

The Tax Break

CRA CALLING? ...MAYBE NOT!

Over the past while there have been numerous reports of individuals (scammers) **impersonating CRA collections agents** over the phone and demanding payments for alleged tax debts. The calls can be **aggressive, intimidating**, and may even threaten arrest by the RCMP or other officials. The scammers may also request payment via various means such as regular or prepaid credit cards, wire/bank transfers, iTunes cards, or, simply, cash. In some cases, the scammer has the target's personal information, such as their address. It has been reported that some scammers go so far as to offer to meet the target at the nearest bank machine.

If an individual receives a suspicious call purporting to be from the CRA, care should be given to ensure **no personal information is disclosed**. An individual may consider obtaining identifying information from the caller (such as a name, phone number, office location, and Agent ID number) and then calling CRA on their publically listed number (1-800-959-8281) to confirm that the call is legitimate.



The **CRA** has stated that they will **not**:

- **email a link requesting** that recipients fill in an online form with **personal or financial details**;
- set-up an **in-person meeting** in a public place **to take a payment**;
- **demand immediate payment** by **prepaid credit card**; or,
- **threaten with immediate arrest or prison sentence**.

To **report suspected fraudulent activity**, taxpayers may contact the **Canadian Anti-Fraud Centre** at www.antifraudcentre.ca, or, call toll-free at 1-888-495-8501. If a taxpayer believes that they may be the victim of fraud or have given personal or financial information unwittingly, they could contact their local police service,

financial institution, and credit reporting agencies.

Let your household know that these fraudulent interactions are becoming more and more common. When in doubt, gather information, but don't give any.

MULTIPLICATION OF THE SMALL BUSINESS DEDUCTION (SBD)

SIGNIFICANT CHANGES AHEAD

Measures were proposed in the **2016 Federal Budget** to prevent certain corporations from multiplying access to the \$500,000 **SBD**.

Some proposals include:

- Eliminating multiplication of the SBD in "complex **partnership structures**" where payments are sent from a partnership to non-partner corporations owned by partners, or those related to partners. Broadly speaking, this planning structure enabled each partner to benefit from the lower small business tax rate on up to *continued...*

IN THIS ISSUE...

- CRA Calling? ...Maybe Not!
- Multiplication of Small Business Deduction
- Insurable Earnings for Related Employees
- Combined Audits of Owner-Managed Companies

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We are proud to announce that the readers of **Burnabynow** voted us **Favourite Accountant** again in the **Best of Burnaby 2016** issue.

Thank you, Burnaby!

HOORAY! TAX SEASON IS OVER.

Congratulations to **Janice & Andrew S.**, who were this year's winners of our **Early Bird Draw** for bringing in their tax information **before March 31!** It pays to get in early!

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.

MULTIPLICATION OF THE SMALL BUSINESS DEDUCTION *continued...*

\$500,000 in income earned through a personally-owned corporation. The changes propose that essentially only one \$500,000 SBD limit will be available to the partnership, and related corporations, as a whole (barring access to certain exceptions).

- Eliminating multiplication of the SBD where **inter-company management fees are paid between corporations** where there is a **common ownership**. Basically, these new rules generally restrict access to the SBD on any active business income earned by one Canadian Controlled Private Corporation (CCPC) from providing services or property to another private corporation where the recipient CCPC, any of its shareholders, or anyone related to those shareholders, holds any ownership interest in the payor (with certain exceptions).

These measures will apply to **taxation years that begin on or after Budget Day, March 22, 2016.**

Be prepared for changes in tax liabilities if your corporate or partnership structure fall within the proposed changes.



INSURABLE EARNINGS

RELATED EMPLOYEE

Consider the situation where Persons A and B are a **married couple** and own 60% and 40% respectively of Corporation A (A Co.). They are also

both **employed by A Co.** and, therefore, receive a salary. Will the salaries that they receive be considered **insurable for Employment Insurance (EI) purposes?**

In general, for EI to apply, the **first step** is to ensure that the individual controls **no more than 40% of the voting shares** of the business. In this situation, since A owns 60%, she would not be earning insurable amounts. However, B **may still be subject to EI.**

The **second step** is to determine whether B is **related** to a person who either **controls the employer corporation**, or is a **member of a related group** that controls the employer corporation. **Immediate family members** and their spouses are generally **considered related** to each other. In essence, if A and B control more than 50% of a corporation, their earnings are not considered to be insurable.

There is, however, an **exception to the second step**. If an **arm's length person** would have been offered, and accepted the **same circumstances, or terms and conditions of employment**, as the related individual (Mr. A), then earnings once again **become insurable**. This exception is not applicable to individuals deemed not insurable by the first step (the individual controls more than 40% of the voting shares).

The stakes are high in certain scenarios. If the owners consider the employment insurable, but it is later determined not to be, EI benefits received will have to be paid back. In the opposite scenario, the owners will be liable for unremitted EI. Discuss your situation with a professional prior to making the determination to avoid costly errors and administrative complications.



COMBINED AUDITS OF OWNER-MANAGED COMPANIES

SHAREHOLDERS' PERSONAL INFORMATION

In a June 18, 2015 **Technical Interpretation**, CRA was asked about the perceived increase in requests of **personal financial information** of the **shareholders of Canadian corporations** selected for **audit in addition to information relating to the shareholder's spouse, children or other related parties.**

CRA noted that the personal information from the shareholder and related parties is requested to **ensure that business transactions are reported within the business** and not in personal accounts. Indirect tests of income may be used to ensure the **completeness of income reported, and may include:**

- **bank deposit analysis;**
- **rough net worth calculations; and,**
- **analysis of sources and applications of funds.**

CRA has confirmed that obtaining certain **personal financial information** for shareholders and their family living in the same household is a **requirement** in some small and medium enterprise audits.

If such an audit request is received, contact us to help respond efficiently.

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

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