

Tax Tip

Week of July 4, 2011

Avoid Risky Tax Shelters

The government has introduced legislation that has eliminated many of the advantages of tax shelters. Before purchasing a tax shelter, ensure the following factors have been considered:

- ensure the shelter is economically viable. It makes no sense to spend a dollar of income to save 46 cents of tax
- deductions are limited to the amount the investor has “as risk”
- a negative adjusted cost base of a limited partnership results in a deemed capital gain
- a successful tax shelter may give rise to a minimum tax liability
- determine if the limited recourse debt rules will impact the promised return from the shelter
- ensure the promoter has obtained a tax shelter identification number which has to be included on the taxpayer’s return