



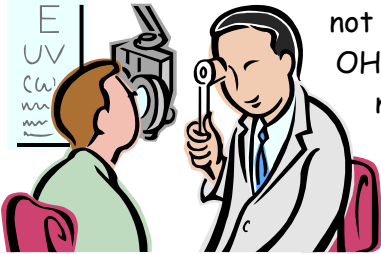
BUSINESS QUARTERLY

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TAX EFFICIENT HEALTH BENEFIT STRATEGY

At some point you will come across the need to have a benefit plan for your family or your employees (as a means of retaining or attracting employees). However, your biggest concern is cost. Then again, a bigger cost may be not implementing a Health Benefit strategy.

For instance, let's say you have significant medical and dental family costs that are not covered by OHIP and you are not part of a Group Benefits Plan. To date, you may be paying



these costs out of your pocket. The income tax act does provide some relief in that many of your expenditures may be eligible for a medical tax credit (not the same as a tax write off).

A tax credit is applied against your taxes owed. The tax credit is calculated by multiplying the lowest federal tax rate (15% in 2005) by the amount of eligible expenditures in excess of the lesser of 3% of your net income or \$1,844. Therefore, if an individual spends \$3,500 in medical expenses and earns \$100,000 per year, then his/her eligible medical expenses are \$3,500 minus the lesser of 3% of \$100,000 or \$1,844. Therefore, his/her eligible medical expense equals \$3,500 less \$1,844 or \$1,656. The tax credit equals 15% times \$1,656, which equals \$248.40. Therefore, on expenditures of \$3,500, the tax payer gets to reduce his/her tax burden by \$248.40. This means the tax

payer is out of pocket after tax a total of \$3,251.60.

Now, if the same tax payer used a Private Health Services Plan, he/she would have paid \$3,500 out of their own pocket. The tax payer's company would have paid a PHSP provider \$3,500 plus an administration fee of 10% for a total of \$3,850. This is an expense to the business. A self employed sole proprietor earning \$100,000 has an average tax rate of 33%. Therefore, on an expense of \$3,850, the tax payer is saving \$1,270.50. The after tax cost to the tax payer is \$2,579.50. This scenario saves the tax payer \$672.10 more than simply using the medical tax credit.

The same tax benefits can be achieved through the implementation of a traditional group benefits plan, in which as few as three employees are needed to set up the plan. Keep in mind, in order for the disbursements to employees or tax payers to be non-taxable, any plan must be offered to all employees.

Offering these kinds of benefits to employees is proven to retain them in the long term and may make the difference in attracting a candidate who has to make a decision between two practices (one with benefits and one without).



If you would like to explore the idea of implementing a private health services plan for your practice, please contact me at 866-322-7022 or frank@businessaffairs.ca.

NEWS FROM THE FEDERAL GOVERNMENT (OCT 31, 2006)

On October 31, 2006 Federal Finance Minister, Jim Flaherty announced a new taxation policy for Income Trusts. The announcement was anticipated, but nevertheless, unwelcome from a tax payer's perspective. The reality is the government had little choice, but to go in that



direction. The impending conversion of Telus and Bell to Income Trusts would have taken a significant amount of tax revenue away from the government. Income Trusts are not taxed if they distribute all of their profits.

Therefore, if giants like Bell and Telus do not pay taxes on their profits, the long term effects could have been devastating given the need to fund our social programs and our aging population.

However, on a positive note, beginning in 2007, pensioners will be able to split income. This gives couples the opportunity to take up to 50% of their pension income — any income that qualifies for the pension credit and elect to have it included on a spouse's tax return. Pension income includes annuity payments from a registered pension plan, RRSP (if over the age of 65), deferred profit-sharing plans or RRIF withdrawals.



NEWS FROM THE ONTARIO GOVERNMENT

Effective December 12, 2006, Ontario will no longer have a mandatory retirement age. Where Ontarians could have been retired by employers at 65 years of age, this is no longer in affect.

Employers have one year to comply with the new rules. Compliance refers to the modification of existing policies and programs.

Also, minimum wage increases to \$8.00 per hour from \$7.75 as of February 1, 2007.

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TOP 10 CRA REVIEWS

A recent article appearing on a financial advisor web site (www.advisor.ca) provided some insight regarding the top 10 areas most likely to be reviewed by CRA on a personal tax return. The list was compiled using information from Deloitte and Touche, LLP. The most common reviews, as described in the article, are as follows :

1. *Allowable business investment losses (ABIL)*

These are similar to capital losses, but are related to small Canadian corporations in which the losses can be applied against regular income.

2. **Medical expenses**

We've seen instances where hot tubs were attempted to be used as a medical expense.

3. **Carrying charges**

Expenses incurred to earn investment income.

4. **Stock option deductions and deferrals**

The CRA frequently seeks clarification of an individual's entitlement to the stock option deduction.

5. **Province of residence**

The status of Alberta as a tax haven of sorts within Canada has apparently led too many individuals—generally those previously resident in the



adjoining provinces of British Columbia and Saskatchewan—to claim Alberta residence.

6. **Charitable donations**

Large donations (in excess of \$25,000) and donations of property in kind continue to attract scrutiny.

7. **Installments**

In many cases, the payment is credited to the calendar year in which it is made, rather than to a prior year to which the taxpayer has requested payment be directed. The result is an unexpected shortfall in respect of a particular year and a credit for another year.

8. **Disability tax credit**

9. **Rollovers from deceased individuals**

The income tax on registered accounts (RRSPs, RRIFs) held by a deceased individual can be deferred when a surviving spouse is the beneficiary. The amount is generally reported with an offsetting deduction. Although this transaction is fairly routine, it is invariably questioned.

10. **Business expenses with a personal element**

It is important to segregate personal expenses from legitimate business

expenses, as only the latter are deductible for tax purposes.

REMINDER

As of January, Doug Gray (CMA, MBA) will take over the business management responsibilities for Frank's clients. This will allow Frank to concentrate on other value added services such as personal financial planning, as well as buyer and seller's advocacy.

Frank will still be very much involved with clients through his interaction with Doug. Though, we know clients will not be disappointed with Doug's level of service and expertise.

REMINDER 2

Our offices will be closed from December 25th and will be re-opening on Tuesday, January 2nd. You can still leave voice mails and send e-mails during that time, but we will only be able to reply once we get back.

MOST IMPORTANTLY...HAPPY HOLIDAYS!!!



It's been a taxing (pun intended) year and we are all ready to enjoy the holidays with our families. We at Business Affairs would like to wish you all the best for the holiday season and health and happiness for 2007. Cheers!