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Personal Tax Planning

2012–13

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KAREN HORCHER, CFA, CGA

Karen Horcher provides finance, treasury, and capital markets consulting services and training to international corporations, financial institutions, and governmental organizations. With a background in international banking and trading, Karen is the author of numerous articles and several finance books, including *Essentials of Financial Risk Management* and *Essentials of Managing Treasury*, both published by Wiley. She is also a frequent speaker on financial and related topics.

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Glen Schmidt is President of GTS Seminars, an Ontario corporation focusing on professional development products and training for accountants. Previously, Glen had 26 years of experience with Canada Customs and Revenue Agency, primarily in the audit, verification, and enforcement and appeals divisions. Glen was also a member of the Panel of Experts with the International Monetary Fund and was involved in tax reform/modernizations projects in Cambodia, Vietnam, the Caribbean and Central America.

"Personal Tax Planning is a book I would recommend to anyone seeking a comprehensive overview of Canadian personal income tax information. This book is loaded with topics from taxable and non-taxable employment to business income, and GST/HST. Being a CGA for over 20 years, I found this book to be a tremendous resource with smart tax planning, tax reduction, and deferred tax initiatives. It is well organized,

comprehensive, and easy to understand. Readers will appreciate the numerous tax tips and practical examples." DIANE GAUDON, FCGA

Diane Gaudon specializes in GST, HST, and provincial sales tax training and consultation. She is a frequent speaker of commodity tax-related material to numerous professional organizations, and provides advice to Canadian and foreign companies of all sizes on federal and provincial sales tax matters. Diane also authored numerous sales tax-related articles, CGA Ontario's *Harmonized Sales Tax Booklet II*, and the online PD Net course, *GST/HST* for CGA-Canada.

"Whether used for tax planning or tax compliance Personal Tax Planning is an excellent resource with a myriad of valuable information, and I recommend it highly. Its format is easy to read and organized in a logical manner, dealing with each matter succinctly, and so you won't get bogged down reading difficult-to-understand technical language. I personally use it often, whether I'm looking for 'quick facts' on something fundamental or a somewhat more expanded explanation of something like the disability tax credit, this guide is often my first stop." J THOMAS MCCALLUM, FCGA, CBV

J Thomas McCallum, FCGA, CBV, has practiced in the tax discipline for more than 45 years. He is the author of a number of professional development courses in income tax and has given over 1,300 seminars on the subject of tax. Tom is also the coordinator of *CGA Magazine*'s "Tax Strategy" column and authors CGA-Canada's *Tax/Valuation Newsletter*.

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Adam Plank has more than 11 years of public practice experience advising clients on a broad range of taxation and business matters including complex corporate reorganizations, business and financing structures, succession and estate planning, and employer/shareholder compensation. A frequent presenter at various events, Adam has also authored/updated the courses *Income Taxes on Death* and *Estates and Trusts* for CGA-Canada. He also serves on the board of directors for Touchstone Theatre.

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"I liked the fact that everything is at your fingertips in one spot … no more sorting through different websites." PATTI WHITE, CGA

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Introduction

The objective of personal tax planning is to minimize or defer income taxes payable, as part of a long-recognized right for taxpayers to organize their financial/taxation affairs in the most beneficial way possible within legal confines. This requires a thorough understanding of Canada's *Income Tax Act*, plus bulletins, circulars, and rulings put forth by Canada Revenue Agency (CRA), along with other events, such as tax rulings in the courts.

This book reflects federal legislation to approximately September 15, 2012, plus other draft legislation introduced but not yet passed into law, which is therefore subject to change before final passage. Unless otherwise stated, the information in this book generally applies to Canadian citizens or residents.

General Inclusions/Exclusions

The *Income Tax Act* is a wide-ranging document, dealing with broad issues like income from employment, a business, or property, while at the same time outlining specific rules in many areas. There are, for instance, rules dealing with the inclusion in taxable income of items such as:

- employment insurance (EI) benefits received;
- annuity payments; and
- receipts from deferred income plans.

Some payments, such as workers' compensation (WC), federal supplements, and social assistance payments, are not included in taxable income, but are contained in the calculation of threshold income when determining entitlement to the following:

- child tax benefit
- age credit
- goods and services tax credit (GST)/harmonized sales tax credit (HST)
- old age security (OAS)
- some provincial tax credits

Other amounts are specifically excluded from income for tax purposes. Examples (not discussed in this book) include, but are not limited to, the following:

- income earned by a member of a First Nations group on a specified reserve
- civilian and veterans' war pensions or allowances related to disability or death as a result of war, from Canada or any ally of Her Majesty provided the other country provides similar taxation relief
- income earned by Canadian Forces personnel or police officers while serving in certain high-risk overseas destinations, beginning in 2004
- certain other benefits and awards to members of the Canadian Forces
- certain personal-damage amounts awarded by the courts

- payments received by qualified individuals, their spouses or common-law partners, and dependants under the multi-provincial assistance package for individuals infected with HIV through the blood supply program
- payments received by a special trust for distribution to Canadians who were infected with the hepatitis C virus through the blood distribution system over a specified period
- government-related compensation for disaster relief
- an RCMP pension or compensation received in respect of an injury, disability, or death
- lottery winnings and other windfalls as defined by CRA

Amounts that are exempt from income tax by virtue of a stipulation in a tax convention or agreement with another country with the force of law in Canada are also excluded from income.

Special rules might also apply for certain individuals or groups, such as amateur athletes eligible for a tax deferral on certain endorsement or other income earned while they retain their amateur status.

Key Terminology

One term that is often used in this book is "arm's length." This term refers to two parties that are free to act independently, with neither considered to have undue influence or control over the other's decisions. Any deal they make is assumed to be fair for income tax purposes. Conversely, certain related parties, which could include persons and/or corporations controlled by them, are not considered to be dealing at arm's length. "Non-arm's-length" transactions are subject to special rules. A special provision of the *Income Tax Act*, for example, automatically reduces an excessive price to fair market value (FMV) in a transaction involving parties that are not dealing at arm's length from each other.

Another term often used is "rollover," such as a "spousal rollover," where property is transferred from one spouse to another upon death on a tax-deferred basis. Various types of rollovers are available under the *Income Tax Act*, and such transactions are often complex, requiring professional assistance.

Readers should also note that social changes have contributed toward a broader definition of what constitutes a "spouse." Most references in the *Income Tax Act* now refer to a "spouse or common-law partner." The term spouse means a party to a legal marriage to an opposite-sex or same-sex partner. Common-law partner means a person of either the opposite or the same sex who has been cohabiting with the taxpayer in a conjugal relationship for at least one year, or is the natural or adoptive parent of the taxpayer's child.

The term "adjusted cost base" (ACB) is used on occasion in this book. The ACB refers to special rules that may apply in certain instances whereby, for tax purposes, CRA will allow the cost of a property to be considered as an amount other than its actual cost.

The terms "refundable tax credit" and "non-refundable tax credit" are also used. Both reduce the amount of tax otherwise payable. A refundable tax credit is payable in its entirety even when there is no tax otherwise payable. A non-refundable tax credit can only be applied to the extent that taxes are payable.

The *Income Tax Act* includes a general anti-avoidance rule (GAAR), which allows CRA and the tax courts to reassess any transaction that is considered to have defeated the object, spirit, and purpose of the Act. Under GAAR, for instance, if it appears that a transaction or series of transactions has taken place primarily for the purpose of obtaining a tax benefit, it could be subject to adjustment, particularly if it can be established that its application results in a misuse or abuse of the provisions contained within the Act. There have been several court decisions involving the GAAR recently.

As income tax rules are often complex and ever developing, however, tax planning should be an ongoing process. Taxpayers should, for instance, revise their tax and financial plans as changes occur in government legislation and as personal circumstances dictate. Readers are advised to review specific tax plans with their Certified General Accountant.

Summary of Major 2012 Federal and Provincial/Territorial Changes Affecting Individuals

Federal

CPI Adjustment to Income Tax Brackets and Indexed Non-Refundable Tax Credits

The taxable income thresholds in all four federal tax brackets were increased by 2.8% in 2012 to mirror changes in the Consumer Price Index (CPI). All indexed non-refundable tax credits also increased by 2.8% in 2012, reflecting the CPI adjustment. For further details, see the chapter on Federal and Provincial/Territorial Non-Refundable Tax Credits (page 165) as well as Appendices I and III.

Increase in RRSP Annual Contribution Limit

The annual RRSP contribution ceiling was raised to $22,970 in 2012, from $22,450 in 2011. The annual maximum dollar limit is indexed to the increase in the average wage.

Increase in RPP Annual Contribution Limit

Money purchase plan registered pension plan (RPP) contribution limits increased in 2012 to $23,820, from $22,970 in 2011; it is raised annually based on the increase in the average wage.

The maximum pension limit for defined-benefit RPPs increased in 2012 to $2,647 per year of service, up from $2,552 in 2011; it is raised annually based on the increase in the average wage, and is tied to one-ninth of the money purchase limit.

Canada Child Tax Benefit Payments

Beginning July 2012, Canada child tax benefit (CCTB) national child benefit (NCB) supplement payments to Canadians rose to $2,177 for the first child (from $2,118); to $1,926 for the second child (from $1,873); and to $1,832 for each subsequent child (from $1,782).

As a result, the maximum annual benefit under the combined CCTB and NCB supplement increased to $3,582 (from $3,485) for the first child; to $3,331 (from $3,240) for the second child; and to $3,335 (from $3,244) for each subsequent child. The maximum indexed child disability benefit (CDB) supplement for parents in low- and modest-income families with children who have disabilities and a net family income of less than $42,707 (up from $41,544) increased to $2,575 (from $2,504) in 2012.

Introduction of Family Caregiver Tax Credit in 2012

A 15% non-refundable Family Caregiver Tax Credit on $2,000, introduced in the 2011 Federal Budget, took effect in 2012. The Family Caregiver Tax Credit enhances certain existing dependant-related credits, rather than functioning as a standalone credit. Further details are provided on page 165 in the chapter on Federal and Provincial/Territorial Non-Refundable Tax Credits.

Introduction of Pooled Registered Pension Plans

The Canadian government passed legislation establishing pooled registered pension plans (PRPP) for the benefit of employees and the self-employed who are not currently participating in a registered pension plan.

PRPPs are defined contribution pension plans, available at a low cost, that are voluntary for both the employer and employee.

Contributions to the PRPP are tax deductible. Annual contributions cannot exceed the maximum RRSP dollar limit for the year, or the plan holder's total unused RRSP contribution room.

Further details are available on page 143 in the chapter on Deferred Income Plans.

Announcement of Long-Term Old Age Security Changes

The 2012 Federal Budget announced a significant long-term change in the age of eligibility for old age security (OAS) and the guaranteed income supplement (GIS) from 65 to 67, beginning in 2023 and ending in 2029. This phase-in of a higher age of eligibility will only affect individuals who were younger than 54 as of March 31, 2012.

The government also announced that, beginning on July 1, 2013, individuals who are eligible for the OAS pension may elect to defer receiving OAS for up to five years, in return for a higher annual pension. Their pension will increase by 0.6% for each month of deferral, or 7.2% annually.

Provincial/Territorial

Major Personal Income Tax Developments in Provincial/Territorial Budgets

Listed below are some of the major items that were announced or proposed as a result of the 2012 provincial and territorial budgets. Check with your local Certified General Accountant for an outline of more specific budgetary measures affecting your jurisdiction.

Alberta:

Adjustment to Non-Refundable Tax Credits

The taxable income thresholds for all indexed non-refundable tax credits increased by 1.8% in 2012. All indexed non-refundable tax credits also increased by 1.8%. For further details, see the chapter on Federal and

Provincial/Territorial Non-Refundable Tax Credits (page 165) as well as Appendix I.

British Columbia:

Adjustment to Income Tax Brackets and Indexed Non-Refundable Tax Credits

The taxable income thresholds for all five provincial tax brackets increased by 2.4% in 2012. All indexed non-refundable tax credits also increased by 2.4%. For further details, see the chapter on Federal and Provincial/Territorial Non-Refundable Tax Credits (page 165) as well as Appendices I, III, and V.

Introduction of Children's Fitness and Children's Arts Credits

The 2012 Provincial Budget introduced two new children's non-refundable tax credits, covering both eligible fitness and arts activities for up to $500 annually, for a $25 credit.

These new credits, designed to parallel the existing federal credits, both took effect in 2012. They cover children under age 16 at the beginning of a calendar year, unless those individuals qualify for the Disability Tax Credit, in which case the age of eligibility is extended by two years.

Introduction of BC First-Time New Home Buyers' Bonus

The 2012 Provincial Budget introduced a temporary First-Time New Home Buyers' Bonus, as a refundable tax credit for first-time home buyers who purchase a newly constructed home in British Columbia to serve as their primary residence.

This tax credit is only effective from February 21, 2012, until March 31, 2013; to be eligible qualified individuals must have entered into a written agreement of purchase and sale, to which the harmonized sales tax (HST) applies, on or after February 21, 2012, and no later than March 31, 2013. Ownership or possession of the home must also transfer no later than March 31, 2013.

This credit is calculated as 5% of the purchase price of the home up to a maximum credit of $10,000.

Some higher-income individuals are subject to a reduction of this credit. It is phased out at the rate of 20% of net income in excess of $150,000 for single individuals; for couples, it is phased out at the rate of 10% of family net income in excess of $150,000.

Introduction of BC Seniors' Home Renovation Tax Credit

The 2012 Provincial Budget introduced a refundable Seniors' Home Renovation Tax Credit to assist individuals who are 65 and older with the cost of permanent home renovations that provide them with the flexibility to remain independent and stay in their homes longer.

This credit took effect on April 1, 2012, and covers 10% of eligible expenditures up to a maximum of $10,000, for an annual maximum credit of $1,000. Eligible expenditures include items such as washroom upgrades (for example, handrails, walk-in bathtubs, etc.), wheelchair ramps, and elevators, among others.

These costs cover situations involving ownership or rent, and the tax credit may also be claimed by individuals who share a home with a senior relative (in lieu of the senior claiming the credit).

HST Transition Back to PST/GST Continues

The 12% harmonized sales tax (HST) introduced by the British Columbia government on July 1, 2010, was rejected by taxpayers in a referendum held in August 2011. In response to that vote, the provincial government has stated that the province will reinstate a combination of the 7% provincial sales tax (PST), plus 5% federal goods and services tax (GST).

The province will also decrease the basic personal tax credit when this switchback to the PST/GST has been completed. This basic personal credit had been increased from $9,373 in 2009 to $11,000 in 2010 as part of the HST implementation. The reduced credit will allow for indexing that has occurred in the interim years.

The transition period back to the PST/GST combination continues throughout 2012 as the provincial government has announced it will complete the switchback on April 1, 2013.

The HST therefore remains temporarily in place. Lower income residents of the province eligible to receive the BC HST credit continue to do so until this transition is complete.

Check with the BC Ministry of Finance for details regarding what is included or excluded from the new PST; as well as similarities and differences between the PST pre-July 1, 2010, and the new PST effective April 1, 2013; and how PST taxation might affect certain industries and consumers (for example, home purchases).

"Revenue-Neutral" Carbon Tax Changes

The carbon tax introduced in the 2008 British Columbia Provincial Budget increased to $30 per tonne effective July 1, 2012. That is the final annual scheduled increase.

Manitoba:

Increase in Basic Personal, Spousal, and Eligible Dependant Amounts

The basic personal, spousal, and eligible dependant amounts are being increased by $1,000 over a four-year period between 2011 and 2014, inclusive. The amounts are increasing by $250 each year, from $8,384 in 2011 to $8,634 in 2012. Subsequent increases are scheduled to bring those amounts to $9,134 in 2014.

New Brunswick:

Adjustment to Income Tax Brackets and Indexed Non-Refundable Tax Credits

The taxable income thresholds for all four provincial tax brackets increased by 2.8% in 2012. All indexed non-refundable tax credits also increased by 2.8%, as part of legislation to ensure that indexation equals the greater of 2.0% or the CPI rate for each of the 2010–2012 taxation years, inclusive. For further details, see the chapter on Federal and

Provincial/Territorial Non-Refundable Tax Credits (page 165) as well as Appendices I, III, and V.

Tax Rate Reductions Delayed in 2012

Tax bracket rates remain the same in 2012 as in 2011. Personal income tax reductions affecting the tax brackets that were originally scheduled to have taken place by 2012, as announced in the 2009 budget, have been delayed.

Newfoundland and Labrador:

Adjustment to Income Tax Brackets and Indexed Non-Refundable Tax Credits

The taxable income thresholds for all three provincial tax brackets increased by 3.1% in 2012. All indexed non-refundable tax credits also increased by 3.1%. For further details, see the chapter on Federal and Provincial/Territorial Non-Refundable Tax Credits (page 165) as well as Appendices I, III, and V.

Northwest Territories:

Adjustment to Income Tax Brackets and Indexed Non-Refundable Tax Credits

The taxable income thresholds for all four territorial tax brackets increased by 2.8% in 2012. All indexed non-refundable tax credits also increased by 2.8%. For further details, see the chapter on Federal and Provincial/Territorial Non-Refundable Tax Credits (page 165) as well as Appendices I, III, and V.

Nova Scotia:

Adjustment to Spouse or Common-Law Partner/ Eligible Dependant Non-Refundable Tax Credits

The spouse or common-law partner/eligible dependant non-refundable tax credits increased from $7,201 to $8,481 in 2012 to match the basic personal credit. For further details, see the chapter on Federal and Provincial/Territorial Non-Refundable Tax Credits (page 165) as well as Appendix I.

Adjustment to Disability Non-Refundable Tax Credit

The Disability Tax Credit increased from $5,035 to $7,341 in 2012. For further details, see the chapter on Federal and Provincial/Territorial Non-Refundable Tax Credits (page 165) as well as Appendix I.

10-Year Extension for Equity Tax Credit and Labour-Sponsored Venture Capital Tax Credits

The provincial equity tax credit and labour-sponsored venture capital tax credits were extended for 10 years until February 28, 2022. They had been scheduled to expire on February 29, 2012.

Nunavut:

Adjustment to Income Tax Brackets and Indexed Non-Refundable Tax Credits

The taxable income thresholds for all four territorial tax brackets increased by 2.8% in 2012. All indexed nonrefundable tax credits also increased by 2.8%. For further details, see the chapter on Federal and Provincial/Territorial Non-Refundable Tax Credits (page 165) as well as Appendices I, III, and V.

Ontario:

Adjustment to Income Tax Brackets and Indexed Non-Refundable Tax Credits

The taxable income thresholds for all three Ontario provincial tax brackets increased by 3.3% in 2012, reflecting changes to Canada's Consumer Price Index (CPI) in Ontario. All indexed non-refundable tax credits also increased by 3.3%. For further details, see the chapter on Federal and Provincial/Territorial Non-Refundable Tax Credits (page 165) as well as Appendices I, III, and V.

New High-Income Tax Bracket

The Ontario government introduced a new tax bracket. Beginning in 2012, individuals will be taxed at a rate of 12.16% on that portion of their income in excess of $500,000 annually. That rate will increase to 13.16% in 2013.

This is intended to be a temporary tax bracket until Ontario's deficit has been eliminated in several years.

Ontario Trillium Benefit

Effective July 2012, the Ontario Trillium Benefit combines payments from the Ontario Sales Tax Credit, Ontario Energy and Property Tax Credit, and Northern Ontario Energy Credit.

Healthy Homes Renovation Tax Credit

In 2012 Ontario introduced a refundable Healthy Homes Renovation Tax Credit, which is designed to assist senior citizens with the cost of permanent home modifications required to improve accessibility or assist with mobility to and within their home.

This credit is calculated as 15% on up to $10,000, or $1,500, to cover eligible annual expenses (for example, wheelchair ramps, widening passage doors, hand rails in corridors), among other qualifying expenditures.

Couples who are living together may only claim up to $10,000 in qualifying expenses in total. Family members who live with an elderly relative may claim this expense on behalf of the household. Couples who live separately because of medical or other reasons may each claim up to $10,000.

For the 2012 tax year, eligible expenses will qualify for this credit if they were incurred between October 1, 2011, and December 31, 2012. In future years, expenses can only be incurred within the corresponding calendar year.

Prince Edward Island:

Tax Brackets and Rates Remain the Same

The tax brackets and rates, and tax credits, are not indexed and remain the same in 2012 as they were in 2011.

Introduction of Volunteer Firefighters Tax Credit

The provincial government introduced a $500 refundable Volunteer Firefighters Tax Credit, effective in 2012. This credit will apply to volunteer firefighters with at least 200 hours of service a year.

Future Harmonized Sales Tax

The Prince Edward Island government has announced it will implement a Harmonized Sales Tax (HST) on April 1, 2013. Under a new HST, the current combined provincial sales tax and and goods and services tax rates will be reduced from 15.5% to 14%.

Check with the Provincial Ministry of Finance, Energy and Municipal Affairs for details regarding what items will include or exclude HST.

Quebec:

Increase in Tax Brackets

The taxable income thresholds in all three provincial tax brackets increased by 2.66 % in 2012. For further details, see Appendices III and V.

New Tax Bracket Beginning in 2013

The newly elected Quebec government introduced a new tax bracket of 25.75%, effective January 1, 2013, for taxpayers with taxable income over $100,000.

Increase in Tax Credit for New Graduates in a Remote Resource Region

The 2012 Provincial Budget increased the cumulative amount of the non-refundable tax credit for new college or university graduates who choose to work in a defined remote resource region of Quebec. The maximum lifetime tax credit increased from $8,000 to $10,000.

New graduates of vocational training provided by a secondary school-level institution will continue to receive up to $8,000. The annual maximum limit for all eligible graduates who work in these designated regions remains at $3,000.

Introduction of a Tax Credit for Experienced Workers

A new non-refundable tax credit for workers 65 and older took effect on January 1, 2012. Seniors who are still in the workforce will receive a tax credit to offset Quebec income tax payable on work income in excess of $5,000. Implementation of this tax credit is gradual, to a maximum of $3,000 in 2012; $4,000 in 2013; $5,000 in 2014; $8,000 in 2015; and $10,000 for taxation years beginning in 2016.

New Refundable Tax Credit for Equipment to Help Seniors Live Independently

The Quebec government has introduced a refundable tax credit for the purchase of equipment by seniors 70 years of age or older that will help allow them to continue living independently at home.

This 20% tax credit, which took effect January 1, 2012, is subject to a deductible for the first $500 of eligible expenses. Eligible expenses include items such as the installation of a walk-in shower or bathtub; the installation of a mechanized chair lift to assist mobility along stairways; and purchase of a remote monitoring device, such as an emergency call system, among others.

Enhanced Tax Credit for Home-Support Services for Seniors

The 2012 Provincial Budget set parameters to gradually improve aspects of the refundable tax credit for home-support services for seniors; these changes will take place between 2013 and 2017.

Caps will be increased on expenses eligible for this credit. For non-dependent seniors living alone, these will rise from a maximum of $15,600 at 30% for a tax credit of $4,680 in 2012, to a maximum of $19,500 at 35% for a credit of $6,825 when fully implemented in 2017. The corresponding maximum amounts and credits with respect to a dependent senior living alone will also be increased, from $21,600 at 30% for a credit of $6,480 in 2012, to $25,500 at 35% for a credit of $8,925 by 2017.

The family income-based reduction to the refundable tax credit for home-support services for dependent seniors will also be eliminated. In 2012, this reduction stood at 3% of family income in excess of $53,465.

The services eligible for this tax credit will also be broadened to include remote monitoring system fees incurred by seniors who are not living in a private seniors' residence.

Introduction of Voluntary Retirement Savings Plan

The Quebec government has announced it will implement a new Voluntary Retirement Savings Plan (VRSP) for Quebec workers, effective January 1, 2013. The VRSP, a pooled registered pension plan, will be made available to all provincial workers, including employees and the self-employed. It is also portable and can be transferred between employers and jobs.

Contributions will be tax deductible and subject to a limit of 18% of the previous year's earned income up to a maximum of $23,820 in 2013.

Businesses that do not offer a registered pension plan and have at least five eligible employees will be required to make a VRSP available to their employees by January 1, 2015. It is entirely voluntary as to whether employers or employees contribute to the VRSP; however, employer contributions will be locked into the plan until the employee is at least 55. VRSPs will be independently administered by insurers, trust companies or investment fund managers.

Saskatchewan:

Adjustment to Income Tax Brackets and Indexed Non-Refundable Tax Credits

The taxable income thresholds for all three provincial tax brackets increased by 2.8% in 2012. All indexed non-refundable tax credits also increased by 2.8%. For further details, see the chapter on Federal and Provincial/Territorial Non-Refundable Tax Credits (page 165) as well as Appendices I, III, and V.

Introduction of First-Time Homebuyers Tax Credit

The provincial government introduced a Homebuyers Tax Credit of up to $1,100 (11% of $10,000), available to first-time homebuyers, to apply against Saskatchewan tax payable, for a new home with a closing date on or after January 1, 2012.

Individuals who have a disability might be able to apply this credit to the purchase of any home that provides greater accessibility, even if it is not their first home.

Expansion of Active Families Benefit

The Active Families Benefit, which was introduced in 2009 to provide a tax benefit of up to $150 a year for the participation of children between the ages of 6 and 14 in cultural, recreational, and sporting activities, was expanded to include all children up to and including age 17, plus those who turn 18 during the tax year, beginning in 2012.

Yukon:

Adjustment to Income Tax Brackets and Indexed Non-Refundable Tax Credits

The taxable income thresholds for all four territorial tax brackets increased by 2.8% in 2012. All indexed non-refundable tax credits also increased by 2.8%. For further details, see the chapter on Federal and Provincial/Territorial Non-Refundable Tax Credits (page 165) as well as Appendices I, III, and V.

Introduction of Family Caregiver Tax Credit in 2012

Yukon has paralleled the 15% federal non-refundable Family Caregiver Tax Credit on $2,000, which took effect in 2012.

The Family Caregiver Tax Credit enhances certain existing dependant-related credits, rather than functioning as a standalone credit.

The Infirm Dependant Credit amount eligible for credit has automatically been increased by $2,000 to encompass this Family Caregiver component. The threshold at which the Infirm Dependant

Credit begins to phase out has also been raised by $2,000 as a result of applying the Family Caregiver credit.

The Family Caregiver amount might also apply to other tax credits in certain circumstances involving care of a family member who is infirm. These include the Spousal or Common-Law Partner Credit; Eligible Dependant Credit; Child Credit; or Caregiver Credit. Except for the Child Credit, the other credits have a threshold, based on the dependant's income, where the credit begins to reduce. Applying an additional $2,000 from the Family Caregiver Tax Credit would increase that threshold, as well as the amount at which such credits are fully phased out.

The $2,000 Family Caregiver amount can only be applied to one credit per eligible individual. Check with your Certified General Accountant to determine the correct application if you feel this credit might apply to member(s) of your family.

Part One: Income and Expenses

Employment Income, Expenses, and Allowable Deductions

Taxable Benefits Derived from Employment Income

The value of most benefits derived from employment is included in personal income. Among the myriad benefits that generally must be included in income are the following:

- tips and gratuities must be reported as income, even though they may not necessarily be included by employers on the employee's T4 slip, *Statement of Remuneration Paid*
- employees who are awarded near-cash merchandise such as a gift certificate must take the fair market value (FMV) of that award into account as taxable income

- subsidized long-term accommodation provided by an employer for the employee's benefit
- an employee or ex-employee who receives periodic payments under a disability insurance plan, sickness, or accident insurance plan or income maintenance insurance plan to compensate for loss of income from an office or employment must include that amount in income if the plan's premiums were paid for by the employer; however, they may deduct from income any amount they may have personally contributed toward such a plan
- employees who exercise an option to purchase an automobile from their employer at less than its fair market value are considered to have received a taxable benefit for the difference between the price paid and FMV

tax tips

Flexible employee benefit programs, which allow employees to custom design their own package of health and other benefits, are popular in the workplace. Care should be taken when structuring such plans, however, because taxable benefits can result. If, for example, an employee accumulates flex credits and those benefits are received in cash, that amount is generally considered taxable income.

Always keep independent track of your earnings. Don't rely totally on the receipt of earnings slips such as T4s.

