Behind the Counter

Personal Tax Update – for 2009

With the ratification of the Budget in January, there were a few changes to the Federal Income Tax act that will affect the filing of 2009 personal income taxes in April and June. The first two federal income tax brackets were increased by 7.5% and the other brackets were adjusted accordingly. The 15% bracket went from 0-37,885 to 0-40,726. The 22% bracket went from 37,886-75,769 to 40,727-81,452. The 26% bracket was 75,770-123,184 to 81,453-126,264. The 29% bracket started at 123,185 in 2008 and 126,265 in 2009. There was also a corresponding change to the basic personal amount increasing it to 10,320 for 2009 from 9,600 in 2008. The age credit has been increased to 6,408 and begins to be clawed back at an income of 32,312 and is totally gone with an income of 75,032. The RRSP contribution limit for this year is up to $21,000 and in order to take advantage of the entire limit you would need to have had earned income of $116,667 in 2008. The working income tax benefit was also increased.

The prescribed quarterly interest rates have stayed steady and are expected to remain the same until July 2010. The Base rate is 1% which is the rate used for loans between spouses for splitting income purposes and loans to companies. Now might be a good time to loan some money to a spouse or company at this rate. You can lock it in with a contract so that when the rates go up your loan will be protected. By using a contract, there is proof for CRA that the loan is real so that the attribution rules don't kick in. The best way to income split with children is still through the set up of a family trust. The rate for refunds is 3% and the rate for late tax payments is 5%.

A new first-time home buyer's tax credit was also introduced for purchases after January 27, 2009, increasing the RRSP withdrawal limit to 25,000 for a single purchaser and to 50,000 for a joint purchase. The credit is $750 and to qualify you cannot have owned a home in the preceding five years.

Losses inside an RRSP or RRIF after the date of death and before distribution can now be carried back to the final return of the deceased and can be utilized up to the amount of the taxable income on that return.

Apparently there have been deliberate abuses of the TFSA program with respect to over contributions and contributing to prohibited investments so expect to see some legislative changes with respect to these items.

If you are an owner manager and are not interested in contributing to the CPP because you may think that it may be phased out by the time you retire, you have a couple of options. The first is to receive your corporate income by way of dividends, but this will not provide you with earned income to be able to contribute to an RRSP if you need the tax deduction. Another option would be to set up an employee profit sharing plan (EPSP). The income would be paid into the plan and then paid out to the employees and this type of income is still considered earned income, but is not subject to any source deductions. Conceivably, the employee could take this income and drop it right into an RRSP and receive the tax break. On the other hand if you think that CPP is still a good deal, here is something to consider. As an employee you have to contribute 4.5% to the plan and if you are an owner manager you will also need to contribute the employer portion of 4.5%, so you are contributing 9% to the plan at a time when the best investments are only providing a return of 5-6%.

The Home Renovation Tax credit ended on January 27,2009 despite the rumors that it may be extended. The maximum amount of credit that you can claim is $1,350 and you need to have enough taxable income in order to absorb the entire credit as it is non-refundable. This credit is family based in that any member of the family living in the eligible home that was renovated can claim the credit or a portion of the credit. In order to claim the credit or a portion of the credit, you will need to provide your receipts to your accountant. Each receipt needs to have the name of the supplier, the GST number and the total for the work completed. Examples of what cannot be claimed are appliances, audiovisual electronics, financing, furniture, drapes and tools. Examples of what can be claimed are renovations to a kitchen, bathroom or basement, new carpets or hardwood flooring, building of an addition, deck, fence or retaining wall, purchasing a new furnace or water heater, painting the interior or exterior of a house, a new or restored driveway and laying new sod. If you are unsure whether something would qualify, please include the receipt and if it is questionable the best thing to do would be to include it and hope that CRA rules in your favor.

There were a number of administrative changes passed by the Budget making it easier to account for things like overtime meals and allowances which cap the meals at $17. Previously if you received a travel allowance for driving within the municipality or metropolitan area, that amount would have been required to be included in income, it will now be exempt. Previously, if you were using your credit card for business purchases and that credit card received air miles, when you spent those air miles, you were required to tax yourself on that benefit. That is no longer a requirement as long as you cannot convert those air miles to cash. You can now give your employees any number of noncash gifts valued up to $500, subject to some restrictions without the employee incurring any tax.

The CRA has created a new online service to allow you pay your installments and your taxes owing called My Payment. In order to use this service you must create an EPASS account for yourself. This service utilizes interact, so you will be limited as to the amount you can remit by the limits that you have on your interact card. Some caution here, you may not want to increase the limit on your interact card in case your card ever gets stolen, if your limits are high it may make it easier for the thief to clean out your bank account.

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