2nd QUARTER 2014

The Tax Break

INTERNET BUSINESS

ONLINE BUSINESS ACTIVITIES MUST BE REPORTED TO CRA

A recent CRA release announced **additional disclosure** requirements of **Internet Business Activities** for corporations, proprietors and farmers.

A business must disclose if **income is earned** from one or more **webpages** or **websites**. If the business/ proprietor doesn't have a webpage, but does have a profile or page describing the business (on blogs, auctions, marketplace or other portal or directory sites), the related information would also have to be disclosed. A taxpayer may earn income from webpages or websites in many different fashions:

- By **selling goods** and/or services on a business's **own webpage** or website. For example, a business may have a **shopping cart** and process payment transactions themselves or use a **third-party service**.
- If a website doesn't support transactions but the **customers call**, complete and submit a form or **email** to make a purchase order, booking, etc.
- By **selling goods** and/or services on **auction**, **marketplace** or similar sites operated by others.
- If the taxpayer earns **income** from **advertising**, income programs, or traffic the site generates.

  For example:
  - static advertisements on the site for other businesses;
  - affiliate programs;
  - advertising programs; or
  - other types of traffic programs.

Businesses must also disclose the **top 5 income generating webpages** and the **percentage of the gross revenue** generated from the **Internet**.

An **estimate** of gross revenue for **proprietors** is sufficient if the exact percentage is unknown. No similar relief has been given for corporations.

Action Item: Be aware of your business's online presence and income earned from these websites. This information may be required when filing your year-end tax return!

SALARY: TO OWNER/RELATIVES

DOCUMENTING SALARY

In a January 30, 2014 Technical Interpretation, the CRA notes that a salary (or dividend) is taxed at the individual level when received. Evidence, such as the **proper documentation** of the minutes of a meeting of directors, and a T4 - T5 indicating the appropriate amount, could show that a payment was made.

CRA also noted that a **journal entry** recording a credit to the loan account of a shareholder does **not**, in and of itself, **constitute a payment of a salary or dividend**. Accounting records or entries serve only to reflect the transactions.

Action Item: When paying salaries to family members, it is often preferable to utilize the standard payroll process – withhold source deductions, issue a T4, provide a cheque or direct deposit, etc.

IN THIS ISSUE...

DON'T LIKE TO PAY MORE TAX IN APRIL?

You can ask to have more tax deducted at source from employment income, pension benefits, Old Age Security or Canada Pension, and other types of income. To have income tax deducted from OAS or CPP benefits, send a completed form ISP-3520 to your Service Canada office. You can get this form on-line at www.servicecanada.gc.ca or call 1-800-277-9914.

Congratulations to **Tony & Lucia D.**, who were this year's winners of our Early Bird Draw for bringing in their tax information before March 31!

If you are receiving this newsletter by mail and would like to receive it by email instead (or vice versa), or if you no longer wish to receive our newsletter, please contact Julie at julie@accountantsplus.ca or 604.299.9274.

SEPARATION

GETTING THE DEPENDANT TAX CREDIT

The eligible dependant tax credit is worth more than $2,000 in tax savings for 2014; the exact amount varies depending on province of residence.

In a March 27, 2014 **Tax Court of Canada** case (Sauve vs. H.M.Q., 2012-4483(IT)I), the taxpayer (Mr. S) appealed assessments that disallowed a **dependant tax credit** with respect to his two children in 2010 and 2011. The taxpayer has **shared custody** after a relationship breakdown with his former spouse.

Taxpayer loses: The Court noted that the Income Tax Act specifically denies the deduction (dependant tax credit) where the taxpayer is **required to pay a support amount** to the former spouse or common-law partner. However, the act goes on to note that if both spouses are paying child support, the deduction may be available in some scenarios.

Mr. S argued that his former spouse was in essence making a payment because the amount that he paid was reduced or "**set-off**" by the amount that she would otherwise had to have paid.

The Court noted that the concept of "**set-off**" is a mere distraction from the real issue, i.e., whether or not Mr. S is the only parent making a "child support payment", therefore the taxpayer was not allowed the credit.

Action Item: Ensure that both spouses are making support payments instead of only one making a net payment.

REPORTING GST/HST

SIMPLE OPTION FOR SMALL BUSINESSES

Many small businesses have adopted the **Quick Method** to **report and remit GST/HST** as an alternative to the traditional method. The Quick Method is substantially **simpler**, resulting in **reduced paperwork** and **bookkeeping costs**.

Businesses with **annual world-wide taxable sales** of up to **$400,000** (for reporting periods beginning in 2013) can **elect** to employ the Quick Method. Some businesses, including accountants, tax consultants, financial consultants and lawyers, cannot use the Quick Method.

GST/HST payable under the Quick Method is a **specified percentage multiplied by total sales** (including GST/HST collected). The percentage **varies** depending on a) the nature of business activities, and b) the **location** of sales and operations. This contrasts the traditional method, where it is the actual GST/HST collected less GST/HST paid that is due.

Under the Quick Method, the taxpayer doesn't need to track and report GST/HST paid because an estimate of this amount is factored into the specified percentage. Certain exceptions apply with regards to the purchase of capital assets.

The **Quick Method** computations compared to the traditional method should be considered prior to electing.

Action Item: If your business's annual worldwide taxable sales is less than $400,000, and you are not already using the Quick Method to remit GST/HST, contact us to see if this option would work for you!

TAX TICKLERS

QUICK POINTS TO CONSIDER

- **Registering the birth** of your newborn child? You can consent to use the "**Automated Benefits Application**" which allows you to automatically apply for the Canada Child Tax Benefit, the Universal Child Care Benefit, the GST/HST Credit, and Provincial/Territorial programs at the same time.
- Staying too long in the US can cause major taxation problems! The **joint entry/exit tracking** system between **Canada** and the **US** is scheduled to commence July 1.
- Employer-provided **medical tests** may be a taxable benefit.
- **Incomplete foreign property** disclosures on the T1135 can result in a **$2,500 penalty**.
- The employer portion of **CPP payments** may have to be **paid twice** in the year when an employee **becomes a contractor**.

Contact us if you wish to discuss!

WEB TIPS

PROFITGUIDE.COM

Profitguide.com is a website aimed at providing interesting, **relevant** and timely **information** to **Canadian small** and **medium-sized corporations**. This website provides a wide range of **articles**, business rankings, podcasts, **videos**, and daily and weekly news updates across various industries.

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