Non-Taxable Benefits Derived from Employment Income

Although the majority of benefits derived from employment must be included in personal income, there are several exceptions. These include, but are not limited to, the following:

- ordinary discounts on the employer's merchandise, available to all employees on a non-discriminatory basis
- subsidized meals available to all employees, provided a reasonable charge is made to cover direct costs

- an overtime meal allowance of up to $17 in relation to two or more hours of required overtime adjacent to regular working hours, if the overtime is infrequent or occasional (generally once or twice a week, outside of peak periods)
- the cost for distinctive uniforms, protective clothing, or footwear required to be worn during employment, including related laundry expenses
- reimbursement of moving expenses upon relocation
- receipt of non-cash gifts and awards (for example, for Christmas, wedding, birthday) in one year to an arm's-length employee (that is not a proprietor, shareholder, or their relatives), for certain material items and under certain conditions, up to a total value not exceeding $500, including all applicable taxes
- receipt of a separate non-cash long service/anniversary award of a material nature up to $500 in total value, including applicable taxes, provided such an award is for at least five years of service, or it has been at least five years since the last such service award was presented
- employer-sponsored special events, such as dinners or other activities for all employees, are not taxable to individual employees, as long as the total cost for that event does not exceed $100 per person
- use of the employer's recreational facilities, or employer-sponsored membership in a social or athletic club, where such membership is considered all or primarily beneficial to the employer (despite the employer not being able to deduct the cost of such fees)
- an employer-mandated medical examination required as a condition of employment
- employer-sponsored personal counseling services in respect of the mental or physical health of an employee or a person related to an employee, or concerning re-employment or retirement
- employer-sponsored travel where the trip was undertaken predominantly for business reasons
- employer-sponsored transportation to a work site where public or private vehicles are not permitted — for example, with respect to security or other reasons
- employer-sponsored training costs that are work-related

- tuition and related fees, if the course is required for employment and is primarily for the employer's benefit
- a reasonable per-kilometre automobile allowance
- board, lodging, and transportation to special worksites involving duties of a temporary nature, or to remote worksite venues away from the general community where the employee is required to be a reasonable distance away from their principal residence for at least 36 hours
- a reasonable employer-provided allowance for an employee's child to live at and attend the nearest suitable school, if one is not close to where their parents must reside for employment purposes
- the value of scholarship awards provided by an employer for the benefit of their spouse and/or children
- employer-paid expenses for moving an employee and their family, along with their household effects, out of a remote location upon the termination of employment
- exclusive on-site child care services provided by employers to all employees for minimal or no cost

tax tips

If you are working at a temporary site, some expenses associated with travelling and working at that site might not be taxable if they apply for a reasonable and determinate period of time — that is, a week, a month, or a year — generally up to about a two-year maximum (although this could vary), and there is a scheduled date of return to your regular place of employment.

CRA has ruled that there is no taxable benefit to an employee in a situation where their employer arranges for them to purchase discounted fitness pass memberships from a third party.

If you are awarded a gift through your company's social committee, and that committee is not funded or controlled by your employer, the gift is generally considered to be non-taxable. However, if that committee is funded or controlled by the employer, it is generally considered a taxable benefit.

If your employer provides you with an allowance to purchase an electronic device (for example, a tablet computer) for use at work, this amount is generally considered a taxable benefit. To avoid this, consider transferring ownership of the device to the employer and ensuring that any personal use is incidental.

Special Considerations Related to Taxable and Non-Taxable Employment Income

Other current issues with respect to the taxability and non-taxability of employee benefits include, but are certainly not limited to, the following points:

- An employer-provided computer and Internet service might not represent a taxable benefit under certain circumstances if employees require such a service to carry out their business obligations. However, the costs associated with purchasing an employer-funded computer that the employee also uses for personal reasons would likely result in a taxable benefit.
- Taxpayers that receive an arbitration award from their employer for reasons such as a collective agreement breach to compensate for lost wages, or receive retroactive payments as a result of a decision such as pay equity — a component of which might constitute damages — should consult a Certified General Accountant to determine the appropriate tax treatment for that payment.
- In some cases, the courts may be more lenient toward an employee than a shareholder in terms of any benefit amount deemed to be non-taxable. For instance, an employee might be able to exclude 100% of membership fees in a golf club if their membership is primarily for the benefit of their employer. On the other hand, a corporate shareholder might have to apportion the tax-exempt and taxable portion of their fees between business and personal use, respectively. Taxpayers — especially those with a dual employee/shareholder role — should clarify the proper tax treatment with their Certified General Accountant.

- Although child care expenses that have been paid by an employer are generally considered a taxable benefit, if an employee is required to travel out of town on employment-related business and, as a result, incurs additional child care expenses that are reimbursed by their employer, that amount will not be a taxable benefit.
- Where an educational institution provides subsidized or free education to an employee or their spouse or children, CRA's position is that the fair market value of that tuition must be included in the employee's income, with the difference between that and the discounted tuition being a taxable benefit. The courts generally follow this same fair market approach when assessing the value of employee benefits, but have sometimes used other valuations.
- If a spouse accompanies an employee on a business trip, and the employer reimburses their travel expenses, that payment is a taxable benefit to the employee unless their spouse was engaged primarily in business activities on behalf of the employer during that trip.
- Certain accumulated personal credit arising from a loyalty incentive (for example, a frequent flyer program during a business trip) is taxable to the employee and included in their income, especially if they use a company credit card. However, in other instances and under certain circumstances involving a personal credit card, it may be non-taxable. In 2009, for instance, CRA introduced more lenient rules with respect to points accumulated through a loyalty program.
- Certain members of the clergy or religious organizations are entitled to exclude from income reasonable allowances with respect to transportation expenses incurred while discharging their duties.
- Employer-provided benefits to employees with a disability, such as transportation costs, including parking, are generally not taxable.
- An employee life and health trust (ELHT) that has been established by the federal government, which, if such a plan is offered by their employer, could have tax implications in terms of providing either taxable or non-taxable benefits for certain employees under certain conditions.

Check with your Certified General Accountant for details.

Employee Stock Options

Employees who acquire certain publicly listed shares under employee stock option plans are entitled to defer the associated stock option benefit, subject to an annual $100,000 vesting limit, until such shares are disposed of. This deferral is available for shares acquired after February 27, 2000, but is also subject to certain conditions.

If all conditions have been met and the employee elects to defer that tax, they must file a letter by January 15 of the year after the share is acquired (that is, January 15, 2013, for shares acquired in 2012), complete with the following information:

- a request to have the deferral provisions apply
- the stock option benefit amount related to the deferred shares
- confirmation that the employee was resident in Canada when the shares were acquired
- confirmation that the $100,000 annual vesting limit has not been exceeded

The tax consequences with respect to stock option plan shares exercised after February 27, 2000, can be quite complicated. For example, special rules might apply that create a deemed dividend and a capital loss. Important changes were also introduced in the 2010 and 2011 Federal Budgets with respect to the timing, order of disposition, and taxation implications associated with exercising stock option benefits. Your Certified General Accountant can assist you with these calculations.

Holders of employee stock options exercised prior to February 28, 2000, were subject to the long-standing rule that during the year they exercised such an option, the excess of the stock's fair market value (FMV) at the date acquired, over the option's exercise price, was taxable as employment income and must be added to the cost base of shares. Any subsequent gain or loss on disposal — measured from the cost base — was a capital gain or loss.

There were, however, also a series of complex exceptions to that rule, and holders of stock option shares exercised on or after February 28, 2000, which do not qualify for the deduction, are still subject to those rules and exceptions.

Consult your Certified General Accountant for details about the correct treatment for stock options or other arrangements, such as exercising warrants to buy or sell shares from an employer. The rules might also be affected by the type of employer — for example, if it is a Canadian-controlled private corporation (CCPC).

Deferred Compensation

A deferred compensation agreement is an agreement to pay wages at a later date for services rendered now. However, the *Income Tax Act* does not allow employees to defer income recognition until it is received. Remuneration that would have been paid had the employee not opted to defer it must be included in the employee's income and also deducted by the employer.

This eliminates the potential income tax advantages that could arise from funded and unfunded deferral plans that are based on unlikely contingencies. When the receipt of funds is subject to contingencies, those conditions will be ignored and the employee taxed unless there is a substantial risk the contingency will not occur, with the amount therefore forfeited.

Deferred signing bonuses may also be considered part of a salary deferral arrangement unless the employment contract stipulates that the employee must render additional services in exchange for earning that extra amount.

The following are specifically excluded from the definition of salary deferral arrangements:

- registered pension funds or plans
- disability or income maintenance insurance plans under policies with insurance companies
- deferred profit sharing plans (DPSP)

- employee profit sharing plans
- employee trusts, or employee life and health trusts
- group sickness or accident insurance plans
- supplementary unemployment benefit plans
- vacation pay trusts
- plans or arrangements established for the sole purpose of providing education or training to employees to improve work-related skills
- plans or arrangements established to defer the salary or wages of a professional athlete
- employee bonus plans under which employees receive their annual bonuses within three years of the applicable year end
- prescribed plans or arrangements, such as sabbatical plans or deferred salary leave plans (DSLP)

Individuals who participate in a DSLP must return to their regular employment following a leave of absence for a period that is at least as long as the leave itself. Otherwise, any deferred amounts, plus unpaid interest, immediately become taxable as employment income, whether paid out or not, during the taxation year the taxpayer realizes they can't return to work for the specified period.

If employees have the opportunity to obtain additional vacation time via flex credits or payroll deductions, and that vacation time is carried forward until the next calendar year, CRA has warned this might be considered a salary deferral arrangement for tax purposes.

Salary deferral arrangement taxation rules might also apply when employees take a funded leave of absence just prior to retirement due to unused credits provided under a flex plan. Consult your Certified General Accountant for details.

Deductions from Employment Income

Employment income deductions are restricted to those items specifically provided for in the *Income Tax Act*. Besides automobile and legal expenses, which are discussed in the next chapter, other deductible expenses may include the following:

- expenses of up to two-thirds of earned income for attendant care expenses necessary for a medically impaired person to earn business or employment income. Form T2201, *Disability Tax Credit Certificate* is required when making this claim. (Note: this amount potentially reduces the availability of any medical expense credit for full-time attendant care.)
- union dues and professional fees if required to maintain membership
- employment-related travel expenses, including expenses for your own automobile or a vehicle that is leased with respect to parking, taxis, bus fare, etc., if required by the terms of employment and not reimbursed
- teachers may be able to deduct the cost of additional supplies they personally purchase with respect to their duties, if required to do so by their employer; the employer must issue a T2200, *Declaration of Conditions of Employment* confirming this requirement
- an assistant's salary and supplies, if required to be paid without reimbursement by the terms of employment
- office rent and expenses, if the employee and employer have agreed that the employee is to provide their own working environment. It must be their principal workplace or used exclusively, on a regular and continuous basis, for activities such as business-related meetings. If the qualified workspace is in the employee's home, the employee may be allowed a pro-rata deduction for rent paid, maintenance, utilities, and minor repairs. Expenses related to mortgage interest, property taxes, and insurance may not be deducted (unless, in the case of property taxes and home insurance premiums, they are related to commission sales expenses). To the extent that a claim for workspace in the home exceeds employment income, that portion of the deduction is denied in the current year; however, it may be carried forward indefinitely against future income resulting from the same employment.
- musical instruments — capital cost allowance (CCA) and related rental, insurance, and maintenance costs may be claimed only against income earned directly from using the musical instrument
- aircraft — CCA, interest expense, and operating and maintenance costs related to business use

Apprentice mechanics of self-propelled motor vehicles can write off expenses for tools of the trade. The amount eligible for write-off is that by which the annual cost of new tools (plus those from the last three months of the previous year, if it represents the first year of employment) exceeds the greater of: $500 plus the amount eligible for the Canada employment tax credit (up to $1,095 in 2012); or 5% of the apprentice's related income for that year. Unused amounts can be carried forward for deduction in a subsequent taxation year.

Provisions are also available for various tradespersons to claim an additional credit of up to $500 for the cost of eligible tools in excess of $1,095 in 2012. Apprentice vehicle mechanics can deduct this amount on top of existing write-off opportunities.

Employers must complete Form T2200 to legitimize certain deductions.

Employees and partners claiming expenses on their tax returns may be entitled to claim a refund for the business use portion of the GST/ HST paid. The GST/HST rebate must then be reported as income in the year it is received. To claim a refund, Form GST 370, *Employee and Partner GST/HST Rebate Application* must be completed.

Certain members of the clergy or religious organizations may be entitled to deduct an amount paid for living accommodations as an offset against a housing allowance included in their income. They must complete Form T1223, *Clergy Residence Deduction* in order to determine that amount. Special rules for expense deductions might also apply to employees such as artists and those who are required to move temporarily to a work camp for their jobs, like individuals involved in forestry operations.

Consult your Certified General Accountant for details.

tax tips

Union dues don't necessarily have to be paid to a Canadian organization. Employment-related annual dues paid to a trade union outside Canada might also be tax deductible.

A computer used by a professor to teach and create music was ruled to be a musical instrument, and thus eligible for employment deductions, by the tax courts.

An assistant's salary might include that paid to a spouse or other family member if the salary is reasonable for the amount of work performed.

If required by your employer to work at home after business hours, deductions might be available in certain instances if employment after hours is considered by an employer and/or union to constitute a separate working arrangement.

Commission Sales Expenses

Commissioned salespeople, if required by contract to pay their own expenses, may be able to deduct those expenses against commission income. To do so, both the employee and employer must complete portions of Form T2200, *Declaration of Conditions of Employment*.

Commissioned employees are allowed a broader range of deductions than other employees in areas such as advertising, promotion, meals, and entertainment. Furthermore, commissioned salespeople, unlike other employees, are allowed to deduct a pro-rata share of property taxes and home insurance premiums against commission income if their workspace is in their home. Such deductions are generally limited to offsetting the amount of commissions earned.

Although the restrictions for commissioned employees are mainly similar to those for salaried employees, there are notable exceptions. For instance, capital cost allowance (a full description of capital cost allowance can be found on page 77) on an automobile or aircraft used for business may be deducted against other income to the extent that it has already been utilized to fully reduce commission income, with any residue allowable as

a non-capital loss. The interest paid on money borrowed to purchase such an automobile or aircraft may also be deducted.

Check with your Certified General Accountant about the correct tax treatment to be accorded advances against commission income.

tax tips

If your expenses exceed commission-related income, alternative methods of making claims might be available to you. Consult your Certified General Accountant for advice on how to maximize tax savings.

If you are a commissioned employee, consider leasing rather than purchasing capital equipment (such as a computer) where CCA is not allowed.

CRA policy has been that commissions earned by life insurance salespersons with respect to the purchase of their own policies, upon which they must pay premiums, are not taxable.

Commissioned sales employees who work in their homes should ensure that a separate business telephone line exists in order for regular phone expenses, other than business long-distance charges, to be deductible.

Additional expense deduction provisions might be available to certain employees who sell property or negotiate contracts on behalf of their employer, provided they normally work away from the employer's office, must pay their own expenses, and are remunerated in whole or in part by commissions. Consult your Certified General Accountant for details.

Other Taxable Benefits

Use of Company Vehicle

An employee or shareholder using a company car for strictly business purposes does not incur a taxable benefit.

However, where the automobile involves a degree of personal use, a taxable benefit does occur. A standby charge consisting of 2% of the automobile's original cost (1.5% for a car salesperson), or two-thirds of the lease cost, plus GST/HST, applies for each month the automobile is available for the employee's personal use.

If personal use of the automobile does not exceed 20,000 kilometres annually, and the automobile is used for business more than 50% of the time, a proportional standby charge reduction is permitted.

If, for example, a vehicle was driven 40,000 kilometres, including 25,000 kilometres for business (more than half), and 15,000 for personal

purposes, the actual standby charge would be calculated as 75% (15,000 divided by 20,000) of the regular standby charge.

When both the employer and employee/shareholder have contributed toward purchasing an automobile, its cost for the purposes of calculating a standby charge would be reduced by the amount paid by the employee/shareholder.

Where an employer is primarily engaged in selling or leasing luxury automobiles, special considerations involving the value of multiple automobiles might have to be taken into account when calculating the standby charge calculation. Consult your Certified General Accountant for further details if this affects you.

In addition to the standby charge, the employee must calculate an operating benefit, using one of two options.

In 2012, they may elect to make a general declaration of 26 cents per kilometre for personal use (up from 24 cents in 2011); 23 cents per kilometre if selling or leasing automobiles constitutes their principal source of employment (up from 21 cents in 2011). Alternatively, if the car is used more than 50% for business, the deemed operating benefit may be one-half of the standby charge, provided the employee notifies their employer in writing before the end of the year. As with other taxable benefits, GST/HST is deemed to be included in the operating benefit.

The operating benefit may also be reduced by any amount reimbursed to the employer within 45 days of the calendar year end.

The employee benefit is generally calculated on the vehicle's full cost, regardless of the fact the employer is limited in the amount of capital cost, finance charges, or lease payments they may write off for a passenger vehicle.

Note that some vehicles, such as those used for emergency response purposes (that is, medical, fire, or police), are not defined as automobiles for income tax purposes.

tax tips

A standby charge may not apply under certain well-defined circumstances. If, for instance, the employer's policy is to have an employee return the automobile to company premises when they embark on a business trip, the standby charge should be prorated to exclude those days. But if the employee voluntarily leaves the automobile at the employer's premises over that period, those days will probably count toward the standby charge.

The full operating benefit for personal use of an automobile applies if the employer pays any operating expenses. Therefore, it may benefit you to fully reimburse your employer for such coverage.

The standby charge is calculated on the vehicle's original cost regardless of its age. If it is an older vehicle, consider purchasing the car from your employer. Note, however, that if a leased automobile is purchased at less than its fair market value, the difference is considered a taxable benefit and must be included in your income.

Use of Employee-Owned Vehicle

Employees who are required to travel on business or work away from their employer's office can use their own automobile. Employees required by terms of employment to provide their own vehicle, and who want to deduct the employment-related costs of operating the car, or any other employment-related expense (see Deductions from Employment Income, page 39), must file Form T2200, *Declaration of Conditions of Employment*. The employer must sign this form annually, certifying that the required conditions were met during that year.

Employees who are required to pay their own automobile expenses are entitled to deduct business-related vehicle expenses that are not reimbursed by the employer. Deductions for the capital cost or lease cost of the vehicle are limited in their extent just as they are for employer-owned automobiles.

Deductions for expenses such as gasoline, insurance, maintenance, license, auto club membership, leasing costs, and interest on money borrowed to purchase the car are normally allowable in the same proportion as business to total kilometres driven during the year. Major accident repair costs, minus insurance proceeds or damage claims, are also fully deductible provided the vehicle was used for business, not personal purposes, at the time of the accident.

Travel between an employee's home and their employer's office, or offices, is generally considered to constitute personal, rather than business, use of the automobile. In 2007, however, a taxpayer successfully appealed a CRA decision to disallow expense deductions incurred to and from the office on the grounds that their employer required them to have a car at work every day, thus preventing them from commuting using less expensive modes of transportation. Furthermore, if required to make a business stop between their home and office at the request of their employer, the entire distance travelled throughout the day, or a proportion thereof, may constitute business, rather than personal, use.

Any proportion of an employer-paid automobile allowance deemed by CRA to be unreasonably high is taxable to the employee. The maximum amount the employer may claim in 2012 has been established by CRA at 53 cents per kilometre for the first 5,000 kilometres of business travel in a year (up from 52 cents in 2011), and 47 cents per kilometre thereafter (up from 46 cents in 2011).

For the Yukon Territory, Northwest Territories, and Nunavut, the corresponding tax-exempt allowance is 57 cents per kilometre for the first 5,000 kilometres driven (up from 56 cents in 2011), and 51 cents for each kilometre thereafter (up from 50 cents in 2011).

Alternatively, an employee who receives an unreasonably low allowance may choose to include that amount in income and then deduct the actual business-use expenses. However, employees cannot refuse to accept a reasonable allowance without also jeopardizing their ability to claim a deduction for automobile expenses.

Traditionally, an allowance based on anything other than actual business travel on a per-kilometre basis has not been considered reasonable and must, therefore, be included in the employee's income. If the allowance is in excess of a reasonable per-kilometre rate, and any excess amount is not repaid, the entire allowance would need to be included in the employee's income, although they might also be eligible for deductions to offset certain employment-related travel expenses. Similarly, should the actual expenses be reimbursed, any additional allowance would be considered unreasonable and would need to be treated as income.

CRA has also said that under some circumstances employer-provided travel allowances within a municipality or metropolitan area can be excluded as a taxable benefit if the primary beneficiary is the employer.

If you have an arrangement with your employer that involves a combination of both a flat rate and per-kilometre travel allowance for the same vehicle, the tax treatment might be complex, particularly if some automobile expenses were also reimbursed. Your Certified General Accountant can assist in this process.

It is acceptable for an employer and employee to agree on a periodic advance based on a reasonable estimate of business kilometres driven. At the calendar year end or termination of employment, whichever comes first, the employee and employer must reconcile that advance against the actual distance traveled on behalf of the company. If the advance was inadequate, the employer could make up the shortfall; whereas, the employee must return any excess — should the reverse situation occur — in order to avoid having to report the entire allowance as income. Once an employee receives a reasonable allowance to cover all employment-related use of their automobile, no further expenses can be claimed for tax purposes.

For capital cost allowance (CCA) purposes, employees who use their own vehicle for employment, or self-employed individuals, are restricted to $30,000 of the automobile cost on purchases, not including federal and provincial sales tax. The annual CCA allowance is 30% on a declining balance basis, except for the year of acquisition, when the allowance is

limited to one-half, or 15%. Each car costing more than the allowable limit at the time of purchase is included in a separate CCA class with no recapture or terminal loss available upon disposal.

(A complete description of CCA and how it works can be found on page 77.)

The deduction for interest on money borrowed is restricted to a maximum of $300 per month if the automobile was purchased.

If the automobile was leased, the maximum deduction is $800 per month (excluding PST and GST/HST). This limit helps to ensure that the deduction level is consistent for both leased and purchased vehicles. Another restriction prorates deductible lease costs in situations where the value of the vehicle exceeds the CCA limit.

Employer-subsidized parking must generally be included in income if the benefit is being provided primarily to the employee. However, if the parking spot is provided for the primary benefit of the employer, to allow the employee to use their automobile in the course of carrying out business-related duties during office hours or to save on taxi fares when required to work late, all or a proportion of this amount might be reduced or waived. The tax courts might take multiple details into account, such as the availability of parking spaces, and any conditions attached to their use, among others, if asked to provide a ruling about whether parking expenses are deductible.

tax tips

Keep a record log of distance travelled, destination, business reasons for taking trips, etc., in addition to relevant travel receipts, to support business mileage. Without a statistical record, taxpayers often have a tendency to overestimate the percentage of kilometres incurred as a result of business activities. In 2010, CRA introduced a simplified method of reporting, under which some taxpayers might only need to track motor vehicle expenses for three months of a year, provided the distance travelled and business use of their vehicle during that quarterly sample period is within 10% compared to a corresponding base year. Consult your Certified General Accountant for details.

If your employer allows you to keep an office in your home, but also requires that you travel to head office on business, related travel expense allowances have, under certain circumstances, been ruled by the courts as being exempt from taxation.

Salespersons or other employees who live and travel in a motor home might be able to deduct expenses of that motor home relative to the proportion it is used for business (that is, distance travelled).

Loans to Employees

A loan or any other debt owed by an employee to their employer potentially creates an attributed taxable benefit based on the prescribed rate of interest set quarterly by CRA (refer to Appendix VII, page 307). The employer must record any difference between the prescribed and actual interest rates as employment income on the employee's T4.

When borrowed funds are used to acquire either income-producing property or an automobile or aircraft for employment use, the interest amount actually paid or imputed may be deductible as an offsetting expense against the resulting investment or employment income.

The imputed benefit of a loan used for a home purchase or refinancing is calculated using the lesser of the prescribed rate in effect at the time the loan

was made, or the prescribed rate for each quarterly period the loan remains outstanding. Employees will remain liable for this taxation benefit even if they transfer the home to a relative. All employee home-purchase loans are deemed to have a five-year maximum term, after which they are deemed to have been re-established at the prescribed rate in effect at that time.

An employee who receives a home relocation loan from an employer for a move designed to bring them at least 40 kilometres closer to their new place of business may be eligible to deduct attributed interest on up to $25,000 of the loan principal for five years.

When the full or partial proceeds of a loan from an employer are forgiven, that amount is considered to be a taxable benefit to the employee.

The tax treatment on loans to employees might be less favourable if the employee is also a shareholder of the company making the loan.

tax tips

Borrowing funds from your employer may prove to be more efficient and less expensive than other sources, even though you may pay tax on the imputed interest benefit. Note, however, that careful evaluation of borrowing alternatives may require professional advice.

If you expect interest rates to increase, consider renegotiating an employee home-purchase loan for an additional term. If you have predicted correctly, the taxable benefit might be minimized over the next five years of that term.

Retiring Allowance and Termination Payments

A retiring allowance paid to an employee upon or after retirement to recognize long service or to compensate for office or employment loss, must be included in income. Retirement refers to retirement from an employer, regardless of whether the employee is of normal retirement age. If the employee receives the allowance in instalments, they are taxable in the year received.

The employer is not required to withhold tax if the tax-eligible retiring allowance is contributed directly to the employee's registered retirement savings plan (RRSP), or other registered pension plan to which they might belong. Otherwise, if the employee receives the payment directly, tax must be withheld. Employees may then contribute to their plan up to 60 days after the year of receipt, claim that amount as a deduction on their tax return, to the extent they have the contribution room available, and recover the corresponding tax withheld.

In addition to an individual's normal RRSP contribution limits, retiring allowances transferred to an RRSP are allowable to a maximum of $2,000 for each employment year prior to 1996, plus an additional $1,500 for each employment year prior to 1989 in which the employee did not have vested rights in an employer-sponsored pension plan at retirement.

Years of past service might not have been continuous. Where there were gaps in employment and the employee has "bought back" years of service under a registered pension plan, special taxation rules may apply

The fair market value of certain benefits of significant value received by an employee in recognition of their long service will also likely qualify as a retiring allowance under the *Income Tax Act*. If, for instance, an employer buys out an automobile lease on behalf of an employee at a discount from fair market value, any resulting taxable benefit could qualify as a retiring allowance.

The payment of accumulated sick leave credits may also qualify as a retiring allowance if such payment is made in recognition of long service or in respect of the loss of an office or employment.

The fair market value of other property, such as shares of stock, jewellery, or life insurance policies, that is not paid for, but instead received in respect of a loss of office or employment, may also be considered part of an employee's retiring allowance and therefore included in their income.

All or a portion of payments with respect to a loss of employment may still qualify as a retiring allowance, even if they are made before the employer/

employee relationship has been formally severed. If, however, a retiring allowance initiates while an employee remains on the company's payroll, there must be some evidence the cessation of that relationship, including the receipt of individual employee benefits (that is, they don't also extend to other former employees), is scheduled to occur at a fixed date.

CRA stated in 2006 that if, following retirement, an employee is rehired by the same employer, or by an affiliated, non-arm's-length company pursuant to an arrangement made prior to retirement, they would generally not qualify for a retiring allowance. However, it also identified certain exceptions where the retirement allowance might not be adversely affected, such as when a retired civil servant subsequently obtains part-time employment in a different area of government, without any continuation of pension benefits, solely through their own efforts. Such cases will be examined on an individual basis.

Employees who retire, but retain a seat on the board of directors of a private company at nominal compensation, might still be eligible to collect a retiring allowance.

Taxpayers who receive a retroactive lump-sum payment of at least $3,000 as part of a lump-sum settlement (or other qualifying award) related to dismissal from an office or employment may qualify for federal tax relief. A mechanism exists to provide such taxpayers with the opportunity to deduct any excess tax liability that may result from declaring settlement proceeds all at once as they must do under the current system, rather than being able to apply it retroactively to the respective year(s) related to the settlement.

tax tips

In cases involving a loss of office or employment, you may receive an amount awarded as damages by a human rights tribunal. If that amount is part of a retiring allowance, you might be able to exclude a reasonable amount of such an allowance from income for tax purposes. Consult your Certified General Accountant to determine the correct tax treatment.

