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In lieu of Holiday Cards, this year Baratz Judelman, Chartered Accountants has decided to donate to the following charities: Canadian Cancer Society, The Hospital for Sick Kids and The Daily Bread Food Bank.

The partners and staff of Baratz Judelman take this opportunity to extend to you and your family best wishes for the Holiday Season and health, happiness and prosperity.



SOME HIGHLIGHTS OF THE NEW ONTARIO HST TAX

Ontario Sales Tax Harmonization (HST)

There will be a new tax in Ontario called the HST starting on July 1, 2010. This new tax will replace the existing GST and PST. The HST rate will be 13%, which is comprised of 5% Federal GST plus an 8% Ontario tax. The HST will be administered by the Canada Revenue Agency.

Advantage to Businesses

Businesses will be the big winners. Currently businesses pay PST on many purchases and are not able to recover this tax. Under the HST system, businesses will be able to recover the full amount of HST paid. This will result in an overall cost reduction to the business. Businesses will also benefit from a reduction in government compliance. Currently businesses have to deal with two levels of government, the Federal government for GST filings and the Provincial government for PST filings. Under the HST system, businesses will now only be subject to HST reporting.

Get Your Business HST Ready

Business systems will likely require modification. For example, computer software, invoices, sales receipts, purchase orders and expense reports may have to be modified for the HST. If possible, planned expenditures should be incurred after June, 2010 so that the provincial component of the HST tax can be recovered. Also, businesses that are zero-rated under GST and are filing returns annually or quarterly, should consider filing HST returns monthly in order to recover HST paid on a more frequent basis.

Impact on Consumers

Consumers will be the losers. Economists at the Toronto-Dominion Bank have estimated that the tax rate on overall consumer consumption will increase by 1.5%. HST will be applied to a broad range of items that did not include provincial taxes in the past. For example dry cleaning, haircuts, gym memberships and some restaurant meals will now be taxed at a rate of 13%. Mutual fund industry insiders say that investors will pay hundreds of millions of dollars more in fees once the harmonized tax takes effect.

Construction and Real Estate

Harmonization has effectively introduced a new tax on new housing. New homes will be subject to 13% HST as compared to current rate of 5% GST. The Ontario government has announced rebates that will partially offset the increased tax on new homes. These rebates are complex and subject to complex transitional rules.

Ontario Sales Tax Transition Benefit

Three payments beginning on June 2010 will be paid to individuals as part of the harmonization of the sales tax. Payments will be based on the net income on the previous year's (2009) tax return. The total payments will be up to \$300 for single individuals with net income not exceeding \$82,000 and up to \$1,000 for couples and single parents with net income not exceeding \$166,700.

Summary

Harmonization takes effect July 1, 2010. The new HST tax is overall more efficient than the current two tax system. However, the result will be that the tax burden will shift from businesses to consumers.



YEAR-END PLANNING

Some **2009 year-end tax planning tips** include:

1. Certain **expenditures** made by **individuals** by **December 31, 2009** will be eligible for **2009 tax deductions** or **credits** including: moving expenses, child care expenses, safety deposit box fees, charitable donations, political contributions, medical expenses, alimony, eligible employment expenses, union, professional, or like dues, carrying charges and interest expenses, certain public transit amounts, and children's fitness amounts.

2. The 2009 Federal Budget proposes to introduce a temporary **Home Renovation Tax Credit** for expenditures made after January 27, 2009 and before February 1, 2010 in excess of \$1,000, to a maximum of \$10,000, resulting in a maximum Federal credit of \$1,350 (\$9,000 x 15%).

Please **provide details** of **renovation costs** (example - carpets, landscaping, additions, fences, painting, etcetera, etcetera).

For details, see www.cra.gc.ca and click on **Home Renovation Tax Credit**.

3. You have until **March 1, 2010** to make tax deductible Registered Retirement Savings Plan (**RRSP**) contributions for the 2009 year.

Consider contributing to a **spousal RRSP** to achieve income splitting in the future.

4. If you own a business, consider paying a **reasonable salary** to family members for services rendered to the business.
5. An individual whose **2009 net income** exceeds \$66,335 will lose all, or part, of his/her **old age security**.

Senior citizens will begin to lose their income tax age credit if net income exceeds **\$32,312**.

6. Consider purchasing assets eligible for **capital cost allowance** before the year-end.

7. Consider selling capital properties with an **underlying capital loss** prior to the year-end if you had **taxable capital gains** in the **year**, or any of the **preceding three years**. This capital loss may be offset against the capital gains.

8. Registered Education Savings Plan (RESP)

A **Canada Education Savings Grant (CESG)** for RESP contributions will be permitted equal to 20% of annual contributions for children (maximum \$500 per child per year).

9. Health and dental premiums for the self-employed

Individuals will be allowed to **deduct** amounts payable for **Private Health Service Plan** coverage in computing business income provided they meet certain criteria.

