Articles Program

2010 Tax Tips

Tax Tip 1 of 11
Special tax treatment for bankrupt business
Are you part of a small business that is facing insolvency or bankruptcy? Tax breaks may offer some welcome relief at a very difficult time.

"Losses from the dispositions of small business shares or debt may be deductible," says Chartered Accountant Adam Scherer, Tax Partner, Soberman LLP, Toronto.

"When a small business corporation becomes insolvent or goes bankrupt, creditors and investors in the business may suffer significant losses," he continues. "In many cases, 50 per cent of these losses will qualify for special tax treatment as Allowable Business Investment Losses (ABILs)."

Several requirements must be met for the loss on a small business share or debt to be considered an ABIL.

"Unlike capital losses that can only be deducted against capital gains, ABILs can offset income from any source. Unused portions of an ABIL can be carried back three years, with the balance carried forward for 10 years. After 10 years, any remaining ABIL balance becomes a net capital loss which carries forward indefinitely to be used against capital gains."

Obviously, it is difficult to sell worthless shares or debts, so typically a special tax election is filed by the taxpayer with his/her tax return to trigger recognition of the loss. The election deems that the shares or debt were disposed of for nil proceeds and immediately re-acquired after the end of the year for nil cost.

Are there any other considerations when claiming an ABIL?

"Yes," says Scherer. "Any previously claimed capital gains deduction may reduce the amount qualifying as an ABIL. Also, there may be adverse tax implications to the corporation that should be considered as a result of the debt-forgiveness rules."

For further information about Allowable Business Investment Losses, contact a Chartered Accountant.

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Tax Tip 2 of 11
Not all tip income is created equal

Whether it comes to you as cash, a write-in on a credit card or through some other process that your organization has set up, the Canada Revenue Agency (CRA) expects that any income you get from tips will be reported in full, and the tax on it paid.

But complications can arise when trying to determine if tip income is a “pensionable earning” for the purposes of Canada Pension Plan (CPP) calculations, or an “insurable” one for Employment Insurance (EI) benefits.

“Essentially, the CRA puts tip income into one of two categories: **controlled tips or direct tips**,” says Chartered Accountant Shailendra Jain in Toronto.

“**Controlled tips** are considered to have been paid to employees by their employer, even though the actual tip amount may have originated with a customer or client,” Jain explains. In these cases, the employer usually controls the employees’ access to tips somehow, such as restaurants, hotels or resorts that include a mandatory gratuity or service charge to cover tips; facilities that automatically add a certain tip percentage to a client’s bill; or those that have an organized tip-sharing formula determined by the employer.

“**Direct tips** are those that go straight to the employee from the customer or client,” says Jain. “This is the money you leave on the table in a restaurant, the tip amount you add to a credit card or debit transaction, or the funds a group of workers share from a tip-sharing program that they’ve established themselves.”

With controlled tips, CPP contributions and EI premiums are usually deducted at source, provided that the person in question is engaged in pensionable and/or insurable employment. Direct tips, however, are usually not subject to these same contribution rules.

In cases where the tip income has not been subject to CPP contributions at source, an employee can choose to voluntarily make the contributions his or herself provided they’re engaged in pensionable employment. To sign up, complete form CPT20 available on the CRA website at www.cra-arc.gc.ca.

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Tax Tip 3 of 11
Moving expenses

If you recently moved to another part of Canada for work or school, you can recoup at least some of the costs by claiming them on your 2010 tax return.

“You can deduct your moving expenses against taxable research grants and employment income as long as you moved at least 40 kilometres closer to the new educational institution or place of work,” says Chartered Accountant Gary Katz, Partner, Logan Katz LLP Chartered Accountants in Ottawa. “You can also claim any direct travel

expenses such as gas, meals and lodging, lease-cancellation charges and some costs related to the sale or purchase of a home.

“Just be aware that your deduction for expenses may not exceed any income you earn in your new location, including the taxable portion of any grant or scholarship you may have received. Any excess expenses can be carried forward and deducted in the following year,” advises Katz. “And, if you moved outside Canada but still retained Canadian residency, you may also claim moving expenses."

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Tax Tip 4 of 11
Tax tips for would-be expats

If you’re thinking of leaving the country to live or work for an extended period of time, don’t sever all ties with Canada until you’ve done the math.

“It can be tempting for expats or retirees to think about moving permanently to another country where the tax rates are lower, but if you give up your Canadian residency, it could amount to a deemed disposition of all your assets,” says Walter Benzinger, a Chartered Accountant in Windsor.