A severance amount paid to a spouse or common-law partner as a result of working in a family business such as farming may qualify as a retiring allowance regardless of past remuneration, provided an employer/employee relationship existed over that period and the proposed retiring allowance is considered reasonable by CRA.

Retirement Compensation Arrangement

A retirement compensation arrangement (RCA) might be established under which the taxpayer's current or former employer, or another non-arm's-length party, has contributed funds. Such payments, made prior to retirement or the loss of an office, would be designed to fund future payments in case the taxpayer vacates that office. The RCA may provide for discretionary payments prior to the loss of such office if the taxpayer can prove there has been a "substantial change" in the services required.

Examples of a substantial change in duties may include situations such as where a former officer of a company is retained as a consultant, or a professional athlete resigns as a player but continues to provide services to the sporting franchise as a member of the coaching staff or as a scout.

RCA plans are very specific and do not overlap with other plans such as a deferred profit sharing plan, employee profit sharing plan, or employee trust, among others. Consult your Certified General Accountant for details about the proper tax treatment for RCAs, including new rules introduced in the 2012 Federal Budget.

Legal Expenses Incurred

Taxpayers can deduct legal expenses incurred and paid during the year to obtain a pension benefit or retiring allowance in respect of employment. In any single year this deduction is limited to the pension or retiring allowance received, less any related transfer to an RRSP or RPP.

Expenses that are not deductible in a particular year may be carried forward seven years.

A separate provision of the *Income Tax Act* allows individuals to deduct legal costs paid to collect salary or wages. Even if they are never collected, a deduction is allowed provided the employee incurs costs to establish a right to wages or salary.

Legal expenses associated with establishing a right to collect salary or wages may be incurred from a variety of sources, including, for example, a former or current employer, or a professional association.

Prejudgment interest relating to a wrongful dismissal award is taxable.

Check with your Certified General Accountant to determine the correct tax treatment if any of these situations apply to you.

tax tip

Legal fees incurred in a termination case don't necessarily have to be paid to a lawyer in order to be deductible. Fees paid to another professional, such as a labour relations consultant retained to negotiate a severance package, may also be deductible.

Death Benefits

When an employee dies and an employer makes a payment to the surviving spouse or common-law partner or other beneficiary in recognition of the deceased's employment, the first $10,000 of this amount is generally a tax-free death benefit.

This $10,000 exemption first applies to the surviving spouse or common-law partner. If the surviving spouse or common-law partner receives less than $10,000, and other beneficiaries are entitled to receive a benefit in respect of the employee, their exempt limit will be $10,000, less any amount already claimed by the surviving spouse. The remaining exempt portion would then be shared on a pro-rata basis among the other beneficiaries.

From a tax point of view, it is possible to have more than one spouse or common-law partner (for example, a legally married spouse and a common-law partner). If more than one spouse or common-law partner is entitled to receive a death benefit with respect to a deceased individual, the resulting benefit must be allocated on a pro-rata basis.

Income and Dividends from a Business and Self-Employment

Self-employed individuals, unlike those who are employed by others, have the right to control a number of factors in their work environment, such as the hiring and firing of staff, wages or salary to be paid, and the place and manner in which work is done, including the freedom to service more than one client. They are also responsible for supplying the tools of their trade along with covering overhead and other expenses.

A measure of uncertainty arises with that control. Generally speaking, self-employed individuals, unlike employees, have no guarantee of a steady income because their remuneration depends on the continuing success of their business enterprise; thus, there is a greater degree of financial risk.

CRA Guide RC4110, entitled *Employee or Self-Employed?*, outlines detailed criteria for determining whether a taxpayer is employed or

self-employed. The major themes of this booklet include an analysis of who has control over the working environment and time spent on the job; who owns the tools and equipment necessary to do the job; as well as who bears the brunt of responsibility for a potential risk/reward scenario when it comes to a financial profit or loss.

Determining whether an individual should be classified as self-employed or as an employee for tax purposes is sometimes complicated. Your Certified General Accountant can assist in making this determination.

tax tip Self-employment might also exist in circumstances where a worker is hired through an agency for various temporary assignments.

Accounting for Business Income

With the exception of farmers and fishers, self-employed taxpayers must generally declare income in the period it is earned, even if the remuneration billed for is collected in a subsequent period. Expenses incurred to earn that revenue must be matched in the same period, even if they are paid in a subsequent time frame. This is known as the accrual basis of accounting.

As an example, under accrual accounting construction contractors would normally declare any progress billings made, less amounts withheld pending satisfactory completion of a job, as earned income for that period. However, contractors may also elect to include such holdbacks in their income for that year, provided they administer the same accounting treatment to all contracts.

The correct tax treatment to apply in specific instances involving work in progress could differ. Your Certified General Accountant can assist you in this area.

Accounting for Online Income

CRA announced in 2009 that online income earned by individual and corporate taxpayers as a result of selling items via electronic sources such as eBay Canada is taxable. The Agency said they will also conduct audits to ensure eBay sellers "have filed all required returns and accurately represented the full scope of their business income."

Royalty Income

Royalty income, such as that received by an author or musician, is generally considered to be investment income, although it might also be classified under some circumstances as business or employment income.

Because the tax treatment for royalty income can be complicated, it is best to check with your Certified General Accountant to determine the correct application for it.

Salary Versus Dividends

To maximize the availability of after-tax funds and minimize total corporate and personal tax, an owner/manager should consider the appropriate mix of salary and dividends to receive as compensation.

Although the tax system is designed to extract approximately the same combined corporate and personal tax dollars regardless of any salary and dividend mix, perfect integration does not always occur.

No two situations are identical and the optimum combination of salary and dividends can only be determined on an individual basis. However, the following factors should be considered:

- whether tax credits or losses are available to reduce corporate tax otherwise payable, in which case dividends may be preferable to salary
- dividends can be received tax-free to the extent the company has a balance in its capital dividend account

- dividends may trigger refundable taxes to the corporation, resulting in a reduction of taxes payable
- dividends may reduce the individual's cumulative net investment loss (CNIL) account
- dividends, when taken with other tax preference items, may result in alternative minimum tax (AMT); sufficient salary or bonus might eliminate or reduce AMT
- salary or bonus in the current year creates earned income necessary for RRSP contributions in the subsequent year, whereas dividends do not
- share redemption or reduction of shareholder advances to a corporation as an alternative to paying either dividends and/or salary can result in a tax-free return of paid-up capital or debt
- the existence of payroll-related costs, such as employment insurance (if the shareholder owns 40% or less of the company) and Canada Pension Plan (CPP) premiums; however, dividends are not used for the calculation of CPP and Employment Insurance (EI)
- there is a federal small business deduction of 17%, for a reduced tax rate of 11% on the active business income of Canadian-controlled private corporations (CCPC) for up to $500,000; most provinces and territories also have special rates and thresholds for small businesses in their jurisdictions

tax tips

When determining the optimal mix of salary and dividends, ensure that personal tax credits are fully utilized. Maintain desired levels of salary for purposes of CPP and RRSP contributions.

Entrepreneurs should carefully discuss strategies involving corporate dividends with their Certified General Accountant, since tax planning and potential strategies in this area can be very extensive.

Related Issues Affecting Business Income and Dividends

Establishing a Management Company or Professional Corporation

There may be certain tax advantages associated with establishing a management company to provide non-professional services or products to a professional at a reasonable mark-up (for example, CRA generally considers 15% to be reasonable in many instances).

If incorporated by a professional's spouse or common-law partner, for example, a management company can be used to split income in addition to providing other incorporation benefits, such as a tax deferral. As earnings are taxed at the lower corporate tax rate, more cash may be available for working capital or the purchase of capital assets.

Those in charge of establishing management companies should ensure they are not deemed to be personal services businesses. A personal services business is defined by the *Income Tax Act* as a corporation through which an individual delivers services to an individual, partnership, or organization, and so on, of which they would otherwise be considered an officer or employee. As a means of discouraging individuals from providing such services through a corporation, personal services businesses are denied the small business deduction, as well as being limited in terms of eligible expense deductions.

This restriction could, for instance, apply to a business that does not have more than five full-time employees (although additional part-time employees will be enough to qualify it for a deduction, according to a 2008 court ruling).

A proposal by the federal Department of Finance, made in October 2011, makes a personal services business less attractive from a corporate tax standpoint as well.

The goods and services tax (GST)/harmonized sales tax (HST) reduces some of the potential advantages for exempt professionals to establish

management companies. For instance, while management companies must charge GST/HST on fees and markups, an exempt professional would be unable to recover the GST/HST as an input credit.

Some provinces allow certain professionals to form professional corporations. Note, however, that there are legal differences between management companies and professional corporations. Furthermore, professional corporations face certain restrictions compared to other corporations.

Consult your Certified General Accountant and lawyer to make sure you understand all the taxation, legal, and other important aspects that apply to your circumstances before taking any action with respect to incorporation, or establishing a personal services business.

tax tips

Because management fees paid by management companies are effectively subject to GST/HST, professionals who are exempt from charging GST/HST should consider directly employing administrative staff.

Ensure that sufficient documentation exists to justify the reasonableness of management fees, and explain the services rendered and why they are necessary, especially if they are paid to a non-arm's-length party.

A management corporation structure might allow for greater ownership control than a professional corporation in certain situations. Consult your Certified General Accountant.

Business Partnership

Various business partnerships may exist between two or more people. The agreement between these business principals is likely to cover a multitude of issues, including the distribution of subsequent profits and losses, which could be equal or in some other proportion reflecting the degree of their involvement in the business, the initial financial investment, proportion of risk assumed, or other criteria.

Principals also need to determine the degree to which partnership draws will be based on cash flow or income.

In addition to an arm's-length partnership, it may also be possible for the owner of an unincorporated business to establish their spouse or common-law partner as a partner who is eligible to share in the business's profits or losses. To qualify as a partner, the spouse or common-law partner will be required to:

- contribute a significant amount of time, specified skill, or training to the business; or
- invest property in the business.

The allocation of partnership income or losses should be reasonable under the circumstances, and might be subject to reallocation by CRA under certain instances if it is deemed not to be. Partners should also be aware that a provision of the *Income Tax Act* allows CRA to reallocate income or losses among the partners if it is determined that the primary motivation for selecting a particular allocation is to reduce or postpone tax that would otherwise be payable.

Members of some partnerships must also file an annual T5013 FIN, Partnership Information Return, along with various supporting documents. Check with your Certified General Accountant to confirm your filing requirements.

Special rules apply to limited partnerships. Consult your Certified General Accountant for details.

tax tip

Make sure that any partnership agreements, including any intended taxation strategies or objectives, are in writing and can be accessed, particularly in the event a future dispute should arise that needs to be resolved in the courts.

Share Structure

Owner/managers often hold corporate shares in a CCPC. It is also possible for an individual to own shares of a holding company, which in turn owns all the shares of the operating company. Under this structure, dividends may be passed tax-free among CCPCs. By doing this, funds can be transferred away from future risks associated with the operating company without incurring additional income taxes. Provided excess funds are not personally required, this might be advantageous in certain situations.

Although investment capital accumulation in the holding company may cause complications with respect to claiming the small business corporation (SBC) capital gains deduction on a subsequent sale of shares, this potential problem can generally be remedied if appropriate steps are taken prior to disposition. You might want to discuss this with your Certified General Accountant.

In determining whether a corporation qualifies as a CCPC, it is important to ascertain not just the current share ownership, but also with whom the right of control resides. If, for instance, a foreign-based minority owner has the right to either acquire shares or dilute ownership such that the company is no longer majority owned by Canadian parties, it could be denied status as a CCPC.

The size of the business may also be a factor; for example, if it does not have more than five full-time employees (that is, five full-time employees, plus at least one part-time employee) it might be considered a specified investment business and therefore not qualify for the small business deduction.

Share restructuring can also be conducive to establishing a potential estate freeze. A capital gain realized on the ultimate sale of qualifying small business shares might, for instance, be split among several family members holding shares, each with an available $750,000 lifetime capital gains exemption (see Capital Gains Deduction on page 97 for a discussion of the conditions that qualify).

Decisions handed down in several recent court cases have reinforced that family members are eligible to receive dividends regardless of the degree of their participation in helping to establish or run a family business. Consider introducing family members as officers or shareholders so they may participate in dividend income.

tax tip

Determining who has actual, or de facto, control of certain corporations can be a very complicated process and take into account several factors which may, in turn, have significant taxation repercussions for both the corporation and its shareholders. Check with your Certified General Accountant for details.

Loans to Shareholders

Generally, a shareholder loan is required to be included in the taxpayer's income in the year the loan is made. However, there are certain exceptions. One is that the loan must be repaid by the end of the following fiscal year of the corporation making the loan, provided it is not part of a series of loans and repayments.

The imposition of taxable benefits on a shareholder loan is based on prescribed interest rates (refer to Appendix VII, page 307), as applied to the loan principal outstanding. Loan repayments are applied to outstanding balances on a first in, first out basis. The payment of dividends, salaries, and bonuses may also qualify as legitimate repayments of a shareholder loan, provided that amount is included in the taxpayer's income.

If arrangements were made when the loan originated that repayment would take place within a reasonable period of time, that loan might not be considered income if it occurred in the ordinary course of the lender's business or was made to enable a shareholder who is also an employee that deals at arm's length with the corporation to:

- acquire a dwelling for their own use; or
- purchase an automobile for use in the course of employment; or
- purchase fully paid shares from the corporation or a related corporation (provided such shares are held by the individuals for their own benefit).

Preserving Business Losses

A business with non-capital loss carry-overs that are due to expire may increase taxable income, in order to use as much of the loss as possible, by any of the following methods:

- reduce CCA claims and amortization of eligible capital expenditures (see section on page 80)
- compensate employee shareholders by declaring dividends rather than pay a salary (assuming there are sufficient retained earnings)
- sell redundant fixed assets or other capital property when this will result in a recapture of CCA
- reduce tax reserves, including reserves for doubtful accounts
- elect to capitalize interest and related costs on money borrowed to acquire depreciable property
- transfer losses to another corporation within the corporate group as losses may be used within that group by means of an amalgamation or wind-up, subject to restrictions if a change of control results
- value the business inventory at FMV. Note, however, that a change in the method of valuing inventory must result in a more appropriate way of calculating income; the Minister of National Revenue must also approve this change
- realize capital gains on investments
- bring capital gains reserves into income
- apply losses to a corporation's part IV account (referred to in the *Income Tax Act* as tax on taxable dividends received by private corporations), if no other alternative is viable

Choice of Year End

Proprietorship/Partnership

All sole proprietorships, professional corporations that are partnership members, and partnerships (where at least one member is an individual, professional corporation, or other affected partnership) are generally required to have a December 31 fiscal year end.

If an appropriate election is made, however, some businesses may qualify to establish an alternative fiscal year end and estimate calendar-year business income using a specified formula. The alternative method is a one-time election that must be made by the taxpayer (or, in the case of a partnership, by a representative on behalf of all members). This election must be made by the filing due date of the first tax return that includes the business's income.

The alternative method election remains in effect until it is revoked or the business no longer qualifies to apply it. Once a December 31 year end is used for tax reporting, however, the business cannot subsequently elect to use the alternative method.

In the year an individual dies, goes bankrupt, or otherwise ceases to carry on the business, there can be no additional income inclusion under the alternative method unless, in the case of business cessation, a similar business is started in the same calendar year.

Some taxpayers in a partnership arrangement are required to fill out CRA Form T5013, *Statement of Partnership Income*.

The rules governing this subject are complex. Taxpayers are advised to consult a Certified General Accountant for more details.

Corporation

A corporation can choose its first year end, which must be within 53 weeks from the date of incorporation.

In establishing an incorporated business's fiscal period, the timing of income recognition is often a major consideration although other factors, such as the normal business cycle, should also be weighed into the decision.

Business and Self-Employment Expenses

Individuals may deduct all expenses incurred in the conduct of their business, provided they are undertaken to earn income, are reasonable under the circumstances, and not limited or prohibited by certain rules or regulations established with respect to specific expenses.

Examples of business expenses may include all or some of the following:

- accounting
- advertising
- amortization of capital assets
- bad debts
- business-related memberships and subscriptions
- business-related shut-down costs
- business-related start-up costs
- business taxes, fees, and dues

- certain group benefits
- collection (that is, related to bad debt)
- convention expenses (up to two a year)
- consulting
- delivery and freight
- disability-related modification expenses
- equipment rental
- insurance (fire, theft, liability)
- interest and bank charges
- legal
- light, heat, and water
- maintenance and repairs
- management and administration fees
- meals and entertainment expenses (generally only 50% is deductible, with exceptions)
- motor vehicle expenses (such as fuel, insurance, and repairs)
- office expenses (including postage, stationary, telephone, and supplies)
- property taxes or rent on business property
- purchases of materials and supplies
- representation costs to obtain a business-related licence, permit, franchise, or trademark
- salaries and amounts paid "in kind" or in lieu of cash
- specific courses taken to improve business skills
- subcontractors' costs
- travelling expenses (limitations apply to motor vehicles)
- workspace in the home (when appropriate)

tax tip

Self-employment expenses must be documented. There are instances where the tax courts have disallowed what might otherwise have been legitimate expenses because of poor or non-existent documentation. A lack of proof to support the taxpayer's argument in the event of a dispute with CRA could also lead to the imposition, or upholding, of penalties.

Other Deductions

Individuals who are self-employed can deduct the employer's share of Canada Pension Plan (CPP) and Quebec Pension Plan (QPP) earned income contributions. They can also deduct premiums paid for coverage under a provincial worker's compensation board, such as the Workplace Safety and Insurance Board (WSIB) in Ontario.

Self-employed individuals may also, within limits, deduct health and dental premiums paid on behalf of them or immediate family members sustained under a private health services plan (PHSP), provided they are actively engaged in the business and derive more than 50% of their income from it.

Legitimacy of Expense Deductions

When determining whether a self-employment enterprise, such as a sole proprietorship or partnership, constitutes a true business with allowable expense deductions, the tax courts generally place a great deal of emphasis on determining the commercial viability of the enterprise.

Hence, the taxpayer must establish that their prominent intention is to make a profit and, in so doing, they are employing objective standards in their conduct of the business.

The courts will also look at factors such as the amount of time and capital devoted to the business, the existence of a solid business plan, whether or not there is adequate capitalization, ties to professional associations, the training of its entrepreneur(s) and, depending on the nature of the enterprise, the existence of employees.

If there is a personal element associated with the business operation (that is, if it has been established as a hobby), the expenses associated with that personal element are likely to be denied as taxable deductions. The Tax Court might then turn its attention toward determining whether or not the activity was also being carried out in a sufficiently commercial manner as to constitute a source of income, in which case a proportion of its expenses might be related to commercial operations and therefore

be deductible. Somebody utilizing their artistic talents such as painting, writing, or photography in a business endeavour should, for example, be especially diligent about being able to provide tangible proof their enterprise is predominantly commercial in nature.

One of the tests the courts are likely to employ in this situation is a determination regarding whether or not the business was established with, and maintains, a reasonable expectation of profit (REOP) within a reasonable period of time.

Deductions Related to Salary Paid to Spouse/Common-Law Partner or Children

If a spouse, common-law partner, or other family member is employed by a business, whether it be incorporated, a partnership, or sole proprietorship, there are potential opportunities to income split by paying a salary to those members and thereby reduce the family's overall tax burden.

The following criteria must be met if a business is to be allowed a deduction for salary paid to a family member:

- the salary must be paid periodically, and preferably by cheque, for bona fide services performed
- an employer-employee relationship must exist
- any salary paid must be reasonable for the work performed

Normal payroll deductions apply for non-arm's-length employees (such as a spouse or child), except for employment insurance (EI) premiums, which may be exempt. Consult your Certified General Accountant with the particulars of your situation.

tax tips

The salary paid to a family member may allow that individual to become eligible for CPP and RRSP contributions.

You should be especially vigilant about documenting the work carried out by family members in order to help prove that the compensation they received was equitable.

Deductions Related to Workspace in the Home

The *Income Tax Act* limits the circumstances under which a self-employed individual can deduct the costs related to a workspace in the home. They are confined to situations where the space is used exclusively to earn income from a business and on a regular and continuous basis for meeting clients, customers, or patients, or it is the individual's principal place of business.

This claim may be based on the proportionate space within the home that is used as a workplace. Eligible expenses include rent, mortgage interest, realty taxes, insurance, utilities, and maintenance. It is generally not advisable to claim capital cost allowance (CCA) (see page 77) on a portion of the home because that portion would then not qualify for the principal residence exemption when it is ultimately sold.

Similarly, claiming 50% or more business use of the home or making major structural alterations to adapt it to business use, will trigger a "change in use" resulting in loss of the principal residence exemption.

The amount a taxpayer can claim is limited to their business income before deductions for home workspace. Any unused amount may then be carried forward and claimed in the subsequent year against related business income. To the extent that unused amounts cannot be claimed in the following year, they can be carried forward indefinitely to be claimed at the first available opportunity.

tax tips

Don't forget to include business storage space, in the basement and elsewhere, when determining the proportion of your home used for commercial purposes.

A bed and breakfast enterprise may also qualify as workspace in the home, provided the guest rooms are located inside the owner's home and not in a separate dwelling. Calculate the percentage of space that is designated exclusively for guests, as well as for joint use of owner and guests, in order to determine a realistic apportionment of expenses that can be deducted for business purposes.

Automobile Expenses

The *Income Tax Act* restricts certain expenses relating to "passenger vehicles." A passenger vehicle, which can include a van, pickup truck, or sport utility vehicle, is defined as a motor vehicle designed to carry no more than nine persons, including a driver and luggage. It does not fit this definition if:

- "all or substantially all" (generally considered to be at least 80% to 90%) of its use is for the transportation of goods, equipment, or passengers in the course of income-earning activities, or
- more than 50% of its use is for such income-earning activities and it seats not more than three people, including the driver, or
- it is a pickup truck used for such income-earning activities at a special or remote worksite situated at least 30 kilometres from an urban area with at least 40,000 people

The restrictions on deductible expenses and related business use calculations are both discussed under Use of Company Vehicle (page 45).

It is impossible to provide a simple rule of thumb with respect to an automobile lease-versus-purchase decision. Each situation must be carefully reviewed and many factors, including interest rates, mileage allowances, and expected resale value, plus income tax implications, must be taken into consideration before a final decision is made.

Certified General Accountants are well equipped to help with this decision.

Deduction for Business Meals and Entertainment

The *Income Tax Act* imposes a restriction on the deductibility of business-related meals, beverages, and entertainment expenses, based on a general presumption that these normally combine elements of both a personal and business nature. Only 50% of such expenses are deductible, with certain exceptions — such as when employees are required to work at selected special worksites or in remote locations; are travelling aboard an airplane, train, or bus on business; or they are incurred at a fundraising event to benefit a registered charity, among others.

This allowance is increased to 80% for long-haul truck drivers while they are away for at least 24 hours and hauling goods beyond a radius of at least 160 kilometres from the business location.

The 50% rule also applies to meals and entertainment provided as part of a convention, seminar, or similar event, where the organizer may specify a reasonable amount to cover the cost of food and entertainment. Otherwise, the fee for that event will be deemed to include $50 a day for meals and/or entertainment. (Incidental refreshments, such as coffee and doughnuts, are exempt from this calculation.) Certain other expenses, such as transportation costs incurred to get people to attend an entertainment event, might also be subject to this 50% restriction.

Bottles of liquor or certain food items given as gifts at Christmas or on other special occasions may also fall within the auspices of this 50% limitation. However, some food, beverage, and entertainment-related expenses for up to six special events in a calendar year, such as Christmas parties and employee meetings, held at a particular place of business to which all of the firm's employees are invited, might be 100% deductible. Business owners with employees should therefore consult their Certified General Accountant for a clarification of these rules.

Capital Cost Allowance

Capital assets such as land, buildings, automobiles, furniture, computers, and so on, provide an enduring benefit to a business. This period is generally recognized by the accounting profession as being at least one year; in practice, most capital assets provide benefits that last for several years. Capital costs also include items such as legal, accounting, and other professional fees paid to acquire the property. The capital property need not be physical; it could also be intellectual property such as the purchase of a client list to start a new business.

Individuals who run their own business cannot, therefore, expense or write off the cost of such assets immediately upon purchase; rather, they must spread the cost over several years. For tax purposes, this write-off is referred to as capital cost allowance (CCA) and it is subject to strict rules

and limitations. Assets are grouped into approximately 50 classes where items are provided with a discretionary allowance claimed annually at a fixed percentage, generally on a declining balance basis.

A small sampling of common CCA classes, a description of what is contained in those classes, and their corresponding deduction rates include the following:

- furniture and fixtures (class 8): 20% on a declining balance basis
- automobile (class 10 or 10.1): 30% on a declining balance basis
- manufacturing and processing machinery (class 43): 30% on a declining balance basis
- leasehold improvements, which may either be written off on a straight-line basis over the term of the lease (including the first renewal period), or five years, whichever is greater

Special rules apply for class 10.1 automobiles, classified as “passenger vehicles,” if their cost exceeds a threshold of $30,000 prior to sales taxes.

In most cases, only one-half of the normal allowance is available on depreciable property acquired in an arm’s-length transaction in the fiscal period it is acquired. Where the fiscal period is less than 365 days, the amount that would otherwise be claimed must be prorated, based on the number of days in that period.

Special rates apply to computer equipment. For example, computer equipment acquired on or after March 19, 2007, has a CCA rate of 55%. The rates for broadband, Internet, and other data-network infrastructure equipment are 30%.

CCA classes have been created to accommodate equipment qualifying for accelerated rates. In addition to computer and related technology, various incentives involving CCA at accelerated rates exist for assets that contribute to the development and use of clean-energy sources.

The 2007 Federal Budget established a temporary two-year 50% straight-line accelerated CCA rate to cover investment in manufacturing or processing machinery and equipment undertaken prior to 2009, as an economic incentive to Canada's manufacturing sector.

Budget 2008 extended this by three years until the end of 2011. The straight-line depreciation was originally scheduled to apply to eligible assets purchased in 2009, with eligible assets purchased in 2010 and 2011 subject to an accelerated, but declining-balance rate of depreciation; however, the 2009 Federal Budget extended this straight-line provision through until the end of 2011, and the 2011 budget extended this another two years until the end of 2013.

Certain types of equipment can become obsolete before being fully depreciated for income tax purposes. Taxpayers may elect to place eligible rapidly depreciating equipment in a separate class. Examples of eligible property include certain computers, photocopiers, fax machines, or telephone equipment costing more than $1,000. If such property has not been disposed of after five years, it must be transferred to the general class to which it would have originally been placed.

A terminal loss could result on the disposition of such elected property should the proceeds ultimately received be less than any remaining undepreciated capital cost (UCC). Consult your Certified General Accountant for details on these and other specific rules, such as the correct tax treatment associated with any subsequent recapture of CCA; a full clarification of CCA classes and the multitude of items contained within each; and potential classification choices that may be available.

tax tips

If you dispose of one of several identical eligible capital properties with a shared value, you may use an average cost to determine the value of the individual property sold.

Specific costs incurred by employers to improve business-premises access for people with disabilities may be deducted in the year they are incurred and need not be capitalized.

You do not have to claim all eligible CCA amounts in the year they are incurred if you believe it may be tax advantageous to carry all, or some, of that amount forward to a future year.

If you convert an asset originally acquired for personal use into a business asset that is used to produce income (such as a computer), it might be possible to claim CCA based on the asset's value at the time of conversion. Your Certified General Accountant can help with any required valuations and calculations.

Consider purchasing employment-related assets (for example, automobile, musical instruments, and so on) closer to year end in order to potentially accelerate the timing of CCA claims.

A portion of your business-related web page development costs might qualify as a capital expense, subject to CCA, if they are incurred to establish an asset of enduring value.

Eligible Capital Expenditures and Receipts

Certain expenditures are capital in nature, but not included in any CCA class that qualifies them to be written off on a declining-balance basis. These include, but are not limited to, expenditures related to acquiring certain government rights, trademarks, franchises, incorporation fees, certain farm-related quotas, and goodwill.

Seventy-five percent of such expenditures may be amortized at a rate of 7% per year on a declining-balance basis.