10. A **refund of Employment Insurance** paid for non-arm's length employees **may** be available upon application to Canada Revenue Agency.

11. Taxpayers that receive "**eligible**" dividends from private and public corporations will have a significantly lower tax rate on the dividends. **Notification** from the corporation to the shareholder is required.

12. A **Registered Disability Savings Plan** may be established for a person who is eligible for the **Disability Tax Credit**. Non-deductible contributions to a **lifetime maximum of \$200,000** are permitted which are eligible for grants and bonds.

13. Are you **disabled or are any of your dependants** disabled? Provide Form T2201 - disability tax credit certificate. This also includes extensive therapy such as kidney dialysis and certain cystic fibrosis therapy. Also, the **transfer rules** include relatives such as parents, grandparents, child, grandchild, brothers, sisters, aunts, uncles, nephews or nieces. Persons with **disabilities** also may receive tax relief for the cost of **disability supports** (eg. sign language services, talking textbooks, etc.) incurred for the purpose of **employment** or **education**.



14. If you provided *in-home care* for a *parent or grandparent* (including in-laws) 65 years of age or over, or an infirm *dependent relative*, a federal tax credit may be available.

Also, the caregiver may claim related *training costs* as a medical expense credit.

15. Interest paid on qualifying *student loans* is eligible for a tax credit.

16. You are entitled to receive the *Universal Child Care Benefit* of *\$100 per month* for each child under *6 years* of age.

17. Individuals 18 years of age and older may deposit **up to \$5000** per year into a **Tax-Free Savings Account**. **This amount is cumulative.**



PERSONAL TAX RETURNS

MEDICAL EXPENSE - AIR CONDITIONER

In an April 27, 2009 **External Technical Interpretation**, Canada Revenue Agency notes that a taxpayer may claim the cost of installing a central **air conditioner** as a **medical expense** providing that certain tests are met.

In particular, the taxpayer needs a **prescription** from his/her **doctor** which **indicates** that he/she needs an air conditioner to help cope with an ailment which is both **severe and chronic**. Also, the medical expense claim for an air conditioner is limited to the lesser of **\$1,000** and 50% of its cost.



EMPLOYMENT INCOME

CANADA REVENUE AGENCY ADMINISTRATIVE CHANGES

On June 11, 2009, Canada Revenue Agency introduced **policy changes** for employment benefits.

For example,

Overtime Meals and Allowances Provided to Employees

For **2009**, Canada Revenue Agency will consider **no taxable benefit** to arise if:

- the value of the meal or meal allowances is **reasonable**; a value of up to \$17 will generally be considered reasonable,
- the employee works **two or more hours** of overtime right before or right after his/her scheduled hours of work, and
- the overtime is **infrequent** and **occasional** in nature. Less than three times a week will generally be considered infrequent or occasional. However, this condition may also be met where the meal or allowance is provided three or more times per week on an occasional basis to meet **workload demands** such as major repairs or periodic financial reporting.

Non-Cash Gifts and Non-Cash Awards

For **2010**, the following changes are being made to Canada Revenue Agency's **gift and award policy**. The **current rules** are that up to **two gifts** and **two awards** costing **\$500 or less** are **non-taxable** to the employee but **deductible** to the employer.

- Non-cash gifts and non-cash awards to an arm's length employee, **regardless of the number**, will **not be taxable** to the extent that the total aggregate value of **all non-cash gifts and awards** to that employee is less than or equal to **\$500 annually**. The total value in excess of \$500 annually will be taxable.
- In addition to the above, every 5 years a separate non-cash **long-service award** may also qualify for non-taxable status to the extent its total value is **\$500 or less**.

DIRECTOR LIABILITY - UNPAID GST/HST

In a May 4, 2009 **Tax Court** of Canada case, the taxpayer/**director** was assessed for **personal liability** for **unpaid GST/HST** of \$236,344 plus **interest** of \$7,372 plus **penalties** of \$9,651 for a total of \$253,367.

Taxpayer Wins!

The Court noted that where the director has **little understanding** of **financial documents**, he **may rely** on others to handle the financial aspects without incurring personal liability for unpaid GST/HST.

Also, in a May 12, 2009 **Technical Interpretation**, Canada Revenue Agency notes that **directors cannot** be assessed **more than two years** after they cease to hold office.

SUPERFICIAL LOSSES

In a January 22, 2008 **Technical Interpretation**, Canada Revenue Agency notes that a **taxpayer's loss** from the disposition of **property** is deemed nil to the extent that it is a "**superficial loss**".

For example, this applies if the taxpayer sells a security which is then purchased, or repurchased, by a **Trust** governed by the taxpayer's **RRSP, RRIF or TFSA** within the period of **thirty days** before, or thirty days after, the disposition.

