

TAX AND BUSINESS UPDATE OCTOBER 2011

CONGRATULATIONS RANDY



We are very pleased to report that Randy Patton has achieved a significant award from CGA-BC. Randy has won the David B. Reid Scholarship for achieving the highest academic standing in Advanced External Auditing. This is a high level course and to achieve this result reflects Randy's dedication to his professional competence and education. Congratulations Randy.

However, if you commence collecting your pension in 2011 prior to reaching age 65, the amount of your pension is reduced by 0.5% times the number of months remaining to your 65th birthday. Note that from 2012 to 2016 this 0.5% will gradually increase to 0.6%.

You can increase the amount of your monthly pension, if you wait until after age 65 to commence collecting. Between the ages of 65 and 70, your pension will increase by between 0.5% and 0.7% per month depending on your age when you commence collecting.

The Service Canada website has good information on the modernized CPP rules. For details, please visit <http://www.servicecanada.gc.ca/eng/sc/cpp/retirement/canadapension.shtml>.

CANADA PENSION PLAN UPDATE

In our December 2010 bulletin, we explained the proposed changes to the Canada Pension Plan. Since then, further changes have been made and the new "modernized" program has been implemented. The principal changes relate to collection of benefits prior to age 65. The following is a summary of the rules relating to this situation.

In 2011 you can qualify for CPP benefits between the ages of 60 and 65 if your earnings are less than \$960 per month for the month in which the pension commences and in the immediately preceding month. Of course if you are fully retired and have no salary and have previously contributed, you will also qualify. For 2012, the monthly earnings restriction has been eliminated and you can commence collecting your CPP pension even if you continue to work at full salary.

Also note that after 2011, if you continue to work while collecting your CPP benefits, you will continue to pay CPP premiums. This is a significant change from the old rules where you were exempted from paying premiums once you commenced collecting benefits.

Your pension is based on the contributions made over your working life and the maximum pension is paid to those people whose earnings have always equaled or exceeded the annual contribution limit (\$48,300 for 2011).

DEDUCTIBLE INTEREST

Can you continue to deduct interest on an investment loan if you have sold that investment at a loss? This is a good question and the answer is that it depends on what you do with the money from the sale of the investment. If you re-invest in another investment that is expected to earn taxable income, then you may continue to deduct the interest.

If not, future interest paid on the investment is not deductible.



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FREQUENT FLYER PROGRAMS

In prior years, the CRA treated frequent flyer programs as taxable benefits. However, this has changed and in many cases loyalty program benefits can be received tax free. The general rules are as follows:

- The points must be earned on an employee's personal credit card,
- The points cannot be converted to cash,
- The plan is not considered an alternative form of remuneration, and
- The plan is not a tax avoidance scheme.

Note that if an employer credit card is used, and the employer allows an employee to redeem points, the redemption will be considered a taxable benefit.



US CITIZENS IN CANADA

Most people know that the IRS requires all US citizens to file an annual tax return. Unlike Canadian Citizens who file only on the basis of their residency, the US rule applies no matter where the US citizen is resident. This filing requirement does not necessarily mean double taxation, as taxes paid in Canada will likely reduce or eliminate taxes in the US. However, failure to file annual US tax returns can result in penalties. In view of the difficult deficit situation faced by the US and a move toward increased international cooperation in tax reporting, it seems likely that the IRS will be making a greater effort to locate non-filers and force compliance.

In addition to filing annual returns another issue that US citizens should consider is the Canadian Tax Free Savings Account. (TFSA) At this time, it likely does not make sense for US citizens, resident in Canada to hold a TFSA. While the income earned on such accounts is tax free here, it is not in the US. Also, the TFSA may be considered to be a 'foreign trust' in the US and if so, the IRS has reporting requirements that could result in penalties if not complied with. If you are a US citizen with a TFSA, it probably makes sense to redeem the funds. If the rules change in the future, which is anticipated, the TFSA could be re-established with no loss of contribution room.

CHILDREN'S ART TAX CREDIT

In its recent budget, the federal government announced a new tax credit similar to the Fitness Tax Credit, but this time based on arts and cultural programs. The key rules are as follows:



- The credit will be 15% of up to \$500 of eligible expenses incurred for each child enrolled in a program of artistic, cultural, recreational or developmental activity.
- The child must be under 16 (18 if disabled) at the beginning of the year in which the expenses are incurred.
- Eligible programs must last 8 weeks, consisting of at least 90% eligible activities or 5 consecutive days in which at least 50% of the activities are eligible.
- Either parent may claim the credit, or it may be shared between them.
- Club or association memberships will qualify if at least 50% of the activities offered by the organization are considered eligible.
- Eligible activities are those that contribute to the development of creative skills in artistic or cultural activities; provide a substantial focus on wilderness or the natural environment; help children develop or use intellectual skills; provide structured interaction between children where supervisors teach or assist in developing interpersonal skills; and/or provide enrichment or tutoring in academic subjects.
- Eligible expenses will include fees paid for registration or memberships and may include the costs of administration, instruction, facility or equipment rental and incidental supplies.
- Ineligible expenses include the costs to purchase or rent equipment for the child's exclusive use, travel, meals and accommodation and any expenses that qualify under the Children's fitness tax credit program.

Parents are reminded to check out the programs to assure they meet the above criteria before claiming the credits. While the tax benefits are not great, this new program is intended to encourage families to enroll their kids in artistic and cultural endeavors.

Free Parking

Not much is received for nothing these days, but we are pleased to remind everyone that the Ellis Street parking lot located right across from our office offers one hour's free parking. Just obtain the complimentary ticket from the ticket spitter and the first hour will cost you nothing. We also try to leave our rear parking lot empty during March and April. If you are able to park there, please enter the office through the back door. Ring the bell to get our attention.