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WILLIAMS ACCOUNTING CORPORATION

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Client Newsletter

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First Edition!

Welcome to the first edition of my own newsletter. In the past I sent clients copies of The Quarterly Dividend. Many of you have told me you appreciated receiving this. But truth be told, I could not choose the content. I didn't write it. So now I have decided to write my own newsletter. So the content, and any mistakes you find, are all my fault. But as you know, I don't work alone. Some of the articles will be written by my staff. They know accounting and taxation well. I want to thank them for their contributions each and every day.

My intent it to provide both my personal tax and business clients useful information that can help them pay less tax, increase their income and keep more money for themselves. So please enjoy! I welcome your comments.

Disability Tax Credit Certificates

Every year we have clients and relatives of clients that have not claimed disability tax credits for which they are entitled. These credits are worth about $1,500 per year and can be transferred to family members. Often when we learn about these situations years have gone by and when we make adjustments clients receive refunds of many thousands of dollars.

To be eligible for these credits the individual must have a severe and prolonged impairment in physical or mental functions. If you just read the last sentence and said to yourself you don't know anyone in your family that qualifies please keep reading. Many people are eligible that you would not considered to be disabled.

Form T2201 can be downloaded (CRA.gc.ca) to give more of the details. Sometimes the disability is straightforward. Someone who is blind, deaf or in wheelchair clearly qualifies. But sometimes it is not clear who qualifies. I have seen children that are diabetic qualify. Children that suffer from ADHD qualify. Adults that have mobility issues or need assistance dressing can often qualify. Mental illness can also make someone eligible.

Probably the biggest group that gets missed is seniors. As we get older we tend not to think of someone as being disabled. There are just elderly. But often they do qualify. Almost all of us will qualify at some point in our lives. We all will die at some point. So unless we die of a sudden heart attack or a tragic accident, almost everyone qualifies before they die. If you think you know someone who may qualify, please contact me so we can discuss the tax savings.

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Registered Disability Savings Plan (RDSP)

The purpose of this plan is to provide long-term financial security of a beneficiary who has a prolonged and severe physical or mental impairment. To be eligible the beneficiary must have a Disability Tax Credit Certificate. This program allows savings to grow in a tax-deferred environment.

There is no minimum age to be eligible to open a RDSP. The beneficiary named under an RDSP must be a resident of Canada, have valid social insurance number and be eligible to receive the disability tax credit.

RDSPs allow savings to grow on a tax deferred basis.

There can be only one beneficiary under a plan and the beneficiary stays the same throughout the life of the plan. There can be only one plan for a given beneficiary. The holder of plan can be:

1. The beneficiary
2. If the beneficiary is a minor another person can become the holder if the person is:
    - Legal parent of the beneficiary
    - Legal guardian of the beneficiary
    - A public department, agency or institution that is legally authorized to act for the beneficiary
3. If the beneficiary has reached the age of majority and is not competent to enter into an arrangement then holder of the plan can be :
    - An Individual who is legally authorized to act for the beneficiary
    - A public department, agency or institution that is legally authorized to act for the beneficiary

Contributions:

- With the holder's consent, anyone can make a contribution for a beneficiary under a RDSP
- are not tax deductible
- the earnings generated on contributions are tax-exempt while they stay in the plan
- When earnings are withdrawn as part of the disability assistance payment, they are taxable in the hands of the beneficiary

RDSPs are a great way to save for the future and reduce tax payable if you or a loved on qualifies.

Contributions can be made to the plan until the earliest of:

- The beneficiary's death
- The end of the year in which the beneficiary turns 59 years of age
- The time when contributions to the plan total $200,000
- The time when beneficiary no longer qualifies for the DTC
- The beneficiary is no longer resident in Canada for tax purposes.

Plans (RDSP) may be eligible for:

- Canada Disability Savings Grant (CDSG), which provide matching contributions of up to $3,500 annually until the end the year the beneficiary turns 49($70,000 lifetime limit)
- Canada Disability Savings Bond which pays up to $1,000 annually until the end of the year in which the beneficiary turns 49 to low income families regardless of whether RDSP contributions are made ($20,000 lifetime limit)

Payments to beneficiary:

- There can be a single payment requested on an ad hoc basis by the plan holder (or beneficiary if applicable) that is made to the beneficiary. This is called Disability Assistance Payment (DAP). DAP is also an amount that is paid to the beneficiary when the plan must close

RDSP Continued…

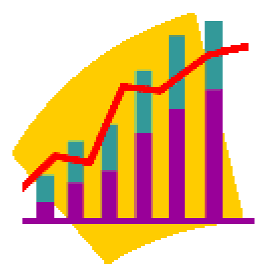
because they are no longer DTC eligible or an amount that is paid from the plan to the beneficiary's estate after their death.

