
TAX AND BUSINESS UPDATE

FEBRUARY 2010

Disability Tax Credit

The disability tax credit has undergone many changes over the last several years. It is a valuable credit that can reduce income taxes by about \$1,200 per year for those people who meet the criteria.

Essentially, those individuals who are physically or mentally impaired and whose impairment has lasted or is expected to last for a period of 12 months will be eligible for a tax credit. The most important criteria are blindness, being in receipt of life sustaining therapy or being markedly restricted in the activities of daily living, such as speaking, dressing, hearing, walking, feeding, elimination and mental functions.

A fairly recent amendment broadened the criteria to allow the claim for individuals who may not strictly meet one of the above criteria, but due to a combination of health problems, are nevertheless considered to suffer a life restricting impairment. If you didn't qualify in prior years, but continue to suffer health problems, you may wish to reconsider your eligibility.

If you believe that you or someone in your family may be eligible, please complete the self-assessment questionnaire provided by the Canada Revenue Agency. This may be found on the internet at <http://www.cra-arc.gc.ca/disability> or see Harvey, Lister & Webb Incorporated for a hard copy of this form.

Missing Information Slips

The Canada Revenue Agency is taking an aggressive approach towards assessing penalties for missing information slips. Penalties of 20% of the amount of unreported income will be assessed in cases where income was also missed in any of the previous three years. This can be very expensive as the penalties are in addition to the taxes on the missing income and interest charges. For example, if missing income of \$5,000 is subject to this penalty, the total cost could be in the order of \$3,200 plus interest, for taxpayers in the highest BC tax bracket.

To minimize the risk of this occurring it is very important to assure that all information slips have been included when filing your tax return.

If you are unable to obtain a slip, you should estimate the amount of income and include it in your tax return. If the slip arrives later, you can file an adjustment correcting the amount if necessary. Keeping track of your sources of income and comparing them to prior years is a good way to reduce the chances of missing information slips.

At Harvey, Lister & Webb Incorporated, we conduct a review of all returns, and follow up on all significant differences between the current and prior year. While we consider the possibilities of missing slips, it is of course very difficult to be one hundred percent sure that no such incidences have occurred. Taxpayers should take extra care to organize their tax documents so that they report all income earned each year.

If you are aware of unreported income, you may be able to make a voluntary disclosure by advising the CRA of the unreported amounts, and amending your prior year returns. This should reduce or eliminate the risk of the 20% penalty.

Air Conditioners – Medical Expense?

Under certain circumstances, you may be able to claim the cost of installing an air conditioner as a medical expense. If you have a prescription from your doctor indicating that you require an air conditioner to cope with a severe and chronic medical ailment, the costs will be eligible medical expenses. The maximum amount that may be claimed is the lesser of \$1,000 and 50% of the costs of the air conditioner.

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Deductible Life Insurance

Life insurance premiums are generally not deductible for tax purposes. However, under certain limited circumstances, you may be able to deduct the premiums. First of all, group life premiums for coverage of up to \$25,000 per employee are deductible to the employer. Secondly, if the life insurance is required by a financial institution to insure an otherwise deductible loan, the interest may be deductible. The criteria for this are as follows:



- The life insurance policy is assigned to a financial institution in the course of borrowing for business or property purposes;
- The assignment of the life insurance policy is required by the financial institution as collateral for the borrowing; and
- The interest payable in respect of the borrowing is otherwise deductible in computing the taxpayers' income for the year.

Donation Tax Credit for Volunteers

If a volunteer incurs expenses in providing volunteer services to a registered charity, he or she may be able to claim a donation tax credit equal to the amount incurred. If the volunteer signs a waiver in the appropriate format, the charity can then issue a tax receipt. A waiver as follows should suffice for this purpose:



I, _____, direct that the funds to which I am entitled by way of reimbursement for _____, and would otherwise be forwarded to me by cash or cheque, be transferred to _____ as my gift.

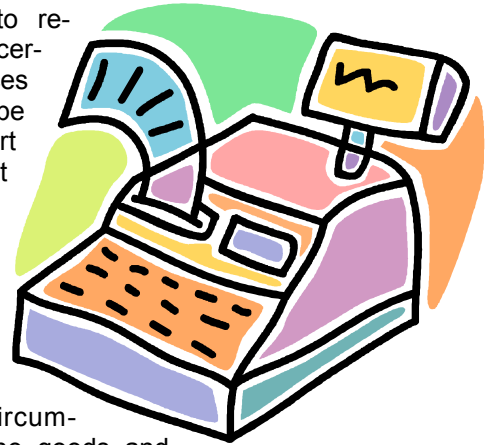
Signed

Date

Harmonized Sales Tax (HST)

The implementation of the HST in BC on July 1, 2010 is subject to some fairly complex transitional provisions. Luckily these will only be in effect for a few months, but businesses that currently charge GST and PST should make themselves aware of the rules. Please check the CRA website (www.cra.gc.ca/harmonization) for explanatory material, or phone the government help lines for details. (Federal – 1 800 959-5525 or Provincial 1 877 388-3440)

It is important to remember that in certain circumstances businesses may be required to start collecting HST at 12% for sales made as early as May 1, 2010, two months prior to the actual implementation date. This is usually in circumstances where the goods and services are to be delivered or provided after July 1, 2010, but the invoice is issued or payment made prior to that date.



It is also important to assure that cash registers and accounting programs will be ready to deal with the new rules well in advance of the July 1, 2010 implementation date. For those businesses that sell products subject to the BC point of sale rebates, cash registers will have to be able to apply HST at both 12% and 5%.

We are expecting that once the transitional period is over and once business owners have become familiar with the HST, they will be very pleased with the simplification created by the complete elimination of the BC Social Services Tax Act (PST) and with the additional refundable input tax credits which will reduce business operating costs.

Personal Tax Returns Billing Policy

We would like to take this opportunity to remind clients that payment for the preparation of personal income tax returns is due upon completion of the return. We appreciate everyone's cooperation during this very hectic and busy time of year when we see nearly 1,000 clients in a very short six week time period.



PERSONAL INCOME TAX CHECKLIST

Included with this issue is the annual personal income tax checklist to assist you in compiling the information necessary for us to prepare your 2009 income tax returns. Please bring in your tax papers as soon as you receive the majority of your information slips, receipts and supporting documentation.

If you have any questions about the information on the checklist, please contact our office.