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Dear Clients/Friends:

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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.

Office News

Another tax season has come and gone and we would like to thank all of our clients and friends for getting your tax information to us in a timely manner. It was great to see you all. We would like to also thank you for your referrals. We always welcome new clients so if you are aware of anyone requiring our assistance, please pass along our name.

Now that the summer is here we will be closing the office on Fridays effective Friday, June 22, 2012. We will return to regular business hours after Labour Day. Hope you have a great summer!!

PERSONAL TAX

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DO YOU HAVE TO FILE A RETURN?

You *must file a tax return* for 2011 if any of the following situations apply:

- you have to *pay tax* for 2011;
- CRA *sent a request* to file a return;
- you and your spouse or common-law partner elect to *split pension income*;
- you received *Working Income Tax Benefit (WITB)* advance payments in 2011;
- you *disposed of capital property* in 2011 or you realized a taxable capital gain;
- you have to *repay* any of your *Old Age Security or Employment Insurance benefits*;
- you have not repaid all amounts withdrawn from your RRSP under the *Home Buyers Plan* or the *Lifelong Learning Plan*;

- you have to contribute to the *Canada Pension Plan*;



- you are paying *Employment Insurance premiums* on *self-employment* and other eligible earnings.

Even if these requirements do not apply, you *may still want to file a return* to claim a *refund*; to claim the *WITB*; to apply for the *GST/HST credit*; to receive the *Canada Child Tax Benefit*; if you have incurred a *non-capital loss* that you want to be applied in other years; to carry forward or transfer the unused portion of your *tuition, education and textbook amount*; to report income for which you could contribute to an RRSP in order to keep your *RRSP deduction limit* for future years up to date; to carry forward the unused *investment tax credits* on expenses incurred during the current year; to receive the *Guaranteed Income Supplement* or Allowance benefits under the *Old Age Security (OAS)* program.

CHILDREN'S ARTS TAX CREDIT

We have had four years of experience

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with the *Children's Fitness Tax Credit*. Beginning in 2011, the *Children's Arts Tax Credit* became available.

In many ways, *the two credits are similar*, including the following key points:

- both allow a credit for the costs of registration or membership in a "prescribed program" for children under age 16 at the start of the year;
- both are limited to \$500 of annual costs per child (maximum Federal tax benefit of \$75), with an enhanced claim based on a further \$500 where

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the child is disabled, and at least \$100 of costs are incurred;

- both apply to weekly programs lasting at least eight consecutive weeks, and children's camps or similar programs lasting at least five consecutive days;
- both require receipts, which need be submitted only on CRA request;
- both can include programs where a variety of activities are undertaken, either for the full program cost or, where the eligible activities are limited, for a pro-rated portion of the cost;
- both can include membership in an organization for at least eight consecutive weeks where more than half the activities offered to children by that organization are eligible activities; and
- both prohibit claims that are part of a school's curriculum.

So what are the differences? The main difference is that the arts credit applies to "artistic, cultural, recreational or developmental activities", whereas the fitness credit applies to physical activities.

EDUCATION COSTS

Commencing in 2011, amounts paid for occupational, trade or professional *examinations* will be included in amounts eligible for the *tuition tax credit*. These will include any examinations required to obtain *professional status* under a federal or provincial statute, or to be licensed or certified as a tradesperson, where this entitles the person to practice the profession or trade in Canada.

MEDICAL EXPENSES - BACK SURGERY OUTSIDE THE COUNTRY

In a February 21, 2012 *Technical Interpretation*, CRA noted that the

taxpayer had *back surgery outside Canada* as there was a *four-year waiting period* for the surgery and his condition was deteriorating. The hospital was in the *United States*. He had been reimbursed for a small portion of the amount spent on the surgery by the province.

CRA noted that the amounts paid to a "*medical practitioner*" and to a *public or licensed private hospital* are eligible for *medical expenses*.

Also, *reasonable travel expenses* (including accommodation and meals) incurred in respect of the patient and, where the patient has been certified by a medical practitioner to be incapable of travelling without the assistance of an attendant, in respect of *one individual* who accompanied the patient are medical expenses.

BUSINESS/PROPERTY INCOME

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EMPLOYEE VS. SELF-EMPLOYED - DETERMINING THE STATUS

It is important to *determine the status* between the *payer* and the *recipient* as to whether the recipient is *self-employed* or an *employee*. Also, where there is a *corporate recipient*, the *Personal Service Business* status is relevant.



CRA has provided guidance in *Form RC4110* to determine a worker's status. It notes that the *intent* is *important* and this is often indicated in a *Written Agreement*. It also notes that CRA may ask *further questions* to determine whether *the facts* are consistent with the *written intent*.

See www.cra.gc.ca/tx/hm/xplnd/me_nu-eng.html and click on "specific employments" for information on *real estate agents, construction workers,*

heavy machinery operators, etcetera.

2012 FEDERAL BUDGET

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On March 29, 2012 the Honourable Jim Flaherty, Minister of Finance, presented his seventh *Budget* to the House of Commons.



The Government's fiscal positions include *deficits* in the years 2011/2012 (\$24.9 billion), 2012/2013 (\$21.1 billion), 2013/2014 (\$10.2 billion), 2014/2015 (\$1.3 billion), and a *surplus* in 2015/2016 (\$3.4 billion), and 2016-2017 (\$7.8 billion).

