

TAX SEASON 2016

Tax Tips

Registered Education Savings Plan (RESP) A Canada Education Savings Grant is triggered by RESP contributions for children (maximum \$500 per child per year). In addition, you may be eligible to receive a Canada Learning Bond which provides \$525 in the first year, and an additional \$100 each year until the child turns 15.

A **Registered Disability Savings Plan** may be established for a person who is under the age of 60 and eligible for the Disability Tax Credit. Non-deductible contributions to a lifetime maximum of \$200,000 are permitted. Grants, Bonds and investment income earned in the plan are included in the beneficiary's income when paid out of the RDSP.

The **BC Education Coaching Tax Credit** will be available for 2015. Individuals are eligible for the \$500 non-refundable credit if they are a resident of B.C. on December 31 of the tax year and they are a paid teacher or teaching assistant working in a qualifying school, and, carry out at least 10 hours of unpaid work in a year to coach or supervise students of a qualifying school engaged in extracurricular activities.

The **Federal Donation Tax Credit** for donations in excess of \$200 (made after 2015) will be increased to 33% but only to the extent the individual has income subject to the new 33% personal tax rate (income over \$200,000 for 2016). All taxpayers will still receive a 15% federal donation tax credit on the first \$200 of gifts. Taxpayers who do not have earnings in the top tax bracket of 33% will receive a 29% federal donation tax credit on gifts in excess of \$200, which is the same credit that was available in prior years. For example, consider a taxpayer that has an income of \$225,000, and claims \$60,000 of charitable donations. If the donations were made and claimed in 2016, the federal donation tax credit would be \$18,732, whereas if the donations were claimed in 2015, the credit would be \$17,372.

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. The break-even point compared to the previous regime is family income of \$150,000. 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. If you started receiving the **Universal Child Care Benefit** in 2015, don't forget to bring in your **Form RC62** with your Personal Tax documents. This is a taxable benefit that must be recorded on your tax return.

Source: Tax Tips & Traps First Quarter 2016

Inside this issue

-Tax Tips	1
-Tax Benefits for the Self Employed	2
T1135 Simplified Reporting Method -Teachers and Early Childhood Educators School Supply Tax Benefit -Personal Service Business -CRA Direct Deposit Promotion -Foreign Exchange Rates 2015	3
-Foreign Account Tax Compliance Act -Home Accessibility Tax Credit -2016 Automobile deduction limits & Expense Benefit Rates -Disability Tax Credit	4
Personal Tax Checklist.	5-6
Tax Organizer for the Self-Employed	7-8
Tax Organizer for T2200 (Employment Expenses)	9-10

TAX SEASON HOURS

In addition to our regular hours, we will be open

Saturdays

April 2-April 30

9am - 4pm

Evenings by Appointment

We will be Closed

Good Friday March 25



Tax Benefits for the Self-Employed

There are many tax advantages for self-employed Canadians who work from home and hire family members in their business. You may want to consider incorporating home and family into your business to create tax benefits for both the business and the family. Consider the following opportunities to reduce your taxable income and thus increase the amount of money left over to support your family. (Individuals in a 40% tax bracket save \$40 on every \$100 spent).

Hiring your spouse or children if you need employees. The job must correspond to their abilities and the pay be reasonable for the going market rate for such skills. It is usually more beneficial for a sole proprietor to pay family members rather than a third party for the same work. For example, suppose you pay a child or your spouse \$5,000 per year for performing a task and they have no other income. Because the \$5,000 is less than their personal exemption (\$11,327 for 2015) they will not have to pay any income tax on the earned amount. Further, the payment is deductible from your self-employed income. If, as sole proprietor, you are in a 40% tax bracket, the \$5,000 paid to the family member effectively saves \$2,000 on your self-employed income while providing \$5,000 of tax-free income to the family member. If, for example, you are paying \$5,000 per year for your child's tuition and the child was not paid from your business, you are effectively paying in after-tax dollars. That means you will have to earn \$8,350 (40% of \$8,350=\$3,340) in order to clear the \$5,000 (\$8,350-\$3,340=\$5,010) needed to pay for your child's education.

You are allowed to deduct **at-home expenses** if you meet one of the following conditions:

1. You do more than 50% of your work at home.
2. The work space is used only to earn income and for meeting customers or clients. You cannot deduct at-home expenses if you are just using your kitchen table to do the work.

You can write off a portion of your home maintenance expenses such as heating, home insurance, electricity and cleaning supplies. A percentage of property taxes and mortgage interest can also be deducted.

CRA also allows the deduction of a percentage of the **Capital Cost Allowance** on the cost of the house or outbuildings. However, since there are tax consequences when the principal residence is sold, discuss this option with us before claiming the expense.

