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Money Saving Ideas - Volume 3 by David Chong Yen (Dec. 2001)

Recent tax updates have provided the opportunity for dentists to increase their potential tax savings. In particular, the allowable tax-deductible amount for employee gifts has increased from \$100 to \$500 annually. As well, home mortgage interest may be tax-deductible if your affairs are properly structured. The following is a summary of these updates.

Gift to Employees

An administrative change in CCRA policy now permits employers to give more expensive gifts to employees. It will now be possible to give non-cash gifts to each employee on a tax-free basis, where the total cost of such gifts is \$500 (inclusive of applicable taxes) or less in each year. The employer will be able to deduct the cost of the gift and the employee will not have to report such gifts as income. However, where the value of gifts in the year exceeds \$500 per employee, the full value of the gift must be reported as income. Gifts to family members who are employees appear to be permitted.

Home Mortgage Interest

The Supreme Court of Canada released an important decision in favour of the taxpayer, which could benefit you. The case involved a lawyer, who was a partner in a law firm. He withdrew \$300,000 from the capital account of his law firm and used the money to buy a home. The capital account included accumulated profits, less drawings (monies taken from the practice). He then went to a bank and borrowed \$300,000, which he used to repay his capital account at the law firm. Since this money was used to earn income from his law practice, he deducted the interest. The taxpayer was able to convert non-deductible mortgage interest into tax-deductible interest.

Interest expense is tax deductible if it was incurred in order to earn income. If the taxpayer did not withdraw money from his practice and instead borrowed money from the bank to buy the home, then the interest would not be tax deductible. The audit trail supporting that the money was borrowed in order to earn income was crucial. In other words, it is possible to structure your affairs such that your home mortgage becomes tax deductible.

Employment Insurance Refund

Although it is not a recent tax change, another large but not well-publicized money saving idea involves employment insurance deductions when the dentist pays salaries and bonuses to their spouse and children. Provided certain conditions have been met, the dentist, their spouse and children may actually receive a refund for employment insurance premiums previously paid during the past three years. In addition, the dentist, their spouse and children will not have to pay any employment insurance premiums in the future.

This saving alone could amount to tens of thousands of dollars. In order to reap this money saving

idea, one must complete the employment insurance appeal process. Hence, any dentist who currently pays his or her spouse and children a salary or bonus and who is currently paying employment insurance premiums could possibly benefit from this process. This process can be completed by your accountant and typically involves a telephone conversation between the EI personnel, the dentist and spouse.

David Chong Yen, CFP, CA with an international firm background and more than twenty-four years of experience, advises healthcare professionals and owner-managers. Additional information can be obtained by phone (416) 510-8888, fax (416) 510-2699, or Email david@dcy.ca.

This article is intended to present tax saving and tax planning ideas and is not intended to replace professional advice.