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Client Newsletter

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Plan now for 2015.

Accountants Amalgamate

Welcome to 2014. In Canada we have had Certified Management Accountants (CMA), Chartered Accountants (CA) and Certified General Accountants (CGA). I was a CMA. Two of my staff, Neeta and Parminder, were CGAs. And if you asked any of us what the difference was we were hard pressed to give you an answer.

Well the accountants in Canada have officially amalgamated so we are all now Chartered Professional Accountants (CPA). So for the next 10 years I will be a CPA, CMA. Former CGAs are now CPA, CGA. After 10 years we will all just be CPAs. This change also standardized some rules on how we operate. So my company had to do a slight name change. The company is now Williams Accounting Professional Corporation. Other than some initials changing and a name change, everything else remains the same!

This is my third year with the new newsletter format. So please enjoy! I welcome your comments.

New for 2014 and 2015

Since my last newsletter we have had a federal budget, two provincial budgets (with an election in between) and a federal "update" that also included budget measures. Here is a summary of those items of most interest.

1. Children's Fitness Credit

The federal government increased the federal fitness tax credit to **$1,000** for 2014. This is in addition to the $500 federal arts credit. This is not to be confused with the Ontario Child Activity tax credit of $541. Generally, anything that is fitness or arts related qualifies for Ontario purposes. Ontario also allows many other items including tutoring. When we complete your tax return we are required to see these receipts so please provide them and we will determine the optimal way to make the claim.

2. Income Splitting for Parents

CRA now allows income splitting for parents who have children under 18. Called the Family Tax Cut by the federal government this new measure can save a family up to $2,000 in 2014. There are lots of rules on this but when your return is prepared we will calculate the maximum allowed and give it to the parent who will benefit the most.

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New for 2014 and 2015 Continued…

3. 2015 Child Care Expenses

For 2015 the maximum deduction for child care expenses has been increased by $1,000 per child. The new limits are $8,000 for children under 6, $5,000 for children age 7 to 16 and $11,000 for children eligible for the disability tax credit.

4. Universal Child Care Benefit

Beginning in 2015 there are major changes to this program. The amount received for children under 6 will increase to $160 per month from $100. In addition, for children from 7 to 18 there will be a new benefit of $60 per month. To allow time for implementation, the first six months of payments will be sent in July 2015. You must file your 2014 tax return to get the payment. These funds are taxable!

As with all benefits there will be a cost. The government is eliminating the child tax credit effective 2015. In all cases, Canadian parents will come out ahead. This change will be particularly advantageous to low income Canadians.

5. Ontario Increases Taxes

In the Ontario budget tax rates were increased for those making more than $150,000 per year. For those making more than $220,000 per year the marginal tax rate in Ontario is now 49.5%!

6. Lifetime Capital Gains Exemption

The lifetime capital gains exemption for gains on the sale of Qualified Small Business Corporation shares has increased to $800,000 from $750,000. This amount will now be indexed to inflation.

Superficial Loss Rules

Not all investments go up in value!

Stock markets have been very volatile in the past few months. If you own securities related to the oil and gas sector your investments have likely gone down and you may be in a loss position. It is advantageous to crystalize the losses to enable these losses to reduce other gains you may have to report. But what if you don't want to miss any bounce back in the market prices? Can you just sell on one day and buy the same security back later the same day? Or how about having your spouse make the new purchase? What about buying more shares of the stock on the day before you sell? All these strategies have been considered by Income Tax Act and will not work. You need to know the Superficial Loss Rules.

The rules are fairly simple. If you or your spouse buy or sell the same security within 30 days, either before or after the loss sale, then the loss will be denied. The denied loss will be added to the adjusted cost base of the new security.

So how do you get around this? It is fairly simple. Buy a different security that will behave similarly to the security you want to sell. For example, if you have a loss on Crescent Point Energy perhaps sell it and buy Baytex Energy. After 30 days you could then sell Baytex and buy Crescent Point.