The method of determining the percentage of **Allowable Write Off** must be determined on the basis of the space used by each particular business. The most common calculation method, however, is to take the square footage of used space as a percentage of the total usable space.

Losses. If, for instance, profit before home expenses are applied was \$7,000 and the at home expenses were \$8,000, you cannot claim a \$1,000 loss. Your taxable income for the business will be nil and the \$1,000 not applied can be carried forward to the following taxation year end and applied against that years income.

The following are common **business expenses**, however make sure they are incurred to earn income and that all receipts are retained: accounting and legal fees, advertising expenses, business taxes, fee, licenses and dues, insurance expenses, interest and bank charges, maintenance and repairs, meals and entertainment, office expenses, salaries, including employers contributions, motor vehicle expenses.

Business bank accounts allow bank charges to be easily identified as business expenses; deposits and withdrawals can be more readily traced back to suppliers, customers or owners withdrawals or contributions. Separating business accounts from personal accounts minimizes the confusion when processing year end tax information. Interest on credit card balances incurred for business expenses is deductible. But, if business purchases are made with a personal credit card, the CRA will most likely disallow the interest expense because the interest applicable to outstanding business balances cannot be separated from the interest charged on personal balances.

Loan interest for vehicles and equipment is also a deductible expense. Make sure that the transaction is transparent so that you can establish that the principal went into a business bank account. If you increase your **mortgage** to provide operational funds for the business, separate clearly in your records the mortgage for the principal residence from the funds for your business. We will thus be able to calculate separately the loan interest attributable to the business and that attributable to your personal residence.

Source: Business Matters Dec 2015

T1135 Foreign Income Verification Statement Simplified Reporting Method

The CRA has released a new version of the T1135. The most significant change is the simplified reporting method. The form continues to be required if the total cost of Specified Foreign Property exceeds \$100,000 at some time in the tax year. The simplified method may be used if the cost of Specified Foreign Property was less than \$250,000 throughout the year. Taxpayers who meet this criteria may still choose to complete the detailed reporting if they prefer. This new form is to be used for the 2015 and later taxation years. The older form in existence should be used for previous years.

While any simplification of these requirements is welcome, the taxpayer must still sort all of their Specified Foreign Property by country and determine costs for each month-end during the year to complete the Form. The extent to which this new option will reduce the work required for these filings will vary depending on the specific property held.

For further information on this new Form, or to have a copy of the Form, please contact our office and we will be happy to assist you.

Teachers and Early Childhood Educator School Supply Tax Benefit.

This proposed refundable credit is planned to be effective for 2015. The credit is to be valued at a maximum of $\$1,000 \times 15\% = \150 . Make sure that you retain receipts if this applies to you.



Personal Service Business

If you are providing services to a small number of clients through a corporation (which would otherwise be considered your employer), CRA could classify the corporation as a **Personal Service Business**. There are significant negative tax implications of such a classification. In such scenarios, we would be happy to meet with you to consider discussing risk and exposure minimization strategies.

Canada Revenue Agency Direct Deposit Promotion

As you may know, the Government of Canada is switching to direct deposit payments. The Canada Revenue Agency continues to encourage all taxpayers to enroll for direct deposit. In fact by April 2016, CRA will no longer issue cheques but will only make payments through direct deposit. This will include T1 refunds, the new Canada Child Benefit, GST/HST credit or any associated provincial /territorial credits. Direct deposit is a fast and convenient way for you to get your income tax refund and other credit and benefit payments directly into your bank account without having to wait for a cheque.

To set up direct deposit with Revenue Canada, you can go online and either fill out your banking information right there, or print off the direct deposit enrolment form and mail it in. If you need help with the form call 1-800-593-1666 (toll free) or visit www.directdeposit.gc.ca.

Alternatively, if you want to set up direct deposit for this years' tax refund, please include a void cheque when you bring in your tax information. If you already have direct deposit set up and want to change the account information, we will need to know your old account information as well.



Foreign Exchange Rates 2015

The average rates for fifty-six countries are published in Guide RC4152 on CRA's website at www.cra.arc.gc.ca. This is from the Bank of Canada

US/CDA - annual average exchange rate is 1.2787108

UK/CDA - annual average exchange rate is 1.953984

EURO/CDA - annual average exchange rate is 1.4182

Note: CRA considers that shares sold on a stock exchange are disposed of on the settlement rather than trade date, it considers that the U.S. dollar proceeds received on a sale on a U.S. exchange should be translated into Canadian dollars using the noon exchange rate for the settlement date.



