



Michael's Tax Tips & Updates

taxation news and information bulletin

August 2015

Individuals

- Effective January 2015 the Universal Child Care Benefit increased by \$60 per month for all children less than 18 years old.
- Also effective January 2015 the child care expense annual limit has been increased to \$8,000 per child under age 7, and \$5,000 per child age 7 to 16, an increase of \$1,000 per child.
- In addition, effective for the 2015 taxation year, the annual contribution limit on Tax Free Savings accounts has been increased to \$10,000. However this limit is no longer indexed.
- The April budget re-introduced the Home Accessibility Tax Credit to provide relief on up to \$10,000 of eligible expenses to a qualified dwelling to enhance mobility and reduce the risk of harm. The credit is eligible for expenditures after 2015.
- The budget also introduced a reduction to the minimum withdrawal requirements for Registered Retirement Income Funds (RRIF's) for those aged 71 to 94 years old.
- TFSA regulations permit only the holder of the TFSA to contribute to their plan. Where a person other than the holder of the TFSA makes a contribution, the TFSA may cease to be a qualifying arrangement.
- Lump-sum support payments may qualify to be deductible if it can be identified as a qualifying periodic payment. This means the lump sum payment would have to be identified as arrears for amounts payable periodically after the date of the Court Order or Written Agreement.
- Family Tax Cut clarification was provided by CRA regarding joint custody arrangements where a child may have lived with both the taxpayer and their former spouse or common-law partner throughout the year. Providing that the taxpayer and the former spouse each have an eligible spouse or common-law partner for the year, and all other conditions are met, both parties can claim the Tax Cut credit for the year.
- The CRA was asked to comment on a Tax Court case that determined it was not possible for an RRSP to carry on a business of trading securities.

CRA indicated the court decision was that inside RRSP trading was not relevant to determine the trading activity outside the plan. However they stated this does not mean an RRSP's trading activities cannot also be deemed to be a business.

CRA continues to believe that speculative activities within an RRSP, RRIF, or TFSA can constitute a business activity and as such profits are not exempt from tax.

Additional tax considerations

- The US Substantial Presence Test determines where an individual may be considered a US resident for any calendar year in which they meet both of the following physical presence tests:
 - Present in the US for at least 31 days in the current year, and
 - The sum of the following totals at least 183 days;
 - 1) total days in the US in the current year, plus
 - 2) 1/3 of days in the US in the prior year, plus
 - 3) 1/6 of days in the US in the second preceding year.

An individual in the US for 120 days in each of three consecutive years would be very close to meeting this test at 180 days.

An individual meeting this test but spending less than 183 days in the US in the current year can avoid US residency for tax purposes by filing IRS Form 8840 to assert a closer connection to a different country.

Remember the entry and exit initiative implemented July 1, 2014 provides information on Canadians crossing the border to US authorities.

Businesses

- The Government of Canada has launched a new three year underground economy initiative designed to reduce social acceptability and implement initiatives to identify non-filers. Industries considered high risk for non-compliance include home building, restaurant and retail industries.

- The CRA may accept a change to a corporation's fiscal period when the request is prompted solely on sound business reasons other than to obtain a tax benefit. These reasons could include aligning the fiscal period to that of its parent or associated company, to a date when inventory is at a seasonal low level or to ease financial reporting requirements.
- The Tax Court of Canada recently ruled on payments from an individual's business to his spouse to compensate for accounting and administrative service and support. The court believed the taxpayer assisted the spouse's company over the year but was not able to link the work done with the amount transferred. As such the payments were not considered for the provision of services and were disallowed.
- The Federal budget has reduced the Federal small business tax rate by .5% each year starting in 2016 until it reaches 9% in 2019.

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