



Michael's Tax Tips & Updates

taxation news and information bulletin

January 2012

Individuals

- The 2011 Federal budget introduced a non-refundable children's art tax credit of 15% on eligible expenses up to \$500 paid on behalf of a child who is under 16 at the beginning of the year in which the expenses are paid.
- The 2011 Federal budget introduced a non-refundable volunteer firefighter's tax credit. This will provide those who perform at least 200 hours of volunteer services in the taxation year a 15% credit on \$3,000. However those who receive this new credit will not be eligible to claim the existing \$1,000 tax exemption from a government, municipal, or public authority.
- The 2011 Federal budget also proposed the introduction of a 15% non-refundable family caregiver tax credit on an amount of \$2,000 to be introduced in the 2012 tax year. More information will follow.
- Taxpayers should be reminded once again of the potential 20% penalty for failing to report income. Clients should contact our office if any slips are received after their tax filing so that a T1 adjustment may be prepared and filed.
- In an August 2011 technical interpretation bulletin CRA takes the position that where a substitute teacher teaches at various schools, they are not entitled to claim any travel related expenses. Each school is considered the employees place of business.
- In October 2011 a Technical Interpretation Bulletin noted that a claim for the children's fitness tax credit does not depend on whether the child resides with the parent making the claim.
- In September 2011 a Technical Interpretation Bulletin notes that to claim child care expenses, the taxpayer or supporting person must have "resided with" the child at the time the expense was incurred. Accordingly, the percentage of child care expenses which each parent may claim in various custody situations should generally correspond with the time the child actually resided with that parent provided that parent incurred the expense during that time.
- The annual registered retirement savings plan (RRSP) contribution ceiling was raised to \$22,450 in 2011 from \$22,000 in 2010. The deadline for contributions is 60 days after the end of the calendar year.

Additional tax considerations

- The United States has passed legislation requiring U.S. citizens living outside the United States to file U.S. tax returns on their world-wide income. This does not mean that you will be double taxed as there are conventions in place to avoid duplication of tax however remember that certain deductions under Canadian tax law are not allowed under U.S. tax law (such as RRSP's). You may be able to exclude up to \$85,700 from income for U.S. reporting purposes by completing Form 2555 and attaching it to your return. You must be a bona fide resident of Canada and file your U.S. return by the June 15th deadline.
- The United States has also passed legislation requiring U.S. citizens make a financial disclosure of assets in Canadian banks in excess of \$10,000. This includes bank accounts, investments, RRSP and RRIF accounts, TFSA's, etc. Failure to do so has serious penalties. In 2014 Canadian financial institutions will be required to report to the IRS their investors that are U.S. citizens.
- A "Green Card" holder has similar U.S. filing obligations as a U.S. citizen.

Please contact our office for further information.

Businesses

- In an October 2011 Tax Court of Canada case, a corporation successfully argued that the salary of the daughter of the major shareholder was not subject to Employment Insurance because of the provisions of Paragraph 5(3)(b) of the Employment Insurance Act. This provision excludes non-arm's length situations where the terms and conditions of the

employment are not substantially similar to arm's length contracts. The Court held that the daughter was acting in concert with the shareholder and therefore, was not acting at arm's length.

- It is important to review the requirement to file T5018 for subcontractors. T5018's and summary must be filed in conjunction with T4's for all subcontracted workers. Also, recent CRA payroll audits are asking for T4A's for services in excess of \$500.
- CRA has announced that for fiscal years ending after December 31, 2010 a partnership must file a T5013 Partnership Information Return if one of the following conditions are met. Revenues plus expenses are greater than \$2 million or the partnership has more than \$5 million in assets. Other conditions may apply
- The temporary accelerated capital cost allowance rate for investment in manufacturing or processing equipment has been extended to the end of 2013.

Avoid the rush. Remember to book an appointment early for your personal tax preparation services. A personal tax checklist is available on our website for your convenience.

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