CRA turns over information to U.S on 155,000 Canadian Accounts

Canada met the September 30, 2015 deadline imposed by the Foreign Account Tax Compliance Act (FATCA) and the inter-governmental agreement between Canada and the U.S for the exchange of information regarding owners of accounts at Canadian financial institutions. It has been disclosed that more than 54,000 taxpayers living within the U.S and abroad have come forward voluntarily to take advantage of voluntary disclosure programs offered by the IRS since 2009. These programs have resulted in over \$8 billion in revenue for the U.S Treasury. Exchanges of information between governments of Canada, the U.S. and many other countries through FATCA and other programs have been a significant incentive for taxpayers to come forward voluntarily. Individuals with undisclosed foreign accounts should carefully consider their options and use available avenues to come back into full compliance with their tax obligations. Time is running out for U.S residents who have failed to file. Once the IRS has initiated an examination of a particular taxpayer, that person is no longer able to take advantage of the relief provided.



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 the residence, the maximum eligible expenditure for that property will be \$10,000. A qualifying renovation or alteration must be 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 within the dwelling or in gaining access to the dwelling. The credit is eligible after 2015.

2016 Automobile Deduction Limits and Expense Benefit Rates for Business

The limit on the deduction of tax-exempt allowances paid by employers to employees that use their personal vehicle for business purposes for 2016 will be decreased by 1 cent to 54 cents per kilometre for the first 5,000 kilometres driven and to 48 cents for each additional kilometre.

The ceiling on the capital cost of passenger vehicles for capital cost allowance (CCA) purposes will remain at \$30,000 (plus applicable federal and provincial sales taxes) for purchases after 2015. This ceiling restricts the cost of a vehicle on which CCA may be claimed for business purposes.

The maximum allowable interest deduction for amounts borrowed to purchase an automobile will remain at \$300 per month for loans related to vehicles acquired after 2015.

The limit on deductible leasing costs will remain at \$800 per month (plus applicable federal and provincial sales taxes) for leases entered into after 2015. This limit is one of two restrictions on the deduction of automobile lease payments. A separate restriction prorates deductible lease costs where the value of the vehicle exceeds the capital cost ceiling.

The general prescribed rate used to determine the taxable benefit relating to the personal portion of automobile operating expenses paid by employers will decrease to 26 cents per kilometre for 2016.



Disability Tax Credit: Make Sure to Apply!

Individuals who have a severe and prolonged impairment in physical or mental functions may apply for the disability tax credit (DTC). The federal tax credit is valued at over \$1,185 (15% x 7,899) in 2015, with the possibility of an additional disability supplement for certain individuals under the age of 18 at the end of the year. Provincial tax credits may also be available.



The DTC is a non-refundable tax credit used to reduce income tax payable on an individual's income tax return. All or part of this amount may be transferred to an individual's spouse or common law partner, or another supporting person.

Being eligible for the DTC can open the door to other federal, provincial or territorial programs such as the registered disability savings plan, the working income tax benefit and the child disability benefit.

For individuals that may have been eligible for the DTC for a number of years, but have not applied, taxpayer relief may be an option to access these credits for the prior 10 years.

PERSONAL TAX CHECKLIST

In order for us to prepare your tax return on a timely basis, please bring in as much complete information as possible when dropping off your package.

Please include your Notice of Assessment for 2014 (sent to you from CRA) and any other CRA correspondence.

Client name: _____ Province of Residence _____

Telephone() _____ Fax () _____ E-mail _____

Address change: indicate only if changed from previous return filed _____

Marital Status: Indicate only if changed. YES ____ Date of Change _____ Please provide a copy of the Separation/Divorce agreement

SIN (new clients only): _____ Birth date (new clients only): _____

Income: (Please bring in all slips)

- Employment – T4 (Issue deadline is February 29), Employment Insurance – T4E , WCB-T5008
- Old Age security – T4A (OAS), Canada Pension Plan benefits – T4A(P), Foreign pension amounts in Canadian dollars
- Other Pensions – T4A Consider pension income splitting? Y____ N ____
- RRSP's – attach T4RSP, T4RIF - attach spouses info if income splitting pensions
- Mutual Funds and other Trust Income—T3 (Issue deadline is March 31)
- Interest – Bank, Trust, Bonds – T3/T5/T600 (including Canada Savings Bonds, Deferred Annuities, Term Deposits, Treasury Bills, Mutual Funds, Strip Bonds, Compound Interest Bonds)
- Dividends – T5/T600 (Issue deadline is February 29)
- Business/Professional/Partnership/Director Fees – Financial Statements or T5013 package or a summarized list of income and expenses
- Rental Property (attach details of income, expenses, purchases and sales)
- Capital Gains/Losses. Did you dispose of any investments/capital properties this year? (attach copies of sales detail, original purchase documentation and 1994 capital gains election made). Also include documentation re foreign share spin-offs and foreign share reorganizations
- Spousal support (including separation allowances) -provide copy of post April 30, 1997 agreement(s) or election, if changed or not previously provided; or court order
- RC62 Universal Child Care Benefits, consider including in child's income Y____ N____
- Other income (e.g. Real estate or oil and gas investments, labour sponsored funds, stock options and Election Form T1212, annuities, scholarships, fellowships, bursaries, research grants, T4PS, T5018 and any other "T " slips that you may have received including RESP contributions and withdrawals)

