turns age 69. Do not miss this legislated deadline. If you do, all accumulated funds in your RRSP will be included in your taxable income in the year following the year you turn 69. You will have no recourse for correcting this oversight. There are three main maturity options that apply to non-insurance-type RRSPs:

- Receive an annuity.
- Transfer the accumulated RRSP funds into a registered retirement income fund (RRIF) from which a periodic retirement income is received.
- Collapse the RRSP and receive a lump sum after paying the relevant tax.

Unused Prior Year Contributions

If you contributed less than the maximum allowable amount to your RRSP in a previous year, and if you can afford it, use the unused RRSP contribution room for 2006 by contributing an additional amount equal to the unused room.

The law allows you to contribute up to \$2,000 over the authorized maximum. Do not exceed this limit, because the penalty of 1% per month on overcontributions can add up fast, and the administrative formalities to recover excess contributions are relatively complex.

Is your spouse younger than you?

If your spouse is younger than you and you anticipate that his or her retirement income will be less than yours, consider creating a spousal RRSP. You can then continue contributing to the spousal plan until your spouse turns 69, provided that you have unused contribution room.

DEFER THE TAX ON CERTAIN STOCK OPTION BENEFITS

If you exercised stock options in 2006 on publicly traded shares and expect to keep these shares until at least December 31, 2006, you can defer the benefit related to exercising options worth \$100,000, as this amount is based on the fair value of the shares at the time the stock options were granted. To defer the benefit, you have to notify your employer before January 16, 2007, so this information can be included in your T4 (Relevé 1 in Québec) for 2006. Your tax advisor can help you to determine whether the deferral is beneficial and, if so, how to optimize it.

tax & business ALERT has been prepared by LEVI & SINCLAIR, LLP for the general information of our clients, staff and other interested parties. The enclosed comments are of a general nature and are not intended to cover all aspects of the subject matter. Prior to implementing any planning based upon information in this publication, the specific facts pertaining to any particular situation should be carefully considered. We will be pleased to assist in this regard and to provide further details pertaining to the matters discussed herein.

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CLAIM THE \$500,000 CAPITAL GAINS DEDUCTION (CONTINUED)

that qualify for this deduction before the end of the year, consult your tax advisor as soon as possible. If you have already claimed the \$100,000 personal capital gains deduction (abolished in 1994), you are entitled to a maximum deduction of only \$400,000. If you plan to use this deduction in 2006, check with your tax advisor to find out whether you have realized an allowable business investment loss (ABIL) in prior years or have cumulative net investment losses (CNILs) as at December 31, 2006, as these will be taken into account, and it is possible that you will not be able to claim the full deduction.

USE YOUR CAPITAL LOSSES

Under the tax rules governing capital losses, you can use your 2006 capital losses to decrease the current year's taxes if you have realized at least an equal amount in capital gains. Many taxpayers also sell their investment losses before the end of the year once they have realized significant gains earlier in the year. But be careful! If, within the 30 days prior to or following the sale of an asset that resulted in a capital loss, you purchase an identical asset, the superficial loss rules prevent you from claiming a capital loss on an asset you clearly intended to continue holding. This rule also applies if your spouse or a company under your control purchases the identical asset.

DONATE

If you have not already done so, now is an ideal time to reconsider your donation plans for 2006 and benefit from the charitable donations tax credits. The federal credit is equal to 15.25% of the first \$200 of charitable donations paid in the year and 29% for any donation in excess of \$200. 200 (12.73% and 24.22% respectively for Quebec residents).

For tax purposes of the territories and provinces other than Québec, the credit varies from 4% to 11% for the first \$200 and from 11.16% to 18.02% for amounts exceeding \$200. For Québec tax purposes, the tax credit is equal to 20% of the first \$200 (previously \$2,000) and 24% of the excess.

DEDUCTING HOME OFFICE EXPENSES

If you are self-employed, or run your own sideline business and have an office in your home, you may be able to deduct expenses relating to that office. For home office expenses to be deductible, the office must either be your principal place of business, or be used exclusively to earn business income and be used on a regular and continuous basis for meeting clients, customers, or patients.

However you cannot increase or create a loss by deducting home office expenses. Any excess is not lost since it can be carried forward.

REPAY SHAREHOLDER LOANS

If you took a loan from your corporation in 2005, repay it before the end of 2006. If you delay, the full amount of the loan will be added to your income for 2005. An exception is available if the loan was made to an employee-shareholder for purchasing a residence, securities issued by the employer, or a car for work purposes. Other restrictions apply to these types of loans, however.