- Plan holder (or beneficiary if applicable) can request Lifetime Disability Assistance Payments (LDAP). LDAP is a payment that is part of series of periodic payments.
- LPAD's must start no later than the end of the calendar year in which the beneficiary turns 60 years of age.
- LPAD's can also start anytime the holder requests (as long as terms of the plan are not restrictive).
- Each withdrawal is a blend of taxable and non-taxable amounts. Contributions to the plan that are withdrawn are not included in the income of the beneficiary. The Canada Disability Savings Grant, Canada Disability Savings Bond and the investment earnings in the plan are included in the beneficiary's income for tax purposes when they are paid out of the RDSP.

Income Splitting

Canada has a progressive tax system. This means that as your income grows your pay a larger share to governments. Income spitting is one way that you can reduce your total family tax bill. But how do you do it? There are attribution rules that must be avoided. Here are 8 ways that you can reduce your taxable income and save taxes.

1. **Spousal RRSPs**. By contributing to a spousal RRSP you can manage the income that each spouse will receive in retirement. The objective is to equalize the taxable income each spouse will receive. No attribution rules apply to Spousal RRSPs.
2. **Transfers at Fair Market value (FMV)**. Sell an asset that will produce income or capital gains to the spouse with the lower income. As long as this is done at FMV no income is attributed back to the seller. This purchase could be paid for by another asset that will not grow that is owned by the lower income spouse.
3. **Loans at Prescribed Rates**. Lend money to the lower income spouse at the prescribed rate (currently 1%). Any gains or income above this has effectively been transferred to the lower income spouse.
4. **Hire a spouse or child**. Income splitting (and tax savings) can be achieved by hiring a family member to do some work for you if you have a business. For example, your child could be hired to do filing. They would likely pay no tax while you get the deduction.
5. **Reinvestment of Attributed Income**. While income and gains are attributed back to a spouse the income on the income is not. Over time this can transfer substantial assets to the lower income spouse.
6. **Splitting CPP Benefits**. If both you and your spouse receives CPP benefits you can split the benefits so each receives the same amount. This can save taxes.
7. **Registered Education Savings Plan**. Contributions to an RESP are not deductible but any income earned will be taxed on the child's tax return when the money is withdrawn. Not only does this lower the overall tax payable it defers the taxes for years.
8. **Higher Income Spouse Pays Household Expenses**. If both spouses earn income have the lower income spouse do the saving and the higher income spouse pay all expenses (including the lower income spouse tax bill!). This will let the lower income spouse increase their investments and help equalize the income.



Income splitting is a great way to reduce taxes.

Spousal Loans

In Canada spouses are not allowed to simply give money to one another. If they do, the investment income from the funds given is attributed back to the spouse that gave the money. To get around this rule, spousal loans can be done. Essentially, the higher income spouse lends money to the lower income spouse. The lower income spouse then reports the investment income on the funds (hopefully at a high rate of return) and deducts the interest paid (currently at 1%). The spouse that made the loan reports the interest they received (1%) on their tax return.

The benefit of this is that the higher income spouse's taxable income is reduced and the lower income spouse's income is increased. Since tax rates rise as income rises this reduces the total family tax bill.

The rules are simple but must be followed. Loans must be documented and the interest payment must be made by January 30th of the following year. For more information please contact me so we can discuss.

Upcoming Deadlines

Accountants work with deadlines all the time. Here are a few you should be aware of in the near future.

Personal Tax Installment	September 15, 2013
July-September HST Return	October 31, 2013
Personal Tax Installment	December 15, 2013
Age 71 this year, RRIF Conversion Deadline	December 31, 2013
Final Payroll Remittance for 2013	January 15, 2014
Spousal Loan Interest Due	January 31, 2014
October-December HST Return	January 31, 2014
T4 and T5 Issuing Deadline	February 28, 2014
RRSP Deadline	March 1, 2014

Thank you for your referrals!
We very much appreciate the referrals we receive. If you know of someone who may benefit from our services please pass my name to them. As always, we provide a complimentary initial meeting.