Deductions:

- Declarations of Conditions of Employment (detail and attach form T2200 signed by your employer)
- If your employer required you to have a home office, a vehicle, a cell phone, or other expenses which you were not reimbursed for, you may be eligible to deduct some of these expenses. Apprentices may claim certain tool expenses.
- Allowable business investment losses (refer to Capital Gains/Losses above)
- Sole Proprietor Business expenses (see enclosed checklist)
 - Automobile expenses including business mileage and total mileage, new purchase or lease, gas, regular repairs & maintenance, insurance, parking relating to business
 - Home office expenses including hydro, gas, property taxes and utilities (if you own the home), rent, insurance, repairs & maintenance, mortgage interest, office sq ft and total sq ft and the number of rooms in the home
 - Any new assets purchased for the business, advertising, supplies, meals and entertainment, etc.
 - Copy of GST/HST return for 2015 if already filed and applicable

Deductions - cont'd

- Child Care expenses (attach receipts)
 - For individual child care providers - Include S.I.N. and address; for others provide receipts
 - For summer camps - Indicate number of weeks that child was in residence

A Child Fitness tax credit (\$1,000) and Arts tax credit (\$500) may be claimed with supporting receipts for dependents under 16 years of age at the beginning of the tax year or 18 years of age if eligible for the disability credit
- Details regarding in home care for dependant relatives (attach receipts)
- Disability deduction for you or dependant (if first time claim, attach T2201 completed by your physician). Disability support expenses (speech, sight, hearing, etc) including some incurred for purpose of employment/education, and attendant care expenses
- Registered Retirement Savings Plan contributions (attach receipts)
- Annual union, professional dues (attach receipts)
- Moving expenses (MUST attach receipts), Indicate distance moved to new employment, include cost of maintaining a vacant former residence
- Federal and provincial political contributions (attach receipts)
- Spousal support or separation allowances and child maintenance paid - include name(s) and address(es) of recipient(s); attach a copy of the agreement or court order for spousal support which was signed on or after May 1, 1997 or election, if changed or not previously provided
- Carrying charges (interest on money borrowed to earn dividends and interest, interest for limited partnerships, investment counsel fees, accounting fees)
- Other deductions and expenses (attach receipts) (e.g. public transit passes, employee tradesperson tools)
- Charitable donations (attach receipts), including publicly traded securities
- Medical expenses (attach receipts), details of private health insurance premiums paid, including amounts paid while traveling. For dependents over 18 years of age, certain medical expenses can be transferred depending on the dependants income
- Tuition fees for yourself or a dependent- attach a **completed (signed, dated, etc)** T2202/T2202A (TL11A,B,C & D if applicable) This form can be obtained by going on the educational institution's web site, signing in with their student ID and printing the form. Interest paid on qualifying student loans are eligible for a tax credit. Please provide students net income also
- Labor-sponsored funds – T5006
- Details of lump sum pension plan contributions and your pension adjustment reversal if you ceased employment (T10 slip) and were in a Registered Pension Plan or a Deferred Profit Sharing Plan
- For wholly-dependent persons, please attach list and indicate for each dependant: name, address if different, relationship, birth date, S.I.N., and net income. Note infirmity, if any
- Adoption expenses
- Film & video production eligible for tax credit, tax shelter credits, mining tax credit expenses, business R&D
- Clergy residence deduction info, T1223

Other deductions:

- 2015 installment amount(s), attach February 2016 notice. Total remitted: \$ _____
- Attach details of RRSP – Home Buyers' Plan or Lifelong Learning Plan withdrawals and/or CRA'S Statement of Account – Home Buyer's Plan, if received
- Amount of any income, distributions or loans from foreign trusts or foreign affiliates received in 2015
- Details of previous capital gains exemptions claimed, business investment losses and cumulative net investment loss accounts
- Details regarding residence in a prescribed area which qualifies for the Isolated Area Deduction
- Details of carry forwards from previous years including losses, donations, forward averaging amounts, registered retirement savings plans contributions not previously claimed
- Details of foreign property, (stocks, bonds, foreign mutual funds, cash, real estate) other than personal use property, if aggregate cost is in excess of \$100,000 - Please bring in all Foreign Asset Verification Reports from all of your investment advisors
- Details of any new dependants

Are we filing a return for any of your children? Please circle one: Yes or No