RESP Strategies

The Registered Education Savings Plan (RESP) is a great way to save for a child's education. I won't go into the details here but generally whatever you contribute (up to annual limits) will receive a grant from the federal government of 20% of the contributed amount. Let's say you contribute for a number of years and it is time for the child to go to University or College and the RESP is now worth $40,000. This is made up of $20,000 you put in, $4,000 from the federal government and $16,000 of accumulated growth (interest, dividends and capital appreciation). Now what do you do?

The first thing to know is how this will be taxed. When funds are withdrawn the amounts contributed ($20,000) will come out tax free. But the grants ($4,000) and growth ($16,000) will be taxed on the child's tax return.

The objective should be to withdraw the funds and pay the least tax possible. Having all the grants and earnings taken out in the same year could result in a significant tax bill! To minimize the tax you have to be a bit of a fortune teller. You need to know what your child's taxable income will be in each year. To achieve this consider:

RESPs allow savings to grow on a tax deferred basis.

- In the final year of high school the child only has two months in the summer to earn income. Income may be low this year.
- Be careful in the final year of school. If the student graduates and gets a full time job they may have 8 months of income at a good salary that year. This is not a good time to take out RESP income and pay tax.

Need a Good Referral?

I belong to a networking group. We refer business to one another. I have belonged to this group for 11 years and its members are all reputable business people. Many of their services I have used myself. So if you need any of the following services please contact me and I will give you their contact information:

- Information technology
- Mat Rentals, carpet and furniture cleaning and restoration
- Creative Design, Marketing and Advertising
- Custom Closets and Garages
- Life, Disability and Critical Illness Insurance
- Travel Agent
- Auto Repair Shop
- General Contractor
- Mortgage Broker
- Certified Home Inspector
- Auto Glass Repair and Tinting
- Internet Marketing Consultant
- Lawyer
- Residential Real Estate Agent
- Employee Management

If you are in business and want to grow your business by referral give me a call and we can discuss the possibility of joining my networking group.

Income Splitting

One of the best ways to reduce the family tax bill is by income splitting. This shifts income from someone is a higher tax bracket to someone in a lower tax bracket. The result is a reduction in the total tax bill paid by the family. Examples include:

- If you own a business, pay a reasonable salary to a spouse or child or parent. The payment must be reasonable for work performed. But reasonable does not mean minimum wage. Perhaps your low income elderly parent helps out one day a week in your business. If their background justifies a $100,000 full time salary you could justifiably pay them $20,000.
- If you own a corporation, pay a dividend to your over 18 child. Or to a parent. Or a spouse. These amounts **do not** have to be reasonable. The recipient just has to own the right class of shares.
- Pay your over 18 child to provide child care for your child under 17. Let's say you have three kids. One 13, 15 and 18. Hire the 18 year old and pay them $10,000 this year to care for their siblings. The 18 year old pays little tax (probably) and the lower income parent gets a deduction!

Income splitting is a great way to reduce taxes.

Upcoming Deadlines

Accountants work with deadlines all the time. Here are a few you should be aware of in the near future.

Spousal Loan Interest Payment	January 31, 2015
October-Dec. HST and/or WSIB Return	January 31, 2015
T4 and T5 Issuing	February 28, 2015
RRSP Deadline	March 2, 2015
Personal Tax Installment	March 15, 2015
Trust Return	March 31, 2015
January-March HST and/or WSIB Return	April 30, 2015
Personal Tax Return	April 30, 2015
Proprietorship Tax and HST Payment	April 30, 2015
Proprietorship Tax and/or HST Return	June 15, 2015
Personal Tax Instalment	June 15, 2015
December Corporate Tax Return	June 30, 2015

Thank you for your referrals!
We very much appreciate the referrals we receive. If you know of someone who may benefit from our services please pass my name to them. As always, we provide a complimentary initial meeting.