Sunil and Nita LLP
Tax and Business Advisors Chartered Professional Accountants

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Deemed taxation Year-End

Whenever there is change in acquisition of control, there is a deemed taxation year-end which typically may result in a short taxation year (i.e. less than 12 months). The corporation is required to file a tax return for that short year-end. The short taxation year will require a pro-rating of certain deduction such as depreciation. The most significant change of control will trigger tax consequences that do not apply to a normal/regular year-end. Normally, the rules limit the extent to which certain tax losses can be carried over or back beyond the change of the control.
There is a blanket restriction for the carryover of net capital losses (unused allowable capital losses – generally half of capital losses) beyond the change of control.

Health Care Premium

As an unincorporated small business owner you can deduct premiums paid for private health and dental plan. There are certain conditions and limits to deduct these expenses. In addition, the private health care premium must be paid to third parties providing such plan. The premium deducted as a business expense cannot be deducted as medical expense in your personal tax return. However, any out of pocket expenses related to health/dental can be deducted as medical expense tax credit

What happens to TFSA when you are gone?

Any increase in the fair market value of the TFSA's investments, from the date of death to the date of TFSA, is paid to the spouse as beneficiary and will be taxed as ordinary income in the spouse's tax return. When an individual passes away without a spouse or common law partner, the TFSA is deemed to be collapsed on the date of death and the balance is most likely transferred to the named beneficiary tax-free. However, the named beneficiary must have TFSA room to accommodate the fair market value (FMV) of the TFSA transfer. The situation gets tricky when named beneficiary does not have TFSA room in his/her account resulting in a significant portion of the TFSA that will be taken away by taxman. For example, the named beneficiary has $25,000 TFSA room but the fair market value (FMV) of the transfer (from deceased person's TFSA) was $50,000, in this situation the beneficiary has to pay tax on $25,000. The tax liability can be significant depending upon income bracket of the beneficiary.