



ARTICLE REPRINT

Last Minute Tax Tips For Small Business

Home renovation credit is one time opportunity

This article was originally published in the *National Post – Small Business Monday* on December 21, 2009

KPMG ENTERPRISE

Last Minute Tax Tips For Small Business

Home renovation credit is one time opportunity



Don MacDonald
Partner, KPMG Enterprise

Small business owners who have weathered the recession and are now facing a busy year end may not spare much thought for personal income taxes. If you're in this boat, it's not too late to consider some steps to take before December 31 and early in 2010 to save in the current tax year.

Cash in on home improvements

If you are planning to renovate your house, cottage or condo you may qualify for the temporary Home Renovation Tax Credit but you will have to act before February 1. You can claim the HRTC on your 2009 tax return for eligible costs (after January 27, 2009 and before February 1, 2010) exceeding \$1,000 but not more than \$10,000, for a maximum credit of \$1,350.

Most renovations or alterations to an eligible dwelling qualify, such as finishing a basement or remodeling a kitchen, and associated expenses – building permits, professional services, equipment rentals and incidentals – provided they are enduring and integral to the dwelling.

Tax-loss selling

With the recent downturn, you may have investments with unrealized losses. To realize the loss and apply it against capital gains realized in 2009 or one or more of the past three years you must sell them before year end. Of course, tax is only one factor that should influence investment decisions.

If you proceed with tax-loss selling, be sure you don't run afoul of the special tax rules designed to stop the artificial creation of tax losses. For example, a capital loss will be disallowed if you own or buy a similar property 30 days before or after the sale and if you, your spouse or a corporation you control still holds that similar property 30 days after the tax loss sale.

Stock and bond transactions normally "settle" three business days after a trade is entered. Weekends and public holidays may affect the determination of "business days," so you should complete any last-minute 2009 trades before Christmas and confirm the settlement date with your broker.

Timing dividends

Tax rates for "eligible" dividends (paid out of income taxed at the highest corporate rate) are going up in 2010 in all provinces except New Brunswick. Arranging to receive eligible dividends in 2009, rather than 2010, could save as much as 3 percent in tax. In New Brunswick where the tax rate is dropping 2 percent, you may want the corporation to pay you dividends in 2010.

Tax rates for "non-eligible" dividends (paid from income taxed at the small business rate) are also rising in some provinces. If you're an owner-manager or have an investment holding company in Ontario, British Columbia or Prince Edward Island, you may want to arrange for the payout of dividends in 2009, where practical. That could save you 1.2 percent in tax in Ontario and 1 percent in British Columbia. In New Brunswick, however, the small business rate will fall 3 percent next year.

Make Tax-Free Savings Account withdrawals now

If you are planning a withdrawal from your TFSA, do so before the end of this year rather than early 2010, because amounts withdrawn are not added to your contribution room until the following year.

For example, if you contributed \$5,000 in January 2009 and you withdraw \$4,000 this month, you cannot re-contribute the \$4,000 until 2010. It does not affect your \$5,000 contribution for 2010. On the other hand, if you make your withdrawal in January 2010, you will have to wait until 2011 to re-contribute the amount.

Make payments on time

The following payments must be made by December 31 to be eligible for 2009 tax savings:

- Charitable gifts;
- Medical expenses;
- Investment costs including counsel fees and interest;
- Certain child and spousal support payments;
- Political contributions;
- Deductible legal fees;
- RRSP contributions if you turned 71 in 2009 (otherwise the deadline is March 1). You also must wind up RRSPs by December 31;
- Payments eligible for the children's fitness tax credit;

While some of these steps may save on tax for 2009, your New Year's resolution should be finding out what you can do throughout the year to reduce your income taxes.

Don MacDonald is a tax partner in London, Ontario, with KPMG Enterprise.

KPMG Enterprise is a network of professionals devoted exclusively to serving the needs of private companies in Canada. For further information about how KPMG Enterprise can help private companies, visit www.kpmg.ca/enterprise.

The views and opinions expressed herein are those of the author and do not necessarily represent the views and opinions of KPMG LLP. The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative ("KPMG International"), a Swiss entity.

© 2010 KPMG LLP, a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. 1771