



WINTER UPDATE

January 2007

A HAPPY, HEALTHY & SUCCESSFUL NEW YEAR TO YOU AND YOUR FAMILY IN 2007!

28 Tax Reductions ... and 1 Hike

The May 2, 2006 Federal budget introduced many changes, some of which may affect you.

1. Introduced a new class of dividends – eligible dividends paid out of the General Rate Income Pool (GRIP) – which will be subject to 2006 Ontario tax of 25.09% for individuals with taxable income greater than \$118,285; non-eligible dividends will still be subject to a tax rate of 31.34%. **The introduction will affect future salary-dividend and investment considerations.**
2. Eliminated capital gains tax on donations of publicly-listed securities to public charities. As a result, **you will not only not pay tax on any capital gains on the donated shares**, but also receive a donation receipt for the fair value of the donated shares. The government has indicated its intention to extend this proposal to private foundations within the next year.
3. The monthly Universal Child Care Benefit of \$100 became effective on July 1 for all parents with children under 6 years old; **if you are eligible for this credit, you should apply, especially if your income was too high to benefit for the Child Tax Credit.**
4. A new Employment Credit of \$250 of employment income will be included in your 2006 tax return; **the credit will increase to \$1,000 in 2007.**
5. A new tax credit of 15.5% of the cost of monthly or longer-term transit passes, purchased after July 1, 2006 by you and your family; **so keep the transit passes receipts.**
6. GST was reduced to 6%, effective July 1; if you use the Quick Method to determine GST, remember to use the new rates.

7. Made all bursaries, scholarships and fellowships tax-exempt.
8. Proposed increases of the income eligible for small business rate to \$400,000, effective January 1, 2007 and reductions of the federal small business rate from 12% to 11.5% in 2008 and 11% in 2009.
9. Increased the loss carry-forward period **from 10 to 20 years for losses incurred after 2005.**



On October 31, 2006, the government introduced proposals to tax business income trusts (not real estate investment trusts), effective immediately, for new trusts and in 2011 for existing trusts. At the same time, the government announced that it proposed to **allow couples to share their pension income, commencing in 2007.**

Other changes announced in the May 2006 budget but not to come into effect until after 2006, such as the **children fitness tax credit**, will be discussed further in future newsletters.



Did you know?

1. Canada Revenue Agency (CRA) have recently increased the number of auditors and we have learned that one area of focus is on companies with revenue under \$25 million, with particular emphasis on alleged abuses regarding expenses, capital cost allowances and inventory write-downs, as well as targeting directors for expenses, shareholders' loans and directors' liability matters.
2. A recent court case recommended that people use a car for business purposes should keep a travel log; in Quebec, it is now mandatory to keep a logbook.
4. Only 50% of gifts of meals or tickets to entertainment events are deductible even when the person who gave the gifts is not present because a recent case stated that such gifts were "in respect of human consumption". However, gifts of flowers and books would be fully deductible.
5. Incorporation of an independent contractor's services may not provide the benefits anticipated if the corporation is determined to be a personal service corporation. Please call us if you have incorporated or are considering incorporating your service business.
6. The Canadian Institute of Chartered Accountants (CICA) recently decided that Canadian public companies adopt international financial reporting standards, effective January 1, 2011. Changes are expected to the CICA Handbook to bring Canadian generally accepted accounting policies into line with international standards. It is expected that this decision will have significant impact on financial statement presentation.
7. CICA has introduced proposals to change the wording of auditors' reports, review engagement reports and notices to reader. These proposals are expected to be implemented in the next twelve months.

8. The Ontario rebate on hybrid electric vehicles was increased from \$1,000 to \$2,000 for vehicles delivered after March 23, 2006.
9. Ontario physicians and dentists can now include family members as shareholders of their professional corporations, which provides greater opportunity for income splitting. If you are a physician or dentist who does not require all funds in a calendar year to meet personal expenses, you may want to consider incorporating your practice.

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"Oh, that three billion dollars."

Refreshed website

We have recently refreshed the website by updating the Tax Planning Checklists, Income Tax Organizer and Inheritance Guide, and introducing a new section that includes useful income tax facts, including estimated taxes for various levels of taxable income. Your comments on the usefulness of the website and content suggestions would be appreciated.

Thank you

We would like to take this opportunity to thank you, our client, for entrusting us with your affairs over the years. If any friends or acquaintances could also make use of our services, please do not hesitate to have them contact us.

Legal notes

Comments in this update are general in nature; please check with us about your particular situation.