

Tax Tip
Week of May 25, 2009

Paying Tax on Half of Your Income

Note – This tax planning tip is presented totally “tongue in cheek.”

Although various types of income receive preferential tax treatment, such as capital gains (50% taxable) and dividend income (tax reduction via the dividend tax credit,) normally employment and consulting income is 100% taxable. However, according to recent press reports, there is a strategy to have only 50% of your consulting income subject to tax. The strategy works as follows:

- claim to perform consulting work and get paid in envelopes stuffed with cash. Let's assume we receive \$225,000
- rather than declare the amounts as income, store them in a safe for a few years
- once it appears the tax department may become aware of the payments, have your tax counsel approach CRA on an anonymous basis under their voluntary disclosure program
- according to CRA, the Voluntary Disclosures Program (VDP) allows taxpayers to come forward and correct inaccurate or incomplete information or to disclose information they have not reported during previous dealings with the CRA, without penalty or prosecution. A valid disclosure must meet four conditions. These conditions require that the disclosure be voluntary, complete, involve the application or potential application of a penalty, and generally include information that is more than one year overdue. If the CRA accepts the disclosure, the taxpayer will have to pay the taxes or charges owing, plus interest. However, the taxpayer will not be subject to penalty or prosecution for those amounts accepted as a valid disclosure

- upon full and complete disclosure, CRA decides to only tax 50% of the income received, i.e. \$112,500. Based upon my knowledge of income tax, it is unclear why only 50% would be taxable, but clearly it would have nothing to do with the individual's former employment as Prime Minister of Canada