2nd QUARTER 2017

The PEL Tax Break

INVESTMENT MANAGEMENT FEES FOR RRSPs, RRIFs AND TFSAs

ARE CHANGES COMING?

In a November 29, 2016 **Technical Interpretation**, CRA declared that where **investment management fees** incurred by an RRSP, RRIF or TFSA are **paid** from outside of the plan (such as **by the annuitant or holder**) the plan's controlling individual would likely be subject to a **tax** equal to **100% of the fees paid**.

CRA stated that investment management fees represent a **liability of the registered plan trust** and should, therefore, be **paid using funds from the plan**. If paid from outside of the plan, the resulting indirect increase in value of the plan assets would likely constitute an advantage. That is, more assets would be retained in the tax-sheltered vehicle.

CRA further noted that it is not commercially reasonable for an arm's length party to gratuitously pay the expenses of another party. As such, there is a strong inference that a motivating factor of the above is to maximize the savings in the plan so as to benefit from the tax exemption afforded to the plan.

Recognizing that it is common practice for the holder of these accounts to pay the management fees, CRA indicated they will **defer** the application of this position **until January 1, 2018**.

Be aware of changes in how investment management fees are charged in the near future to avoid this tax.

IMPROVEMENTS TO EI PROGRAM

The 2017 Federal Budget proposed a number of changes to Employment Insurance (EI). Some of the proposals include the following:

A New Caregiving Benefit

This benefit will provide eligible caregivers up to **15 weeks** of EI benefits while they are temporarily away from work to support or **care for** a critically ill or injured **family member**.

More Flexible Parental Benefits

This will allow parents to choose to receive **EI parental benefits** over an **extended period** (up to 18 months) at a lower benefit rate (33% of average weekly earnings). The existing benefit rate (55% over a period of up to 12 months) will remain available for parents who prefer this arrangement. Finally, women will be able to claim EI **maternity benefits** up to **12 weeks before** their **due date** (expanded from the current standard of 8 weeks).

Education While Receiving EI

Changes were proposed to enhance the ability of EI claimants to pursue **self-funded** training while **maintaining** their **EI** status.

IN THIS ISSUE...

Check out our weekly blog at http://www.accountantsplus.ca/blog

You can also find us on Twitter: @PELCPA

We are proud to announce that the readers of **Burnabynow** voted us **Favourite Accountant** again in their **Best of Burnaby 2017** issue.

Thank you, Burnaby!

POST-TAX SEASON'S GREETINGS!

Congratulations to **Lillyan J.**, this year's winner of our **Early Bird Draw** for bringing in her 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.*

PERSONAL USE ASSET IN A CORPORATION

GST/HST & OTHER TAX ISSUES

A number of issues may arise if a shareholder uses a corporate asset personally without providing the corporation with fair market value (FMV) consideration. Barring a special relieving provision of the Act, the shareholder may be subject to a shareholder benefit, essentially resulting in double tax. Another issue that may arise relates to GST/HST. This was considered in the below Court case.

In a September 23, 2016 **Tax Court of Canada** case, at issue was whether the **input tax credits (ITCs)** for the corporate purchase of a $310,000 **recreational vehicle (RV)**, which was allegedly used for **both corporate and personal purposes**, would be permitted. For the periods that the taxpayer conceded that the vehicle was used personally, the shareholder paid $2,000 plus GST/HST per week. The Minister provided evidence from a 3rd party that the average rate for such a vehicle would be $4,500-$5,000 per week.

Taxpayer loses: The Court determined that the vehicle was acquired exclusively, or **at least primarily**, for the shareholder's **personal use**. To be eligible for an ITC, an asset must be acquired "for use primarily in commercial activities of the registrant". As such, the **GST/HST paid would not be recoverable** as an ITC.

Assets acquired for personal use by shareholders should not generally be acquired by the corporation. Significant income tax and GST/HST issues may arise if such assets are held corporately.

DONATION OF PUBLICLY TRADED SECURITIES

INCREASE THE VALUE OF CHARITABLE GIVING

An individual who **gifts cash** or assets to a charity is able to claim a **donation tax credit** which reduces their personal tax liability. If the individual **gifts** certain **publicly traded securities directly to the charity**, they may enjoy **additional benefits**.

While the full value of the securities will be a charitable donation either way, if the securities are donated directly to the charity, the taxable portion of the capital gain is reduced to 0%. That means there is no tax liability on the disposition. For example, consider an individual who wishes to gift $5,000. If that individual sells $5,000 worth of publicly traded securities, they must then pay capital gains tax on the disposition. However, if they donate the shares directly to the charity, they are not subject to the capital gains tax, but still benefit from the donation tax credit.

Though the planning may seem simple there are a number of **complexities** that may arise. For example, while similar benefits can be obtained when **gifting securities** acquired through an **employee stock option plan**, careful planning is required to eliminate the taxable benefit which normally arises on exercise of these options.

Corporations also benefit from **no capital gains tax** on these donations. In addition, they receive the added benefit of **increasing** their **capital dividend account** by the full amount of the capital gain, potentially allowing payment of tax-free dividends.

When planning charitable giving, consideration should be given to gifting publicly traded securities, rather than cash, to better the tax benefits.

CHARITIES AND FOR-PROFITS WORKING TOGETHER

RECEIPTS FOR CAUSE-RELATED MARKETING

A registered **charity** may work with a for-profit entity to **promote the sale** of the **for-profit's items** on the basis that **part of the revenues will go to the charity**. This is commonly called **cause-related marketing**. In February 2017, CRA published guidance addressing this**.**

CRA noted that the **benefit** that a **for-profit receives** from this type of arrangement is considered an **advantage**. The charity must quantify this advantage and reduce it from the amount of the donation to calculate the **eligible donation**. Where the total value of the advantage cannot be calculated, the charity cannot issue a receipt. That said, CRA noted it may be possible to claim the donation as an advertising expense.

Consider this type of arrangement to raise funds for your charity! Or, as a for-profit, to raise your profile in the community.

PagnaniniEdwardsLam
CHARTERED PROFESSIONAL ACCOUNTANTS
306 – 3701 Hastings Street • Burnaby, BC V5C 2H6 • t. 604.299.9274 • f. 604.299.9247 • info@accountantsplus.ca • www.accountantsplus.ca