When this type of capital asset is sold, income is generated when applied to the recapture of depreciation amounts previously written off, with any remainder treated as a taxable capital gain from a capital property disposition. Such a sale could also generate a loss, in which case special rules apply.

Consult your Certified General Accountant for details.

Input Tax Credit

The Input Tax Credit is a credit, or refund, claimed by registrants on goods and services tax (GST) and harmonized sales tax (HST) returns (for the provinces of New Brunswick, Nova Scotia, Newfoundland and Labrador, Ontario, and British Columbia), filed on a monthly, quarterly, or annual basis. This credit covers GST/ HST paid or payable in the course of any business activity.

The following criteria must be met in order for taxpayers to be eligible to claim the Input Tax Credit:

- the person making the claim must be registered
- the registrant must deal with taxable supplies
- goods or services must be acquired or imported for consumption, use, or supply in the course of a commercial activity
- documentation pertaining to the tax paid or payable must be retained

Consult your Certified General Accountant for details about the calculation methods available for you to claim this credit (for example, the "quick method" of accounting for the GST/HST may be more applicable and save both time and money), the due dates for making this claim, and other related information.

Farming Income/Losses and Other Special Considerations

Farming is a very diverse and specialized industry in Canada. It encompasses a wide range of activities, including tilling the soil, livestock raising or showing, poultry raising, dairy farming, winery-related vineyard operations, tree farming, beekeeping, and, in some instances, activities associated with raising fish, such as commercial shellfish, among others.

Determining Whether Farming Constitutes the Main Source of Income

CRA may take several factors into consideration when determining whether taxpayers engage in farming activities to the extent that it constitutes their chief source of income. Taxpayers for whom farming does not represent their main source of income will be limited in their ability to deduct farm-related operating losses.

The criteria used by CRA to examine this issue may include any or a combination of the following:

- whether the farming operation is more than just a personal endeavour or hobby
- whether earned profits from farming are substantial compared to the taxpayer's major source of income
- whether the activity generating the taxpayer's major source of income has, to some degree, been subordinated or reduced (for example, the number of hours worked) as a result of farming activities
- whether there is a family history of farming activities
- the extent of the taxpayer's knowledge of farming
- the professionalism of business activities, including the existence of a business plan and the amount of time and capital committed

Consult your Certified General Accountant for details.

Restricted Losses

Taxpayers who are engaged in farming activities, but for whom farming is not deemed by CRA to be their "chief source of income" — either by itself or in combination with some other economic activity — may be restricted in any loss they can claim against other income.

That claim is limited to the first $2,500 of farm losses, plus one-half of the next $12,500 of such losses, for a maximum claim of $8,750 in one year. Any loss in excess of that claim is identified as a "restricted farm loss," which can be carried back up to 3 years, or forward up to 20 years for losses incurred and credits earned in taxation years that end after 2005 (up from 10 years previously), and applied only against farming income.

The same carryback and carryforward provisions pertain to regular farm losses.

Recent court cases appear to be taking a more liberal approach as to whether farming, in combination with some other endeavour of the

taxpayer, represents a major source of income. For example, a full-time farmer who has to take a part-time outside job to support the farm should be able to claim all farm losses for tax purposes without application of the restricted farm loss rules. Furthermore, the Supreme Court of Canada has ruled that farming does not have to be the predominant source of income when considered in combination with another endeavour in order to avoid the restricted farm loss rules. Consult your Certified General Accountant for more details.

Farmers cannot use restricted farm losses to create or increase a capital loss on the sale of farmland. However, any portion of outstanding restricted farm losses may be added to the adjusted cost base (ACB) of farm property in order to reduce the capital gain realized upon disposition. The allowable portion of such losses applied is limited to the property taxes and interest on money borrowed to purchase land.

Basis of Accounting

To accommodate myriad farming-related operations, a number of accounting and income tax provisions are available.

Farmers and fishers have the option of reporting income using the cash (rather than the accrual) basis of accounting. The cash basis can be advantageous to farmers as it allows them to time the sale of produce or livestock to report taxable income in the most advantageous fiscal year. Similarly, under the cash basis, farmers might have the opportunity to prepay expenses in the year they wish to make the deduction.

This timing option, which is not available to members of any other industry, can significantly increase tax-planning alternatives for the farming community.

Several additional calculations in determining farming income may also differ from those of other businesses. For instance, under the cash basis of accounting, expenses relating to a taxation year that falls two or more years after the actual payment are not allowed as deductions in the current taxation year. If, for example, in December 2012 a farmer

pays insurance premiums covering 2012, 2013, and 2014, the amount deductible on their 2012 income tax return would be limited to the actual cost of insurance for 2012 and 2013 only. Costs related to 2014 cannot be deducted before 2013. Also, a farmer who enters into a three-or-more-year equipment lease cannot deduct the portions that relate to lease payments beyond one year into the future; that is, if the lease was signed in 2012, that would cover up until the end of 2013.

Tile drainage, clearing, and leveling of farmland, as well as the building of an unpaved road, can be expensed in the year such payments are made or any portion carried forward to future years. However, land improvements on farmland rented out to another farmer/producer do not qualify for this deferral. In such cases, land improvements can be expensed in the current year or, alternatively, added to the cost of the land.

If the farmer is actively involved in peripheral activities, such as the purchase and sale of farm equipment, this business is not considered farming and must be reported using the accrual basis of accounting, which will include the reporting of inventories on hand at year end. CRA will consider certain non-farming activities to be part of the farming operation if these activities are undertaken on a small scale and the income from them is incidental to other farming revenue.

Alternative energy projects under Ontario's MicroFIT program have been deemed by CRA not to be incidental farm income. Revenue and expenses related to solar and wind energy production under this program must be reported on a separate business schedule using the accrual basis of accounting. Income tax regulations relating to these are complex so it is advisable to consult with your Certified General Accountant for more details.

Other differences that affect the farming industry include the following:

- Assets purchased during the year are restricted by the CCA half-year rule, except assets such as quotas (which are eligible capital property), where the full amortization amount is allowed in the year of acquisition.

- Deceased farmers' "rights and things" include harvested crops, livestock on hand (less the basic herd), supplies on hand, inventory, and receivables (if the deceased used the cash basis of accounting).
- No GST/HST is charged on sales of most farm commodities. Registered farmers must, however, charge GST/HST on items such as land and quota rentals and firewood sales that do not fall under the exception list provided by CRA. Asset purchases and sales specifically exempt include tractors over 44.74 kW (60 PTO hp) and most harvesting, tillage, haying, and grain-handling equipment. Consult the CRA list for further details.

Farmers and fishers should also be aware of the following:

- Payments received from the Agricultural Income Disaster Assistance (AIDA), and the AgriStability programs, are taxable when received.
- Advance payments for a crop are considered to be a sale of that crop and are therefore taxable when received. However, advances under the *Agricultural Marketing Program Act* (AMPA) are considered loans and are not taxable when received. In this case, income is triggered when the crop is sold and the loan repaid.
- A farmer who plants an orchard must capitalize the cost of the trees by adding it to the adjusted cost base (ACB) of the land. Therefore, those trees would not qualify for capital cost allowance (CCA). However, replacement trees can be expensed when purchased.

tax tips

If you are a farmer using the cash basis of accounting, note that when an expense is paid using a credit card, the relevant payment date for tax purposes occurs when the expense is charged to the credit card, not when the credit card is paid.

Expenses for dogs and cats located on the farm are deductible if those expenses relate to their use for rodent or other wild animal control, or for security.

Mandatory Inventory Adjustment

Whenever cash basis accounting results in a farming loss, a mandatory inventory adjustment (MIA) must be performed with respect to purchased inventory on hand at year end. The MIA is calculated by adding to income the lesser of the loss amount and FMV of the purchased inventory, such as livestock, feed, fertilizer, fuel, and other supplies still on hand at year end.

For MIA purposes, inventory is generally valued at the lower of its original purchase price and FMV. Specified animals are valued at their original purchase price, less 30% per annum on a diminishing balance basis, unless the taxpayer elects to value them at a greater amount that does not exceed their original cost. All horses are specified animals; cattle registered under the *Livestock Pedigree Act* may also be treated as specified animals at the taxpayer's option.

Optional Inventory Adjustment

Farmers can elect to report an optional inventory adjustment (OIA) at year end to help reduce wide swings in net income that sometimes occur under the cash basis of accounting. The OIA is calculated on an individual, rather than a partnership, basis.

Using the OIA, the taxpayer may elect to decrease expenses by an amount up to the full FMV of inventory on hand at year end. The OIA claimed in one year then becomes an increase in expenses the following year.

Crops in the ground qualify for the OIA.

Investment Tax Credit Related to Farming Operations

A Scientific Research and Experimental Development (SR&ED) investment tax credit (ITC) may be claimed on that portion of the farmer's "checkoff," "assessment," or "levy" — terms that are used for determining SR&ED eligibility by the commodity boards.

Individuals qualify for a 20% investment tax credit on the amount that is considered applicable to SR&ED expenditures by, for example, the grain and milk boards. The boards then usually issue a statement or letter to the producer identifying the proper amount to claim.

Individuals claiming this ITC must complete CRA Form T2038 (IND), *Investment Tax Credit (Individuals)*.

Farm Dispositions and Capital Gains

Qualified farm property is defined in the *Income Tax Act* as property that is owned by the taxpayer, their spouse or common-law partner, or in a partnership, that was used "in the course of carrying on the business of farming in Canada" under some very specific scenarios. This definition is also important in the context of farming dispositions.

Farm property dispositions may qualify for the $750,000 lifetime capital gains exemption available, subject to certain restrictions. If, for example, the farm was purchased before June 18, 1987, the property must have been used principally in a farming business during at least five years that it was owned by the taxpayer or their ancestors.

If the farm was purchased after June 17, 1987, the taxpayer and/ or certain specified family members must have owned it for at least 24 months and their gross revenue from farming must have exceeded income from all other sources for at least a 24-month period. Farmers who acquired their farms before June 18, 1987, but made the election available in 1994 to report accrued capital gains on that farm property were deemed, in 1994, to have disposed of the farm property and to have reacquired it at the proceeds of disposition designated in that election. This "deemed reacquisition" means they must now follow the rules applicable to farms acquired after June 17, 1987.

The farmer is permitted to claim a reserve on that portion of the farm sale that is not yet payable, according to certain restrictions. If the farm is sold and a mortgage taken back from the purchaser, the vendor must report capital gains on the greater of 20% of the gain each year or the

amount of proceeds received. This can spread the tax from that capital gain over a period of up to five years. For a non-arm's-length sale, from a parent to a son for example, the minimum amount changes from 20% to 10% of the gain, and enables the vendor to effectively spread the tax over a period of up to 10 years.

Alternative minimum tax (AMT) (see description on page 236) does not apply to a capital gain from the sale of eligible capital property (quota, for example). Nor does the AMT apply to any deemed dispositions in the year of death.

There are special, complicated rules for transferring farmland, eligible capital property, and depreciable property of a prescribed class to a spouse/common-law partner or child during a taxpayer's lifetime or upon death. Interested readers should refer to CRA's interpretation bulletins, IT-268R4, *Inter Vivos Transfer of Farm Property to a Child* and IT-349R3, *Intergenerational Transfers of Farm Property on Death*.

Currently, for example, all transfers of farmland situated in Ontario into a family-farm corporation are exempt from the Ontario land transfer tax (LTT). The Ontario government has expanded this provision to include qualified transfers of farmland between family members, as well as transfers from family farm corporations to individual family members for transactions that take place after March 25, 2008.

Given the complexities involved, it might be prudent to consult with a Certified General Accountant and/or lawyer on matters related to the transfer or sale of farmland.

tax tip

A child who has never farmed and who is beneficiary of a trust could still possess qualified farm property, provided a relative — that is, parent, grandparent, or great-grandparent — satisfied the gross revenue test in previous generations when they owned and operated the farm on a regular, continuous basis.

Other Measures

AgriStability and AgriInvest

The AgriStability and AgriInvest programs are designed to provide Canadian agricultural producers with long-term, whole-farm risk-management tools, which provide protection for farming operations from both large and small declines in farm income.

For details about these programs, consult Agriculture and Agri-Food Canada (call 1-866-367-8506) or consult with a Certified General Accountant who is familiar with them.

Crop Advances

Farmers are eligible for up to $100,000 in interest-free cash advances for stored crops under the *Agricultural Marketing Programs Act*. Advances of up to $400,000 are also available at market interest rates. This crop must be in storage in a non-processed form, while the producer must retain title to the crop and also be responsible for marketing it. This advance is considered a loan and it is not taxable when received. Income is triggered when the crop is sold and the loan repaid.

tax tip

Because CRA considers crop advances to be loans, in a better-than-average year consider storing all or part of the crop and then taking an advance against it. This advance, which must be applied for early in the year, serves as an effective planning technique for farmers using the cash basis of accounting.

Farm Relief

Farmers in drought-stricken regions of Canada — which have been particularly prevalent in some venues in recent years — or areas that have received excessive moisture, may also qualify for temporary income tax relief for certain aspects of their operation. Consult Agriculture and Agri-Food Canada for details regarding current designated regions and the agricultural activities affected.

Many local and provincial programs also exist that may financially benefit farmers. As these programs and the requirements to qualify for them change frequently, taxpayers who are affected should visit their local provincial Ministry of Agriculture or equivalent offices for updates.

Investment Income and Expenses

Interest: Annual Accrual

The interest income on compound-interest obligations, such as Canada Savings Bonds (CSBs) or other instruments like guaranteed investment certificates (GICs), must be reported on an annual accrual basis from the anniversary date, whether or not interest is actually paid during that period. Investment issuers are obligated to provide taxpayers with annual information slips (T5s) reporting this income, although it is the taxpayer's responsibility to ensure that all interest is recorded.

Dividends

Taxpayers who receive eligible dividends from a public Canadian corporation (and certain private, resident corporations that must pay Canadian tax at the general corporate rate) are subject to an enhanced dividend tax credit rate in 2012 that includes a 38% gross-up (down from 41% in 2011), offset by a federal dividend tax credit, which reduces federal income tax payable, worth roughly 15.02% of the total grossed-up

amount (the actual reduction is 6/11ths of the 38% gross-up). This equates to a dividend tax credit worth 20.73% of actual dividends (down from 23.17% in 2011).

This enhanced dividend tax credit rate covers eligible dividends paid since January 1, 2012. Both public and private corporations whose dividends are subject to the enhanced rate must notify their shareholders of this status.

Ineligible dividends from CCPCs not subject to the general corporate tax rate will continue to be subject to the 25% gross-up, and 16.67% dividend tax credit (or 13.33% reduction to the total grossed-up amount).

The provinces and territories have a two-tier dividend structure in place similar to that of the federal government. The following dividend tax credits are available in 2012 on eligible dividends received from public Canadian corporations and other private, resident corporations that pay Canadian tax at the general corporate rate:

Province/ Territory	**% of eligible grossed-up dividend amount**
Alberta:	10.00%
British Columbia:	10.00%
Manitoba:	8.00%
New Brunswick:	12.00%
Newfoundland and Labrador:	11.00%
Northwest Territories:	11.50%
Nova Scotia:	8.85%
Nunavut:	5.51%
Ontario:	6.40%
Prince Edward Island:	10.50%
Quebec:	11.90%
Saskatchewan:	11.00%
Yukon:	15.08%

The 2012 dividend tax credit from corporations not eligible for the enhanced dividend tax credit, based on the grossed-up amount, are as follows:

Province/ Territory	**% of non-eligible grossed-up dividend amount**
Alberta:	3.50%
British Columbia:	3.40%
Manitoba:	1.75%
New Brunswick:	5.30%
Newfoundland and Labrador:	5.00%
Northwest Territories:	6.00%
Nova Scotia:	7.70%
Nunavut:	4.00%
Ontario:	4.50%
Prince Edward Island:	1.00%
Quebec:	8.00%
Saskatchewan:	4.00%
Yukon:	4.51%

Check with your Certified General Accountant to determine the current status of dividend tax credits in your jurisdiction.

Although dividends from non-resident corporations must also be included in income, they are not subject to either the gross-up or dividend tax credit. Where foreign currency is involved, such dividends should be converted to Canadian dollars at the exchange rate in effect on the day the income was received, although CRA will also accept the use of a monthly or annual average exchange rate.

Stock dividends, which are dividends paid by a corporation by issuing shares of its capital stock, are generally treated as ordinary taxable dividends. This dividend amount also represents the cost of the new shares. If the stock dividend is in shares of the same class, it may affect the shareholder's average cost for future sales.

In certain situations, a distribution of property from a corporation to a shareholder might be deemed to be a dividend "in kind." Check with your Certified General Accountant if you are uncertain about the proper tax treatment when you receive property from a corporation.

Common shareholders of a public corporation are sometimes entitled to apply their dividend proceeds toward the purchase of additional corporate shares at a discount from market price under a dividend reinvestment plan (DRIP). This will, in turn, incrementally increase the cost base of their investment.

Although such shareholders will, under a strict interpretation of the *Income Tax Act*, incur a taxable benefit equal to the discount amount when such shares are purchased, in practice CRA does not assess a benefit where the amount paid for the additional shares is at least 95% of their FMV and all shareholders are accorded the same reinvestment rights. Taxpayers are, however, still liable for tax otherwise payable on their dividends in the year such dividends have been reinvested.

Stock splits are not taxable.

tax tip

If your spouse or common-law partner does not pay enough tax to use their dividend tax credit, consider transferring their taxable Canadian dividends to your income so you can claim this credit if that provides a greater tax advantage.

Capital Gains and Losses

A capital gain results from a sale or deemed disposition of a capital property, such as an investment-related instrument (that is, stock), when it is sold for more than its ACB, less any disposition expenses incurred, like commissions. Unlike ordinary income, however, only 50% of the gain is included in income.

When the investor experiences a loss, the 50% "allowable capital loss" amount must first be used to offset any capital gains they may have in the same year. Any unused allowable capital loss amount may be carried back up to three years or forward indefinitely to reduce taxable capital gains of other years.

The inclusion rate for capital gains and losses has not always been 50%. In 2000, for instance, the inclusion rate was decreased twice from 75% to 66.67%, then to 50%. Individuals may therefore need to make complex adjustments when applying capital losses of one year against capital gains of another.

The proceeds of disposition from capital property have sometimes been ruled by the courts to be ordinary income or losses rather than capital gains or losses if there is strong evidence that the substantive nature of such a transaction was purely speculative — that is, the property was purchased with the short-term intent to sell. Other factors, such as the number of transactions, duration of holdings, amount of time devoted to carrying them out, means of financing, and expertise of the taxpayer may also weigh into the decision. CRA addresses some of these factors in its bulletin IT-459, *Adventure or Concern in the Nature of Trade*.

Special rules exist for capital gains and losses originating from certain foreign currency transactions where there is a fluctuation in foreign exchange rates. Your Certified General Accountant can help determine whether these rules are applicable to you, in addition to identifying instances where foreign exchange gains or losses might be more accurately accounted for as income.

Capital Gains Deduction

Capital gains from dispositions of qualified farm and fishing property, as well as small business corporation (SBC) shares, may be eligible for a taxpayer's lifetime exemption of up to $750,000. At a 50% inclusion rate, this represents a taxable amount of $375,000.

An individual's ability to claim the capital gains deduction may be reduced by past claims for capital gains deductions, allowable business investment losses (ABIL) (see page 100), or a cumulative net investment loss (CNIL) (see page 101).

Reserves

If a sale of capital property results in a capital gain, and a portion of the proceeds are not due until after the year end, taxpayers may claim a reasonable reserve for the unrealized portion of that gain. At least one-fifth of the capital gain must be included in income each year unless it arises from the sale of qualified farm property, qualified fishing property, or shares in a qualified SBC to the taxpayer's child. In that case at least one-tenth of the gain must be included in income annually.

A reserve for the unrealized portion of an ordinary income gain may be claimed for up to 36 months from the date of the sale (unless the proceeds become due earlier) if:

- the sale of land results in an ordinary income gain and a portion of the proceeds are not due until after the taxation year end; or
- the sale of property other than land results in an ordinary income gain and a portion of that gain is due more than two years after the sale date.

A reserve claimed in one year must be taken into income the next year and a new reserve, if still applicable, claimed at the end of that year.

Shares of a Small Business Corporation

A small business corporation (SBC) is a CCPC in which all or substantially all of its assets (generally representing at least 90% of FMV) at the time of sale were either:

- used in an active business carried on primarily in Canada (more than 50%) by a corporation or any related corporation(s); or

- shares or debt of one or more connected corporation(s) that also qualify as an SBC.

A connected shareholder is generally defined by the *Income Tax Act* as one who owns at least 10% of the issued capital and the shares represent at least 10 % of the FMV of all issued shares in a corporation. CRA also takes into account the right of an individual to acquire additional shares when making this calculation.

To qualify for the $750,000 lifetime capital gains exemption, shares of an SBC (including connected corporations, which are considered to be associated by virtue of factors such as board composition, economic dependence, etc., and therefore part of the same unit) must meet several requirements. Throughout the 24 months immediately prior to disposition, for instance, the shares must have been owned either by the taxpayer or a related person or partnership. Over that same period, more than 50% of the FMV of a corporation's assets must have been used in an active business carried on in Canada and/or be shares or debt of a qualified connected corporation.

The requirement to hold shares for 24 months does not apply to treasury shares issued as consideration for other shares or for all or substantially all of the assets used in an active business. A special provision also applies for qualified SBC shares when the company goes public. Taxpayers may elect to dispose of their small business shares immediately prior to the corporation going public. Where the shares' FMV exceeds their ACB, investors may specify any amount between those values as proceeds of disposition and then recognize a capital gain, to be offset by the available capital gains deduction.

Individuals may defer the tax on capital gains from qualified SBC shares, provided such proceeds are reinvested in another eligible small business. Eligible small business investments include newly issued shares in an SBC whose assets do not exceed $50 million. An eligible reinvestment can be made at any time during the year of disposition or within 120 days after the end of the year.

In practice, the classification of an SBC and applications involving its subsidiaries can sometimes be complex. Consult your Certified General Accountant for guidance in this area.

tax tips

Consider transferring non-active assets to a separate company to maintain qualified SBC status.

If you transfer a qualified SBC share into a self-directed RRSP, the time such shares are held inside the RRSP counts toward the 24-month holding period restriction.

Allowable Business Investment Loss

A loss realized from the arm's-length sale of shares or qualifying debt of an SBC may qualify as a business investment loss. Similarly, a loss upon the deemed disposition of an uncollectible debt of an SBC or the shares of a bankrupt SBC may also qualify. Taxpayers might also be able to claim, via an election on their tax return, an allowable business investment loss (ABIL) if they continue to hold shares or debt in an SBC that has become insolvent.

A business investment loss is calculated the same way as a capital loss, except that it may be applied against all income, not just capital gains. One-half of the business investment loss may be applied against other income in the year the loss is realized. Unused portions of an ABIL may be carried back 3 years, with the balance carried forward 10 years. If any unapplied ABIL balance remains at the end of 10 years that is attributable to losses sustained after 2003 (or at the end of 7 years for losses attributable prior to 2004), it then becomes a net capital loss, which can be used to reduce taxable capital gains thereafter.

The deductible amount of an individual's ABIL must first be reduced by any previously claimed capital gains deduction. If any ABIL is deducted from income, an equal amount of taxable capital gains must be realized and reported as income in subsequent years before the capital gains deduction becomes available.

Where a corporation is insolvent and neither it nor a corporation controlled by it carries on business, the taxpayer will be allowed to elect a disposition for tax purposes and realize the loss. If that corporation, or another controlled by it, commences carrying on business within 24 months, the taxpayer must recognize a gain equal to the loss claimed in the year that business recommences.

An election must be made under the *Income Tax Act* to claim a loss on debt, or shares of an insolvent company. This requirement also applies to claiming capital losses where the company is (was) public.

Keep all documentation related to an ABIL. It may be required as proof to substantiate your claim.

Cumulative Net Investment Loss

A taxpayer's cumulative net investment loss (CNIL) at the end of a year is defined as the amount by which the total of investment expenses exceeds the total of their investment income for those years.

The cumulative gains limit for purposes of the capital gains deduction will be reduced by the amount of an individual's CNIL balance at the end of a taxation year.

Income Trusts

Income trusts are investment instruments that distribute cash from revenue-generating assets directly to unit holders in a tax-efficient manner — often without having to pay any tax at the corporate level. As such, they have proven to be a popular vehicle for both many businesses and individual investors, since assets held in a trust structure tend to be more highly valued in comparison to other corporate structures.

The activity of such trusts, now also formally known as specified investment flow-through (SIFT) trusts, were sharply curtailed as a result of significant changes to the income trust taxation structure in October 2006. These have resulted in the distributions from such trusts being taxed more like dividends from corporations.

The structural changes announced took effect in 2007 for certain trusts, such as new trusts, that were not publicly traded until after October 2006; they did not apply until the 2011 taxation year for other trusts that were publicly traded prior to November 2006 and whose growth in the intervening period did not exceed what the Department of Finance defines as "normal growth." Certain real estate investment trusts (REITs) meeting specified criteria are exempt from the rules announced in 2006; however, proposed legislation introduced in December 2010 that would affect taxation years in 2011 and beyond attempt to modify some of those provisions.

Technical adjustments affecting both SIFT trusts and REITs were also proposed in July 2011.

Income trust structures that are still allowed under the 2006 and proposed 2010 and 2011 rules might appeal to investors who are interested in a steady cash flow return. Such investors should note, however, that a component of the cash flow from income trust investments might constitute a return of capital, as opposed to income. This return of capital results in a lower cost base, thus leading to a larger capital gain when such investments are disposed of.

Income trust taxation and the new restrictions placed upon such structures is a complex area. To be informed about updates to the transitional rules, including draft legislation currently on the books, it is best to check with your Certified General Accountant if income trusts are part of your investment strategy.

Interest Expense Deductibility

Interest expenses on borrowed funds between arm's-length parties engaging in transactions at commercial interest rates are deductible provided the taxpayer uses those funds to potentially produce income from a business, investment, or property. The same provisions might also apply as a result of a loan between non-arm's-length parties provided FMV is received and the recipient pays interest on the loan.

Interest expense on funds borrowed to make an interest-free loan might also be eligible for deduction in certain instances where it can be proven that such funds are ultimately used to earn, or enhance, income-earning capability.

A taxpayer can also deduct fees (but not commissions) paid for advice received with respect to the purchase, sale, and administration of specific investments, such as shares or securities, provided those fees are paid to a professional whose principal business involves managing such investments.

Decisions handed down by the Supreme Court of Canada (Singleton, Ludco Enterprises Ltd.) in 2001 reinforced the right of taxpayers to deduct interest where borrowed money was used for the purpose of earning income from a business or property, in situations that involved a complex series of transactions.

The Supreme Court ruled that in the absence of evidence of a sham, window-dressing, or other similar circumstances, the courts could neither question whether other "economic realities" served as motivation behind a subsequent transaction (Singleton), nor could they question the sufficiency of the income expected or received (Ludco).

However, this remains a very sensitive area of tax law, and court rulings since then have not necessarily been consistent with those results where there have been extenuating factual circumstances (for example, Lipson, Sherle). Therefore, it is important to consult your Certified General Accountant for advice about appropriate tax strategies involving complex transactions.

tax tips

Provided interest on borrowed funds meets all of the criteria necessary to be deductible for income tax purposes, it does not matter whether the funds originate from Canadian or foreign sources.

In certain instances where a loan is secured for business purposes, but its use will involve both business and personal needs — that is, if a mortgage is secured to cover a parcel of land that will contain commercial real estate property as well as a personal residence — all of the interest might be deductible. Check with your Certified General Accountant if this situation applies to you.

Don't forget that interest expense may include elements of both simple and compound interest.

Carrying charges for purchasing Canada Savings Bonds (CSB) through a payroll deduction plan are eligible for the interest expense deduction.

If you need to finance your business, consider establishing a line of credit with your financial institution. The interest incurred on a line of credit used exclusively to finance business purchases is tax deductible.

If you use your credit card for both personal and business purchases, keep accurate records of the proportion spent on business expenses because any corresponding interest is tax deductible.

In order to establish a direct link between the interest that is payable on borrowed funds for investment purposes, consider practices such as keeping separate bank accounts for business and personal funds.

