

December 2011

As 2011 draws to a close, the following items have been highlighted by the Small Practice Advisory Committee and others, both recent areas of change, as well as some areas of risk, in respect of transactions that may be considered near year-end that can be avoided.

Changes to the Canada Pension Plan (CPP) are coming in January 2012

These changes will affect both employees and self-employed workers aged 60 to 70. For instance, an employee who meets certain criteria in this age range may need to file an election (Form CPT30) in December 2011 in order to stop contributing to the CPP. For more information, please visit [Tax tips- 2011](#) on CRA's website.

Elimination of tax deferrals for corporate partners

Tax deferrals will no longer be available for corporations which have a significant interest in a partnership, where the partnership's year-end differs from the corporation's taxation year. Certain corporations will need to accrue income for the stub period. This will be effective for the corporate year-ends after March 22, 2011. For more information, visit [CRA's website](#).

Common areas of tax claims to avoid with proper timing

Timing of capital dividends upon disposition of eligible capital property

Just a reminder – if private corporations are considering paying capital dividends, which may be tax-free to their shareholders under certain circumstances, please closely review the timing of these transactions. The disposition of the eligible capital property does not give rise to an addition to the vendor's Capital Dividend Account (CDA) immediately following the disposition. The addition takes place at the end of the taxation year during which a disposition of the property occurred, so that a capital dividend transaction that arises as a consequence of this addition to the CDA cannot be made until, at the earliest, the first day of the following taxation year. For more information, refer to the article in *The CARM Newsletter*, "[Sale of Eligible Capital Property – Capital Dividend or Capital Punishment](#)", issued in March 2007.

Deemed dividends- Section 84.1 and Section 85 rollovers

A major source of insurance claims continues to be "ignorance" claims, resulting from a lack of familiarity with the subject matter – such as in respect of "Section 85 rollovers". One example is the possible application of the anti-avoidance rule in Section 84.1 that can in certain circumstances convert a capital gain into an unexpected taxable deemed dividend. Practitioners who do not regularly encounter these transactions are encouraged to seek advice from tax and accounting practitioners who are experienced in this area.

Please contact a Practice Advisor at 416-962-1841, ext. 456 or 1-800-387-0735, ext. 456, if you have any questions.