



# Tax Tips & Traps

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## PERSONAL TAX

### DO YOU HAVE TO FILE A RETURN?

You must file a tax return for 2011 if any of the following situations apply:  
you have to pay tax for 2011:

- CRA sent a request to file a return;
- you and your spouse or common-law partner elect to split pension income;
- you received Working Income Tax Benefit (WITB) advance payments in 2011;
- you disposed of capital property in 2011 or you realized a taxable capital gain;
- you have to repay any of your Old Age Security or Employment Insurance benefits;
- you have not repaid all amounts withdrawn from your RRSP under the Home Buyers Plan or the Lifelong Learning Plan;
- you have to contribute to the Canada Pension Plan;
- you are paying Employment Insurance premiums on self-employment and other eligible earnings.

Even if these requirements do not apply, you may still want to file a return to claim a refund; to claim the WITB; to apply for the GST/HST credit; to receive the Canada Child Tax Benefit; if you have incurred a non-capital loss that you want to be applied in other years; to carry forward or transfer the unused portion of your tuition, education and textbook amount; to report income for which you could contribute to an RRSP in order to keep your RRSP deduction limit for future years up to date; to carry forward the unused investment tax credits on expenses incurred during the current year; to receive the Guaranteed Income Supplement or Allowance benefits under the Old Age Security (OAS) program.

### CHILDREN'S ARTS TAX CREDIT

We have had four years of experience with the Children's Fitness Tax Credit. Beginning in 2011, the Children's Arts Tax Credit became available.

In many ways, the two credits are similar, including the following key points:

- both allow a credit for the costs of registration or membership in a "prescribed program" for children under age 16 at the start of the year;
- both are limited to \$500 of annual costs per child (maximum Federal tax benefit of \$75), with an enhanced claim based on a further \$500 where the child is disabled, and at least \$100 of costs are incurred;
- both apply to weekly programs lasting at least eight consecutive weeks, and children's camps or similar programs lasting at least five consecutive days;
- both require receipts, which need be submitted only on CRA request;
- both can include programs where a variety of activities are undertaken, either for the full program cost or, where the eligible activities are limited, for a pro-rated portion of the cost;
- both can include membership in an organization for at least eight consecutive weeks where more than half the activities offered to children by that organization are eligible activities; and
- both prohibit claims that are part of a school's curriculum.

### So what are the differences?

The main difference is that the arts credit applies to "artistic, cultural, recreational or developmental activities", whereas the fitness credit applies to physical activities.

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## EDUCATION COSTS

Commencing in 2011, amounts paid for occupational, trade or professional examinations will be included in amounts eligible for the tuition tax credit. These will include any examinations required to obtain professional status under a federal or provincial statute, or to be licensed or certified as a tradesperson, where this entitles the person to practice the profession or trade in Canada.

## MEDICAL EXPENSES - BACK SURGERY OUTSIDE THE COUNTRY

In a February 21, 2012 Technical Interpretation, CRA noted that the taxpayer had back surgery outside Canada as there was a four-year waiting period for the surgery and his condition

was deteriorating. The hospital was in the United States. He had been reimbursed for a small portion of the amount spent on the surgery by the province.

CRA noted that the amounts paid to a “medical practitioner” and to a public or licensed private hospital are eligible for medical expenses.

Also, reasonable travel expenses (including accommodation and meals) incurred in respect of the patient and, where the patient has been certified by a medical practitioner to be incapable of travelling without the assistance of an attendant, in respect of one individual who accompanied the patient are medical expenses.

## WEB TIPS

### LIFE EVENTS – GOVERNMENT AND PERSONAL GUIDES

Service Canada has set up a website that provides a guide to the different government programs, requirements and other considerations to be processed when a major life event occurs. ([www.servicecanada.gc.ca/eng/lifeevents/](http://www.servicecanada.gc.ca/eng/lifeevents/))

Some examples include: buying a home, changing your address, having a baby, getting married, travelling abroad, getting a divorce, lost wallet, starting a business, having credentials recognized, what to do following a death, and retirement.

For example, under the travelling abroad link, an 11 step process is listed. The process covers everything from applying for your passport, to researching your destination, to international driving permits.

### CANADIAN RETIREMENT INCOME CALCULATOR AND POST-RETIREMENT CALCULATOR

**Canadian Retirement Income Calculator**  
This Service Canada calculator has been updated for 2012 rates and assumptions. The calculator is a tool to estimate ongoing retirement income generated through OAS, CPP, employer pension, RRSPs and other sources based on past and intended contributions and payments.

**Post-Retirement Benefit Calculator**  
The Post-Retirement Benefit is a new benefit for people who work and make CPP contributions while already receiving a CPP retirement pension. The Government of Canada has developed this calculator to help you better understand how contributions to the Post-Retirement Benefit will further contribute to your financial security after you retire.

These two calculators can be found by going to: <https://srv111.services.gc.ca> or Googling them by name.