Superficial Losses

The *Income Tax Act* contains specific rules with respect to the treatment of superficial losses. The superficial loss provision — which begins 30 days before and ends 30 days after the disposition of a property — exists to prevent a taxpayer from executing a transaction that creates a loss while they, or an affiliated person or corporation, retain or acquire

control of the same, or an identical, property as that which created the loss.

Consult your Certified General Accountant for details about which types of dispositions would constitute superficial losses.

Principal Residences

The gain realized by an individual on a principal residence disposition is not included in income and is thereforetax exempt.

A principal residence includes the immediately adjacent land, generally considered to be up to one-half hectare (about 1.24 acres), unless any excess land can objectively be demonstrated to have contributed to the use and enjoyment of the housing unit as a residence. As the determination of any additional exempt portion for the purpose of this gain is complex, you are advised to contact your Certified General Accountant to assist with this calculation.

Before 1982, individuals were able to arrange their affairs such that if they owned two properties (for example, a residence and a cottage), the residence could be registered in the name of one spouse and the cottage in the other's name. This resulted in the husband and wife both enjoying the benefit of owning two principal residences, while avoiding taxation on the disposition of either property.

For 1982 and subsequent years, a family unit has been permitted only one principal residence for purposes of this exemption. A couple that owned two principle residences prior to 1982, and who still own both, could possibly enjoy the benefit of two principal residence exemptions on gains that had accrued up until December 31, 1981.

It is also still possible to obtain the benefit of two principal residence exemptions by transferring one of the properties (preferably the one that has not appreciated substantially in value) to a son or daughter 18 years of age or older who currently does not own a principal residence. However, it is also important to understand that this transfer could be

considered a taxable disposition of the property by the parents. When that property is subsequently disposed of, the adult child may claim the principal residence exemption and avoid taxation on disposition, provided it qualifies as their residence. A complex calculation to determine which property generates the higher exempt capital gain may be required. Your Certified General Accountant can help with this.

Because a principal residence is considered personal-use property, a taxpayer cannot realize a capital loss if, when they sold their home, its value had depreciated from the time it was purchased.

In some instances, certain individuals who are involved in the business of selling homes may be denied the principal residence exemption if CRA deems that resale was a motive in the acquisition of a particular property. A dispute could arise with CRA regarding whether a house sold constitutes a principal residence or is part of a business transaction, based on factors such as the length of ownership, type of property being sold, frequency of home purchase/sale, and the taxpayer's original intent when purchasing the property.

Couples involved in divorce proceedings might enter into a settlement that involves transferring ownership in a house and/or cottage. This could, in turn, involve issues such as the timing of the principal residence designation — especially for a cottage — and the adjusted cost base at which the transfer takes place.

Consult your Certified General Accountant, especially in situations where complex questions arise about the principal residence designation.

tax tips

When selling your principal residence, you would be prudent to fill out CRA Form T2091, *Designation of a Property as a Principal Residence by an Individual*, especially in situations where doubt could arise with respect to any part of the amount you are claiming.

A principal residence can include a house, apartment, condominium, duplex unit, cottage, mobile home trailer, or houseboat.

Personal-Use Property

There are two main categories of personal-use property. One is also termed “personal use-property.” The other is “listed personal property” (LPP). While both categories refer to property held primarily for personal enjoyment, and not commercial use, items characterized as LPP are specific and include the following:

- a print, etching, drawing, painting, sculpture, or other similar work of art
- jewellery
- rare folio, rare manuscript, or rare book
- stamp
- coin

From a tax perspective, both types of personal-use property are considered to have both an ACB as well as proceeds upon disposition of at least $1,000; as a result, they cannot produce a capital gain unless disposed of for greater than $1,000. Most personal-use property losses are considered personal expenses, and are therefore not deductible. Only LPP can produce a capital loss, subject to strict rules. For example, capital losses arising from LPP can be offset only against capital gains specifically arising from LPP. If LPP losses cannot be offset by LPP gains in the same year, they can be applied against previous LPP gains not already offset up to three years back, or against future gains for up to seven years.

Consult your Certified General Accountant for details.

Personal Deductions

Child Care Expenses

A claim may be made for expenses incurred on behalf of an eligible child to allow an individual or their spouse or common-law partner to:

- earn income from employment or self-employment
- spend at least 12 hours per month studying in an educational program lasting at least three consecutive weeks at a secondary school, college, university, or other designated educational institution
- conduct research or similar work for which either spouse or common-law partner received a grant

Generally, the parent with the lower net income claims the least of:

- the actual amount paid;
- two-thirds of that parent's earned income; or

- $10,000 for each child on whose behalf a Disability Tax Credit may be claimed, regardless of age; plus $7,000 for each other eligible child under age 7 at year end; plus $4,000 for each other eligible child between the ages of 7 and 16, inclusive (extending past age 16 only for children that have a physical or mental infirmity and remain dependent on the taxpayer or their spouse).

Eligible children include the taxpayer's or their spouse's or common-law partner's natural or adopted children, or one in respect of whom the individual had custody and contributed to their support; who were under 16 at any time in the year; or dependent by reason of mental or physical infirmity.

For parents of children with a disability, there is no requirement that the parent claiming the child care expenses for eligible services such as baby-sitting, or those provided at a day nursery or daycare centre, among others, be the one who claims the Disability Tax Credit (DTC) on behalf of an eligible child. In many cases it will be advantageous for the other parent to claim the DTC. In some cases the child, after having attained the age of majority, might be able to claim the DTC.

A maximum of $250 per week can be claimed for all children 16 or younger for whom anyone is entitled to claim a DTC.

Under certain conditions, the supporting person with the higher income will be able to claim child care expenses, up to $175 per week for each child under 7 or who has a severe disability, plus $100 per week for other eligible children. For example, in two-parent families, where one spouse or common-law partner is working while the other is studying full or part time, the higher-income spouse is eligible to claim a deduction (for part-time education the corresponding amounts eligible for deduction are $175/$100 per month, respectively).

Parents who have shared custody of a child over the course of a taxation year might each be entitled to claim a deduction for eligible expenses incurred while that child resided with them.

Payments made to a boarding school or camp, including a sports school that requires lodging, qualify up to a maximum of $175 per week per child under 7 and a maximum of $100 per week for other eligible children between 7 and 16, inclusive.

The deductibility of summer day camps, sports schools, or other recreational activities may depend on factors such as the child's age, the program's sophistication (that is, if it is oriented more toward achieving a progressive, measurable improvement in skills, rather than serving as a recreational sporting activity, CRA would generally not equate that to child care), and whether such expenses are incurred to allow the parent or supporting person to carry on earning a living. Court cases have also emphasized that the expenses incurred should relate primarily to guardianship, protection, and child care.

Child care expenses claimed might reduce the amount eligible for the taxpayer to claim as a child tax benefit.

Check with your Certified General Accountant to determine which options are applicable to you.

tax tips

Although one condition of being able to deduct child care expenses involves earning a living, this deduction might still be available during periods in which temporary, extenuating circumstances, such as a strike or other labour stoppage, prevent you from working. Furthermore, there may be other instances when child care expenses remain deductible because the services provided help enable a parent to earn a living or attend classes, even though the services were not provided at the exact time they were at work or school.

The child care portion of fees paid to a private school that provides both educational and child care services (such as before- or after-class supervision) might also be deductible as child care expenses.

There may be situations where grandparents are supporting their grandchildren and are therefore able to claim child care expenses as the primary caregiver.

Spousal Support Payments

Spousal support payments, which used to be more commonly referred to as alimony and maintenance payments, are deductible by the payer and taxable to the recipient, defined as the "spouse or common-law partner or former spouse or common-law partner of the payer," provided certain conditions are met. Generally, the payer and recipient must be living apart as a result of relationship breakdown, both when payments are received and for the balance of that year; also, payments must be an allowance made periodically, either directly or to a third party under a written agreement or court order.

A lump-sum payment stipulated in any legal arrangement would not constitute a periodic payment and therefore would probably not qualify as being tax-deductible by the payer. However, where the legal agreement specifies that a periodic payment take place and the payer makes a lump-sum payment in respect of arrears, or as an advance under that agreement, then that payment would probably qualify as being tax deductible by the payer, with the recipient having to include it with their taxable income.

Payments made before a written agreement or court order has been issued are also deductible to the payer and taxable to the recipient if the agreement or order specifically provides that payments made earlier in the year or the immediately preceding year qualify.

Expenses specifically determined by a court order or written agreement as being payable directly to a third party for spousal support, at the discretion of the recipient, are also deductible and taxable to the respective parties.

Child Support Payments

Child support payments are treated differently from spousal support. Recipients do not include child support payments in their income, nor does the payer deduct such payments for tax purposes, if they originated pursuant to a written agreement or court order made on or after May 1, 1997, or before that date if the payment commencement date pursuant to the original agreement, or a varied version thereof, was on or after May 1, 1997.

Prior to that date, child support paid pursuant to a written agreement or court order was deductible by the payer and taxable to the recipient. Parents with existing agreements made before May 1, 1997, upon which payments had also commenced prior to that day, have the option of filing a joint election with CRA to apply the new tax treatment to payments made after April 30, 1997. Once the tax treatment has been changed, however, parties will not be permitted to return to the old rules.

In order for an allowance to qualify as child support, it should generally be payable on a periodic basis (typically weekly or monthly), with provisions to continue for either an indefinite period or until the occurrence of a specified future event, such as a child attaining the age of majority.

tax tip

Be aware that, if you go to court and obtain an amending order to an existing agreement involving child support payments, the income tax rules attributable to each may be different, particularly if the original agreement was made prior to May 1, 1997, and the amendment occurred on or after that date.

Issues Related to Spousal and Child Support

Legal fees incurred by the recipient to establish spousal or child support are deductible.

Legal costs incurred to enforce pre-existing rights to interim or permanent support amounts, to increase spousal and/or child support once an original court-imposed settlement has been passed, or to defend against (but not for) the reduction of support payments (whether child support or otherwise) are all deductible, provided they are not incurred against an estate.

Support payments can be made directly to a child at the spouse's discretion.

Taxpayers must also be cognizant of any relevant provincial or territorial laws with respect to support or maintenance that might apply to them.

tax tips

Legal agreements should specify the breakdown, if any, between support payments that are for spousal support and child support. Otherwise, it will be assumed that for tax purposes they are all for child support and treated accordingly by CRA.

You may claim eligible support payments made to a payee living outside Canada if you have adequate proof of payment; in most cases, CRA will ask for a court order and/or written agreement and payment receipts to allow this deduction. Therefore, you should retain these documents in order to support your claim.

Moving Expenses

Taxpayers may claim eligible moving expenses to change residences within Canada, provided the move brings them at least 40 kilometres closer (using the shortest normal route) to their employment (it can be either a new or previously existing job), business location in Canada, or post-secondary institution at which they are in full-time attendance.

The claim amount is limited to income from the related business or employment, or prizes and research grants, either in the year of the move or the following year. For individuals who are reimbursed in whole or in part, the full amount of the moving expense can only be claimed as a deduction if the reimbursement amount is also included in calculating income.

Students who were in full-time attendance at a post-secondary educational institution in Canada and who move at least 40 kilometres within Canada for employment purposes may also claim moving expenses against income earned from a full- or part-time job (including a summer job) the year the move took place or the following year. This also applies the year after graduation.

Eligible moving expenses include such items as the following:

- travel costs, including reasonable amounts for meals and accommodation to move the individual and members of their household
- costs for up to 15 days of temporary board and lodging near either residence
- transportation and storage costs for household effects
- the cost of connecting or disconnecting utilities as a result of the move
- the cost of cancelling a lease or reasonable costs related to selling the old residence, including real estate commissions and advertising
- legal fees
- reasonable selling costs directly related to the sale of the home
- taxes, fees, or duties (excluding the GST/HST) upon registration of title to the new residence only if a former residence has been sold
- costs to revise legal documents to reflect the new address, including replacement of drivers' licences and non-commercial vehicle permits

Additional related expenses with respect to maintaining a vacant former residence are also deductible; these include mortgage interest, property taxes, insurance premiums, and maintenance of heat, power, and utility connections. These deductible amounts are limited to the lesser of actual costs involved in maintaining the former premises, or $5,000. These costs are deductible as long as reasonable efforts are made to sell the old residence.

A taxpayer who rents out a former home in their original location prior to moving because they are unable to sell it might be able to claim rental income and losses in connection with that property.

Limited tax-free compensation may be available where an employer reimburses an employee to cover for a loss or diminishment in the value of their former home. Compensation of up to $15,000 for an eligible housing loss is tax-free. If the compensation exceeds $15,000, half that excess is taxable.

Under certain circumstances, a taxpayer who is required to move into a temporary home before moving a second time into a permanent home might be able to deduct expenses related to both moves. In determining whether a home is considered temporary or permanent in nature, the tax courts are likely to look at a variety of factors, such as whether or not certain of the taxpayer's material belongings remain in storage and whether or not family members have relocated with the taxpayer.

Furthermore, taxpayers who move to a new location and work there for only a short period of time (that is, a few months) before moving a second time for employment reasons — perhaps back to their original venue — might be able to claim expenses for two moves provided they can prove they were "ordinarily resident" in terms of being settled into the daily routine of life while in both places.

Moving expenses might also be deductible in certain circumstances that involve a move in or out of Canada, provided the taxpayer is and remains a Canadian resident.

tax tips

You do not necessarily need to have a job already lined up at your new location to become eligible to deduct moving expenses against earned income when you eventually find and begin work at the new venue within a reasonable period of time. An example of this is where a taxpayer moves from one geographic location to another in Canada where employment opportunities are better.

The tax courts have ruled that there is no time limit on when you move closer to a new or existing job or business opportunity, or educational institution you attend, in order to be able to deduct eligible moving expenses.

If a former home is sold for a loss in a year subsequent to relocation, taxpayers might have the opportunity to select in which of those two years it is most beneficial to claim that loss for tax purposes. Consult your Certified General Accountant if this situation applies to you.

Travel Expense Claims

Taxpayers have the option of using a simplified method to calculate certain non-reimbursed travel expenses specifically related to a move, medical treatment, or for northern resident deductions. Such travel can, for example, occur by automobile, bus, train, or airplane and cover such items as hotel or motel accommodations, meals, and other incidental expenses. This simplified method includes a flat rate of $17 per meal (to a maximum of $51 per day) per person.

Special rates apply to transportation sector employees, who can use the rate of $17 per meal (up to a maximum of $51 per day). In addition, transportation sector employees, such as those involved in the trucking, railroad, bus, or airline industries to transport people and/or goods, can use the Canadian equivalent of US$17 per meal (up to a maximum of US$51 per day) while travelling and incurring meal expenses in the United States.

Receipts do not have to be submitted when claiming these flat rates, although taxpayers should keep their receipts in case they are asked by CRA to support their claim. Employees who elect to claim actual meal expenses must keep their receipts in order to claim.

The *Income Tax Act* allows employees to deduct 50% of meal expenses, regardless of whether they elect to do so via fixed or actual rates.

The simplified method also includes a fixed amount to be claimed per kilometre of travel in each province or territory. (Where interprovincial/territorial travel is involved, the venue from which the journey began is used for calculation purposes.) The applicable rates for the provinces and territories in 2011 were as follows:

Province/Territory	Cents per kilometre
Alberta:	53.0
British Columbia:	52.0
Manitoba:	49.0
New Brunswick:	52.0
Newfoundland and Labrador:	55.0

Northwest Territories:	61.5
Nova Scotia:	53.0
Nunavut:	61.5
Ontario:	57.0
Prince Edward Island:	52.0
Quebec:	59.0
Saskatchewan:	47.5
Yukon:	63.5

Changes for the following year are typically published by the federal government either late in the old calendar year or early in the new one; therefore, possible updated rates for the 2012 taxation year were not yet available when this book went to press.

Foot and bicycle couriers, along with rickshaw drivers, qualify for a meal reduction of $17 daily, without receipts.

Northern Residents Deductions

Special deductions relating to residency and travel are available to taxpayers who reside in designated northern areas defined as either a "prescribed northern zone" or a "prescribed intermediate zone" (which collectively encompass all three territories, plus parts of Canadian provinces with the exception of those in the Maritime region) for a continuous period of not less than six months beginning or ending in the year. Such venues are listed in CRA Form T4039, *Northern Residents Deductions — Places in Prescribed Zones*.

Taxpayers in a prescribed northern zone are eligible for a basic residency deduction of up to $8.25 per day, or $16.50 if they are claiming on behalf of the entire household, even if there is only one member in that household.

Taxpayers in a prescribed intermediate zone are eligible for one-half the amount of the northern deduction — $4.13 for individual taxpayers and $8.25 per household.

In some instances, these deductions might help offset the inclusion in income of a cost of living differential, or premium, paid to certain taxpayers who reside in places such as Canada's three territories. Such premiums are designed to compensate for living in more isolated areas that have a higher cost of living and require greater travel expenses.

Supplementary housing benefits are also available for residents in prescribed zones that do not have a developed rental market.

Taxpayers claiming Northern Residents Deductions must complete CRA Form T2222, *Northern Residents Deductions* and attach it to their income tax return.

Part Two: Tax-Planning Issues

Income Splitting

Income splitting with a spouse or other family member in situations where this is legally permitted can be an effective way of saving the family unit tax — sometimes a very substantial amount. However, there are stringent rules in place designed to prevent income splitting in certain instances, so it is necessary to know where these opportunities exist and where they do not in order to carry out proper tax planning.

tax tip

If you earn more than your spouse, you could reduce your family's combined tax bill by paying your spouse's expenses, thus allowing them to save their money for investment purposes. The income and gains from these investments would then be taxed in your spouse's hands at their (presumably lower) tax rate. This strategy will also help you even out future retirement income if you have been able to invest in a tax-deferred retirement plan and your spouse has not.

Attribution Rules for Income

The *Income Tax Act* includes rules that cause income to be attributed to and taxed in another person's hands in specific instances. For example, income earned from money or other property loaned to a spouse/common-law partner, related minor, or trusts of which they are beneficiaries, is attributed back to lenders except in defined circumstances.

Low-interest or interest-free loans made to a non-arm's-length adult, such as an adult child, may result in income attribution if one of the main reasons for the loan is to reduce or avoid tax. Such rules also apply to income from loaned property.

To further discourage income splitting with minor children, a special tax at top marginal rates applies to certain income received by minor children under the age of 18. Generally, this special tax, known as the "tax on split income" or "kiddie tax", applies to the receipt of dividends and other shareholder benefits from private corporations, as well as income received from a partnership or trust that provides property or services to a business in which a relative of that child participates.

tax tips

If you earn less than your spouse, keep a clear record of the source of your investment funds to ensure that your investment income is attributed to you. This could be accomplished by, for instance, depositing your personal income into a separate bank account rather than a joint account. Then those funds could be used to make investments in your name.

Income earned from Canada Child Tax Benefit (CCTB) payments invested in the child's name will not be attributed back to the parents (see Additional Tax Considerations on page 231).

Be careful how trust property is used to benefit minors. In one decision handed down by the Tax Court of Canada, three child beneficiaries were found to be joint and severally liable for a trust's taxes owing after a parent used some of the trust's proceeds to pay for their private school tuition and summer camp fees.

Reinvestment of Attributed Income

In situations where investment income is attributed back to the lender, the reinvestment of that income — in other words, second-generation investment income — is for the recipient's account and will not be subject to attribution rules. Check with your Certified General Accountant for details, and to discuss how this strategy might be beneficial for you.

tax tip

A loan may be preferable to an outright transfer since, after realizing the gain the transferee could repay the loan and invest the gain, free of future attribution. If cash is not readily available, consider lending investments. Note, however, that these rules can be complex; for instance, if the entire proceeds from the sale of the investment are reinvested, attribution will still apply. Seek advice from your Certified General Accountant.

Attribution of Capital Gains

Attribution generally applies to any capital gain realized by a spouse or common-law partner on property loaned or transferred at less than FMV. When there is a gain on the disposition of such a property, and the full proceeds are reinvested, all gains from the new property would also be attributed to the owner of the original property.

However, a capital gain realized by a child or other related minor is generally not subject to attribution, except in two circumstances. The first is gains from certain farm property transferred under a tax-deferred rollover. The second is gains on the non-arm's-length sale of shares if dividends from those shares would otherwise have been subject to the tax on split income. In such situations, the capital gains will be treated as dividends subject to tax at the top marginal rate. This applies to transactions that occur on or after March 22, 2011.

Attribution does not apply where capital gains have been earned in an irrevocable trust established for a child (minor or otherwise).

Parents often contribute to investment accounts held "in trust for" their children. To avoid attribution of capital gains in that instance, care should be taken that such accounts qualify as irrevocable trusts. To qualify, the terms and conditions of the account must serve to divest, deprive, or dispossess the parents of title to deposited funds. If the parent has the right to withdraw those funds for their personal benefit, the account will not qualify as an irrevocable trust.

Transfers for Fair Value

Transferred property for which FMV consideration is received is not subject to attribution rules. Taxpayers who transfer property to a spouse or common-law partner must elect that spousal rollover rules do not apply in order to avoid being subject to attribution rules. Through this election, the transferor may report any accrued gain up to that time. Their spouse will then report any future gain realized.

Where property is sold to a non-arm's-length person for less than its FMV, the seller is deemed to have received consideration equal to its FMV. This might result in double taxation as the recipient will ultimately be taxed on any gains made on top of the actual purchase.

tax tip

Be aware if you have any tax liabilities outstanding at the time you transfer property in a non-arm's-length transaction, such as to a spouse or other family member. They might, under some circumstances, be deemed by the tax courts as being joint and severally liable and therefore partially responsible for your liability, especially where you have received less than FMV consideration in return.

Loans for Fair Value

If a loan is made, or transferred property is settled with a loan, attribution rules do not apply provided:

- interest is charged on the loan at the lesser of a normal commercial rate or CRA's prescribed rate (refer to Appendix VII, page 307); and
- interest in respect of that year and each preceding year has been paid no later than 30 days after the end of each year.

If taxpayers loan funds to their spouse or common-law partner, with interest payable at least annually at the lesser of CRA's prescribed or commercial rates, and the spouse/common-law partner invests those funds to achieve a yield exceeding the rate of interest charged, that excess income will be taxed in the spouse or common-law partner's hands, not attributed back to the taxpayer.

Loans to Earn Business Income

The *Income Tax Act* clearly distinguishes between business and property income. Attribution rules do not apply to income earned from a business — either as a proprietorship, partnership, or through a small business

corporation. Attribution will apply, however, if the borrower is a limited partner or a partner who is not actively engaged in the activities of the partnership or a similar business.

Loans to family members, if used in an active business, will not result in attribution of the proceeds of any subsequent business income or gains.

Deductions Related to Salary Paid to Spouse/Common-Law Partner or Children

If a spouse, common-law partner, or other family member is employed by a business, there are potential opportunities to income split by paying a reasonable salary to those members and thereby reduce the family's overall tax burden.

For more details, see page 74.

Statutory Income Splitting — CPP Benefits

CPP benefits of up to 50% of an individual's total benefit may be assigned for spousal payment provided each of the spouses/ common-law partners are at least 60 years of age. The percentage eligible for assignment is subject to certain considerations, including how long the couple has lived together as a proportion of their joint CPP contributory period.

Attribution rules do not apply to CPP benefits assigned in this manner.

tax tip

If you have a higher taxable income than your spouse or common-law partner, placing you in different tax brackets, splitting CPP benefits may achieve some tax savings.

Other Pension Income Splitting

Taxpayers are allowed to split up to 50% of eligible pension income with their spouse or common-law partner; in order to do so, both spouses

must make a joint election on Form T1032, *Joint Election to Split Pension Income*. See also Pension Income Credit on page 208.

tax tip

Pension income splitting might be a good strategy to minimize overall family taxes if the spouse to whom the funds are being transferred has low, or no other, sources of income.

Spousal Registered Retirement Savings Plans

For details on how the Spousal Registered Retirement Savings Plan (RRSP) can be used for long-term tax-planning purposes, including future income splitting, see Spousal Registered Retirement Savings Plans on page 146.

Registered Education Savings Plans

Registered education savings plans (RESPs) are usually established for children by a parent or grandparent, to help save for post-secondary education. Contributions are not deductible for tax purposes and are not taxable when withdrawn. All contributions can be paid to the subscriber or beneficiaries at any time, subject to the terms and conditions of the issuer.

Contributions to an RESP are allowed for a maximum of 31 years after the plan is established — 35 years if the plan is a specified plan. An RESP under which the sole beneficiary is entitled to the Disability Tax Credit (DTC) in the 32nd year of the plan's existence is called a specified plan. The income earned within an RESP may be sheltered from tax for a maximum of 36 years — up to 41 years if the plan is a specified plan. It is not taxable until paid out, at which time it will be included in the recipient's income. Since many students have little or no other income, they can usually withdraw the RESP income on a tax-free basis.

There is no annual contribution limit for an RESP. However, total lifetime contributions are restricted to a maximum of $50,000 per beneficiary.

Educational assistance payments (EAP) are taxable distributions to a beneficiary of accumulated income and government contributions. Students may start receiving EAPs as soon as they are enrolled in either a qualifying educational program or, if the student has attained 16 years of age, in a specified educational program. Programs may be either full time or part time, requiring attendance or delivered through distance education courses, as long as they meet the requirements for program length and hours of course work (see Tuition Fee and Education Credits, page 200, for a description of these educational definitions and requirements). Part-time students must be at least 16 years of age to receive EAPs.

Except for family plans, there are generally no restrictions on who the original subscriber can be under an RESP. Family plans allow more than one beneficiary. Each beneficiary must be under 21 at the time they are named as a beneficiary, and must be connected by a blood relationship or adoption to the subscriber or to a deceased original subscriber.

A parent, brother, sister, child, or grandchild can be connected by a blood relationship or adoption to the subscriber. Step-children are considered to be connected to their step-parents because they are the children of their step-parent's spouse or common-law partner. The subscriber's nieces, nephews, aunts, uncles, or cousins are not considered to be connected by a blood relationship.

Under these family plans, one sibling's share may be paid to another sibling. In other words, subscribers are able to maximize contributions for, say, two children, but one child can receive all the accumulated contributions, income, and Canada Education Savings Grants (CESG — see section below). Contributions under a family RESP cannot be made for beneficiaries after they turn 31.

Subscribers may change the beneficiary or add more beneficiaries, subject to the plan issuer's restrictions, although care should be taken to avoid causing a taxable overcontribution. If the new beneficiary is a brother or sister of the former beneficiary, and is under 21, or, if both beneficiaries are connected by blood or adoption to an original subscriber, and both are under 21, there will be no tax consequences to replacing a beneficiary.

Transfers of assets between RESPs may trigger tax penalties and repayment of the CESG and Canada Learning Bonds (CLB — see section below). Transfers from an RESP where a beneficiary under the transferring plan has a sibling who is both a beneficiary of the receiving plan, and who is under 21 at the time of the transfer, may generally be made without tax consequences or triggering repayments of CESGs. The 2011 Federal Budget extended this same flexibility to allow transfers of assets among individual RESP plans established for siblings provided the beneficiary of the plan to whom assets are transferred was under 21 when their plan was opened.

RESP income can be paid to a subscriber if the RESP is at least 10 years old and all of the beneficiaries have reached 21 years of age and are not currently eligible to receive an EAP, or if the RESP has existed for 36 years (41 years if the RESP is a specified plan), or if all of the beneficiaries are deceased. The first two conditions may be waived if the beneficiary is mentally impaired.

Under those conditions, up to $50,000 in RESP income may be transferred to a subscriber's or spousal RRSP provided there is contribution room. Otherwise, the accumulated income will be included in the subscriber's income and a 20% tax will apply, in addition to regular taxes.

A 1% penalty applies on excess contributions for each month total RESP contributions exceed $50,000.

tax tips

A flying school might qualify as an educational institution that provides post-secondary instruction for the purposes of applying RESP savings.

Former students may still be able to receive income from their RESP for a brief period after leaving school. A beneficiary is entitled to receive EAPs for up to six months after ceasing enrolment, provided the payments would have qualified as EAPs if made immediately before the student's enrolment ceased.

