



Michael's Tax Tips & Updates

taxation news and information bulletin

February 2011

Individuals

- Major changes to the Canada Pension Plan will be occurring between 2011 and 2016. Monthly CPP pension amounts will increase by a larger percentage if you take it after age 65 (gradually from 2011 to 2013). Monthly CPP pension amounts will decrease by a larger percentage if you take it before age 65 (gradually from 2012 to 2016).

You will be able to begin receiving your CPP retirement pension without any work interruption starting in 2012. If you are under age 65 and you work while receiving your CPP pension, you and your employer will have to make CPP contributions starting in 2012. This will result in increased CPP retirement benefits starting in 2013. If you are age 65 to 70 and you work while receiving your CPP pension, you can choose to make CPP contributions starting in 2012. These contributions will increase your CPP benefits starting in 2013.

- 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.

- On the death of an RRSP annuitant, the proceeds can be rolled to the RDSP of a financially dependent infirm child or grandchild. The amount of the roll-over cannot exceed the lifetime contribution limit of \$200,000, and counts toward the lifetime contribution limit. Amounts withdrawn are subject to tax at that time. Contributions cannot be made before July 2011 and certain transitional rules will apply if death occurs after 2007 and before 2011.

- The annual registered retirement-savings plan (RRSP) contribution ceiling was raised to \$22,000 in 2010 from \$21,000 in 2009.

- Where a person fails to report an amount in income in the year and has failed to report an amount in any of the three preceding years, there will be applied a penalty of 10% of the unreported amount. In addition there is usually a 10% provincial penalty.

- The recent Royal Assent of Bill C-47 allows two eligible individuals to receive the Canada Child Tax Benefit and the University Child Care Benefit in a particular month. This shared-eligibility policy is effective July 2011 and to qualify, an RC66 form must be submitted.

Additional tax considerations

- The Federal Court of Appeal has confirmed a Tax Court decision to disallow the cost of vitamins, herbs, natural foods, and other substances as medical expenses on the grounds that their purchase was not recorded by a pharmacist as required by 118.2(2)(n) of the Income Tax Act.
- CRA has confirmed that they will accept transactions which transfer capital losses between spouses. Careful planning is required to ensure all the technical requirements are met. Documentation and timing are key to CRA accepting this type of transaction.
- It is possible to claim a deduction in the final tax return of a deceased individual corresponding to the declining value of an RRSP or RRIF between the date of death and the "final payment".
- Ontario's land-transfer tax refund program provides a refund of up to \$2,000 of the land-transfer tax paid by qualifying first time home buyers.
- The Employment Insurance Act excludes the earnings of a person where that person controls more than 40% of the voting shares of the corporation. Also excluded are earnings where the employee and employer are not dealing at arm's length. Arm's length is determined under the Income Tax Act to mean that having regard to all the circumstances, it would be reasonable to conclude that the parties would have entered into a substantially similar agreement had they been dealing at arm's length.
- The Ontario apprenticeship-training tax credit is a refundable tax credit covering salaries and wages paid to eligible apprentices in designated industries and trades. The March 2009 budget increased the coverage period to 48 months from the previous 36, and increased the refundable credit to 35% of eligible expenses to a maximum of \$10,000 from the previous \$5,000. (45%) for small businesses.

Personal Tax Filing

The deadline for contributing to your Registered Retirement Savings Plan (RRSP) for the 2010 tax filing year is March 1, 2011.

The deadline for filing your personal tax returns is April 30th. Avoid the last minute rush and book your tax appointment early.

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Businesses

- A Personal Service Business is determined to exist where if it were not for the existence of a corporate shell, an individual would be determined to be an employee of a third party. Relevant criteria include the intent of the parties, control over work, ownership of tools, and profit and loss risk. In this case, the expenses of the shell entity are restricted and its small business deduction is disallowed.