



CESTNICK

TAX MATTERS

Tax ideas inspired by songs of the holiday season

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I still remember the knock-knock jokes my kids would tell me when they were younger. “Knock, knock!” “Who’s there?” “Little old lady.” “Little old lady who?” “Wow, I didn’t know you could yodel!”

My kids still get a kick out of that one. Now, there won’t be any yodelling around our house at Christmas – but there will be lots of singing. I thought I’d share some tax ideas inspired by some of the best-known songs of the season.

Frosty the Snowman

We’re all familiar with this classic. The lyrics include “There must have been some magic in that old top hat they found, for when they placed it on his head he began to dance around.” Now, it wasn’t long ago that we could claim tax credits for dancing lessons for our kids. But the fitness and artistic tax credits for children were eliminated in 2017.

So, how can we make these costs tax-efficient today? Consider setting aside money in a trust for your children or grandchildren. The income of the trust

can be reported in the kids’ hands, and they’ll likely pay little or no tax. You can then use the income to pay for dance, piano, sports, private school, or just about any cost for the benefit of the kids.

This arrangement can work by setting up a family trust, lending money to the trust (you’ll need to charge the prescribed rate of interest under our tax law, which is currently just 1 per cent), and then having the kids pay the tax on the trust income each year (they’ll receive a T3 slip for the income). The idea could make sense for other reasons too, including asset-protection.

There are costs to set up and maintain a family trust, so speak to a lawyer (who will need to draft the trust agreement) and accountant (who should file the annual trust tax returns) about it, to weigh the costs and benefits.

Have Yourself a Merry Little Christmas

You might remember the words, “Faithful friends who are dear to us,

gather near to us once more.” Here’s hoping you’ll be able to gather near to some faithful friends this year. Can you claim a deduction for the visit? Most of the time you can’t. But if the gathering is also related to your business, you may be able to deduct a portion of the costs.

The court decision in *Grunbaum v. the Queen* (94 DTC 1384) established that the taxpayer was able to deduct part of the costs of a wedding reception as a business expense. In this case, the invitations of the business guests were sent through the company with the trade name of the company stamped on the envelopes. Further, handling of correspondence with the business guests was done exclusively by the company and employees of the company were involved in the special arrangements for the business guests.

I’m not saying it’s easy to deduct the cost of a good party over the holidays, but there’s case precedent to demonstrate that it’s possible.

[Understand the nuances of paying your family salary before year-end](#)

[Holiday family gatherings are a good opportunity to clearly communicate your estate plans](#)

The Chipmunk Song

Alvin and the Chipmunks famously sang “Want a plane that loops the loop, me, I want a hula hoop.” So, you’re going to buy some gifts for others this year? Buying a hula hoop, or just about any gift can be deductible if you buy it for employees or for business purposes. Employees can receive up to \$500 of non-cash gifts annually without paying tax on the value. If you’re an employee, you may want to ask for a hula hoop – or something.

Let it Snow, Let it Snow, Let it Snow

“Since we’ve no place to go, let it snow, let it snow, let it snow.” If it does snow this year, you’re going to have to shovel the stuff. Or maybe you’ll hire someone to shovel or plow. If that’s the case, you can add these costs to those that are partly deductible for tax purposes if you’re claiming home office expenses – as many people are.

Winter Wonderland

This song worries me a little. We sing “Later on we’ll conspire, as we dream by the fire …” Now, think about the definition of “conspire”: to agree together, especially secretly, to do something wrong, evil or illegal. Just to be sure, if you carry on any illegal activity over the holiday season the taxman expects you to pay tax on any proceeds of crime. On the flipside, however, you won’t be able to claim any expenses incurred in carrying on an illegal activity. So, it’s a really bad idea all around.

All I Want for Christmas is You

You’ve probably heard Mariah Carey sing “Make my wish come true, all I want for Christmas is you.” Here’s the good news: Love is still tax-free. At least for now. So, give away as much of it as you can.

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