

JONES THOMBLISON LLP, CHARTERED ACCOUNTANTS

3515 Mainway
Burlington, ON L7M 1A9

Dear Clients/Friends:

Ph: (905) 319-3515
Fax: (905) 332-7712
Email: steve@jtca.ca
jay@jtca.ca

This is a quarterly newsletter which we send to clients, referral sources and friends. The information is meant to be educational and application of the concepts should be on an individual basis. Please do not hesitate to contact us should you require further clarification of any item.

YEAR-END TAX PLANNING

96 (1)

Some 2011 year-end tax planning tips include:

1. Certain expenditures made by individuals by December 31, 2011 will be eligible for 2011 tax deductions or credits including:



moving expenses, child care expenses, safety deposit box fees, charitable donations, political contributions, medical expenses, alimony, eligible employment expenses, union, professional, or like dues, carrying charges and interest expenses, certain public transit amounts, and children's fitness and arts amounts.

2. You have until February 29, 2012 to make tax deductible Registered Retirement Savings Plan (RRSP) contributions for the 2011 year.

Consider contributing to a spousal RRSP to achieve income splitting in the future.

3. If you own a business, consider

paying a reasonable salary to family members for services rendered to the business.

4. An individual whose 2011 net income exceeds \$67,668 will lose all, or part, of their old age security.

Senior citizens will begin to lose their income tax age credit if net income exceeds \$32,961.

Contact your professional advisors for assistance in managing 2011 personal income.

5. Consider purchasing assets eligible for capital cost allowance before the year-end.

6. Consider selling capital properties with an underlying capital loss prior to the year-end if you had taxable capital gains in the year, or any of the preceding three years. This capital loss may be offset against the capital gains.

7. Registered Education Savings Plan (RESP)

A Canada Education Savings Grant (CESG) for RESP contributions will be permitted equal to 20% of annual

IN THIS ISSUE

YEAR-END TAX PLANNING
2011 REMUNERATION
EMPLOYMENT INCOME
ESTATE PLANNING
WEB TIPS
GST/HST
DID YOU KNOW

contributions for children (maximum \$500 per child per year).

8. Health and dental premiums for the self-employed

Individuals will be allowed to deduct amounts paid for Private Health Service Plan coverage in computing business income provided they meet certain criteria.

9. Eligible public transit passes will be entitled to a tax credit.

10. A tax credit for children under 16, at the beginning of the year, enrolled in certain organized activities is available.

11. A Registered Disability

Tax Tips & Traps

Savings Plan may be established for a person who is eligible for the **Disability Tax Credit**. Non-deductible contributions to a **lifetime maximum of \$200,000** are permitted which are eligible for tax-deferred grants and bonds. Please contact your professional advisors for details.

- If required income or Forms have **not been reported** in the past to the CRA, a **Voluntary Disclosure** to the CRA may be available to avoid penalties. Contact us for details.

2011 REMUNERATION

96(2)

Some **general guidelines** to follow in **remunerating the owner** of a **Canadian-controlled private corporation** earning **“active business income”** include:

- Bonusing down** active business earnings in excess of the **annual business limit (usually \$500,000)** may reduce the **overall tax**. However, leaving corporate **active business income** over this amount presents a **tax deferral**. **Professional advice** is needed in this area.
- Notification** must be made to the shareholders when an **“eligible” dividend** is paid - usually in the form of a **letter dated** on the date of the **dividend declaration**. If all **shareholders** are **directors**, the **notification** may be made in the **Directors’ Minutes**. Please contact your **professional advisor** for advice before paying an **eligible** or

ineligible dividend.

- Elect to pay out tax-free **“capital dividend account”** dividends.
- Consider paying dividends to obtain a refund of **“refundable dividend tax on hand”**.
- Corporate earnings in excess of personal requirements could be left in the company to obtain a **tax deferral**. The effect on the **“Qualified Small Business Corporation”** status should be reviewed before selling the shares.
- Dividend income**, as opposed to salaries, will reduce an individual’s **cumulative net investment loss** balance thereby providing greater access to the **capital gain exemption**.
- Excessive **personal income** affects receipts subject to **clawbacks**, such as **old age security**, the **age credit**, **child tax benefits**, and **GST credits**.
- Salary payments require **source deductions** to be remitted to the Canada Revenue Agency on a timely basis.
- Individuals that wish to contribute to the Canada Pension Plan or a Registered Retirement Savings Plan may require a **salary** to create **“earned income”**.
- Salaries** paid to family members must be **reasonable**.