There were a number of *provisions* including:

- \$500 million over five years, starting in 2014-15, will be provided to the Canada Foundation for Innovation to support advanced *research* infrastructure.
- The *penny* will no longer be produced as of Fall 2012. It currently costs 1.6 cents to produce each coin.
- *EI premium rate increases* will be limited to 5 cents each year until the EI Operating Account is balanced.
- System-wide legislative improvements to the review process for *major economic projects* (such as the Northern Gateway project) to achieve the goal of "one project, one review" will be completed.
- \$400 million will be provided to help increase private sector investments in early-stage risk capital, and to support the creation of large-scale *venture capital funds* led by the private sector.
- Changes to the administration of the *Scientific Research and Experimental Development*

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Program through measures such as determining the feasibility of a formal pre-approval process and enhancing the existing online self-assessment eligibility tool will occur.

- The **One-For-One rule** was implemented whereby with every new Regulation must come the elimination of an existing one.

ESTATE PLANNING

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CANADA PENSION PLAN (CPP) POST-RETIREMENT BENEFIT

On October 25, 2011, CRA issued a **Release** which noted that:

1. The **CPP Post-Retirement Benefit (PRB)** is a new **lifetime benefit** that **increases** your **retirement income** and rises with increases in the cost of living, even if you already draw from the Canada Pension Plan (CPP) or the Quebec Pension Plan (QPP).
2. This applies to certain Canadians **working** outside of Quebec who are receiving a **CPP or QPP retirement pension**. They will begin making CPP contributions towards the **PRB** on January 1, 2012. The **benefit** will be paid to you the **following year**, starting in 2013.



These contributions are **mandatory** for CPP and QPP retirement pension recipients age **60 to 65**. If you are at least 65, but under 70 years of age, **you can elect not** to contribute.

Employees contribute 4.95% of pensionable earnings and employers contribute the same.

3. If you are already receiving your CPP retirement pension, the contributions you make to the CPP will go towards your **PRB**. These

contributions to the PRB will not make you eligible for, or increase, the amount of other CPP benefits.

EARLY OR LATE CPP APPLICATIONS

Under **new CPP changes**, if a taxpayer draws the CPP pension **prior to age 65**, the amount of the **reduction** is increased from .5% per month to .52% per month for 2012, and .54%, .56%, .58% and .60% until 2016.

Also, if CPP is **claimed late**, after age 65 and before 70, the **increase** in the CPP has changed from .5% a month to .64% for 2012 and .70% per month by 2013.

WEB TIPS

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LIFE EVENTS – GOVERNMENT AND PERSONAL GUIDES

Service Canada has set up a website that provides a guide to the different **government programs, requirements** and **other considerations** to be processed when a **major life event occurs**. (www.servicecanada.gc.ca/eng/lifeevent/s/)

Some **examples** include: buying a home, changing your address, having a baby, getting married, travelling abroad, getting a divorce, lost wallet, starting a business, having credentials recognized, what to do following a death, and retirement.

For example, under the travelling abroad link, an 11 step process is listed. The process covers everything from applying for your passport, to researching your destination, to international driving permits.

CANADIAN RETIREMENT INCOME CALCULATOR AND POST- RETIREMENT CALCULATOR

Canadian Retirement Income Calculator

This *Service Canada calculator* has

been **updated for 2012 rates and assumptions**. The calculator is a tool to **estimate ongoing retirement income** generated through **OAS, CPP**, employer pension, RRSPs and other sources based on **past and intended contributions and payments**.

Post-Retirement Benefit Calculator

The Post-Retirement Benefit is a new benefit for people who work and make **CPP contributions while already receiving a CPP retirement pension**.

The Government of Canada has developed this calculator to help you better understand how contributions to the Post-Retirement Benefit will further contribute to your financial security after you retire.

These **two calculators** can be found by going to: <https://srv111.services.gc.ca>.

GST/HST

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GST/HST AUDIT AND EXAMINATION

On February 3, 2012, a **CRA News Release** noted that **in the past** most audits of smaller businesses (generally businesses with annual sales less than \$4 million) have been done as **combined audits** - one audit covering both income tax and GST/HST.



Combined audits have **now been discontinued**. Therefore, businesses will **either** be subject to an **income tax** or a **GST/HST audit**.

Most audits are selected based on an **assessment of risk** of non-compliance. Non-compliance in one tax does not necessarily correlate with non-compliance in the other tax. In these cases, businesses may be subject to only a **brief compliance review** of the **other tax** rather than a full audit in both taxes.

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DID YOU KNOW...

98(7)**REGISTERED DISABILITY SAVINGS PLAN (RDSP)**

In the 2007 Federal Budget the *Registered Disability Savings Plan (RDSP)*, for persons with a *disability*, was introduced.

Service Canada (www.servicecanada.gc.ca) provides a *comprehensive database* of information relating to the *RDSP*. Here you will find information on eligibility, application and, most importantly, the generous Canada Disability Savings Grant (*CDSG*) and Canada Disability Savings Bond (*CDSB*) programs.

The website, www.rdsp.com, also

provides a wide array of information relating to the *RDSP* and associated benefits.

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