



# *Michael's Tax Tips & Updates*

*taxation news and information bulletin*

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**August 2011**

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## **Individuals**

- Taxpayers should be aware that there is a project by CRA with respect to amounts reported on line 104 as other employment income.
- Remember, the CRA has undertaken a new project for charitable donations over \$500. They are now asking for proof of payment in addition to copies of the receipts. This is due in part to the fraudulent sales of charitable receipts.
- Taxpayers should be reminded of the potential 20% penalty under Subsection 163(1) for a second missing amount in a four-year period. Clients should contact our office if any slips are received after filing so that a T1 adjustment may be prepared as a basis for asking for a waiver of the penalty.
- Taxpayers should be aware that refunds expected on returns may be assigned to other persons such as maintenance enforcement or student loans.
- Taxpayers should consider filing Form RC65 if there is a change in their marital status. This can avoid clawbacks of child tax credits and HST rebates when reporting changes after the fact.
- In 2010 the Provincial government introduced a new refundable children's activity tax credit. This new credit mirrors the existing Federal tax credit.
- The new 2011 Federal budget proposed a Children's Arts Tax Credit allowing parents to claim a 15% non-refundable tax credit based on up to \$500 in eligible expenses per child paid in the year.
- The annual registered retirement-savings plan (RRSP) contribution ceiling was raised to \$22,450 in 2011 from \$22,000 in 2010.
- In the 2011 Federal budget the government announced that it is working to implement as soon as possible, defined contribution Pooled Registered Pension Plans (PRPP's) to provide Canadians with a new low-cost, accessible vehicle to meet their retirement objectives.
- The budget also extends (to March 31, 2012) the Eco-ENERGY retrofit program to assist homeowners in making their home more energy efficient.

## **Additional tax considerations**

- Under Subsection 225.1(2), CRA may not take any collection actions where a taxpayer has served a Notice of Objection to an assessment until 90 days after CRA has confirmed or varied the assessment. However, this does not apply to GST/HST or employee deduction assessments as they are considered to be Trust Funds.
- A taxpayer is permitted to elect to defer capital gains where a “former business property” is voluntarily disposed of, and a “replacement property” is acquired. This can include business property and rental property used primarily for the purpose of earning income or rental revenue.
- Corporations that have not filed a return within three years should be aware that any tax they pay to CRA on an arbitrary assessment may be kept by CRA even if the taxpayer files a Notice of Objection and files a return proving the assessment wrong under Subsection 164(1).
- Cash businesses with insufficient records may be faced with an audit where CRA uses bank deposits (both personal and business) as the basis for the business revenues. Therefore taxpayers should keep deposit records as the onus of proof is on the taxpayer to prove that the deposit is of a personal nature.
- A net worth assessment is often preceded by CRA requesting personal banking records, credit card statements, details of personal living expenses, personal debts etc. A typical target for a net worth assessment is a person with a cash business, poor accounting records or a net worth not represented by reported income. An assessment based on assumptions by CRA plus a 50% penalty is usually applied along with non-deductible interest.

## **Businesses**

- CRA will accept the per kilometer rates shown in Regulation 7306 for the tax-free reimbursement of automobile expenses. That is 52¢ per kilometer on the first 5000 and 46¢ per kilometer thereafter. Higher amounts must be supported by the employer as reasonable.
- It is important to review the requirement to file a T5018 for contractors. Also, recent CRA payroll audits are asking for T4A's for services in excess of \$500.
- The recent 2011 budget announced the current corporate tax rate of 16.5% would drop to 15% in 2012.
- In addition, the 2011 budget also proposed a two year extension of the accelerated capital cost allowance rate for investment in machinery and equipment in the manufacturing and processing sector, and the expansion of eligibility for the accelerated capital cost allowance for clean energy generation equipment.
- The government is also proposing a hiring credit of up to \$1,000 against a small business employer's increase in its 2011 employment insurance premiums over those paid in 2010.

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