If you are a subscriber to an RESP and you do not expect the beneficiary will qualify for payments before the plan's mandatory expiration, you might want to consider temporarily foregoing some of your RRSP contribution if you require extra contribution room in the RRSP to permit a transfer of the accumulated income from the RESP.

RESPs allow adults to grow their education savings tax-free too. You can name yourself or another adult as the sole beneficiary of an RESP, as there are no age limits for RESPs established for only one individual.

Canada Education Savings Grant

For every dollar a parent, grandparent, or other person contributes toward the RESP of a child up to the age of 18, the federal government will contribute at least an additional 20 cents, up to an annual limit of $500 for a $2,500 contribution, through the Canada Education Savings Grant (CESG). Special rules apply to contributions made on behalf of 16- and 17-year-olds.

Families with net family income of up to $42,707 in 2012 are entitled to a higher annual CESG grant of 40 cents for every dollar on their first $500 of RESP contributions. Families with net family income between $42,707 and $85,414 are eligible for a higher grant of 30 cents per dollar each year on their first $500 of contributions.

For 2012, the maximum annual amount of CESG (basic + additional) that can be paid in any year is $600 for current contributions and $1,100 if there is unused grant room from previous years. Unused grant room accumulates at a rate of $500 a year.

The maximum lifetime CESG for which a child is eligible is $7,200.

Families who receive the National Child Benefit (NCB) supplement under CRA's Canada Child Tax Benefit (CCTB) program (see Canada Child Tax Benefit, page 231), are also eligible to receive a $500 Canada Learning Bond (CLB), plus an extra $25 with that first $500 bond, when

an RESP is opened in their child's name. This is a one-time payment. An additional CLB of $100 per year to age 15 may subsequently be paid as long as the family continues to receive the NCB supplement. CLB payments are available to children born after December 31, 2003.

Registered Disability Savings Plan

A registered disability savings plan (RDSP) is designed to provide savings for the long-term financial security of a child or adult with a disability.

As with an RESP, earnings generated on contributions are tax exempt while they remain in the plan. Contributions are not tax deductible and not included in income when paid out. All other amounts paid out of the plan are included in the beneficiary's income. Unlike with an RESP, the holder cannot directly access the non-taxable contributions, as only the beneficiary or the beneficiary's estate is entitled to receive payments from an RDSP.

Anyone can contribute to an RDSP with the permission of the holder, and contributions are permitted until the end of the year in which the beneficiary reaches 59. Contributions are limited to a lifetime maximum of $200,000, with no annual limit.

To augment funds in the RDSP the government will contribute, in the form of Canada disability savings grants (CDSG), funds equivalent to between 100%, 200%, or 300% of RDSP contributions, to a maximum of $3,500 annually and $70,000 over the lifetime of the beneficiary, depending on the beneficiary's family income. The federal government may also contribute up to $1,000 annually in Canada disability savings bonds (CDSB), to a maximum of $20,000, depending on the beneficiary's family income. Contributions do not need to be made to the RDSP in order to receive the bond. Beneficiaries must be 49 years of age or younger at the end of the year to be eligible for a CDSG or CDSB.

Unused grant and bond entitlements may be carried forward to future years. The carry-forward period can only start after 2007, and is for a period of 10 years.

Generally, only the beneficiary can open and be the holder of an RDSP. If the beneficiary is a minor, or has reached the age of majority, but is not competent to enter into a contract, a parent or certain other individuals can open the RDSP and become its holder. Temporary provisions under which parents and spouses can become plan holders for adult beneficiaries who are unable to enter into contracts are also now in place until the end of 2016.

When amounts are paid from an RDSP, all CDSGs or CDSBs paid into the plan in the preceding 10 years must be repaid, with one exception. A beneficiary whom a medical doctor certifies is expected to live fewer than five years, can apply to have their plan designated as a specified disability savings plan (SDSP). Individuals with a SDSP will be allowed to withdraw up to $10,000 in taxable amounts from the plan for that year (or greater amounts as would be required to satisfy the minimum withdrawal requirements that ordinarily apply in the year if the beneficiary had attained 60 years of age), and for each of the five following calendar years, without triggering the repayment requirement.

Only individuals who are residents of Canada and eligible for the Disability Tax Credit (DTC) can be beneficiaries under an RDSP. If the beneficiary's condition improves to the extent they no longer qualify for the DTC, proceeds of the RDSP (less any repayment of CDSGs and CDSBs to the government) must be paid to the beneficiary and the plan collapsed. The 2012 Federal Budget introduced an amendment to take effect in 2014 that will allow, in certain circumstances, for an election to continue the RDSP upon the loss of DTC-eligible status.

Lifetime disability assistance payments (LDAP) are annual payments made from an RDSP that are subject to annual minimum and maximum limits. They may begin at any age, but must commence by the end of the year in which the beneficiary turns 60. Once started, they must continue until the plan is terminated or the beneficiary dies.

When a beneficiary is any age from 28 to 58, inclusive, they can, subject to certain restrictions, request a lump-sum payment called a disability assistance payment (DAP), even if they are not a holder of the plan.

Contributions and payments from RDSPs will not impact eligibility for federal government benefits. All other provinces and territories have announced a partial or full exemption of RDSP assets and income.

Amounts paid out of a deceased's registered retirement savings plan (RRSP), registered retirement income fund (RRIF), and registered pension plan (RPP) may, under certain circumstances, be rolled over on a tax-deferred basis to the RDSP of a child or grandchild who was dependent on the deceased. Amounts contributed to an RDSP in this fashion will reduce the beneficiary's RDSP contribution room, not attract CDSGs, and be taxable when withdrawn from the RDSP. Transitional rules effectively allow this measure to apply retroactively as of January 1, 2008, subject to certain restrictions.

The 2012 Federal Budget introduced other RDSP amendments to take effect in 2014. These will adjust the current 10-year repayment rule, change the maximum and minimum annual withdrawals allowed, and allow certain RESP-related investment income to be rolled over to an RDSP.

Tax-Advantaged Investments

The term tax shelter is commonly used when referring to investments and/or other arrangements with tax advantages, but it also has a very specific meaning for tax purposes. The definition is complex, but generally an investment or "gifting arrangement" may be considered a tax shelter under the *Income Tax Act* if:

- it is promoted as offering tax savings; and
- it is reasonable to consider that the losses, deductions, or credits resulting from the investment or arrangement would, within the first four years, be equal to or more than the net cost of the original investment.

Taxpayers face a number of limitations with respect to tax-shelter deductions and credits. Such deductions and credits can, for instance, result in alternative minimum tax (AMT) (see page 236) or be limited by at-risk rules, which state that individuals may not write off more than the cost of their investment.

Deductions and credits will also be limited if loans related to tax shelters are considered limited-recourse debt, as defined by the *Income Tax Act*.

To avoid being considered limited-recourse debt, money must be borrowed with bona fide arrangements to repay the principal within 10 years. Interest must be payable regularly — at least annually within 60 days of the year end, and at prescribed rates, with the investor at full risk for the loan. Limited-recourse debt is not included in the adjusted cost base (ACB) of an investment.

Taxpayers must specifically identify any tax-shelter investment deductions or credits, accompanied by a shelter identification number, on their tax return. Tax-shelter promoters should provide the necessary filing forms and relevant details, such as the amounts for losses or deductions. An investment or arrangement can be considered a tax shelter even if the promoter has not specifically represented it as a tax shelter or obtained an identification number. However, if an investment or arrangement is found to be a tax shelter and an identification number was not obtained, all deductions and claims relating to the tax shelter will be denied.

Tax opinions of accountants and lawyers provided by the promoter of a tax shelter, or the existence of a tax shelter identification number, do not indicate CRA has confirmed that deductions or credits related to the tax shelter will be allowed. It is common for CRA to disallow deductions from tax shelters, often going back and reassessing years where it had previously allowed them. Therefore, before you invest in a tax shelter, it may be wise to seek independent tax advice from your Certified General Accountant to assess the potential risks and benefits.

Obtain the benefit of tax-shelter deductions in advance. Apply to your CRA district taxation office for permission to reduce income taxes at source to reflect tax-shelter deductions.

Limited Partnerships

Limited partnerships (LP) provide limited liability, while allowing the investor a flow-through of tax losses directly to them. LP investors are taxed on their share of income or loss in the partnership. Cash distributions represent partnership drawings and reduce the limited partner's ACB but do not represent taxable income.

For partnership interests acquired after February 22, 1994, a capital gain must be reported where a limited or passive partner has a negative ACB in their partnership interest at the end of a fiscal period. This provision will prevent tax-shelter arrangements where tax-deductible losses are claimed and the investor subsequently receives cash distributions exceeding the partnership interest costs. Only the income or loss for a prior (not the current) period will be taken into account in determining the ACB of a partnership interest.

In addition, losses allocated to a limited partner in a taxation year are restricted to that limited partner's at-risk amount at the end of the fiscal period of the partnership, minus certain other deductions. For most investors, their share of a partnership's losses and their at-risk amount will be the amounts reported on the information slip provided by the partnership. LP losses can be carried forward indefinitely, but only deducted from the same partnership's income if there is a positive at-risk amount.

Mutual fund and film LP tax shelters have been eliminated. However, grandfathering provisions apply for certain agreements made in writing prior to September 18, 2001. Consult your Certified General Accountant for specific details.

Rental Real Estate and Real Estate Limited Partnerships

Rental real estate used for commercial purposes might provide taxpayers with the ability to leverage capital, write off expenses, earn CCA-sheltered rental income, and enjoy capital appreciation on their investment. Investing in rental real estate through a limited partnership may slightly

escalate the rate at which CCA can be claimed because the partnership claims the CCA and the investor deducts the financing costs. If the investor acquired the property directly, the financing costs would increase the rental expenses and potentially reduce the permitted CCA claim.

Rental income received from real estate might, under certain circumstances, be considered by CRA to be either income from a business or income from property. That is a key distinction because the two are sometimes treated differently from a tax standpoint.

In most cases, rental income will be considered income from property if it is earned by renting space and providing only basic services, such as heating, air conditioning, and building maintenance. If additional services, such as meals, cleaning, fresh linen, and washroom supplies, among others are provided, the rental income may be considered business income. The more services provided, the greater the chance the rental operation is a business. However, as the differences between business and property income are not clearly defined in the *Income Tax Act*, it is best to consult your Certified General Accountant for clarification.

Expenses incurred to repair or improve a property, in preparation for or in the course of renting it out, may depending on a number of factors, be either deductible in the current year or be considered as capital expenditures.

Market considerations aside, some tax aspects associated with rental real estate could potentially reduce its appeal. For example, while CCA in respect of a rental property may be claimed to shelter net rental income from tax, it may not be claimed to create or increase a loss. The fact that when the property is sold any recapture of CCA will be added to the investor's income further diminishes the potential advantages of claiming CCA on rental real estate.

If you are a Canadian resident who owns foreign property being rented or leased out, consult your Certified General Accountant to help you determine the correct tax treatment and any elections that might be required with respect to that property.

tax tips

Profits and losses from rental property can affect your RRSP deduction limit, as well as possible entitlement to certain means-tested government benefits.

If you are renting out a property that you also use personally, such as a cottage, be sure that you keep separate, meticulous records of expenses incurred for personal use and rental use of that property. Several factors may be taken into account to determine if rental losses are deductible for tax purposes, including whether or not the rentals are conducted in a commercial manner.

If you have a tenant in your home, you have to divide the expenses that relate to the whole property between your personal part and the rented part. To determine what proportion of your home is used for rental purposes, be sure to take all use of your property by the tenant into account, including their use of rooms to which you share access. Consult your Certified General Accountant to assist with these calculations.

Labour-Sponsored Venture Capital Corporation

Labour-sponsored venture capital corporations (LSVCC) are investments sponsored by labour organizations that allow individuals to pool their money to purchase a diversified portfolio of small- and medium-sized businesses. Taxpayers can register their LSVCC purchase as an RRSP and receive the normal RRSP tax deduction as well as the federal and provincial/territorial tax credits. If the first registered holder of the share is an RRSP for a spouse or common-law partner, either the RRSP contributor or annuitant can claim credit for that share.

The federal government provides a maximum credit of 15% on a $5,000 investment under this program; some provinces also have their own labour-sponsored funds, with varying rules regarding the maximum allowable investment and corresponding provincial credit.

Investments made in an LSVCC in the first 60 days of the year will qualify as contributions for either the previous or current tax year.

LSVCC shares redeemed during the month of February or on March 1 of a calendar year (only up to February 29 during a leap year) are treated as if they had been redeemed 30 days later. This means shareholders who are 30 or fewer days short of holding their investment for the requisite number of years will avoid clawback of the tax credit. They will also have the opportunity to acquire new LSVCC shares during the first 60 days of a year using proceeds from the redemption of existing shares, thereby making them eligible to claim a tax credit for the previous year.

This tax credit does not reduce the ACB of the shares held, but will reduce any capital loss realized on their disposition.

To avoid a tax credit clawback, LSVCC investments must be held for at least eight years if purchased on or after March 6, 1996. In case of death, the LSVCC can be redeemed immediately, without clawback of the tax credits.

tax tips

If you have a shortage of cash, consider borrowing for your RRSP contribution and investing in an LSVCC. If you were in the highest tax bracket, your tax savings from a maximum allowable federal and provincial/territorial investment could be substantial. You can then use your tax savings to repay most of the loan.

Check the terms of your LSVCC fund. In some cases it may be possible to redeem the units of a fund and reinvest them in the same fund (or another one) to obtain another tax credit. Under federal rules, fund units must be held for a minimum of eight years if purchased after March 5, 1996. The equivalent provincial and territorial rules, if applicable, vary by jurisdiction. Also, before redeeming your units, be sure and check the terms under the prospectus of the fund you purchased as redemption fees imposed by the fund company may also apply.

Flow-Through Shares and Oil, Gas, and Minerals

Special tax incentives exist to encourage individuals to risk capital for the exploration and development of oil, gas, and minerals. These incentives are offered through flow-through shares, joint ventures, and LPs. Through such vehicles, individuals may be eligible to deduct specific exploration expenses and other resource-related incentives.

Flow-through shares allow issuing companies to renounce certain deductions in favour of the investor. The initially acquired shares may be priced at a premium to market value so the company can participate in the tax savings. Investor deductions generally reduce the cost base of the shares to zero, resulting in a capital gain equal to the entire proceeds when the shares are sold. Only original investors can deduct amounts renounced to them.

In addition to deductions for expenses, there is a 15% non-refundable mineral exploration tax credit available to individuals who invest in qualifying flow-through shares. To be eligible, the flow-through share agreement must be made on or before March 31, 2013.

Some provinces have also announced that similar tax credits related to mining activity in their respective jurisdictions will be enacted or extended.

Tax incentives in the form of flow-through shares are also available for investors in businesses that develop certain renewable energy, alternative energy, and energy conservation projects.

Joint ventures are similar to LPs except that at-risk rules do not apply. Partnerships and joint ventures may also be eligible for additional tax benefits in the form of Alberta royalty tax credits and provincial/territorial crown royalty tax rebate programs.

Consult your Certified General Accountant for details.

Universal Life Insurance Policies

Exempt universal life (UL) insurance policies offer many tax advantages, including the following:

- premiums paid in excess of the mortality cost and premium tax are accumulated and invested; income tax on the returns of investments held within the accumulation fund is deferred until withdrawals are made from the policy; and
- when the policyholder dies, beneficiaries generally receive both the face value of the life insurance and full amount of the accumulation fund tax-free, resulting in permanent tax savings.

Furthermore, UL policies can be used to fund retirement needs. Individuals can, for example, borrow from their policy or pledge it as security for a loan, subject to the terms of the policy, with the loan providing a cash flow to fund retirement. Since this cash has resulted from a loan, rather than income, it is not taxable. Also, if repayment of the loan is deferred until the death of the policyholder, the loan will effectively be partially repaid out of pre-tax dollars.

UL insurance is, however, a complex product and should be purchased only with professional advice, including a full explanation of the plan's terms, underlying investments, costs, and tax treatment.

tax tip

Don't confuse insurance policy dividends with corporate dividends. Insurance policy dividends are not a distribution of corporate profits; they are a return of premiums and as such are not taxable as long as they do not exceed the adjusted cost base of the insurance policy.

Deferred Income Plans

Deferred income plans allow taxpayers to earn investment income on which they can defer paying tax while it remains in the plan. Some deferred income plans also allow a tax deduction, within specified limits, for contributions made.

Registered Retirement Savings Plans

Registered retirement savings plans (RRSP) are registered plans into which individuals contribute savings or eligible investments for future use — typically, but not necessarily exclusively, for retirement. Taxpayers can have several different RRSPs and invest each in a variety of eligible vehicles (see Self-Directed Registered Retirement Savings Plans, page 147, for examples).

Eligible RRSP contribution amounts reduce a taxpayer's taxable income and thus save tax. However, any RRSP withdrawal will trigger an income

inclusion for that taxation year, regardless of whether some — or all — of the amount withdrawn is recontributed to the plan later that year.

Taxpayers may be required to pay certain RRSP-related administrative or management fees outside of their plan. Such fees are not tax-deductible.

When the owner of an RRSP dies, the proceeds of their plan may be transferred to the deceased individual's spouse, or a dependent child or grandchild. Discuss details about options that may be available with your Certified General Accountant.

Registered Retirement Savings Plan Contribution Limits

The annual RRSP contribution limit is 18% of the previous year's earned income to the allowable maximum dollar limit (see below), less the previous year's pension adjustment (PA) as reported on the T4, plus unused contribution room carried forward from previous years. The PA for a year is a measure of the total value of the benefit earned for the year under a registered pension plan (RPP) or deferred profit-sharing plan (DPSP). Past service pension adjustments, if any, are also deducted. The contribution limit also takes into account total pension adjustment reversals (PAR). PARs restore lost contribution room to individuals leaving RPPs or DPSPs before retirement.

tax tips

Contribute to your RRSP early in the year. If, for example, you contribute $22,970 — the maximum possible annual contribution amount for 2012 — at the beginning of the year instead of at the end, over a 25-year period, assuming a 5% rate of return, you would have an extra $54,800 in your RRSP.

If you are an employee making regular RRSP contributions, request that the amount of income tax withheld on your paycheque be reduced in order to reflect the savings those contributions will bring. This is a more efficient way to manage your money than overpaying tax up front, then waiting for a refund the following year.

The definition of "earned income" includes the following:

- employment earnings, net of union dues and employment expenses
- research grants (net of related expenses)
- net income from self-employment and active partnership income
- disability pensions under the C/QPP
- royalties
- net rental income
- alimony or separation allowances received
- employee profit-sharing plan allocations
- supplementary unemployment benefit plan payments (not EI)

Less

- the current year's loss from self-employment or an active partnership
- deductible alimony and maintenance payments
- current-year rental losses

The maximum annual dollar limit has been increased to $22,970 for 2012, up from $22,450 for 2011. The annual maximum dollar limit is indexed to the increase in the average wage.

CRA reports each taxpayer's RRSP contribution limit for the current tax year on the Notice of Assessment, which the taxpayer receives after filing their previous year's tax return. Eligible contributions must be made either during the calendar year or within 60 days of the calendar year end in order to be deductible for the previous tax year. Unused RRSP limits that have accumulated since 1991 are eligible to be carried forward.

Special considerations exist with respect to the transfer of eligible retiring allowances and termination payments (see page 52).

Contributions to a personal RRSP may be made until the end of the calendar year in which the taxpayer turns 71.

tax tips

Individuals with low earned income that precludes owing any tax should still consider filing a tax return in order to create RRSP contribution room for future use because 18% of earned income from the previous year is eligible to be contributed to an RRSP.

You don't have to deduct an RRSP contribution the year in which it is made; instead, you can carry it forward for deduction in a future period when you have income placing you in a higher tax bracket. Be sure you have utilized all personal tax credits before deducting your RRSP contribution.

Spousal Registered Retirement Savings Plans

Taxpayers can contribute to their own RRSP, a spouse or common-law partner's RRSP, or both provided they do not exceed their maximum deductible amount. Spousal contributions become the spouse/common-law partner's property. Although spousal contributions reduce the contributor's RRSP limit, they don't affect the recipient spouse's contribution limits for their own RRSP.

A spousal RRSP contribution has no more immediate tax benefits than contributing toward a personal RRSP. The future tax savings could be substantial, however. Contributing to spousal RRSPs gives taxpayers and their spouses/common-law partners the opportunity to equalize retirement income and reduce their future tax liability.

If, for instance, one spouse or common-law partner belongs to a good registered pension plan and the other does not, it may be beneficial for the spouse or partner with the pension plan to contribute to a spousal RRSP. Then, during retirement, a potential scenario might be for that spouse to draw on their pension and either leave funds in the spousal RRSP or withdraw them in amounts that would be non-taxable or taxed at lower rates.

Contributors should be aware, however, that some or all of the income withdrawn from a spousal plan might be taxable in their hands if

spousal contributions were made in either the year of withdrawal or the two preceding years. If, on the other hand, the spouse or common-law partner converts their RRSP to an annuity or a RRIF (see Registered Retirement Income Funds, Annuities, and Retirement Options on page 153), withdrawing only the minimum RRIF payment required, there would be no attribution to the contributor.

Contributions to a spousal RRSP may be made until the end of the year in which the spouse or common-law partner turns 71 (up from 69 in 2006), even if the contributor is older than 71.

tax tip

If you have both a regular and a spousal RRSP and are the annuitant for each, you can transfer the proceeds of one plan into the other prior to maturity if you believe that will provide certain advantages, such as administrative ease or a reduction of RRSP fees. The combined new plan would then be classified as a spousal plan.

Self-Directed Registered Retirement Savings Plans

Investing in an RRSP through banks, trust companies, life insurance companies, and mutual funds is usually the most convenient way to start an RRSP. But when the size of an RRSP portfolio and the number of RRSPs an individual owns becomes larger, a self-directed RRSP could allow them more flexibility and control over their investments within their plan. It also provides plan holders an opportunity to consolidate these investments.

Beware of the superficial loss rules when purchasing investments within your RRSP. For instance, if you sell a money-losing investment outside your RRSP and purchase the same investment in your RRSP within 30 days, the resulting loss may be a superficial loss rather than a capital loss (see Superficial Losses, page 104).

Check with your Certified General Accountant if you have any questions about the RRSP-eligibility of your investments.

tax tip

If you don't have enough cash to top up your RRSP, consider contributing "in kind" as it is commonly phrased. The asset transferred must be a qualified investment. Be aware, however, of the tax consequences when transferring investments to your RRSP. CRA treats such transfers as a sale of the investment. Moreover, while capital gains triggered by a transfer to an RRSP are taxable, capital losses are not deductible.

Special Registered Retirement Savings Plan Contributions

Individuals are allowed to transfer retiring allowances (which may include severance pay and accumulated sick leave credits) directly into their RRSP, within certain limits. For years of service between 1989 and 1995 inclusive, the limit is $2,000 per year. For years prior to 1989, an additional $1,500, for an annual total of $3,500, may be contributed for each year of service in which the employee did not have a pension plan.

No special contributions are allowed for years of service from 1996 onwards.

Directly transferring such lump-sum payments to an RRSP will eliminate withholding tax deductions. Individuals who directly receive those lump-sum payments still have 60 days after year end to contribute to their RRSP and obtain a deduction for the year of receipt. They cannot carry forward unused special RRSP contributions to future years. (See Retiring Allowance and Termination Payments, page 52.)

Creditor-Proofing RRSPs

In the event of bankruptcy, creditors have traditionally been able to seize funds from most RRSP plans held at financial institutions. However, RRSPs held through an insurance policy that is properly structured in terms of beneficiaries, and so on, are generally exempt from creditors under the federal *Bankruptcy and Insolvency Act*. Therefore, most individuals — particularly if they are self-employed and face a potentially

greater risk of bankruptcy — should consider creditor-proofing at least a portion of their RRSP portfolio in this fashion. Your Certified General Accountant can help you set this up.

The *Bankruptcy and Insolvency Act* now expands creditor protection to RRSP contributions made more than 12 months prior to bankruptcy (though in some provincial or territorial jurisdictions legislation may provide more immediate protection). Registered retirement income funds (RRIF) are also protected under this legislation. Check with a trustee in bankruptcy for details if this is an area of concern.

RRSP Qualified Investments

The list of qualified investments is quite extensive and specific. Generally, it includes cash, term deposits, GICs, publicly listed and some private company shares, insured mortgages, bonds, mutual funds, and some gold and silver, among other investments.

Examples of non-qualified investments are shares of private foreign companies, real estate, and commodity futures. Most shares traded on over-the-counter markets also generally do not qualify as RRSP investments.

RRSP Anti-Avoidance Rules

The old rules with respect to non-qualified RRSP investments have been changed. Under anti-avoidance rules announced in the 2011 Federal Budget, non-qualified investments and prohibited investments held in an RRSP are subject to a special tax of 50% of the fair market value of the investment.

Furthermore, income earned on prohibited investments (and income earned on income from prohibited investments) is subject to a tax of 100%. Income earned on non-qualified investments remains subject to ordinary income tax at top marginal rates, but income earned on this income may become subject to the 100% tax.

Income includes the full amount of capital gains, not just the half of the gains that would otherwise be taxable outside an RRSP.

Prohibited investments generally include debt of the RRSP annuitant and investments in entities in which the annuitant or a non-arm's-length person has a significant interest (generally 10% or more), or with which the annuitant does not deal at arm's length.

The anti-avoidance rules include a provision to tax 100% of the value of any "advantage" arising from the implementation of aggressive tax planning strategies. An advantage may generally be described as a benefit obtained from a transaction that is intended to unduly exploit the tax attributes of an RRSP/RRIF. This would include, for instance, benefits from "swap transactions," which involve a transfer of property (other than a contribution or distribution) occurring between the RRSP and the annuitant of the RRSP, or a person that is not dealing at arm's length with the holder.

These advantages will generally result in a special tax that is equal to the FMV of the benefit obtained.

Taxpayers who owe tax under the new rules must file a special return. The *Income Tax Act* requires that this return be filed and the taxes paid no later than 90 days after the end of the year. Note that there is a date discrepancy as the CRA website states this return must be filed by June 30 of the following year. Check with your Certified General Accountant for advice to ensure you file on time.

Special transitional rules and dates are applicable in certain situations. For example, an investment that was a non-qualified investment before March 23, 2011, will continue to be subject to the old rules that provided for either an income inclusion or a 1% monthly tax. In addition, there is a notice on the CRA website indicating that the deadline to file Form RC341, *Election on Transitional Prohibited Investment Benefit for RRSPs or RRIFs*, with respect to certain prohibited investments, may be extended to December 31, 2012. The Minister of National Revenue also has the discretion to waive or cancel all or part of the tax under certain

circumstances. Check with your Certified General Accountant for details if you think you may be affected.

RRSP Overcontributions

Generally, overcontributions to an RRSP in excess of $2,000 are assessed a penalty of 1% per month. Taxpayers may deduct all or a portion of the excess balance in a subsequent year, provided the deduction amount is within their normal contribution limits for that year. Subsequent deduction of the excess may also occur after the year an individual turns 71 or in years after the plan has matured — provided the individual has sufficient contribution room to absorb it.

To avoid interest and penalties, taxpayers who owe tax on overcontributions to their RRSP must pay this tax and file Form T1-OVP, *Individual Tax Return for RRSP Excess Contributions*, no later than 90 days after the end of the year in which they had taxable overcontributions.

Income and capital gains attributable to deliberate overcontributions may be subject to the 100% tax on advantages under the anti-avoidance rules.

If you determined that you must pay a tax on your RRSP excess contributions, CRA may waive the tax if your excess contributions on which the tax is based arose due to a reasonable error; and you are taking, or have taken, reasonable steps to eliminate the excess contributions.

Check with your Certified General Accountant if you still have overcontributions that originated on or before March 22, 2011.

tax tip

Overcontributions to an RRSP can be designated as a repayment of an outstanding Home Buyers' Plan (HBP) loan. Therefore, if you have overcontributed more than $2,000, you can avoid penalties that might otherwise apply by using that amount to pay down an HBP loan.

RRSP Education Withdrawals

Taxpayers are able to withdraw money from their RRSP for qualifying full-time education and training for either themselves or their spouse/common-law partner, but not both at the same time, on a tax-free basis.

(For an individual with a disability, this provision covers both full- or part-time education and training.)

