

The Tax Break

UNDERGROUND ECONOMY

CRA HIGHLIGHTS HIGH-RISK INDUSTRIES

CRA recently quoted and discussed an April 29, 2015, **Statistics Canada** release with regards to new **underground economy** that included estimates for Canada for the 1992 through 2012 period. Some figures included:

- from 2007 to 2012 underground economy activity **increased 14%**, compared to a 17% increase in GDP; and,
- four sectors accounted for 66% of the total estimated underground activities – **residential construction (28%)**; **finance, insurance, real estate, rental, leasing and holding companies (14%)**; **retail trade (12%)**; and **accommodation and food services (12%)**.

CRA noted that they will analyze the results of this study to **develop targeted strategies**. **Budget 2015** proposed to provide an additional **\$118 million** over 5 years to enhance



CRA's underground economy **audit efforts**.

CRA **audit and review** in the industries listed above will most likely **increase** in the upcoming months and years.

If operating in these industries, be prepared for a higher chance of audit or review.

DONATING ITEMS IN LIEU OF CASH

A VALUATION CONCERN

In a recent Tax Court of Canada case, the taxpayer **donated several bottles of wine** to a registered charity over three years and received **donation**

receipts totalling \$10,700 for the **fair market value (FMV)** of the wines. The FMV of the wines for the donation receipt was **evaluated by a sommelier** who was a graduate of the Oenology Faculty of Bordeaux. CRA significantly reduced the donation receipts by a total of \$7,331 based on their separate valuation.

The Court **accepted the taxpayer's valuation** of the wines noting that the Crown did not **produce evidence contrary** to the taxpayer and **failed to raise doubts** about the credibility of the Appellant's testimony.

If donating large value items, ensure that the amount listed on the donation receipt is backed by credible proof or valuations.



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CANADIAN ACCOUNTANTS UNITE!

On **June 24, 2015**, the Chartered Accountants of BC, Certified General Accountants of BC and Certified Management Accountants of BC officially merged to form the **Chartered Professional Accountants of BC**.

This means that we are now **Pagnanini Edwards Lam Chartered Professional Accountants** rather than Pagnanini Edwards Lam Chartered Accountants. Over the next year or two we will be transitioning our firm's logo, stationery and signage to reflect the merger.

Each accountant will retain their legacy designation to reflect their level of education, as only current and future CPA students will be educated under the new combined program.

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.



EMPLOYEE BENEFITS

TAX EFFICIENT COMPENSATION

An employee is generally **taxable** on the value of a **benefit** of **any kind** whatsoever realized by virtue of their employment. However, some benefits that **primarily benefit** the employer, as well as certain other select cases, **may be considered non-taxable** to the employee.

The following is a list of some recent CRA discussions on different employment benefits:

- **Employee housing** at a location **distant from** the employee's usual place of **residence** results in a **taxable benefit unless** the work is at a **remote location** (CRA generally accepts a location at least **80 kilometers away** from the nearest community with a **population of at least 1,000 people**) or at a **temporary work location**, regardless of whether it is impractical or impossible for the employee to return to their regular place of residence between shifts.
- **Cell phone reimbursements** for a reasonable basic plan **required for employment purposes** will **not** create a **taxable** benefit. However, any form of **allowance** would be **taxable**, so payments to employees must be made with regards to actual costs incurred in order to remain non-taxable. As well, any payment towards the **cost of the cell phone** itself would be **taxable** to the employee.
- **Health programs** reimbursing costs

of physical activity will generally result in a **taxable benefit unless** the nature of the **job carries unusual fitness** requirements. CRA may also consider the benefit non-taxable where the employer provides **fitness facilities for all employees** or owns a membership which permits all employees to use a fitness facility.

- **Uniforms** are **not** a **taxable** benefit if they are either designed to **protect the employee** from on the job hazards (e.g. safety equipment) or are **distinctive uniforms** (e.g. clothing identifying the employer), but **each component** of the clothing must be **considered separately**. In one case reviewed, CRA indicated that specific footwear which did not meet either of the above criteria would result in a taxable benefit if paid for by the employer.
- **Income maintenance insurance benefits** would be **tax-free** where all **premiums** were **paid by the employee**.

Note that the taxability of employee benefits can be a grey area. There may be anomalies and exceptions even within the above examples.

Consider reviewing employment compensation packages to ensure the most tax-efficient structures with no tax surprises.

BENEFIT FINDER – SERVICE CANADA

ARE YOU ELIGIBLE FOR ONE?

Service Canada provides a useful website, www.canadabenefits.gc.ca, which assists Canadians in obtaining a **customized list of benefits (Federal and Provincial/Territorial)** for which they may be eligible. Information that the user may provide to obtain this customized list includes:

- the individual's province or territory,

age, marital status, household income;

- whether they have children;
- type of their housing;
- whether a family member is recently deceased;
- the individual's employment, health and education status; and,
- other unique factors such as whether the individual is a newcomer to Canada, interested in starting a business, or is a health care worker.

Try the calculator to see what may be available!



EXECUTORS FOR AMERICANS

WATCH OUT!

It was noted in a recent Canadian Tax Foundation article that under certain circumstances, the **Internal Revenue Service (IRS)** could **hold an Executor** or a **beneficiary** of an **Estate personally liable** for the deceased person's **unpaid U.S. Federal Income, Gift and Estate Tax**, and for any **interest and penalties** thereon.

It was also noted that if a U.S. citizen who lives in Canada does not file their U.S. returns, or if those returns contain errors, these rules may generate **costs and burdens for the family members** and the fiduciaries. This could also extend to **penalties** imposed for not filing **Foreign Bank Account Reports**.

Carefully consider whether you should accept the role of Executor for a U.S. person (U.S. Citizens, Green Card holders, U.S. Residents, etc.).

We recommend that you obtain professional advice before acting on information contained in this newsletter.

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