EMPLOYMENT INCOME

96(3)

CELLULAR PHONE ALLOWANCE

In a June 8, 2011 **Technical Interpretation**, CRA notes that CRA **Guide T4130** provides that where an employer **reimburses** an employee for the cost of a **cellular phone service plan** and the **primary use** is for business purposes, the reimbursement would generally **not be considered a taxable benefit** if:



- the Plan’s cost is **reasonable**, and is a **basic Plan** with fixed cost
- the employee’s **personal** use of the service does **not** result in charges that are **more than the basic Plan cost**.

However, CRA notes that a **taxable benefit** may arise where **additional charges** are incurred as a result of the employee’s **personal use** of air time minutes or personal long distance calls.

Also, when a reimbursement by an employer relates to an **asset purchased and owned** by an employee, a taxable benefit may apply.

BUSINESS TRAVEL/LOG

In a November 3, 2010 **Tax Court of Canada** case, the taxpayer was a self-employed Remax residential real estate agent who received commissions of \$81,440 and \$79,552 in the 2005 and 2006 years.

The taxpayer did **not keep a log** of her business kilometres but she claimed that she had driven 31,185

Tax Tips & Traps

kilometres and 23,693 kilometres in 2005 and 2006 for a business percentage of 95%.

CRA reassessed on the basis that **only 55%** of her kilometres were for business purposes.

The taxpayer appealed to the Tax Court of Canada and the Court noted:

1. That keeping a log book for automobile expenses is not specifically required by the ITA. However, by not doing so, she faces a **heavier burden** in proving that she used her motor vehicle almost exclusively for business purpose.
2. The Court understood that keeping a log book may be tedious and may not always be practical; however, it would be **useful** in determining the actual business use.
3. The Court noted that if she did not have time to report all her business driving, which they serious doubt, she could have reported her **personal driving**.

CRA countered with a proposal to **allow 75%** and the **Court agreed**.

Editor's Comment

See www.cra.gc.ca/whtsnw/lgbk-eng.html for **CRA's comments** on "Documenting the Use of a Vehicle".

ESTATE PLANNING

96(5)

CHANGES TO THE CANADA PENSION PLAN (CPP) FOR INDIVIDUALS WHO ARE AT LEAST 60 YEARS OF AGE BUT UNDER 70

1. As of **January 1, 2012** the rules for contributing to the CPP will change.

2. **Individuals under 65 years of age** - starting on January 1, 2012, will **now have to contribute** to the CPP if you are **working**, even though you may be receiving CPP.

Individuals at least 65 years of age but under 70 - starting on January 1, 2012, unless you **elect to stop** contributing to the CPP, you will now **have to contribute to the CPP** if you are working.

3. **To stop contributing to the CPP:**

- **Employee** - an employee who is **at least 65 years of age** but **under 70** and receiving a CPP or QPP retirement pension, can **elect to stop contributing to the CPP** by completing Form CPT30, giving a copy to all your employers, and sending the original to the CRA.

- **Self-Employed** - If you are **self-employed**, at least **65 years of age** but **under 70** and **receiving a CPP or QPP** retirement pension, you can **elect to stop contributing** to the CPP. To do so, complete the applicable section of Schedule 8, CPP Contributions on Self-Employment and Other Earnings for 2012 and file it with your income tax return for 2012.

Do not use Form CPT30.

The **Election** stays in **effect** until you turn **70 years of age** or until you **revoke the Election**.

4. **Individuals receiving both**

pensionable earnings and self-employed earnings who are at least 65 years of age but under 70 and receiving a CPP or QPP pension can **elect to stop contributing** to the CPP by completing Form CPT30, giving a copy to all your employers, and sending the original to the CRA.

5. If you want to **start contributing to the CPP again**, you need to **revoke** your **Election** to stop contributing to the CPP. However, you cannot revoke an Election in the same calendar year that you elected to stop contributing to the CPP. For example, if you elected to stop contributing to the CPP in 2012, you cannot revoke this election before 2013.

Since you cannot revoke an Election until 2013, Service Canada will provide information about this at a later date.

To get details, search for "**changes to the Canada Pension Plan**" on the **CRA website**.

