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Tax Tip

“Work-In-Progress — Professionals”

By Antonio Calabria, CPA, CA
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Work-in-progress (“WIP”) represents time/cost incurred by professionals for performing services, which has not been invoiced to their clients. Prior to the March 22, 2017 budget, professionals could file an election to allow them to defer WIP until the point in time when the work was completed and invoiced. The deferral benefit allowed professionals to match revenue recognition to the payment of taxes. Certain professionals, such as actuaries, architects and engineers, could not make this election. ***This election will no longer be available.***

The March 22, 2017 budget announced that every professional must include year-end WIP into income at the lower of cost or fair market value, effective for taxation years commencing after March 21, 2017. This legislative change will apply to most professionals who work in Canada. Some examples of professionals include accountants, lawyers, medical doctors, dentists, veterinarians and chiropractors. This budget proposal was subsequently updated by the Department of Finance in the draft legislation released on September 8, 2017 and approved December 14, 2017.

What has changed?

- As previously noted, WIP incurred by professionals will now need to be included in income at the lower of cost or fair market value. As there is no legislative guidance to help determine the cost of unbilled WIP, professionals judgement must

be exercised (i.e. employee salaries, supplies used and a reasonable allocation of overhead costs).

- The new legislation provides a five-year transitional relief period. For 2018 and future years, for purposes of calculating the WIP income inclusion, WIP must be reported for tax purposes as follows:
 - ◇ 2018 – 20% of the lower of cost or fair market value of unbilled WIP
 - ◇ 2019 – 40% of the lower of cost or fair market value of unbilled WIP
 - ◇ 2020 – 60% of the lower of cost or fair market value of unbilled WIP
 - ◇ 2021 – 80% of the lower of cost or fair market value of unbilled WIP
 - ◇ 2022 – 100% of the lower of cost or fair market value of unbilled WIP
- The above noted transitional relief will only be available where the taxpayer elects to exclude WIP in computing income in the last taxation year that begins before March 22, 2017 (i.e. December 31, 2017 taxation years for most professionals).



Estate Planning— Some Non-Tax Considerations

By Mark Hunter, CPA, CA
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We all know that tax planning is an integral part of Estate Planning. From knowing the potential tax exposure to planning to mitigate that exposure, individuals tend to place tax planning high on the priority list. There are, however, many non-tax considerations that should be discussed when preparing a well thought out estate plan. The following are just few of the many items we have come across in our estate planning practice:

1. Wills

- a. Is there a Will? Yes, an obvious one, but many Canadians still do not have a Will and die intestate. Not having a Will means the courts will apply provincial legislation to dictate how the Estate is to be distributed.
- b. In Ontario (and some other provinces) a Will is rendered void on marriage. If recently married, a new Will needs to be prepared so the spouses don't die intestate.
- c. Would the individual benefit from dual Wills? Many estate planners have horror stories of clients passing away without a second Will to cover assets not requiring probate. One case I was involved in was related to a business owner who was dying and did not take the advice to use dual Wills even though the benefits were discussed. On his death the executors of his estate were told that probate fees on the private company shares would be \$140,000!! If the individual had taken the

lawyer's advice this cost would have been avoided. Faced with this significant cost the executors decided NOT to probate the Will. By not probating the Will they were never appointed as the Executors. Fast forward to the present, we were asked to prepare a restructuring of their company's shareholders. When we sent our instructions to the lawyer we were surprised to find out that there was no legal representative who could sign any of the legal documents to complete the reorganization! As a result, years later the executors still needed to get the Will probated and pay the \$140,000, plus interest.

- d. Does the Will cover specific monetary bequests? We have

seen situations where the specific monetary bequests that at one point were considered minor now "eat up" the Estate leaving nothing for the residual beneficiaries. Be sure to routinely "run the numbers".

2. I have recently been involved in a complicated Estate where the individual was diagnosed with cancer and was, as he put it, "cramming for his finals". We spent many hours reviewing his wishes and making sure we had documented his intentions (sometimes referred to as a letter of wishes). We also made sure the family legal counsel was aware of his wishes. After documenting the individual's wishes I strongly advised him to have a meeting with his family members AND executors to



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make sure they were aware of the details. There is nothing worse than executors not truly understanding the decedent's wishes. Advanced warning can be crucial.

3. Prepare a detailed list of assets, including insurance policies. This can be an enlightening exercise that can highlight potential concerns such as the need for a valuation of artwork, how to deal with sensitive assets such as a collection of firearms or legal issues related to foreign assets. This also allows the executor to know what the assets are and where they are located so the estate can be administrated more efficiently.

4. Prepare a list of online accounts and have them provide their user names **and passwords**. There is no reason to allow Netflix to continue to charge when the individual has passed away!

5. Document the details of any private safes including the safe's location, where keys are kept or what the combination is.

6. Last, but not least, put all of the relevant information in an organized manner someplace safe (but maybe not in the safe unless the combination is given to someone already!!).

The estate plan is not just about tax planning. It's more about getting people to review what their wishes are, what concerns executors may face and making sure the process goes as smoothly as possible.



SAFE DEPOSIT BOX

Don't keep your Will in your safe deposit box. Your executor needs your Will to get your bank to open your safe deposit box.



Real Estate Sale — Don't Pay the Taxes Until You Get Paid!

By Casey Murray, CPA, CA, LPA

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You've sold real estate and turned a profit on the sale, and now it's time to report that gain to the taxman.

But, here's the financial wrinkle. You loaned money to the person who bought your property — known as taking back a mortgage — and the buyer has yet to pay you back. The taxes on that profit you made are coming directly out of your pocket due to the unpaid loan you made to the buyer.

Enter the capital gains reserve, a financial safety net designed to ease the pain for those who find themselves in just that situation. Simply put, the capital gains reserve allows taxpayers to defer a portion of taxes payable on that real estate deal for a maximum of five years.


There are aspects to the capital gains reserve that, for example, allow the taxpayer flexibility in the amount of income reported from one year to the next, or flexibility in how the original sales deal is structured.

When property is sold in the ordinary course of business, i.e., land inventory, the capital gains reserve does not apply. However, a reserve is still permitted where some or all of the proceeds are not due at the end of the taxation year.

A reasonable reserve could be calculated as the gross profit on the sale, multiplied by the unpaid proceeds

at the end of the year, and then divided by the total proceeds. Income reserves can be claimed for up to three years on a particular sale.

It's hard enough knowing that a big chunk of the profit on a real estate sale will be lost to taxes, and worse still when the taxes are coming out of the seller's own pocket.

The capital gains reserve allows taxpayers to ease the burden of paying capital gains taxes when they haven't received the sale proceeds. It can improve cash flows, defer taxes, and, in certain instances, reduce the portion of the gain that ends up in government hands. 



With a quick call to your accountant and a properly structured sale, it's a seller's market.