This provision is known as the Lifelong Learning Plan (LLP).

LLP withdrawals may not exceed $10,000 in a year and $20,000 over a 4-year period. Taxpayers can participate in this plan as many times as they wish, but may not start a new plan before the end of the year in which all repayments are made for previous withdrawals. Withdrawals are generally repayable in equal instalments over 10 years, commencing no later than 60 days after the 5th year marking the date of the first withdrawal (or sooner if the student fails to remain in the program full time).

Withdrawals can also be repaid earlier than required. Amounts that are not repaid as scheduled will be added to taxable income.

Students in medical residency programs that last for at least three months and qualify for the tuition fee tax credit may also participate in the LLP program.

Home Buyers' Plan

Individuals may withdraw up to $25,000 from their RRSP, without attracting immediate taxation, to assist in acquiring an owner-occupied home. The home must be acquired by October 1 of the year following the withdrawal, which is made using CRA Form T1036, *Home Buyers' Plan (HBP) Request to Withdraw Funds from an RRSP*.

An ordinary RRSP contribution made less than 90 days before a withdrawal cannot be deducted.

Withdrawn amounts are repayable in equal annual sums over 15 years, beginning no later than the second year following the year of withdrawal (although they can also be made more quickly). Repayments due in a specific year may be made during that year or within 60 days after the year end. If, during a particular year, individuals do not repay the scheduled amount or repay only part of it, the unpaid portion will be included in their income for that year.

To participate, prospective home buyers cannot have occupied a home as a principal residence that was owned by them, or their spouses/common-law partners, at any time from the beginning of the fourth calendar year before the withdrawal year to 31 days before the withdrawal. Those who wish to withdraw in 2012, for example, must not have owned a home after 2007.

There are special withdrawal rules with respect to purchasing a home for the benefit of a person with a disability who qualifies for the Disability Tax Credit (DTC). These allow for previous home ownership and multiple withdrawals.

Registered Retirement Income Funds, Annuities, and Retirement Options

Individuals are required to terminate their RRSP plans by the end of the year during which they turn 71. When terminating an RRSP, there are three alternatives to choose from:

- Withdraw the funds, in which case the total amount withdrawn is included in the plan holder's annual income.
- Purchase an annuity that provides a regular income for a defined period that may include their lifetime, the joint lifetime of both they and their spouse/common-law partner, a fixed period, or combinations thereof. The annuity payments will be taxed as received.
- Transfer an RRSP into a registered retirement income fund (RRIF), which is similar to an RRSP in that the plans' funds and income earned remain tax-deferred until withdrawn. Although

> the funds are held in a trust, taxpayers may continue to exercise authority over investment decisions. They must withdraw a specified minimum amount from the plan each year, based on their age or that of a younger spouse/common-law partner, upon which they are then taxed. The minimum withdrawal amount, expressed as a percentage of the value of assets within the plan, increases each year until age 94, when it becomes fixed at 20% annually until the plan is depleted.

Within an RRIF, individuals also have the option of withdrawing amounts in excess of the minimum although any excess withdrawn amounts will also become taxable in that year.

When the owner of an RRIF dies, the proceeds of their plan may be transferred to the deceased individual's spouse, or dependent child or grandchild. Discuss details about options that may be available with your Certified General Accountant.

The RRSP anti-avoidance rules discussed previously on page 149 also apply to RRIFs.

tax tip

When deciding whether to convert your RRSP into an RRIF, retirement annuity, or a combination of both, there are a number of factors to consider. If you are holding an RRIF, for instance, you are able to remain active in making investment decisions. With an annuity, however, you are transferring autonomy of the underlying investment portfolio to financial professionals who, in turn, assume the risk and provide you with a steady income for a fixed period of time or the rest of your natural life. Also, while you can convert all or part of your RRIF funds to a retirement annuity at any time, once annuities have been established, they are permanent.

Registered Pension Plans

In addition to having an RRSP, many employees also belong to a registered pension plan (RPP) through their employer.

The maximum allowable contribution for a money purchase RPP, also known as a defined contribution plan whereby contributions are placed to the credit of the member, has been increased to $23,820 for 2012 (from $22,970 for 2011); annual increases are based on the increase in the average wage.

Annual money purchase plan RPP contribution limits are 18% of pensionable earnings (the same as with RRSPs), up to the limits stated above.

The maximum pension limit for defined-benefit registered pension plans (RPP), which guarantee members a specified level of pension income at retirement, increased to $2,647 for 2012 from $2,552 for 2011; annual increases are based on the increase in the average wage, and tied to one-ninth of the value of the money purchase RRSP.

The age limit at which contributors must stop contributing to an RPP is 71.

Money purchase RPP proceeds are allowed to pay out pension benefits using the same income stream permitted under an RRIF (that is, minimum payments beginning no later than age 72).

The Canadian government has passed legislation establishing pooled registered pension plans (PRPP), for the benefit of employees and the self-employed who are not currently participating in a registered pension plan.

PRPPs are defined contribution pension plans, available at a low cost, that are voluntary for both the employer and employee. Employers will have the opportunity to pool their assets, which will be administered independently by regulated financial institutions, including banks, trust companies, and insurance firms. The administrator may offer a variety of investment options to the plan holder.

Contributions to the PRPP are tax deductible. Annual contributions cannot exceed the maximum RRSP dollar limit for the year, or the plan holder's total unused RRSP contribution room.

PRPPs are portable and the proceeds can be transferred to another PRPP or, subject to certain terms and conditions, to another retirement vehicle such as an RRSP or RPP of the plan holder. There is a locking-in provision preventing members from withdrawing funds until they reach a "prescribed age," except under certain circumstances such as disability.

Check with your Certified General Accountant for details regarding the availability of PRPPs in your province or territory. Federal legislation covers only businesses under the legislative authority of the federal government, as well as businesses in the three territories. Expansion to other businesses will depend on the passage of enabling provincial legislation in your jurisdiction.

Other Registered Pension Plan Features

Deductions for RPP contributions, in respect of both current and past services rendered after 1989, are allowed during the year the contribution was made, provided the contribution was made in accordance with the plan's registered terms. This applies whether contributions are mandatory or optional.

The deduction amount for past service contributions rendered before 1990 depends on whether or not taxpayers contributed to any RPP in the year to which the past service applies. If they were not a contributor during that period, they may account for $3,500 times the number of years of eligible service; however, the maximum amount deductible in any one calendar year is only $3,500.

For years of service during which the employee was a contributor, the maximum available deduction is also $3,500, reduced by any current-year or past deductions (including those claimed for prior years while not a contributor to any RPP).

Any remaining balance may be carried forward for deduction in subsequent years provided the taxpayer has the available contribution room.

Individuals who make past service contributions to their RPP in instalments will probably pay accrued interest charges. The interest paid for years after 1989 is considered a past service contribution.

Within limitations, the *Income Tax Act* provides for the transfer of benefits accrued under a defined-benefit RPP to either a money purchase RPP, RRSP, or RRIF. Likewise, the proceeds of a money purchase pension plan can be transferred to another money purchase RPP, RRSP, or RRIF.

Furthermore, funds previously transferred from a money purchase RPP into an RRSP or RRIF can be transferred back into the money purchase pension plan, where they are subject to the same payout requirement as the RRIF.

In certain cases an RPP is not able to provide the full commuted value of the promised pension benefits upon termination from the plan. Where an RPP member opts to transfer the commuted value of his or her reduced annual pension, the transfer limit is generally prorated to reflect the proportion that the reduced pension is of the original full pension amount. The effect of the prorated transfer limit is that members who opt for transfers are losing some of the tax-sheltering benefit that would otherwise have been available to them.

Effective January 1, 2011, transfer limits for an RPP member are calculated based on the member's unreduced pension entitlement, subject to certain conditions. Special provisions exist for taxpayers who conducted such a transfer between March 1, 2009, and December 31, 2010. Consult your Certified General Accountant for details if this applies to you.

An employee may also deduct, within limits, additional voluntary contributions (AVC) under a money purchase plan. The amount deducted will, however, affect their RRSP limit the following year.

CRA now recognizes registered pension plans that provide survivor benefits to same-sex partners.

Certain defined benefit pension plan holders who are at least 55 years of age may receive up to 60% of their pension while still being permitted to accrue further benefits.

When the owner of an RPP dies, the proceeds of their plan may be transferred to the deceased individual's spouse, or a dependent child or grandchild. Consult your Certified General Accountant to discuss details about options that may be available.

Individual Pension Plans

Another retirement option, perhaps best suited to certain older, high-income individuals such as managers of owner-operated businesses and corporate executives who have consistently been able to contribute the maximum amount to their RRSP on an annual basis, might be an Individual Pension Plan (IPP). Sometimes a spouse or other family member employed in a corporation controlled by the taxpayer can also be a member of an IPP.

The annual contribution amount to an IPP, which is a defined benefit plan, depends on an actuarial calculation that determines how much is required to fund a pre-established pension amount. This minimum amount increases with age.

The owner of IPP funds can use them to fund retirement through various options, including withdrawing a prescribed annual pension amount, transferring the commuted value of accrued pension benefits to a locked-in plan, or purchasing a life annuity.

The taxpayer's spouse might also be eligible to receive a pension if they are a survivor.

As with RRSPs, contributors get tax deductions for their contribution amounts, and the invested funds are allowed to grow on a tax-deferred

basis until they are ultimately withdrawn. Like an RPP, IPP contributions create a pension adjustment amount.

The IPP is also generally creditor proof.

The federal budget of 2011 introduced a mandatory annual minimum amount that must be withdrawn from an IPP in the year a plan member reaches the age of 72, similar to the RRIF requirement. This requirement for withdrawals started in 2012. It also specified that contributions for past years of employment service made to an IPP effectively be funded first out of a plan member's existing RRSP assets (as well as money purchase RPP assets), or by reducing any accumulated RRSP contribution room they may have, thus eliminating what was a major existing tax deferral advantage of IPPs.

This retirement instrument has very complex rules with respect to issues such as the treatment of surplus amounts, transfer of plan assets to another retirement fund, and disposition of proceeds upon death, among others. Talk to your Certified General Accountant if you think it might be beneficial to you.

Anybody who is considering setting up an IPP is also strongly advised to discuss the structure of such a plan with their Certified General Accountant, as an improperly designed plan can have serious taxation and financial consequences.

Locked-In Accounts

When individuals leave their place of employment, they often have the option of either receiving a pension at retirement or transferring the commuted value of their deferred pension. Pension legislation usually requires that the commuted value cannot be paid to the individual employees, but must instead be either transferred directly to another pension plan or locked-in plan, or used to purchase a life annuity.

Locked-in plans are just RRSPs or RRIFs with an extra layer of rules found in pension benefits legislation. The federal government and the

provinces (except PEI) each have their own pension benefits legislation and hence the requirements for locked-in plans vary by jurisdiction. Locked-in plans are governed by legislation affecting the pension plan from where the funds originate, which might not necessarily be the jurisdiction where an individual currently resides. Locked-in plans should not be confused with a fixed-term investment inside an RRSP, such as a GIC.

There are important differences between various types of locked-in plans as well as between plans listed under the same name that are governed by the legislation of different jurisdictions. Consult your plan administrator to help you sort this out.

The commuted value of a pension regulated by the *Ontario Pensions Benefit Act*, for instance, may be transferred to a locked-in retirement account (LIRA). Unlike a regular RRSP, withdrawals can only be made from a LIRA in very limited circumstances. At retirement — which can generally occur as early as 55 or as late as 71 — the LIRA funds must be transferred to a life annuity or a new life income fund (New LIF). New LIFs are subject to the same annual minimum withdrawal limits as RRIFs and also to maximum withdrawal limits determined by pension legislation.

Taxpayers with federally regulated locked-in plans and who are at least 55 years of age are entitled to transfer locked-in assets to a restricted life income fund (RLIF). RLIFs allow for the one-time transfer of up to 50% of the plan's holdings into an RRSP or RRIF. This option must be exercised within 60 days of the creation of the plan.

Individuals who are at least 55 years of age, with a combined total of federally regulated locked-in holdings not exceeding $25,050 in 2012 can also wind up their accounts, or transfer them to a tax-deferred savings vehicle such as an RRSP or RRIF.

Under federal and certain other provincial/territorial laws, extraordinary withdrawals in circumstances involving financial hardship, reduced life expectancy, or a situation where a taxpayer ceases to be a Canadian resident are also permitted.

tax tip Don't forget that significant taxation implications, a potential change in eligibility for various means-tested federal benefits, and the possible loss of creditor protection might result from withdrawing funds out of various locked-in accounts.

Tax-Free Savings Account

The Tax-Free Savings Account (TFSA) allows Canadians who are 18 and older to save tax-free.

Unlike an RRSP, investors are not able to deduct contributions to a TFSA for tax purposes; however, investment income and capital gains earned within the TFSA, will not be subject to tax, even when the funds are ultimately withdrawn.

The 2012 contribution limit remains at $5,000. The annual limit is indexed to inflation; however, it is rounded to the nearest $500. Unused TFSA contribution room will carry forward indefinitely to future years. The amount of withdrawals made from a TFSA in the year will be added to the contribution room at the beginning of the following year. CRA will report a taxpayer's TFSA contribution room for the current tax year on the *Notice of Assessment* issued after they file their previous year's tax return.

You can transfer funds directly from one of your TFSAs to another of your TFSAs without affecting your contribution room limit. However, if you withdraw funds from one TFSA and contribute those same funds to another TFSA, the transactions will affect your contribution room limit and you may be subject to tax on excess contributions.

Excess contributions to a TFSA, or contributions during a year in which a taxpayer is a non-resident of Canada for that entire year, are subject to a tax of 1% per month, until the excess contributions are withdrawn.

Generally, the same type of investments permitted in an RRSP can also be held in the TFSA.

Be careful that you hold only qualified investments in your TFSA. When non-qualified investments or prohibited investments are held in a TFSA, the holder is subject to a penalty tax of 50% of the FMV of the investment, plus tax on the income generated by non-qualified investments to approximate top marginal federal and provincial/territorial tax rates.

Income that can be reasonably attributed to prohibited investments is subject to tax at the rate of 100%. Furthermore, any additional income earned on income that can be reasonably attributed to non-qualified investments or prohibited investments may be taxable at 100%.

Income attributable to investments arising from disallowed transfers, and deliberate overcontributions, is also subject to tax at the rate of 100%.

If you are subject to tax on your TFSA, you must file a return and remit any tax owing no later than June 30 following the calendar year for which the tax is payable. Interest and penalties will be charged for late returns and payments.

Withdrawals of amounts related to deliberate overcontributions, prohibited or non-qualified investments, or transfers will not create additional TFSA contribution room.

TFSA funds are permitted to be withdrawn at any time, in any amount, and for any reason without affecting taxable income or eligibility for federal means-tested benefits or tax credits. A spouse or common-law partner may also loan or give their partner funds to contribute to a TFSA without having the income earned from that contribution subject to attribution rules. TFSA assets can also be transferred to a spouse or common-law partner's TFSA upon death or a breakdown of the marriage or common-law relationship. Under certain conditions, this transfer might not affect the spouse or common-law partner's own TFSA contribution room.

Taxpayers who subsequently become non-residents of Canada can maintain their TFSA, and will not be taxed on subsequent earnings or

withdrawals. However, they may not make any further contributions, nor accumulate additional contribution room so long as they remain non-residents.

A TFSA may be carried by the holder indefinitely; there is no time or age limit to close this account.

Consult your Certified General Accountant if you have any questions about the rules regarding TFSA transactions.

tax tips

Don't forget that if you withdraw money from a TFSA, the contribution room for the withdrawn amount does not open up again until the following year. Annual deposits in excess of $5,000 — even if part of that amount is subsequently withdrawn during the same year, and the balance stays at or under $5,000 — will be subject to an overcontribution penalty.

Speak with your Certified General Accountant to determine how TFSAs might fit into a retirement strategy also involving RRSPs or RRIFs, or an education-funding strategy using RESPs.

TFSAs might be an effective means for couples with disparate income levels to split income, with the higher-income spouse providing funds that their partner can contribute to their own TFSA.

If you plan to emigrate from Canada or are a U.S. citizen, consult with your Certified General Accountant about your TFSA. TFSAs are not protected under Canadian tax treaties with other countries.

Part Three: Tax Credits and Related Items

Federal and Provincial/Territorial Non-Refundable Tax Credits

Federal tax credits reduce the amount of basic federal tax payable. In addition, each of Canada's provinces and territories has its own independent tax structure, with rates that apply to these credits and help further reduce the overall tax payable.

The federal credit is determined by multiplying a gross dollar amount by the lowest federal tax rate, currently 15% for 2012. The gross amount of most tax credits, such as the basic personal, spousal or common-law partner, amount for an eligible dependant, medical expense, disability, and age, are fully indexed annually by a formula that takes into account increases in the consumer price index (CPI). Indexation is designed to

prevent Canadian taxpayers from ending up in a higher tax bracket solely because of an inflation-induced increase in salary.

Some provinces and territories also index selected non-refundable tax credits based on their own CPI formula. Generally speaking, a taxpayer is deemed to be resident of a province or territory if they reside in that jurisdiction on December 31 of a particular tax year. Where they have ties to more than one jurisdiction, the courts generally side with the province or territory to which they have the most significant residential connection.

Unused non-refundable federal and provincial tax credits cannot be transferred to another taxation year.

For a summary of federal and provincial/territorial personal tax credits, see Appendix I, page 251.

Introduction of Family Caregiver Tax Credit in 2012

A 15% non-refundable Family Caregiver Tax Credit on $2,000, introduced in the 2011 Federal Budget, took effect in 2012. The Family Caregiver Tax Credit enhances certain existing dependant-related credits, rather than functioning as a standalone credit.

The Infirm Dependant Credit amount eligible for credit has automatically been increased by $2,000 to encompass this Family Caregiver component. The threshold at which the Infirm Dependant Credit begins to phase out has also been raised by $2,000 as a result of applying the Family Caregiver credit.

The Family Caregiver amount might also apply to other credits in certain circumstances involving care of a family member who is infirm. These include the Spousal or Common-Law Partner Credit, Eligible Dependant Credit, Child Credit, or Caregiver Credit. Except for the Child Credit, the other credits have a threshold, based on the dependant's income, where the credit begins to reduce. Applying an additional $2,000 from the Family Caregiver Tax Credit would increase that threshold, as well as the amount at which such credits are fully phased out.

The $2,000 Family Caregiver amount can be applied only to one credit per eligible individual. Check with your Certified General Accountant to determine the correct application if you feel this credit might apply to member(s) of your family.

Yukon has also adopted the $2,000 Family Caregiver amount with the same provisions as apply federally, beginning in 2012.

Basic Personal Credit

In 2012, taxpayers are entitled to claim the federal basic personal credit of 15% on $10,822, or $1,623 (up from $10,527, or a credit of $1,579, in 2011).

The corresponding provincial/territorial credits are as follows:

Alberta: Alberta taxpayers are entitled to claim a basic personal credit of 10% on $17,282, or $1,728 (up from $16,977, or a credit of $1,698, in 2011).

British Columbia: British Columbia taxpayers are entitled to claim a basic personal credit of 5.06% on $11,354, or $575 (up from $11,088, or a credit of $561, in 2011).

Manitoba: Manitoba taxpayers are entitled to claim a basic personal credit of 10.80% on $8,634, or $932 (up from $8,384, or a credit of $905, in 2011).

New Brunswick: New Brunswick taxpayers are entitled to claim a basic personal credit of 9.10% on $9,203, or $837 (up from $8,953, or a credit of $815, in 2011).

Newfoundland and Labrador: Newfoundland and Labrador taxpayers may claim a basic personal credit of 7.70% on $8,237, or $634 (up from $7,989, or a credit of $615, in 2011).

Northwest Territories: Northwest Territories taxpayers are entitled to claim a basic personal credit of 5.90% on $13,280, or $784 (up from $12,919, or a credit of $762, in 2011).

Nova Scotia: Nova Scotia taxpayers are entitled to claim a basic personal credit of 8.79% on $8,481, or $745 (unchanged from 2011).

Nunavut: Nunavut taxpayers are entitled to claim a basic personal credit of 4% on $12,211, or $488 (up from $11,878, or a credit of $475, in 2011).

Ontario: Ontario taxpayers are entitled to claim a basic personal credit of 5.05% on $9,405, or $475 (up from $9,104, or a credit of $460 in 2011).

Prince Edward Island: Prince Edward Island taxpayers are entitled to claim a basic personal credit of 9.80% on $7,708, or a credit of $755 (unchanged from 2011).

Quebec: Quebec taxpayers are entitled to claim a basic personal credit of 20% on $10,925, or a credit of $2,185 (up from $10,640, or a credit of $2,128, in 2011).

Saskatchewan: Saskatchewan taxpayers are entitled to claim a basic personal credit of 11% on $14,942, or $1,644 (up from $14,535, or a credit of $1,599, in 2011).

Yukon: Yukon taxpayers are entitled to claim a basic personal credit of 7.04% on $10,822, or $762 (up from $10,527, or a credit of $741, in 2011).

The Canada Employment Credit

The Canada Employment Credit is available on 15% of $1,095, for a credit of $164, in 2012 (up from $1,065, or a credit of $160, in 2011).

Yukon has matched this federal credit, which is available on 7.04% of $1,095 for a credit of $77 (up from $1,065, or a credit of $75, in 2011).

Spousal or Common-Law Partner Credit

Individuals supporting a spouse or common-law partner whose net income is less than $10,822 (up from $10,527 in 2011) may claim the federal spousal or common-law partner credit. They may claim the maximum credit of 15% on $10,822, for a credit of $1,623, if the spouse or common-law partner's income is nil. That credit is reduced if the spouse or common-law partner's net income is more than nil but less than $10,822, where the credit is eliminated.

The Family Caregiver Tax Credit amount of $2,000 might, in certain circumstances, be eligible to apply to the spousal or common-law partner credit if the spouse or common-law partner for whom the credit is being claimed is infirm. If so, that would raise the income threshold to $12,822. Check with your Certified General Accountant to determine the correct application for the Family Caregiver Tax Credit.

The corresponding provincial/territorial credits are as follows:

Alberta: Alberta taxpayers supporting a spouse or common-law partner whose net income is less than $17,282 (up from $16,977 in 2011) may claim the spousal or common-law partner credit. They may claim the maximum credit of 10% on $17,282, or $1,728, if the spouse or common-law partner's income is nil. That credit is reduced if the spouse or common-law partner's net income is more than nil but less than $17,282, where the credit is eliminated.

British Columbia: British Columbia taxpayers supporting a spouse or common-law partner whose net income is less than $10,960 (up from $10,703 in 2011) may claim the spousal or common-law partner credit. They may claim the maximum credit at a rate of 5.06% on $9,964, or $504, if the spouse or common-law partner's income is $996 or less (up from $973 in 2011). That credit is reduced if the spouse or common-law partner's net income is more than $996 but less than $10,960, where the credit is eliminated.

Manitoba: Manitoba taxpayers supporting a spouse or common-law partner whose net income is less than $8,634 (up from $8,384 in 2011)

may claim the spousal or common-law partner credit. They may claim the maximum credit of 10.80% on $8,634, or $932, if the spouse or common-law partner's income is nil. That credit is reduced if the spouse or common-law partner's net income is more than nil but less than $8,634, where the credit is eliminated.

New Brunswick: New Brunswick taxpayers supporting a spouse or common-law partner whose net income is less than $8,597 (compared to $8,363 in 2011) may claim the spousal or common-law partner credit. They may claim the maximum credit of 9.10% on $7,815, or $711, if the spouse or common-law partner's income is $782 or less (compared to $761 in 2011). That credit is reduced if the spouse or common-law partner's net income is more than $782 but less than $8,597, where the credit is eliminated.

Newfoundland and Labrador: Newfoundland and Labrador taxpayers supporting a spouse or common-law partner whose net income is less than $7,405 (up from $7,181 in 2011) may claim the spousal or common-law partner credit. They may claim a credit of 7.70% on $6,731, or $518, if the spouse or common-law partner's income is $674 or less (up from $653 in 2011). That credit is reduced if the spouse or common-law partner's net income is more than $674 but less than $7,405, where the credit is eliminated.

Northwest Territories: Northwest Territories taxpayers supporting a spouse or common-law partner whose net income is less than $13,280 (up from $12,919 in 2011) may claim the spousal or common-law partner credit. They may claim the maximum credit of 5.90% on $13,280, or $784, if the spouse or common-law partner's income is nil. That credit is reduced if the spouse or common-law partner's net income is more than nil but less than $13,280, where the credit is eliminated.

Nova Scotia: Nova Scotia taxpayers supporting a spouse or common-law partner whose net income is less than $9,329 (up from $7,921 in 2011) may claim the spousal or common-law partner credit. They may claim the maximum credit of 8.79% on $8,481, or $745, if the spouse or common-law partner's income is $848 or less (up from $720 in 2011).

That credit is reduced if the spouse or common-law partner's net income is more than $848 but less than $9,329, where the credit is eliminated.

Nunavut: Nunavut taxpayers supporting a spouse or common-law partner whose net income is less than $12,211 (up from $11,878 in 2011) may claim the spousal or common-law partner credit. They may claim the maximum credit of 4% on $12,211, or $488, if the spouse or common-law partner's income is nil. That credit is reduced if the spouse or common-law partner's net income is more than nil but less than $12,211, where the credit is eliminated.

Ontario: Ontario taxpayers supporting a spouse or common-law partner whose net income is less than $8,784 (up from $8,503 in 2011) may claim the spousal or common-law partner credit. They may claim the maximum credit of 5.05% on $7,986, or $403, if the spouse or common-law partner's income is $798 or less (up from $773 in 2011). That credit is reduced if the spouse or common-law partner's net income is more than $798 but less than $8,784, where the credit is eliminated.

Prince Edward Island: Prince Edward Island taxpayers supporting a spouse or common-law partner whose net income is less than $7,201 (the same as in 2011) may claim the spousal or common-law partner credit. They may claim 9.80% on $6,546, or $642, if the spouse or common-law partner's income is $655 or less (the same as in 2011). That credit is reduced if the spouse or common-law partner's net income is more than $655 but less than $7,201, where the credit is eliminated.

Quebec: Under its own tax system, Quebec allows the transfer of certain unused portions of non-refundable tax credits from one spouse to the other. Quebec also offers a number of autonomous personal credits, including Dependants Credits and the Person Living Alone Credit listed below.

Quebec's Dependants Credits: Quebec offers a refundable credit for child assistance. This credit is paid quarterly.

For the 2012 taxation year, the maximum amount is equivalent to the total of the following amounts:

First child	$2,263
Second and third children	1,131
Fourth and subsequent children	1,696
Single parent family supplement	793

This credit is reduced by 4% for each dollar of the individual's family income in excess of $45,152 if the individual has a qualified spouse, or in excess of $32,856 in other cases.

However, the child assistance payment an individual receives is never less than the total of the following amounts:

First child	$635
Second and subsequent children	586
Single parent family supplement	317

If an individual has a child with a disability, a supplement is added to the child assistance payment to which the individual is entitled. This supplement for a child with a disability is $179 per month for each child with a disability, regardless of family income.

Quebec offers a non-refundable credit to a taxpayer with one or more dependent children under age 18 who are engaged in certain full-time vocational training at the secondary level or post-secondary studies. This credit is $2,015 per completed term (to a maximum of two terms) per child, which must be reduced by 80% of the child's income for the year, excluding scholarships, fellowships, bursaries, and other awards the student received during the year that gave rise to a deduction in calculating their taxable income. The amount obtained is then converted into a tax credit at the rate of 20%.

A child 18 or over pursuing vocational training at the secondary level or qualifying post-secondary studies may transfer the unused portion of the basic tax credit to either parent as a recognized parental contribution to the child's education. The maximum allowable amount of the transfer in 2012 is $7,200. The amount obtained is then converted into a tax credit at the rate of 20%.

Quebec also offers a non-refundable credit to a taxpayer with one or more adult dependants who are not engaged in certain full-time secondary vocational or post-secondary studies. This tax credit is calculated on the basis of an amount of recognized essential needs of $2,930 that must be reduced by 80% of the dependant's income for the year. This amount is determined excluding scholarships, fellowships, bursaries, and other awards the dependant received during the year. The amount obtained is then converted into a tax credit at the rate of 20%.