DECLARE A BONUS

The small business tax deduction (SBD) is available to Canadian-controlled private corporations with incomes of less than \$300,000 in 2006. This deduction will increase to \$400,000 in 2007. If the company's fiscal year is not a calendar year, the amounts must be determined on a pro rata basis from the number of days in its fiscal year that are situated in each of the calendar years. If the active business income derived from your company exceeds the \$300,000 threshold (or any amount between \$300,000 and \$400,000, according to the date of its fiscal year-end in 2007), it would be good tax planning for the corporation to pay out a bonus to bring its income below the threshold. Your company will be able to claim the tax deduction as long as the bonus is paid within 180 days of your corporation's fiscal year-end.

MAKE CERTAIN DISBURSEMENTS BEFORE THE END OF THE YEAR

Some deductions and credits can only be claimed if the amount was disbursed before the end of 2006. This is the case for charitable donations, child support (if deductible), childcare expenses, interest on loans for investment purposes, tuition fees, and union and professional dues.

MAKE YOUR DECEMBER INSTALMENT

Individuals who are required to make quarterly instalments should review the amounts paid, to avoid or reduce the non-deductible interest charged on late or deficient instalments (which can be onerous).

If you are required to pay your income taxes in instalments and estimate that your 2006 income will be significantly less than it was in 2005, decrease the amount, if you have not already done so, of your December 15, 2006 instalment. However, be careful when making this estimate: if your actual income in 2006 is higher than expected, you could be required to pay interest that is not tax-deductible.

TIMING OF ACQUISITION OF ASSETS

Accelerate the acquisition of depreciable property used in carrying on a business otherwise planned for the beginning of the next year. This will allow additional depreciation to be available to be claimed in the current year. The "available-for-use rules" should be considered (generally requiring the depreciable property to be used in operations for the depreciation deduction to be allowed). This will also allow full capital cost allowance deduction in 2007.

Consider delaying until the subsequent year the acquisition of depreciable property in a class that would otherwise have a terminal loss.

REGISTERED EDUCATION SAVINGS PLAN (RESP)

Under a RESP, contributions are made to the plan, intended to pay for the post-secondary education of designated beneficiaries, usually the taxpayer's children or grandchildren. Although contributions are not tax-deductible, income earned in the plan is not taxable until distributed, at which time it is taxed in the hands of the beneficiary. Annual contributions are limited to \$4,000 per beneficiary to a lifetime total of \$42,000.

The accumulated income is forfeited where the beneficiary(ies) does (do) not undertake post-secondary education. However, certain plans allow the substitution of other children, grandchildren, nephews/nieces and even non-related persons.

The Federal government will provide a grant equal to 20% of the annual contributions made to RESPs for children up to age 18. Each child will accumulate Canada Education Savings Grant (CESG) contribution room of \$2,000 per year, up to and including the year in which they attain age 17. The CESG will be payable on contributions made in the year to a maximum of \$400 per child per year. Any unused CESG contribution room will be carried forward for use in future years, but contributions made in one year that exceed the amount of available CESG contribution room cannot be carried forward for purposes of attracting a CESG payment in a subsequent year.

Grants will be provided directly to the plan trustee and will not be included in calculating the annual and lifetime RESP contribution limits. If the child does not pursue education or training, the grant will return to the government.

A specific portion of each payment made to a beneficiary will be considered attributable to CESGs paid into the plan. The income portion of payments made from RESPs together with the CESG portion will be included in computing the individual's taxable income.

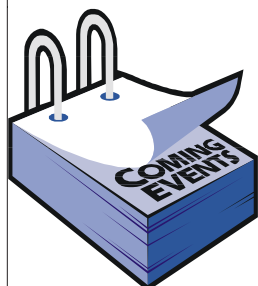
KEEP YOUR TRANSIT PASSES

The 2006 federal budget proposed to authorize individuals to claim a non-refundable tax credit for monthly or longer-duration public transit passes purchased after June 30, 2006. The credit for a tax year will be calculated based on the lowest individual income tax rate for the year. While waiting for the Canada Revenue Agency to publish additional information on how to claim the tax credit, keep your transit passes, receipts or other proofs of payment. Quebec will not adopt this measure, having opted to offer different incentive measures to employers in its May 2006 budget.



U.S. CITIZENS IN CANADA

A U.S. citizen resident in Canada must file Canadian and U.S. income tax returns, reporting their worldwide income. These tax returns should usually be prepared by a competent professional advisor due to the complicated interplay of foreign tax credits.



ALERT DATES

December 15, 2006	Fourth quarterly personal income tax instalment for 2006 due.
February 28, 2007	Deadline for filing 2006 remuneration slips to employees (T4/Relevé1) and independent sales representatives (T4A/Relevé1), slips for payments of dividends and interest (T5/Relevé3); including related summaries to the respective governments.
March 1, 2007	Deadline for 2006 contributions to an RRSP. Commission de la Santé et de la Sécurité du travail du Québec (CSST) filing due date.

MY BUSINESS ACCOUNT

The Canada Revenue Agency (CRA) has expanded its suite of e-services to provide business owners with convenient and secure on-line access to their personalized business account information through a new on-line service called *My Business Account*.