Other changes that come into effect in **2012** include a person aged 60 or older will not have to cease working to **qualify for early CPP**. Also, the reduction to benefits when a person collects CPP before age 65 and the increase in benefits for delaying the receipts past 65 will both be **increased** over the next several years.

OLD AGE SECURITY (OAS) APPLICATION

A taxpayer may apply to receive **OAS payments** at the age of **65**. Failure to apply means a taxpayer could lose OAS payments because the Government only has to pay **retroactive payments** back to the

Tax Tips & Traps

65th birthday for a **maximum of 11 months**, plus the month of application.

In a June 29, 2011 **Federal Court** case, the taxpayer argued that he was given incorrect information from Service Canada and, therefore, did not make an application for the OAS. Therefore, he was applying for retroactive payments past the **11 months**.

Taxpayer Loses

The Court found that the **information** provided by Service Canada was **not erroneous**. Therefore, the taxpayer was **limited** to a retroactive payment of **11 months**.

ECOENERGY RETROFIT-HOMES PROGRAM

The Federal Government renewed the **ecoENERGY Retrofit-Homes Program** in the 2011 Federal Budget. From June 6, 2011, until March 31, 2012, homeowners are eligible to receive **Grants** of up to **\$5,000** to make their homes **more energy efficient**.

There are two important changes to the Program. **First**, there is a **requirement** for participants to register directly with the Program **before booking** their evaluation. **Second**, homeowners will now be required to provide receipts to their energy advisor at the time of the post-retrofit evaluation to confirm eligibility for the Grant.

Google **ecoENERGY Retrofit-Homes** for more information.

Only products purchased after June 6, 2011 and installed after a **pre-retrofit evaluation** are eligible for an ecoENERGY Grant. All energy retrofits and post-retrofit evaluations must be **completed** by **March 31, 2012**. The homeowner must also

sign the **Grant application** by this date.

When you apply for ecoENERGY Retrofit-Homes, you may be eligible for complementary or matching funds from **Provincial, Territorial and Municipal Governments**, as well as from certain energy utilities and non-government organizations that use the EnerGuide Rating System. You should consult with these regional organizations directly to ensure you are meeting their respective guidelines and deadlines.

Google "**complementary regional programs with ecoENERGY Retrofit-Homes**".

WEB TIPS

96(6)

GOVERNMENT SERVICES AND PROCEDURES AFTER BIRTH

<http://www.servicecanada.gc.ca/eng/lifeevents/baby.shtml>

This website offers a **helpful checklist and description of the items to consider and government services** that should be registered for **after you welcome a new one to the family**. Topics include: **parental leave/EI, registering the baby's birth, RESPs, Canada Child Tax Benefit, Universal Child Care Benefit**, and many more.

GST/HST

96(7)

ALLOWANCES AND REIMBURSEMENTS

Where a Registrant pays an **allowance** to an employee or partner for supplies, the Registrant may be entitled to a GST/HST Input Tax Credit (ITC). For example, in a GST province, the Input Tax Credit (ITC)

would be based on 5/105 of the amount paid. In HST provinces, the amount would be based on 12/112, 13/113 or 15/115, depending on the particular HST rate in that province.

A taxpayer may also claim ITCs for GST/HST on **reimbursements** paid to employees for expenses incurred in Canada either on the Actual Method or the Factor Method.

The Actual Method permits the claim based on the actual GST/HST. The Factor Method may be used if the GST/HST was charged on 90% or more of the total amount reimbursed for expenses. The main advantage is that the documentary requirements are lessened.

With respect to **reimbursements**, the Factor for GST only is 4/104, or 11/111 (British Columbia), or 14/114 (Nova Scotia), or 12/112 in Ontario, New Brunswick and Newfoundland.

DID YOU KNOW

96(8)

UNIVERSAL CHILD CARE BENEFIT (UCCB)

A parent may deposit the **UCCB receipts** in a bank account for the **child** such that the **investment income** is the **child's**, not the parents', for income tax purposes.

The **UCCB** pays the parent **\$100 per month** for each child under the age of 6. Also, the **attribution** rules will **not apply** to investments made using the **Canada Child Tax Benefit** which is paid to certain low-income families depending on the family's income and the amount of the children, if the amounts are deposited in a bank account for the **child**.

The deposit should be made using the child's **Social Insurance Number**.

Tax Tips & Traps

Tax Tips & Traps