## BUSINESS/ PROPERTY INCOME

### EMPLOYEE VS. SELF-EMPLOYED - DETERMINING THE STATUS

It is important to determine the status between the payer and the recipient as to whether the recipient is self-employed or an employee. Also, where there is a corporate recipient, the Personal Service Business status is relevant.

CRA has provided guidance in Form RC4110 to determine a worker's status. It notes that the intent is important and this is often indicated in a Written Agreement. It also notes that CRA may ask further questions to determine whether the facts are consistent with the written intent. See [www.cra.gc.ca/tx/hm/xplnd/me\\_nu-eng.html](http://www.cra.gc.ca/tx/hm/xplnd/me_nu-eng.html) and click on “specific employments” for information on real estate agents, construction workers, heavy machinery operators, etcetera.

## DID YOU KNOW...

### REGISTERED DISABILITY SAVINGS PLAN (RDSP)

In the 2007 Federal Budget the Registered Disability Savings Plan (RDSP), for persons with a disability, was introduced. Service Canada ([www.servicecanada.gc.ca](http://www.servicecanada.gc.ca)) provides a comprehensive database of information relating to the RDSP. Here you will find information on eligibility, application and, most importantly, the generous Canada Disability Savings Grant (CDSG) and Canada Disability Savings Bond (CDSB) programs. The website, [www.rdsp.com](http://www.rdsp.com), also provides a wide array of information relating to the RDSP and associated benefits.

## ESTATE PLANNING

### CANADA PENSION PLAN (CPP) POST-RETIREMENT BENEFIT

On October 25, 2011, CRA issued a Release which noted that:

1. The CPP Post-Retirement Benefit (PRB) is a new lifetime benefit that increases your retirement income and rises with increases in the cost of living, even if you already draw from the Canada Pension Plan (CPP) or the Quebec Pension Plan (QPP).
2. This applies to certain Canadians working outside of Quebec who are receiving a CPP or QPP retirement pension. They will begin making CPP contributions towards the PRB on January 1, 2012. The benefit will be paid to you the following year, starting in 2013.  
These contributions are mandatory for CPP and QPP retirement pension recipients age 60 to 65. If you are at least 65, but under 70 years of age,

you can elect not to contribute. Employees contribute 4.95% of pensionable earnings and employers contribute the same.

3. If you are already receiving your CPP retirement pension, the contributions you make to the CPP will go towards your PRB. These contributions to the PRB will not make you eligible for, or increase, the amount of other CPP benefits.

### EARLY OR LATE CPP APPLICATIONS

Under new CPP changes, if a taxpayer draws the CPP pension prior to age 65, the amount of the reduction is increased from .5% per month to .52% per month for 2012, and .54%, .56%, .58% and .60% until 2016.

Also, if CPP is claimed late, after age 65 and before 70, the increase in the CPP has changed from .5% a month to .64% for 2012 and .70% per month by 2013.

## 2012 FEDERAL BUDGET

On March 29, 2012 the Honourable Jim Flaherty, Minister of Finance, presented his seventh Budget to the House of Commons.

The Government's fiscal positions include deficits in the years 2011/2012 (\$24.9 billion), 2012/2013 (\$21.1 billion), 2013/2014 (\$10.2 billion), 2014/2015 (\$1.3 billion), and a surplus in 2015/2016 (\$3.4 billion), and 2016-2017 (\$7.8 billion).

There were a number of provisions including:

- \$500 million over five years, starting in 2014-15, will be provided to the Canada Foundation for Innovation to support advanced research infrastructure.
- The penny will no longer be produced as of Fall 2012. It currently costs 1.6 cents to produce each coin.
- EI premium rate increases will be limited to 5 cents each year until the EI Operating Account is balanced.
- System-wide legislative improvements to the review process for major economic projects (such as the Northern Gateway project) to achieve the goal of "one project, one review" will be completed.
- \$400 million will be provided to help increase private sector investments in early-stage risk capital, and to support the creation of large-scale venture capital funds led by the private sector.
- Changes to the administration of the Scientific Research and Experimental Development Program through measures such as determining the feasibility of a formal pre-approval process and enhancing the existing online self-assessment eligibility tool will occur.
- The One-For-One rule was implemented whereby with every new Regulation must come the elimination of an existing one.

## GST/HST

### GST/HST AUDIT AND EXAMINATION

On February 3, 2012, a CRA News Release noted that in the past most audits of smaller businesses (generally businesses with annual sales less than \$4 million) have been done as combined audits - one audit covering both income tax and GST/HST.

Combined audits have now been discontinued. Therefore, businesses will either be subject to an income tax or a GST/HST audit.

Most audits are selected based on an assessment of risk of non-compliance. Non-compliance in one tax does not necessarily correlate with non-compliance in the other tax. In these cases, businesses may be subject to only a brief compliance review of the other tax rather than a full audit in both taxes.

The preceding information is for educational purposes only. As it is impossible to include all situations, circumstances and exceptions in a commentary such as this, a further review should be done. Every effort has been made to ensure the accuracy of the information contained in this commentary. However, because of the nature of the subject, no person or firm involved in the distribution or preparation of this commentary accepts any liability for its contents or use.