“If you cease being a Canadian resident and file a final tax return, you could be liable to pay capital gains tax on the proceeds you receive from liquidating many of your assets,” Benzinger explains. “The sale of a house that is – or was – your principal residence will likely be tax-exempt, and you can choose to keep your Canadian RRSPs, or cash them out after you emigrate and pay a withholding tax. But that might be where it ends.

“You need to really look at the tax rates and tax laws in the country where you’re planning to live. Should you move somewhere where tax rates are about the same as ours? Severing ties with Canada might not be to your advantage. As a Canadian resident, any income tax you pay in another country can usually be credited against what you owe here. And, because Canada doesn’t tax us on the value of our estates as the United States does, it can be a distinct advantage to maintain your Canadian residency, especially as your income and estate increases.”

But clearly, a life-decision like this calls for careful examination on a number of levels. “Don’t let the tail wag the dog and allow a very personal decision to be unduly influenced by a desire to save on taxes,” Benzinger advises.

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Tax Tip 5 of 11
Tax Free Savings Account – only in Canada?

Beginning in 2009, residents of Canada were given a fantastic new savings tool courtesy of the federal government: the ability to put up to $5,000 each year into a Tax Free Savings Account (TFSA).

“For Canadian tax purposes, the income earned in a TFSA is tax-free to the recipient following normal Canadian tax rules, “says Chartered Accountant Mark Feigenbaum in Thornhill, who is also a U.S. Attorney and Certified Public Accountant.

But this is one made-in-Canada product that can’t necessarily be exported south of the border.

“If the TFSA holder is a U.S. citizen, however, it’s possible that the income earned in the account won’t grow on a tax-free basis for U.S. tax purposes,” he cautions.

Therefore, if you happen to be a U.S. citizen who has earned some income in a TFSA, you may need to include this amount on a U.S. tax return. And, of course, you must consider that there may not be any, or at least sufficient, Canadian foreign-tax credit available to offset this U.S. tax payable.”

On the plus side, there have been changes to agreements between Canada and the U.S. that now allow Americans working here to deduct their contributions to Canadian-company pension plans on their U.S. tax returns.

To determine what rules and parameters apply to your own personal situation, Feigenbaum recommends you consult a Chartered Accountant who is well-versed in both U.S. and Canadian tax rules and issues.

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Tax Tip 6 of 11
Childcare costs can be deducted

“If you pay childcare expenses, you may be entitled to some welcome tax relief,” explains Chartered Accountant Sam Zuk, Partner, Soberman LLP, Toronto.

The maximum amounts deductible for childcare expenses are $10,000 for a disabled child; $7,000 for children under age seven, and up to $4,000 for other eligible children (generally age 16 and under). In most cases, the spouse with the lower earned income must claim the childcare expenses.

“To claim these expenses, it’s important to pay for them by the end of the year. Remember to obtain a receipt in the event that the Canada Revenue Agency asks for evidence of payment in the future,” advises Zuk.

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Tax Tip 7 of 11
Pay taxes on the instalment plan

“If you’re required to pay your taxes in instalments, don’t put off making the payments or sending in your return,” advises Chartered Accountant Amit Grover, Manager Taxation Group, Soberman LLP, Toronto.

If you fail to pay the required amounts on time, the Canada Revenue Agency (CRA) could charge you substantial interest and penalties.

Not all taxpayers are required to pay tax instalments. In 2011, individuals may need to if their net taxes payable (plus Canada Pension Plan contributions payable) exceeded $3,000 in 2010 and either 2008 or 2009.

“The CRA determines who is required to pay instalments and mails those taxpayers instalment reminders. If you don’t receive notification of your instalment amounts from CRA, you may not have to make the instalments, even if your tax liability exceeds the $3,000 threshold in the relevant years,” says Grover. If you are not sure whether you need to make instalments, you can always check *My Account* on the CRA website. If the CRA has issued an instalment notice to you, it will be noted in *My Account.*

“If you do receive notification of your instalment amounts from CRA, remember that it’s based on past information. If you’re certain that your current year’s unpaid liability when you file your return will be less than your total instalments as determined by the CRA, you can consider reducing your instalment payments.”

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Tax Tip 8 of 11
Are union dues tax-deductible?

Are you a member of a trade union or any employee organization that’s been formed essentially to manage or regulate relations between employers and employees? If yes, you can usually deduct your annual dues, providing you haven’t been reimbursed for them in some other way, and are not entitled to be, says Chartered Accountant Winnie K. Yu Wong, Partner with Chan Yu Wong Chartered Accountants LLP in Richmond Hill.

“Where provincial law requires an employee to pay dues to a parity or advisory committee or some similar body, the amounts may also be deducted when computing the employee's income, again, providing there’s no other reimbursement and they’re not being charged for any purpose other than the normal operating expenses of the committee or body involved,” says Wong.

