Michael's Tax Tips & Updates

taxation news and information bulletin

October 2008

2007 changes affecting individuals

- The Canada employment credit introduced in 2006 doubled to $1,000.
- Spousal or equivalent tax credit increased to $9,600.
- New child tax credit of $2,000 for each child under 18 at the end of the taxation year.
- Pension income splitting with a spouse or common-law partner.
- Increase in RRSP and RPP age limit where plans must be terminated increased to 71 from 69.
- Increase in RESP lifetime contribution limit to $50,000 from $42,000.
- Capital gains exemption increased for small business owners, farmers, and fishers to $750,000 from $500,000 for transactions on or after March 19, 2007.

2008 changes affecting individuals

- Tax-free savings account introduced starting in 2009. Individuals will acquire $5,000 of TFSA contribution room each year indexed to inflation. Income, and gains inside the TFSA are not taxable, even upon withdrawal.
- Effective for taxation years after 2007 the RESP contribution years have been increased from 21 to 31.
- Effective for taxation years after 2007 eligible medical expenses will now include, altered auditory feedback devices, electrotherapy devices, standing devices for standing therapy, and pressure pulse therapy devices.
- Effective for taxation years after 2007, eligible medical expenses will also include service animals trained to assist with autism or epilepsy, including cost, care, maintenance and travel for training.
- Registered disability savings plan (RDSP) introduced to provide long term security of a child with a disability. This plan is available commencing in 2008. Federal government matching rates of 100, 200 or 300 per cent, depending on family net income. Talk to your tax advisor for details.
- Automobile provisions - CCA ceiling remains $30,000 plus taxes. Deductible leasing costs remain at $800 monthly. Maximum deductible interest remains at $300 monthly.

Additional tax considerations

- Installments are required from all self-employed if the difference between tax payable and amounts withheld at source in the 2 preceding years is greater than $3,000 in 2008.

- Late filings after April 30th, or June 15th for self employed individuals are subject to a penalty of 5% of the balance owing plus 1% for each month the return is late to a maximum of 12 months.

- Where a taxpayer has received a late filing penalty in the previous 3 years, the repeat penalty is 10% plus 2% per month to a maximum of 20 months.

- Both spouses or common-law partners must file income tax returns in order to receive the Canada Child Tax Benefit and the National Child Benefit supplement.

- The Universal Child Care Benefit ($100 per month) for each child under six, is taxable in the hands of the lower income spouse or common-law partner.

Corporations

- Computers acquired after March 18, 2007 fall into class 50 with a capital cost allowance rate of 55%.

- Personal Services business under the guise of a corporation may be deemed employment income. Even in the presence of an agreement stating that an independent contractor relationship exists, the facts may not support the true intention of the parties. (CRA guide RC4110 outlines the criteria of an independent contractor vs. employee)

- The graduated penalty system for employee deduction remittances was enacted effective after February 26, 2008. From 1-3days late = 3%, 4-5 days late = 5%, 6-7 days late = 7%. More than 7 days late = 10%.

- The 2007 budget introduced a 50% straight line CCA rate for machinery and equipment acquired after March 19, 2007 and before 2009. In the 2008 budget this deadline was extended to the end of 2011 on a declining balance basis after 2009.

Web Tips

Using this website, you can create an amortization schedule for mortgages, leases and loans that can be customized for factors such as interest rates, principal amount, periods, payment amount and frequency. You may also export data into an excel spreadsheet for analysis. Simply go to www. mortgagecalculatorcanada.com

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