

# The Tax Break

## NEW RULER, NEW TAX RULES

On December 7, 2015, the new Federal Liberal Government **introduced a number of provisions** in the Federal Liberal campaign platform, including:

- **Federal Personal Tax Rates** – commencing January 1, 2016 the following two changes will take effect:
  - tax rate on incomes in excess of **\$200,000** will **increase** by 4%, from 29% to **33%**,
  - tax rate on the **2<sup>nd</sup> income bracket** (about \$45K–\$90K) will decrease by 1.5% from 22% to **20.5%** (resulting in a maximum savings of about \$670).
- The **TFSA annual contribution limit** for 2016 and onwards will be returned to **\$5,500** from the one-time \$10,000 limit in 2015.
- **Increase of 4%** in general to the refundable tax incurred on **investment income for Canadian Controlled Private Corporations**. These changes will, in effect, eliminate a tax deferral opportunity which would have otherwise been created with the above 4% increase in top personal tax rates.

Beyond the above tax related changes which have already been introduced into legislation, the Federal Liberals have also proposed a significant number of other tax related changes in their party platform including:

- **Home Buyers' Program** – Flexibility to be increased for those that have experienced sudden and significant life changes (e.g. job relocation, death of a spouse, marital breakdown etc.).
- **Family Tax Cut** – The Federal Liberals announced their intention to eliminate the Family Tax Cut for 2016 and subsequent tax years. The pension income split will remain.
- **Canada Child Benefit** – The Universal Child Care Tax Benefit, National Child Supplement, and Child Tax Benefit will be rolled into this new Benefit. A base amount of \$6,400 per child under 6 and \$5,400 per child aged 6 to 17 will be paid. The payments will be reduced based on a percentage of family income level. No reduction will occur for income below \$30,000. Amounts will be non-taxable. Per the Liberal campaign materials, the



break-even point compared to the previous regime is family income of \$150,000 (i.e., Families under \$150,000 should fare better under the Liberal platform and vice-versa). The Benefit will be fully eroded at approximately \$200,000, however, this will vary depending on the number and ages of children.

This proposed program will begin July 1, 2016.

- **Guaranteed Income Supplement** – The supplement is proposed to be increased by 10% for single, low-income seniors.
- **Education and Textbook Credits** – To be cancelled in favour of increasing student grants. The Tuition Credit will remain.
- **CPP Benefits** – Increases to benefits contemplated.
- **EI Premiums** – To be reduced from \$1.88 to \$1.65 per \$100 by 2017. Increased availability and flexibility to be introduced.

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## TAX SEASON AGAIN ALREADY?

Personal tax season is once more upon us. We look forward to seeing you all in the coming weeks as you gather your tax information and bring it in – just remember the deadline for our Early Bird Draw is **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](mailto:julie@accountantsplus.ca) or 604.299.9274.*



## WHY ME?! (CRA AUDIT SELECTION)

CRA audits are now generally selected by CRA's Business Intelligence Units. **Selection for audit** usually means that CRA has already **identified** the taxpayer as being at **higher risk of non-compliance**. For example, this could mean that your business falls within a CRA target area, or, perhaps, that you are claiming a credit in which CRA has historically found high levels of non-compliance. At a recent forum, CRA indicated that since the implementation of their focus on higher risk taxpayers, **33% of audits** have discovered unreported income.

**Keep well-organized records.** In many situations, expenses may be denied if a proper trail cannot be demonstrated. This is especially true if you are operating in an industry of high interest to CRA.



## SMALL BUSINESS DEDUCTION

### CRA PROJECT

The accounting community across Canada has recently noted a series of **correspondence from CRA** requesting details of **corporate business operations** in connection with a review of the small business deduction **claim** for some clients. If a business is

determined to be a **Personal Services Business (PSB)** or a **Specified Investment Business (SIB)**, the small business deduction is denied, and additional taxes are applied. A PSB is often referred to as an "incorporated employee". Basically, it exists where an individual provides employee-like services through a closely held corporation, rather than providing them directly as an employee. Generally, a corporation earning investment income (interest, real estate rental, royalties, capital gains and dividends) is generating SIB income.

Many of these letters appear directed to corporations in the **real estate sector** like real estate agents and those earning **rental income**. It has also been noted that letters have begun to be issued in respect of other sectors as well.

**In many situations, an appropriate explanation will conclude CRA's interest in the corporation. If such a CRA inquiry is received, contact us as soon as possible.**



## HOME ACCESSIBILITY TAX CREDIT



### RENOVATIONS THAT PAY OFF!

This new non-refundable credit will provide federal tax relief of **15% on up to \$10,000** of eligible expenditures per calendar year, per qualifying individual (a person **65 years of age or older** at the end of the particular taxation year or a person eligible for the **Disability Tax Credit**). If there is more than one eligible individual in a residence, the maximum eligible expenditure for that

property will be \$10,000.

A qualifying renovation is a renovation or alteration that is of an enduring nature and is integral to the eligible dwelling. The renovation must:

- allow the qualifying individual to **gain access to**, or to be mobile or functional within, the eligible dwelling; or
- **reduce the risk of harm** to the qualifying individual within the eligible dwelling or in gaining access to the dwelling.

The credit is eligible for expenditures **after 2015**. This credit may be compounded with the similar provincial credits offered in BC, Ontario, and New Brunswick.

**As the \$10,000 limit is annual, consider improving the house in stages over a number of years.**



## CAREGIVERS FROM OVERSEAS

### CHILD CARE EXPENSES

In an August 14, 2015 **Technical Interpretation**, CRA noted that costs incurred to **hire a child care worker** would be eligible child care expenses. Such costs include **fees to an immigration lawyer** and to Service Canada to obtain a **labour market opinion**, advertising expenses, **placement agency fees**, and mandatory registration fees.

**Retain invoices and receipts related to all expenses incurred to hire a child care worker as they may be eligible amounts.**

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

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