



Michael's Tax Tips & Updates

taxation news and information bulletin

December 2013

Individuals

- CRA will disallow an election to split RRSP withdrawals on the basis they are not eligible for such an election under s118(7). RRSP funds must be converted to a RRIF or annuity payments to be eligible for the election.
- CRA has successfully argued to the Tax Court of Canada that a taxpayer is required to retain the renovation receipts for work which is added to the cost base of a rental property, for six (6) years after the year in which the property is disposed, not six (6) years after the costs are incurred.
- Regarding the Children's Fitness Tax Credit and the Children's Arts Tax Credit, CRA has noted that a specific program cannot qualify for both. Although some programs may qualify for each credit, the organizers should issue separate receipts or a single receipt that clearly segregates the amounts paid for each program.
- Where the basement of a taxpayer's principal residence is converted to a rental suite, there is no deemed disposition election available. Rather CRA has noted this election is only available where the property in its entirety is changed. CRA notes further they will consider the entire property to remain a principal residence where three (3) conditions are met.
 - 1) The income-producing use is ancillary to the main use of the property as a residence.
 - 2) There is no structural change to the property.
 - 3) No CCA is claimed on the property.
- CRA has indicated that their powers of garnishment under Subsection 224(1) could be used to require payment of funds from an RESP in respect of the subscriber's income tax liability. They further indicate this can apply even if the RESP contributions were funded with Canada Child Tax Benefits received for the beneficiary.
- The 2013 Federal Budget introduced a temporary, one time, non-refundable "First Time Donor Credit" (FTDC). This credit will add 25% to the rate used to calculate the current charitable donation credit. To be eligible, a first time donor (and their spouse) cannot have claimed a donation credit in the previous 5 taxation years.
- Remember, the maximum Registered Retirement Savings Plan (RRSP) limit for 2013 is \$23,820. Contributions can be made up to 60 days after the end of the calendar year.
- Remember, the tax free savings account (TFSA) limit has been increased to \$5,500 for the year 2013. Unused contribution room carries forward to future years.

Additional tax considerations

- An allowance for the use of a motor vehicle shall be deemed not to be reasonable unless it is based on the number of kilometers travelled by the taxpayer. The per kilometer rates set out for 2013 are 54 cents per kilometer for the first 5,000 and 48 cents per kilometer over 5,000.
- The 2012 Federal budget introduced provisions whereby an individual can delay receiving their OAS for up to 5 years after age 65. This flexibility may permit a person to reduce or eliminate the OAS clawback by deferring receipt until their income is below the net income threshold.
- CRA recently performed a blitz of 145 serving staff in St. Catherines which identified \$1.7 million in unreported tips.
- In another blitz, CRA reviewed 8,400 building permits in the Barrie and Sudbury areas which identified 2,700 people who failed to file proper tax returns. CRA commented that similar compliance projects can be expected in the future.
- CRA is currently reviewing land titles records of condominium sales in order to identify short-term condo holds and the gains are then reassessed as ordinary business income on the assertion that the vendor's intention was always to resell the condo at a profit. They may also add gross negligence penalties to the reassessment.

Businesses

- CRA are now using a new 5 question eligibility test in their SR&ED audits.
- 1) Was there a scientific or technological uncertainty that could not be resolved by standard practice?
 - 2) Did the effort involve formulating hypotheses specifically aimed at reducing or eliminating that uncertainty?
 - 3) Was the adopted procedure consistent with the total discipline of the scientific method, including formulating, testing and modifying the hypotheses?
 - 4) Did the process result in a scientific or technological advancement?
 - 5) Was a record of the hypotheses tested and the results kept as the work progressed?
- The Tax Court of Canada reviewed the issue of whether bonuses paid to employees engaged in SR&ED could be included in the investment tax credit calculation. It found that bonuses were paid to share financial success and retain employees and did not have a direct relationship with the company's research projects.

Avoid the rush. Remember to book an appointment early for your personal tax preparation services. A personal tax checklist is available on our website for your convenience.

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