Michael's Tax Tips & Updates

taxation news and information bulletin

October 2009

2009 changes affecting individuals

- The basic personal amount, the spousal and common-law partner amount, and the eligible dependant amount will increase to $10,320 from $9,600 in 2008.
- The upper limit of the first personal income tax bracket will increase to $40,726 from $37,885 in 2008, and the upper limit of the second personal tax bracket will increase to $81,452 from $75, 769 in 2008.
- The 2009 Working Income Tax Benefit will be doubled from the 2008 levels of $510 for singles and $1,020 for families.
- The HomeBuyers Plan withdrawal limit will be increased to $25,000 from $20,000 after January 27, 2009.
- A new non-refundable tax credit based on $5,000 for first-time homebuyers was introduced for qualified buyers who acquire a home after January 27, 2009. Only one credit is allowed where the home is purchased jointly.
- Budget 2009 proposed to allow the post-death decreases in value of an RRSP or RRIF to be carried back and deducted against the year of death income inclusion. The amount carried back will generally be the difference between the amount included in income and the amount paid out to the annuitant.
- CRA warns that investing in questionable RRSP and RRIF tax-free withdrawal schemes could result in losing your retirement savings as well as a reassessment of your tax returns.

Additional tax considerations

- CRA notes in a March 11, 2009 Technical Interpretation that the Child Tax Credit (based on $2,089 for 2009) may not be available to either of the divorced spouses under paragraph 118(1)(b.1) if the divorced parents have shared custody of the child even though no child support is paid by either parent. However, assuming no child support is paid by either parent, administratively, they will allow the Child Tax Credit provided only one parent claims the credit.
- CRA is reminding individuals and families to apply for the Canada Child Tax Benefit when the child is born, or if they become a resident of Canada. They should not delay as CRA has said they can only make retroactive payments for up to eleven

months from the month they receive the application.

- A taxpayer may claim the cost of installing a central air conditioner as a medical expense. The taxpayer needs a prescription from their doctor indicating it is required to cope with a severe and chronic ailment. The claim is restricted to the lesser of $1,000 or 50% of its cost.

- Under the new Home Renovation Tax Credit (HRTC) a taxpayer can claim a non-refundable tax credit on eligible expenditures greater than $1,000 to a maximum of $10,000, resulting in a maximum credit of $1,350.

Corporations

- In general computers acquired after March 18, 2007 fall into class 50 with a capital cost allowance rate of 55%. The 2009 budget proposes a temporary 100% CCA rate for eligible computers and software acquired after January 27, 2009 and before February 2011. This 100% CCA rate will not be subject to the half-year rule.

- Premiums payable by a taxpayer under a life insurance policy used as collateral for a loan may be deductible in computing income from a business or property under certain conditions. The policy must be assigned to a financial institution in the course of borrowing and be required by the financial institution.

- CRA has introduced new SR&ED claim forms for 2009. The new Form T661 does not introduce new policies. However significant project detail is now incorporated into the T2 tax form and not filed separately as in the past.

- For tax years commencing after December 31, 2008, companies that have a permanent establishment in Ontario will only have to file a combined Federal return. Various transitional rules will apply where a company's CCA, R&D and non-capital loss carry forward numbers vary between Ontario and the Federal government.

Terminal Returns

- Rights & Things are reported on a separate return and can include things like CPP and OAS to which a person is entitled at the beginning of a month and not paid out until the end of a month.

- Income earned after death and prior to distribution to beneficiaries should be filed on a T3 Trust return to allow the estate to take advantage of the low marginal rates.

- Where an Estate realizes a capital loss in the first tax year after death, it can elect to carry that loss back to the final tax year of the deceased, where it can offset capital gains, or possibly any other source of income.

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