“However, dues are **not** deductible if they are, in fact, being charged for or under a superannuation fund or plan; a plan for annuities, insurance or other similar benefits; or for any other purpose not specifically related to the usual expenses of operating a union or similar body,” Wong explains. “For example, dues for the creation and/or maintenance of a building fund, or to pay funeral expenses would generally **not** be acceptable deductions.”

There are some important exceptions. For example, dues for a superannuation plan that’s been accepted for registration by the Canada Revenue Agency (CRA) are sometimes deductible, and often that portion of one’s dues that would go to help meet the current or anticipated costs of prosecuting legal strikes is deductible, too.

Wong advises you to keep all receipts and documents related to your union dues if you are filing your taxes electronically. If you’re filing a paper return, attach your T4 slips, but

not the other receipts or documents. Keep them available, just in case the CRA asks to see them at a later date.

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Tax Tip 9 of 11
How long should I keep my old tax records?

"The Canada Revenue Agency (CRA) can ask to review an individual taxpayer's tax return for up to three years from the date of assessment," says Chartered Accountant Bryan Allendorf, Tax Strategist with Meyers Norris Penny in Markham. The CRA website recommends taxpayers retain their receipts and documentation for as long as six years.

In business, it's similar. "Some source documents like an accounting ledger and corporate minutes need to be kept forever, essentially," says Allendorf. "But in most cases, the CRA recommends you keep records and source documents for at least six years from the end of the last tax year to which they relate."

Fortunately, the advent of electronic filings and computer memory mean that a lot of information and records can be saved without having to rent a storehouse for the paper. A good thing, Allendorf says, because you never know when you might need a receipt, invoice or other document to substantiate a business loss or insurance claim.

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Tax Tip 10 of 11
Financial help for families

Since July 2006, there's been financial help for families with young children in the form of the Universal Child Care Benefit (UCCB) program.

According to Chartered Accountant Winnie K. Yu Wong, Partner with Chan Yu Wong Chartered Accountants LLP in Richmond Hill, this program allows families to receive up to $1,200 per year for each child, paid in instalments of $100 per month, right up until the month in which they turn six years of age.

"Unlike the Child Tax Benefit – another federal government assistance program that is based on a measurement of household income – the Universal Child Care Benefit is a direct payment from the government that is not means-tested, that is, not subject to reduction as family income increases," Wong explains.

"On the other hand, the Universal Child Care Benefit is integrated with the Child Tax Benefit system administered by the Canada Revenue Agency," she continues. "So if you are already receiving Child Tax Benefits for a child less than six years of age, you should automatically receive the Universal Child Care Benefit as well. If you do not receive the UCCB automatically, you must apply for it on CRA Form RC66 – the Canada Child Tax Benefit Application."

Wong notes that the UCCB payments that your family receives will be taxable to the lower-income spouse.

“However, there is an income-splitting opportunity,” she advises. “If you decide to invest the UCCB payments in the name of your child, any income earned on the investment will be taxable to the child – not you. If the child’s taxable income is below $10,382 (the personal tax credit amount for 2010) the income will not be subject to either federal or Ontario tax.”

The Canada Child Tax Benefit application form is available on the Canada Revenue Agency (CRA) website at www.cra-arc.gc.ca/E/pbg/tf/rc66/README.html.

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Tax Tip 11 of 11
Tax incentives for employed tradespeople

“If you are an employed tradesperson, you may be eligible for federal tax incentives,” says Chartered Accountant Giancarlo Di Maio, Partner, PricewaterhouseCoopers LLP in Windsor.

According to Di Maio, an annual taxable $1,000 federal cash grant (maximum $2,000 per apprentice) is offered to apprentices who successfully complete their first or second year or level of a qualifying apprenticeship program in one of the Red Seal Trades – an interprovincial standard of excellence for industry.

An additional one-time taxable $2,000 federal cash grant is also available to apprentices who complete their apprenticeship program and receive their journeyperson certification in a designated Red Seal trade.

Further, tradespeople who acquire eligible tools for employment can claim a deduction to a maximum of $500 per year if the total cost of the tools exceeds $1,051 in 2010. To qualify for the tools’ deduction, an employer must certify that the employee is required to have the tools as a condition of, and for use in, the employment,” says Di Maio. “As an additional benefit, the employee will be eligible for a rebate of the GST/HST paid on the portion of the purchase price of the tools that qualify for the deduction.

“Apprentice vehicle mechanics can claim both the tradespeople’s tools deduction and the apprentice vehicle mechanics’ tools deduction, which allows a deduction for the cost of eligible new tools acquired in a year that exceeds a threshold.”

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