My Business Account is a response to the overall Government objective of meeting the increasing expectations of taxpayers for faster, more accessible, and more transparent government service.

My Business Account enables users to access a multitude of electronic CRA business services with a single User ID and password.

The September 2006 initial offering of *My Business Account* provides business owners with the following services including:

- Filing a corporation income tax return
- Making certain online requests
- Registering a formal dispute – **NEW**
- Requesting a CPP/EI ruling – **NEW**
- Viewing a business address – **NEW**
- Viewing status of a corporation income tax return – **NEW**
- Viewing an account balance for corporation tax and excise duties and taxes – **NEW**
- Viewing excise duties and taxes transaction details and endorsements – **NEW**

Throughout 2007, the list of services offered through *My Business Account* will continue to grow to include additional transactional services.

My Business Account third party authorization, (anticipated release - fall of 2007) will offer business owners the ability to authorize third parties to access their CRA business account(s), conduct online account transactions and view account balances and details of accounting

SINGLE ADMINISTRATION OF ONTARIO CORPORATE TAX

Minister Flaherty and the Honourable Greg Sorbara, Minister of Finance of Ontario, recently signed a Memorandum of Agreement, under which the Federal government would collect and administer Ontario's corporate income tax. Under the agreement, businesses would make combined payments starting in 2008 and file a single return beginning in 2009 for taxation years ending after December 31, 2008.

WILLS

Wills should be reviewed and updated on a periodic basis, taking into consideration changes in financial position and legislation.

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ABOUT LEVI & SINCLAIR, LLP

LEVI & SINCLAIR is a firm of chartered accountants that traces its origin in Montreal to 1950. We pride ourselves on being more than just an accounting firm. We offer an effective blend of personalized service, experience and technological leadership, coupled with a steadfast commitment to consistently deliver excellence.

Our Chartered Accountants and Business Consultants provide advisory services on a broad range of issues to both our individual and corporate clients. The members of our firm possess unique talents, expertise and experience, giving our clients access to a knowledge base of considerable breadth and depth. Together with our support personnel, we share a commitment to developing practical solutions for the business challenges of today, and to devising strategies for tomorrow.

Litigation Support Services

The corporate landscape has changed dramatically over the past several years and the impact of international corporate activity has resulted in international litigation support requirements. Our firm has developed an expertise in both litigation support and international service.

This is achieved primarily through the extensive use of the internet and electronic innovations which enable us to operate in a virtual office. However, there are critical times during any litigation when face-to-face meetings are necessary and we pride ourselves on the ability to be just about anywhere in North America within 48 hours notice, or less.

While based in Montreal, we have successfully performed these services to clients and lawyers in San Francisco, Austin, Freeport Bahamas, St. Kitts and Nevis, Vancouver, Denver, New York, Philadelphia, Boston, Houston, Vancouver and Toronto.

Our highly trained staff are licensed world-wide to perform investigative and forensic audits and have achieved international recognition for their innovations particularly in the field of computer forensics. Our forensic department has been called upon by law enforcement agencies as well as the public and private sectors for assistance in the most complex and difficult of situations in Canada, the United States and the Caribbean.

Our litigation support services are directed by Philip C. Levi CMC, CFE, FCA, CPA, CA•IFA who has attained an international recognition as a leading expert in forensic investigations and auditor negligence defense as well as prosecution. Phil is a licensed Chartered Accountant in Canada as well as a licensed Certified Public Accountant in the USA and a Certified Fraud Examiner as well as an accredited specialist by the Canadian Institute of Chartered Accountants in Investigative and Forensic Auditing. He has been recognized as an expert by numerous court jurisdictions throughout Canada, the US and the Caribbean.

Particular advantages which we can offer litigators is the speed of service (conflict checks can be done in less than one day), exemption from the restrictions of both the Sarbanes-Oxley Act and Canada's New Independence Rules as they relate to auditors of public entities, and most importantly, personalized service.

We offer highly competitive rates and services which strive to exceed our clients expectations. We welcome your inquiries and hope to work together to find solutions to your conflicts.

LITIGATION SUPPORT AND DISPUTE RESOLUTION SERVICE AREAS

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- **Management and employee fraud and theft**
- **Identification of secret commissions and kickbacks**
- **Sarbanes-Oxley compliance audits**
- **Sarbanes-Oxley 404 audits**
- **Intellectual Property Litigation Support**
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- **Professional negligence litigation support**
- **Fraud prevention program design, implementation and evaluation**
- **Bank due diligence audits**
- **Employee background audits**
- **Financial discrepancy analysis**
- **Divorce litigation support**
- **Insurance claim quantification**
- **Breach of contract quantification**
- **Electronic Discovery and Data Recovery**
- **Computer forensics**

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