



We wish you all the best of the holiday season – health, happiness and prosperity to you, your families and friends.




In addition to our regular charitable donation to various organizations this year, the PEL team has created our own “12 days of Christmas”. Each day, each member of the team will contribute some item that relates to the 12 verses in the Christmas carol by the same name. At the end of the 12 days, we will have an interesting collection of useful items that will be donated to a local organization for distribution to those in need.

We encourage other groups to follow suit and truly make this a season of giving!

PERSONAL TAX

AFTER-SCHOOL RECREATIONAL PROGRAM - CHILD CARE EXPENSE

In a September 8, 2006 *Tax Court* of Canada case, the taxpayer paid fees to a  *gymnastics club* of \$984 for *after-school* classes and \$431 for *summer and spring break* gymnastics *camps* for her 12 year old daughter.

Taxpayer Wins!

The *essential question* is what is the *primary reason* for enrolling the child in the activity. In this case, the *primary reason* was to *provide child care* so that the taxpayer was able to perform duties of *employment*. Therefore, the *taxpayer's deduction* for child care expenses was *allowed*.

PENSION TAX CREDIT

The *2006 Federal Budget* increased the Federal Tax Credit to *pension income of \$2,000* commencing *January 1, 2006*. With the Provincial Tax Credit this could be in the 25% range.

Pensions that qualify include:

1. An *annuity* from pension plan;
2. Elect to pay out tax-free “*capital*”

2. For persons aged *65 or older*, the taxable portion of *annuities* purchased from an *insurance company*; and
3. For persons aged *65 or older*, annuity payments from an RRSP, a *RRIF*, or a *deferred profit-sharing plan*.

However, a person *under age 65* would also get the pension credit if they were receiving *annuity payments* inherited from a *deceased spouse*.

2006 REMUNERATION

Some *general guidelines* to follow in *remunerating the owner* of a *Canadian-controlled private corporation* earning “*active business income*” include:

1. In general, *bonus down* active business earnings in excess of the *annual business limit*. However, leaving corporate *active business income* over this amount presents a *tax deferral*. The *disadvantage* of the additional tax on dividends has been significantly *reduced* with the new *lower tax rates* on “*eligible*” *dividends*.

IN THIS ISSUE

PERSONAL TAX
2006 REMUNERATION
BUSINESS/PROPERTY INCOME
EMPLOYMENT INCOME
ESTATE PLANNING
GST

dividend account’ dividends.

3. Consider paying dividends to obtain a refund of “*refundable dividend tax on hand*”.
4. Corporate earnings in excess of personal requirements could be left in the company to obtain a *tax deferral*. The effect on the “*Qualified Small Business Corporation*” status should be reviewed before selling the shares.
5. *Dividends*, as opposed to salaries, will reduce an individual’s *cumulative net investment loss* balance thereby providing greater access to the *capital gain exemption*.

PAGNANINI EDWARDS LAM CHARTERED ACCOUNTANTS

Suite 306 - 3701 Hastings Street, Burnaby, BC, V5C 2H6
Tel (604) 299-9274 Fax (604) 299-9247 Email info@accountantsplus.ca
Website www.accountantsplus.ca

6. Excessive *personal income* affects receipts subject to *clawbacks*, such as *old age security*, the *age credit*, *child tax benefits*, and *GST credits*.
7. Salary payments require *source deductions* to be remitted to Canada Revenue Agency (CRA) on a timely basis.
8. Individuals that wish to contribute to the Canada Pension Plan or an RRSP may require a salary to create “*earned income*”.

BUSINESS/PROPERTY INCOME

PRIVATE HEALTH SERVICE PLAN (PHSP)

In a July 14, 2006 *Technical Interpretation*, CRA notes that when a *sole proprietor* implements a Cost-Plus Plan, it must provide coverage for *at least one employee* other than the sole proprietor. Otherwise, it is *not* in the nature of *insurance* as the proprietor has not undertaken to *indemnify* another person.

