



# In Touch *with* Tax

December 1994

## Personal Tax Commentary 1994-1995

# THE TAX STRIKE/LOCKOUT OF 1994

### What's Inside...

<b>Opening Negotiations</b>	2	<b>Spouses and Related Minors</b>	18	<b>Losses</b>	31
-----		<b>Other Related Individuals</b>	19	<b>Self-Employed Individuals</b>	31
<b>Tax Deferral Plans</b>	3	<b>Other Miscellaneous Notes</b>	19	Fiscal Year-End	31
<b>Registered Retirement Savings Plan (RRSP)</b>	3	<b>Planning Opportunities</b>	19	Business Meals and	
Contribution Limits & More	3	<b>Deductions, Credits, and Other</b>		Entertainment Expenses	32
Carryforward of Unused Contribution Room	4	<b>Tidbits</b>	21	Office in Home	32
Excess RRSP Contribution	5	<b>How Tax is Computed</b>	21	Automobile Expenses	32
RRSP Rollovers	5	<b>Deductions</b>	21	Income and Expense Recognition	32
Withdrawals	5	Interest Expense	21	Payroll Taxes	33
Homebuyer's Guide to RRSPs	6	Alimony and Maintenance Payments	22	<b>Incorporation - Is It The Answer?</b>	33
Planning Points	7	Child Care Expenses	23	Limited Liability	33
<b>Registered Retirement Income Fund (RRIF)</b>	7	Moving Expenses	23	Taxation of Corporations	33
<b>Registered Pension Plans (RPPs)</b>	8	Miscellaneous Deductions	24	Some Other Pros and Cons	34
<b>Individual Pension Plans (IPPs)</b>	8	<b>Non-Refundable Tax Credits</b>	24	<b>Tax Instalments, Penalties And</b>	
<b>Registered Education Savings Plan (RESP)</b>	8	Pension Income Credit	24	<b>Related Matters</b>	35
<b>Pension Income</b>	9	Medical Expenses	24	<b>Taxation Of Non-Residents</b>	36
<b>Capital Transactions</b>	9	Charitable Donations	25	What is Residency?	36
<b>Capital Gains and Losses</b>	9	Personal Tax Credits	25	Who is Taxable?	37
Utilization of Capital Losses	9	Disability Tax Credit	25	Special Elections Rules	37
Reserves	10	Spousal (and Other) Transfers of		<b>Relevant U.S. Tax Issues For</b>	
Allowable Business Investment Loss (ABIL)	10	Unused Credits	26	<b>Canadians</b>	38
<b>Capital Gains Exemption</b>	11	Political Contributions	26	U.S. Filing Requirements	38
Pre February 23, 1994	11	Tuition Fees and Related Matters	26	U.S. Estate Taxes	38
Post February 22, 1994	11	<b>Foreign Tax Credit</b>	27	<b>The Goods And Services Tax (GST)</b>	39
Cumulative Net Investment Loss (CNIL)	13	<b>Old Age Security (OAS) "Clawback"</b>	27	Employees	39
Small Business Corporations (SBC)	14	<b>Child Tax Benefit</b>	27	Self Employed Individuals	41
Some Exemption Planning Ideas	14	<b>Forward Averaging</b>	27	Partners	41
<b>Principal Residence</b>	15	<b>Alternative Minimum Tax (AMT)</b>	28	Other Matters	41
<b>Investment Income</b>	16	<b>Tax Sheltered Investments</b>	29	Residential Housing	41
<b>Taxation of Dividends</b>	16	Limited Partnerships	29	-----	
<b>Interest Income</b>	17	Canadian Films	30	<b>The Bargaining Is Over</b>	42
<b>Related Matters</b>	17	MURBs and Real Estate Investments	30		
<b>Income Splitting</b>	18	Resource Properties	30		
Rules	18	Government Sponsored Shelters	30		
		Life Insurance	30		

## Opening Negotiations

*Now let's go to the top ITWT sports story of the day. Here's sports anchorman, Bob Cost-us.*

### **Cost-us:**

Fans in North America have become used to the problems in the business of sport. First there was this year's Major League Baseball strike culminating with the cancellation of the balance of the season and the fall classic, the World Series. That means the Toronto Blue Jays are still defending champions. Then came the National Hockey League's lockout of players resulting in both a postponement and then cancellation of games. Who knows where or when it will end. There were even rumblings of a dispute brewing in the National Basketball Association.

But who could have figured that this unrest would have spilled over into the biggest sport of all. Taxes.

After years of haggling and negotiating, the government owners and taxpayer players have both threatened an interruption to the start of the season. Whether this would be a strike by taxpayers or a lockout by government is still unclear.

The issues are surprisingly similar to the other major sports but with some interesting twists. In the year of the salary caps, this dispute is no different, except that the taxpayers are demanding a cap on taxes, while the government is looking for a better way to share and distribute revenue. Small market provinces want help to compete with their big province counterparts. There has even been discussion of a luxury tax, but taxpayers are complaining that such a tax has been in place for years.

The taxpayers are led by a fellow named Bob Goodguy. Leading the negotiating team for the government is new Commissioner P. Martin Betterguy. A no-nonsense hired gun. Which *guy* will prevail?

Let's go live to an undisclosed location, where intrepid ITWT reporter, Howard Cantsell, has caught up with taxpayer rep, Goodguy, who has just surfaced from several hours of intense negotiations with the government side.

### **Cantsell:**

Goodguy, have you and the government made any progress? Are you any closer to a deal?

### **Mr. Goodguy:**

What you have to understand Howard, is that tax planning is a process. Hard bargaining is not a once a year activity. You have to have a well thought out plan to save tax. While most of our effort now is focused on completing various tax plans before December 31 so that we can start the season, most negotiations should be structured to

minimize tax throughout the year.

It's important to keep the objectives of our negotiations for tax planning in mind at all times during the year. There are two key objectives of tax planning that we aim for in our negotiations. One, our taxpayers should strive to plan their affairs to reduce or perhaps eliminate the payment of tax. The second and also vitally important objective is to defer the payment of taxes to future years. Both of these objectives are critical to our membership and will clearly create some opposition from the government side.

### **Cantsell:**

Thanks Goodguy. New Commissioner Betterguy has just emerged from the building. Let's see if we can get a word from him.

Mr. Betterguy, is it true that you plan to play hardball and introduce a number of taxing proposals to cut the deficit?

### **Mr. Betterguy:**

You know tax is a tough contact sport. There may be some injuries that will occur in our struggle to control the deficit.

### **Cantsell:**

That pretty well sums it up down here. We'll send it back to the newsroom.

### **Cost-us:**

Thanks Howard for that insightful report.

Even though the tax cap is the big one, there are many smaller issues that must be resolved before peace comes back to the sport of tax. These include whether taxpayers must pay their own way during post season retirement without the help of tax deductible RRSP contributions and whether small business taxpayers should be treated like rookies and have a different tax structure than the experienced big business players.

The issues are deep rooted and it looks like we may be in for a long fight. Both sides have dug in their heels and have put the entire 1994/95 season at risk. Notwithstanding this possibility, Commissioner Betterguy has stated unambiguously that the post season will end with the traditional final game on April 30, 1995 (this year it's May 1, 1995).

Bearing this in mind, taxpayers are well advised to keep training and stay in shape for the upcoming season, whenever it resumes. To help taxpayers with their tax planning, prior to the beginning of the season, we have provided in the following pages, a summary of tax exercises that all taxpayers, whether in the majors or not, should consider. As has been said many times, these tax planning exercises should not only be undertaken prior to the season. If a taxpayer wants to stay on top of his or her game, he or she must consider such planning all year round.



## *The Bargaining Is Over*

*Several months later.*

Welcome to this evenings edition of ITWT sports with Mr. Sports himself, Bob Cost-us!

### **Cost-us:**

After months and months of intense and hard fought negotiations between the representatives of the government and the taxpayers, the issues in the tax strike have been resolved and the tax season can begin. Accountants all over the country, have been scurrying to get their tax plans in order so that taxpayers can arrange their affairs accordingly. Many accountants have had to cancel their travel plans for March and April 1995, since they were expecting this strike to be a long one.

The season was saved just in time for taxpayers to get in some last minute tax planning ideas prior to the post season. Not only that, the taxpayers' representatives have introduced a number of excellent tax planning ideas that will help in the post-season in 1995 and for many seasons to come.

As with any collective bargaining, there was give and take on both sides before the issues could be resolved. With the government team operating in deficit position, there was considerable uncertainty as to whether the tax cap would fly. Taxpayers were intransigent on the need to cap taxes. Since the famous tax reform bargaining agreement of 1987, taxes have continued to spiral out of control. Taxpayers were threatening revolt if the government did not agree to a cap on taxes. Negotiations clearly appeared to be going nowhere.

So what, you may ask, turned the tide? If it wasn't for the introduction of an honest and fair mediator, the strike would likely still be going on. This mediator brought a razor sharp mind to the negotiating table, along with savvy and acumen not found in most mortals. The addition of this individual to the negotiations brought the government and taxpayer representatives back to the table. Thanks to this person's skills, the tax season was saved.

So who saved the day?

None other than your friendly ACCOUNTANT. Don't go to the bargaining table without him.