LANDSCAPING

The Income Tax Act permits a *deduction* for amounts *paid* by a taxpayer for *landscaping* grounds around the *building* or other structure *of the taxpayer* that is *used primarily* for the purpose of gaining or producing income from a *business*.



Therefore, *prepaid landscaping costs* may *be eligible* for a deduction even if the actual work has not been started. Alternatively, work that has been done, but not paid - just a *payable*, will *not be deductible* until it is paid.

EMPLOYMENT INCOME

SPECIAL WORKSITE

In a July 17, 2006 *External Technical Interpretation*, CRA notes that where an employee is assigned to a location other than the normal employment location for a *temporary period*, *payments* made by the employer in respect of the employee’s *eligible relocation and living expenses* are *deductible* to the employer and *not taxable* to the employee.

The requirement that the *duties* be of a “*temporary nature*” will occur if the period is *less than two years*. However, CRA notes that there *are situations* where the employment period *extends beyond two years* which *will also be considered* of a “temporary” nature.

In a June 14, 2006 *External Technical Interpretation*, CRA notes that where a company which is taking on *temporary logging work* on a six-month renewable contract pays for the *board, meals and travel* of its *employees* to carry out the work, this will likely qualify as a *special worksite*. The value of *board, lodging* and *other benefits* related to it would be *tax-free to the employee*.

LEGAL EXPENSES

In an August 11, 2006 *External Technical Interpretation*, CRA notes that the Income Tax Act permits a *deduction* in computing income from *employment* for legal expenses paid in the year to collect, or to establish a right to, employment income. Therefore, if the income received from a *disability claim* is taxable, legal expenses incurred would be *deductible*.

REIMBURSEMENT OF HEALTH PREMIUMS BY EMPLOYER

In a July 25, 2006 *External Technical Interpretation*, CRA notes that *medical and hospital insurance plans* covered by Blue Cross and various other medical insurers would be considered Private Health Service Plans (*PHSPs*). Therefore, the *reimbursement* of premiums for health and dental benefits by an employer for employees would be *excluded* from *employment income*.

ESTATE PLANNING

AIRPLANE TICKETS

In a June 2, 2006 *External Technical Interpretation*, CRA notes that where an individual redeems *reward points* to acquire an airplane ticket and then donates the *airplane ticket* to a Registered Canadian Charity, the individual will be considered to have *made a gift* for Income Tax Act purposes.

FLOW-THROUGH SHARES

Taxpayers that donate *publicly listed securities* after *May 1, 2006* do *not* have to report the *capital gain* if the securities are donated to a *registered charity* - but not to a private foundation. As the *tax cost* of a *flow-through share* is usually *nominal or nil* because of the immediate write-off of deductions, the *donation* for a *tax credit* based on fair market value is *advantageous* because the *capital gain* is *not taxable*.

GST

INPUT TAX CREDITS - REFUSED

In a March 17, 2006 *Tax Court* of Canada case, the taxpayer claimed *Input Tax Credits* on purchases for which the invoices *did not include* a valid GST Registration Number.

Taxpayer Loses

The Court noted that a Registrant may *not claim* an *Input Tax Credit* unless he/she has obtained *prescribed information* which includes the valid GST Registration Number of the supplier.

Editor’s Comment – GST/HST Web Registry

A person’s GST/HST Registration status may be checked at www.cra-arc.gc.ca/eservices/tax/business/gst/thtregistry/menu-e.html.

After entering a GST/HST number, business name and date of transaction, the system will tell you whether the person was registered for GST/HST on that particular date. Keeping this *confirmation* for *receipt purposes* is a good idea.

DENTISTS

Most *dental services* are “*exempt*” supplies. Therefore, purchases related thereto are *not eligible* for *Input Tax Credits*. However, *cosmetic dental services* (GST rate 6%) and sales and installation of *artificial teeth and orthodontic* appliances (zero-rated) are *eligible* for *Input Tax Credits* on purchases related thereto.