Quebec's Person Living Alone Credit: A person living alone, or with one or more persons under 18, or with one or more children over 18 who were full-time students during 2012, may claim a nonrefundable amount of $1,280. Where an individual lived with an adult child who completed, during the year, at least one recognized term of eligible secondary vocational or post-secondary studies, that person may add $1,585 for a single-parent family to the allowable amount for a person living alone if, for the last month of the year or on the date of their death, the individual had no child for whom they were entitled to a refundable tax credit for child assistance.

The amount for a person living alone or with a dependant is combined with the amount for pension income and the amount with respect to age. The combined amount is reduced by 15% of net family income in excess of $31,695. The net amount is converted into a tax credit at the rate of 20%.

Saskatchewan: Saskatchewan taxpayers supporting a spouse or common-law partner whose net income is less than $16,437 (up from $15,989 in 2011) may claim the spousal or common-law partner credit. They may claim the maximum credit of 11% on $14,942, or $1,644, if the spouse or common-law partner's income is $1,495 or less (up from $1,454 in 2011). That credit is reduced if the spouse or common-law partner's net income is more than $1,495 but less than $16,437, where the credit is eliminated.

Yukon: Yukon taxpayers supporting a spouse or common-law partner whose net income is less than $10,822 (up from $10,527 in 2011) may

claim the spousal or common-law partner credit. They may claim the maximum credit of 7.04% on $10,822, or $762, if the spouse or common-law partner's income is nil. That credit is reduced if the spouse or common-law partner's net income is more than nil but less than $10,822, where the credit is eliminated.

The Family Caregiver Tax Credit component of $2,000 might, in certain circumstances, be eligible to apply to the Yukon spousal or common-law partner credit if the spouse or common-law partner for whom the credit is being claimed is infirm. If so, that raises the income threshold to $12,822. Check with your Certified General Accountant to determine the correct application for the Family Caregiver Tax Credit.

Special rules may apply to an individual's claim for the spousal/common-law partner credit if their status changes during the year.

tax tips

You may claim an amount for your dependent spouse or common-law partner even if they did not live in Canada during the year. To do so, you must supply proof of that support, such as a cancelled cheque or money order receipt, in the name of the eligible payee. The documents submitted should also contain detailed information, such as the recipient's name, address, and date of transfer.

If you lived separate and apart from your spouse for all or any part of a year for reasons other than a marriage breakdown, you may still be entitled to claim the spousal credit.

Eligible Dependant Credit

Taxpayers may claim the eligible dependant credit if at any time during the year they were single, divorced, or separated and supported a qualified relative, including a child, who lived with and was dependent on them. The eligible dependant credit is calculated in the same manner as the spousal or common-law partner credit, except in Quebec where different rules apply (see page 171).

The following restrictions apply:

- the dependant, other than a child, must be a Canadian resident
- a dependent child must be either under 18 at any time in the year, or any age if dependent by reason of mental or physical infirmity
- the claim may be made in respect of only one eligible dependant at a time
- where two or more individuals are otherwise entitled to a credit in respect of the same person, only one is able to claim the credit
- the credit cannot be claimed for an individual on behalf of whom the taxpayer is required to pay a support amount

To qualify, the dependant need not have lived with or been supported by the taxpayer throughout the entire year.

The Family Caregiver Tax Credit amount of $2,000 might, in certain circumstances, be eligible to apply to the federal eligible dependant credit or the Yukon eligible dependant credit if the eligible dependant for whom the credit is being claimed is infirm. If the eligible dependant credit is being claimed for a child under 18 who has an infirmity, the $2,000 amount from this credit must be applied to the child tax credit.

Check with your Certified General Accountant to determine the correct application for the Family Caregiver Tax Credit.

In Prince Edward Island, the eligible dependant amount that can be claimed is different than the amount that can be claimed for a spouse or common-law partner. Prince Edward Island taxpayers may claim an eligible individual whose net income is less than $6,923 (the same as in 2011). They may claim a maximum credit of 9.80% on $6,294, or $617, if the eligible dependant's income is $629 or less (the same as in 2011). That credit is reduced if the eligible dependant's net income is more than $629 but less than $6,923, where the credit is eliminated.

tax tips

If you were entitled to the amount for an eligible dependant claim at the beginning of the year, you maintain that entitlement for the full year. Even if you marry during the year, that entitlement remains, provided you don't claim the spousal credit.

If more than one person is eligible to claim this credit on behalf of another individual, such as their child, it is important that a formal agreement be reached as to which taxpayer will do so; otherwise, nobody will be able to claim it.

Age Credit

Individuals age 65 or older in 2012 are entitled to a federal credit of 15% on $6,720, or $1,008. This gross amount is reduced by 15% of net income over $33,884, thereby eliminating the entire credit when income of $78,684 is attained.

Alberta: Alberta taxpayers 65 or older are entitled to a credit of 10% on $4,816, or $482. The gross amount is reduced by 15% of net income over $35,851, thereby eliminating the entire credit when income of $67,958 is attained.

British Columbia: British Columbia taxpayers 65 or older are entitled to a credit of 5.06% on $4,356, or $220. The gross amount is reduced by 15% of net income over $32,424, thereby eliminating the entire credit when income of $61,464 is attained.

Manitoba: Manitoba taxpayers 65 or older are entitled to a credit of 10.80% on $3,728, or $403. The gross amount is reduced by 15% of net income over $27,749, thereby eliminating the entire credit when income of $52,602 is attained.

New Brunswick: New Brunswick taxpayers 65 or older are entitled to a credit of 9.10% on $4,494, or $409. The gross amount is reduced by 15% of net income over $33,455, thereby eliminating the entire credit when income of $63,415 is attained.

Newfoundland and Labrador: Newfoundland and Labrador taxpayers 65 or older are entitled to a credit of 7.70% on $5,258, or $405. The gross amount is reduced by 15% of net income over $28,814, thereby eliminating the entire credit when income of $63,867 is attained.

Northwest Territories: Northwest Territories taxpayers 65 or older are entitled to a credit of 5.90% on $6,496, or $383. The gross amount is reduced by 15% of net income over $33,884, thereby eliminating the entire credit when income of $77,191 is attained.

Nova Scotia: Nova Scotia taxpayers 65 or older are entitled to a credit of 8.79% on $4,141, or $364. The gross amount is reduced by 15% of net income over $30,828, thereby eliminating the entire credit when income of $58,435 is attained.

Nunavut: Nunavut taxpayers 65 or older are entitled to a credit of 4% on $9,158, or $366. The gross amount is reduced by 15% of net income over $33,884, thereby eliminating the entire credit when income of $94,938 is attained.

Ontario: Ontario taxpayers 65 or older are entitled to a credit of 5.05% on $4,592, or $232. The gross amount is reduced by 15% of net income over $34,183, thereby eliminating the entire credit when income of $64,797 is attained.

Prince Edward Island: Prince Edward Island taxpayers 65 or older are entitled to a credit of 9.80% on $3,764, or $369. The gross amount is reduced by 15% of net income over $28,019, thereby eliminating the entire credit when income of $53,112 is attained.

Quebec: Quebec taxpayers 65 or older are entitled to a credit of 20% on $2,350, or $470.

This $2,350 amount is added to the amount for pension income and the amount for a person living alone, or with a dependant. The sum of these amounts is reduced by 15% of net family income in excess of $31,695, and the net amount is then converted to a tax credit at the rate of 20%.

Saskatchewan: Saskatchewan taxpayers 65 or older are entitled to a credit of 11% on $4,552, or $501. The gross amount is reduced by 15% of net income over $33,884, thereby eliminating the entire credit when income of $64,231 is attained.

Saskatchewan residents 65 or older also qualify for a senior supplementary amount of $1,202, for a credit of $132, regardless of their net income.

Yukon: Yukon taxpayers 65 or older are entitled to a credit of 7.04% on $6,720, or $473. The gross amount is reduced by 15% of net income over $33,884, thereby eliminating the entire credit when income of $78,684 is attained.

You may be able to claim the unused portion of your spouse or common-law partner's age credit.

Disability Tax Credit

A 15% federal Disability Tax Credit (DTC) on $7,546, or $1,132, is available to any individual certified by a Canadian medical doctor (on Form T2201, *Disability Tax Credit Certificate)* to be suffering from severe and prolonged mental or physical impairment, and upon approval by CRA. Once Form T2201 is on file with CRA, you do not need to resubmit it annually. However, it may be reviewed periodically upon request from CRA to ensure eligibility continues. CRA will notify you with ample time to respond, if required.

The corresponding provincial/territorial credits are as follows:

Alberta: The Alberta provincial credit is 10% on $13,331, or $1,333.

British Columbia: The British Columbia provincial credit is 5.06% on $7,285, or $369.

Manitoba: The Manitoba provincial credit is 10.80% on $6,180, or $667.

New Brunswick: The New Brunswick provincial credit is 9.10% on $7,451, or $678.

Newfoundland and Labrador: The Newfoundland and Labrador provincial credit is 7.70% on $5,558, or $428.

Northwest Territories: The Northwest Territories territorial credit is 5.90% on $10,770, or $635.

Nova Scotia: The Nova Scotia provincial credit is 8.79% on $7,341, or $645.

Nunavut: The Nunavut territorial credit is 4% on $12,211, or $488.

Ontario: The Ontario provincial credit is 5.05% on $7,598, or $384.

Prince Edward Island: The Prince Edward Island provincial credit is 9.80% on $6,890, or $675.

Quebec: The Quebec provincial credit is 20% on $2,485, or $497.

Saskatchewan: The Saskatchewan provincial credit is 11% on $8,803, or $968.

Yukon: The Yukon territorial credit is 7.04% on $7,546, or $531.

Other professionals may also certify specific disabilities. For instance, an optometrist can certify sight impairment and an audiologist can certify an individual's hearing disability. Occupational therapists and psychologists can also certify a taxpayer's physical or mental disability, respectively.

The impairment is considered severe if the disability markedly restricts the person all or substantially all of the time in physical daily-living activities

such as walking, speaking, feeding, or dressing or in mental activities such as perceiving, thinking, and remembering, among others. The impairment is considered prolonged if it lasts, or is expected to last, for a continuous period of at least 12 months. The courts have also often taken a compassionate, common sense approach towards defining whether a person is restricted in their activities of daily living and, in so doing, have considered the overall impact that a disability has had on their lives.

In 2002, for instance, the Tax Court of Canada ruled that although an individual suffering from chronic fatigue syndrome was not markedly restricted from performing any one of CRA's specified basic activities of daily living, she nevertheless qualified for the credit because of the cumulative restrictive effects that illness had on her ability to function.

The DTC also extends to individuals that have been certified by a medical doctor to require therapy at least three times a week, averaging a total of at least 14 hours, to deal with a marked restriction in their ability to perform a basic activity of daily living.

The DTC may be transferred to a spouse or common-law partner, or other supporting individual, to the extent the DTC cannot be fully utilized by that taxpayer. Contact your Certified General Accountant to guide you through the complexities of claiming this non-refundable tax credit.

tax tips

If you qualify for Canada Pension Plan (CPP) disability benefits, don't forget to check and see whether you also qualify for the DTC.

You may be able to claim an Eligible Dependant Credit for a person by reason of an infirmity even if they do not qualify for the DTC. CRA considers a person to be infirm if they are dependent on the services of another individual for a considerable period of time.

Disability Tax Credit Supplement

A federal DTC supplement of up to $660 (15% of $4,402) is available for individuals under 18 who have severe disabilities that require full-time home care, or for their caregivers. Annual child care and attendant care expenses in excess of $2,578 claimed on behalf of that child will reduce this supplement, eliminating it completely once such expenses reach $6,980.

The provincial/territorial DTC supplements are as follows:

Alberta: For Alberta taxpayers, the maximum DTC supplement is $1,000 (10% of $10,004). Annual child care and attendant care expenses in excess of $2,728 claimed on behalf of that child will reduce this supplement, eliminating it completely once such expenses reach $12,732.

British Columbia: For British Columbia taxpayers, the maximum DTC supplement is $215 (5.06% of $4,250). Annual child care and attendant care expenses in excess of $2,468 claimed on behalf of that child will reduce this supplement, eliminating it completely once such expenses reach $6,718.

Manitoba: For Manitoba taxpayers, the maximum DTC supplement is $389 (10.80% of $3,605). Annual child care and attendant care expenses in excess of $2,112 claimed on behalf of that child will reduce this supplement, eliminating it completely once such expenses reach $5,717.

New Brunswick: For New Brunswick taxpayers, the maximum DTC supplement is $396 (9.10% of $4,346). Annual child care and attendant care expenses in excess of $2,545 claimed on behalf of that child will reduce this supplement, eliminating it completely once such expenses reach $6,891.

Newfoundland and Labrador: For taxpayers of Newfoundland and Labrador, the maximum DTC supplement is $201 (7.70% of $2,616). Annual child care and attendant care expenses in excess of $2,223 claimed on behalf of that child will reduce this supplement, eliminating it completely once such expenses reach $4,839.

Northwest Territories: For taxpayers of the Northwest Territories, the maximum DTC supplement is $260 (5.90% of $4,402). Annual child care and attendant care expenses in excess of $2,578 claimed on behalf of that child will reduce this supplement, eliminating it completely once such expenses reach $6,980.

Nova Scotia: For Nova Scotia taxpayers, the maximum DTC supplement is $303 (8.79% of $3,449). Annual child care and attendant care expenses in excess of $2,346 claimed on behalf of that child will reduce this supplement, eliminating it completely once such expenses reach $5,795.

Nunavut: For Nunavut taxpayers, the maximum DTC supplement is $176 (4% of $4,402). Annual child care and attendant care expenses in excess of $2,578 claimed on behalf of that child will reduce this supplement, eliminating it completely once such expenses reach $6,980.

Ontario: For Ontario taxpayers, the maximum DTC supplement is $224 (5.05% of $4,432). Annual child care and attendant care expenses in excess of $2,595 claimed on behalf of that child will reduce this supplement, eliminating it completely once such expenses reach $7,027.

Prince Edward Island: For taxpayers of Prince Edward Island, the maximum DTC supplement is $394 (9.80% of $4,019). Annual child care and attendant care expenses in excess of $2,354 claimed on behalf of that child will reduce this supplement, eliminating it completely once such expenses reach $6,373.

Quebec: Not applicable.

However, Quebec has a refundable Adapted Work Premium. It is paid to Quebec residents who have a severely limited capacity to secure employment for reasons such as a severe and prolonged impairment in physical or mental functions. The premiums paid are reduced by 10% for each dollar of family income exceeding the reduction threshold applicable to the household.

The maximum premium amounts for 2012 were not available at the date of publication of this book, but the 2011 amounts were as follows (rounded to the nearest dollar). Check the Revenu Quebec website at www.revenuquebec.ca for updates.

	Maximum premium	**Reduction threshold**	**Cut-off threshold**
Person living alone	$1,025	$12,588	$22,837
Couple without children	1,522	18,116	33,340
Single parent family	2,847	12,588	41,058
Couple with children	3,383	18,116	51,948

Saskatchewan: For Saskatchewan taxpayers, the maximum DTC supplement is $968 (11% of $8,803). Annual child care and attendant care expenses in excess of $2,579 claimed on behalf of that child will reduce this supplement, eliminating it completely once such expenses reach $11,382.

Yukon: For Yukon taxpayers, the maximum DTC supplement is $310 (7.04% of $4,402). Annual child care and attendant care expenses in excess of $2,578 claimed on behalf of that child will reduce this supplement, eliminating it completely once such expenses reach $6,980.

Child Disability Benefit

A federal child disability benefit (CDB) is available for parents whose children qualify for the Disability Tax Credit. For additional details about the CDB, see page 233 in the chapter on Additional Tax Considerations.

Child Credit

Parents may claim a federal non-refundable child tax credit for each child under the age of 18. In 2012, this indexed credit is 15% of $2,191, or $329 per child (up from $2,131 or $320 per child in 2011).

The Family Caregiver Tax Credit amount of $2,000 might, in certain circumstances, be eligible to apply to the federal child tax credit if

the child for whom the credit is being claimed is infirm. If used to supplement the child tax credit, the taxpayer can claim an additional $2,000 for a total credit of 15% of $4,191, or $629 per child.

Check with your Certified General Accountant to determine the correct application for the federal Family Caregiver Tax Credit.

Yukon matches the federal provision for the child credit. The 2012 Yukon credit is 7.04% of $2,191, or $154 per child.

The Family Caregiver Tax Credit amount of $2,000 might, in certain circumstances, be eligible to apply to the Yukon child tax credit if the child for whom the credit is being claimed is infirm. If used to supplement the child tax credit, the taxpayer can claim an additional $2,000 for a total credit of 7.04% of $4,191, or $295 per child.

Check with your Certified General Accountant to determine the correct application for the Yukon Family Caregiver Tax Credit.

Saskatchewan offers a dependant child credit of $623 (11% of $5,668) for each child under the age of 19.

Nova Scotia, Nunavut, and Prince Edward Island offer a credit for dependent children under the age of 6 (the Nunavut credit includes the year the child turns 6) if no benefits are received under the federal *Children's Special Allowance Act*. In Nova Scotia and Prince Edward Island, $100 per month can be claimed for each month the child is under 6 at the beginning of the month, to a maximum of $1,200 per year. This tax credit is not available in Nova Scotia if an eligible dependant amount is claimed for the child.

In Nunavut, $1,200 can be claimed up to and including the year the child turns 6 if an eligible dependant amount is not claimed for the child.

Newfoundland and Labrador offers a non-refundable child care credit for eligible child care expenses. The maximum amount that may be claimed

is $7,000 for children up to age 7, and $4,000 for children between the ages of 7 and 16.

When a child resides with both parents throughout the year, either parent may claim this credit, with any unused portion being transferable between spouses or common-law partners. In instances where a child does not reside with both parents, the parent eligible to make that claim will be the one who is also eligible to claim the eligible dependant credit in respect of that child.

This credit cannot be claimed for an individual on whose behalf the taxpayer is required to pay a support amount.

This credit applies for the full year, no matter which date a birth, adoption, or death may occur during that year.

Infirm Dependant Credit

Where a relative age 18 or older is dependent on the taxpayer by reason of mental or physical infirmity, the taxpayer may claim, as the federal portion of this credit, 15% of $6,402, less the dependant's income in excess of $6,420, for a maximum credit of $960. The maximum available credit is eliminated entirely when the dependant's income reaches $12,822.

The Family Caregiver Tax Credit component of $2,000 is included in the $6,402 amount. However, if the taxpayer applies the Family Caregiver Tax Credit to any one of the spousal/common-law partner, eligible dependant, child, or caregiver credits, the infirm dependant amount is reduced to $4,402 for a maximum credit of $660.

The corresponding provincial/territorial credits are as follows:

Alberta: The Alberta credit is 10% of up to $10,004, less the dependant's income in excess of $6,609, for a maximum credit of $1,000. The maximum available credit is eliminated entirely when the dependant's income reaches $16,613.

British Columbia: The British Columbia credit is 5.06% of up to $4,250, less the dependant's income in excess of $6,770, for a maximum credit of $215. The maximum available credit is eliminated entirely when the dependant's income reaches $11,020.

Manitoba: The Manitoba credit is 10.80% of up to $3,605, less the dependant's income in excess of $5,115, for a maximum credit of $389. The maximum available credit is eliminated entirely when the dependant's income reaches $8,720.

New Brunswick: The New Brunswick credit is 9.10% of up to $4,347, less the dependant's income in excess of $6,167, for a maximum credit of $396. The maximum available credit is eliminated entirely when the dependant's income reaches $10,514.

Newfoundland and Labrador: The Newfoundland and Labrador credit is 7.70% of up to $2,616, less the dependant's income in excess of $5,621, for a maximum credit of $201. The maximum available credit is eliminated entirely when the dependant's income reaches $8,237.

Northwest Territories: The Northwest Territories credit is 5.90% of up to $4,402, less the dependant's income in excess of $6,246, for a maximum credit of $260. The maximum available credit is eliminated entirely when the dependant's income reaches $10,648.

Nova Scotia: The Nova Scotia credit is 8.79% of up to $2,798, less the dependant's income in excess of $5,683, for a maximum credit of $246. The maximum available credit is eliminated entirely when the dependant's income reaches $8,481.

Nunavut: The Nunavut credit is 4% of up to $4,402, less the dependant's income in excess of $6,246, for a maximum credit of $176. The maximum available credit is eliminated entirely when the dependant's income reaches $10,648.

Ontario: The Ontario credit is 5.05% of up to $4,433, less the dependant's income in excess of $6,301, for a maximum credit of

$224. The maximum available credit is eliminated entirely when the dependant's income reaches $10,734.

Prince Edward Island: The Prince Edward Island credit is 9.80% of up to $2,446, less the dependant's income in excess of $4,966, for a maximum credit of $240. The maximum available credit is eliminated entirely when the dependant's income reaches $7,412.

Quebec: Quebec's other dependant credit is applicable at a rate of 20% of $2,930, or $586, less 80% of the dependant's net income (excluding scholarships, fellowships, bursaries, and other awards), which eliminates the available credit at $3,663. This credit applies only if the taxpayer does not claim a transferred amount for a child enrolled in post-secondary studies.

Saskatchewan: The Saskatchewan credit is 11% of up to $8,803, less the dependant's income in excess of $6,246, for a maximum credit of $968. The maximum available credit is eliminated entirely when the dependant's income reaches $15,049.

Yukon: The Yukon credit is 7.04% of up to $6,402, less the dependant's income in excess of $6,420, for a maximum credit of $451. The maximum available credit is eliminated entirely when the dependant's income reaches $12,822.

The Family Caregiver Tax Credit component of $2,000 is included in the $6,402 amount, as Yukon has paralleled the federal credit. However, if the taxpayer applies the Family Caregiver Tax Credit to any one of the spousal/common-law partner, eligible dependant, child, or caregiver credits, the Yukon infirm dependant amount is reduced to $4,402 for a maximum credit of $310.

To qualify for the infirm dependant credit, individuals must have supported the relative at some time during the year. The relative must be either a child or grandchild of the taxpayer or their spouse/common-law partner; or if residing in Canada at any time throughout the year, could

also be the taxpayer's or their spouse/common-law partner's parent, grandparent, brother, sister, uncle, aunt, niece, or nephew.

Caregiver Credit

The caregiver tax credit reduces federal tax by up to $660 (15% of $4,402) in 2012 for taxpayers 18 years of age and over who are responsible for the in-home care of an infirm, dependent relative 18 years of age and over, or parent/grandparent (including in-laws) who are at least 65 years of age. The maximum available credit is reduced by the dependant's net income in excess of $15,033 and eliminated entirely when their income reaches $19,435.

The Family Caregiver Tax Credit amount of $2,000 might, in certain circumstances, be eligible to apply to the federal caregiver credit. However, it can not be applied for the same individual for whom the infirm dependant credit has been claimed.

If the Family Caregiver Tax amount applies, the caregiver credit reduces federal tax by up to $960 (15% of $6,402), less the dependant's income in excess of $15,033, and is eliminated entirely when the income reaches $21,435.

Check with your Certified General Accountant to determine the correct application for the federal Family Caregiver Tax Credit.

The corresponding provincial and territorial credits for 2012 are as follows:

Alberta: Alberta has a maximum credit of $1,000 (10% of $10,004), which is reduced by 10% of net income in excess of $15,906 and eliminated entirely when the dependant's income reaches $25,910.

British Columbia: British Columbia has a maximum credit of $215 (5.06% of $4,250), which is reduced by 5.06% of net income in excess of $14,385 and eliminated entirely when the dependant's income reaches $18,635.

Manitoba: Manitoba has a maximum credit of $389 (10.80% of $3,605), which is reduced by 10.80% of net income in excess of $12,312 and eliminated entirely when the dependant's income reaches $15,917.

New Brunswick: New Brunswick has a maximum credit of $395 (9.10% of $4,346), which is reduced by 9.10% of net income in excess of $14,844 and eliminated entirely when the dependant's income reaches $19,190.

Newfoundland and Labrador: Newfoundland and Labrador has a maximum credit of $201 (7.70% of $2,615), which is reduced by 7.70% of net income in excess of $12,784 and eliminated entirely when the dependant's income reaches $15,399.

Northwest Territories: Northwest Territories has a maximum credit of $260 (5.90% of $4,402), which is reduced by 5.90% of net income in excess of $15,033 and eliminated entirely when the dependant's income reaches $19,435.

Nova Scotia: Nova Scotia has a maximum credit of $431 (8.79% of $4,898), which is reduced by 8.79% of net income in excess of $13,677 and eliminated entirely when the dependant's income reaches $18,575.

Nunavut: Nunavut has a maximum credit of $176 (4% of $4,402), which is reduced by 4% of net income in excess of $15,033 and eliminated entirely when the dependant's income reaches $19,435.

Ontario: Ontario has a maximum credit of $224 (5.05% of $4,433), which is reduced by 5.05% of net income in excess of $15,165 and eliminated entirely when the dependant's income reaches $19,598.

Prince Edward Island: Prince Edward Island has a maximum credit of $240 (9.80% of $2,446), which is reduced by 9.80% of net income in excess of $11,953 and eliminated entirely when the dependant's income reaches $14,399.

Quebec: Quebec has two refundable caregiver credits. One provides a credit of up to $1,104 for the care of an eligible relative, reduced by 16% of that relative's income in excess of $22,075.

A second refundable caregiver tax credit provides up to 30% on $5,200 for a maximum credit of $1,560 for care provided to any eligible person, not just a relative. This credit is reduced by 3% of the caregiver's family income in excess of $53,465.

Saskatchewan: Saskatchewan has a maximum credit of $968 (11% of $8,803), which is reduced by 11% of net income in excess of $15,034 and eliminated entirely when the dependant's income reaches $23,837.

Yukon: Yukon has a maximum credit of $310 (7.04% of $4,402), which is reduced by 7.04% of net income in excess of $15,033 and eliminated entirely when the dependant's income reaches $19,435.

The Family Caregiver Tax Credit amount of $2,000 might, in certain circumstances, be eligible to apply to the Yukon caregiver credit. However, it can not be applied for the same individual for whom the infirm dependant credit has been claimed.

If the Family Caregiver Tax amount applies, the caregiver credit reduces Yukon tax by up to $451 (7.04% of $6,402), less the dependant's income in excess of $15,033, and eliminated entirely when the income reaches $21,435.

Check with your Certified General Accountant to determine the correct application for the Yukon Family Caregiver Tax Credit.

Eligibility for this caregiver credit (as well as for the DTC and DTC supplement and for infirm dependant credits) includes spouses or common-law partners of individuals who are dependent because of mental or physical infirmity; support may also be provided by certain caregivers living apart from their dependent relatives.

This credit is not available on behalf of an individual for whom the eligible dependant credit or infirm dependant credit has already been claimed.

tax tips

If you take time off work to care for a gravely ill or dying family member, including a parent, spouse, or child, you may be eligible to be provided with employment insurance (EI) benefits for up to six weeks.

Two or more people might be entitled to claim a caregiver or Infirm Dependant Credit for the same person; in that situation, they must agree on how to apportion the total available deduction between themselves.

Adoption Credit

The federal adoption tax credit covers eligible adoption expenses, including non-reimbursed items such as fees paid to an adoption agency that is licensed in a province or territory, court costs, legal and administrative expenses, and reasonable travel and living expenses required to secure an adoption, among others. In 2012, the maximum credit is 15% of $11,440 (indexed), or $1,716.

Six provinces and one territory offer taxpayers the following amounts and credits in 2012.

Alberta: The maximum eligible adoption expense amount for Alberta is $11,820 (indexed), at a rate of 10%, for a credit of $1,182.

British Columbia: The maximum eligible adoption expense amount for British Columbia is $11,440 (indexed), at a rate of 5.06%, for a credit of $579.

Manitoba: The maximum eligible adoption expense amount for Manitoba is $10,000 (non-indexed), at a rate of 10.80%, for a credit of $1,080.

Newfoundland and Labrador: The maximum eligible adoption expense amount for Newfoundland and Labrador is $11,116 (indexed), at a rate of 7.70%, for a credit of $856.

Ontario: The maximum eligible adoption expense amount for Ontario is $11,474 (indexed), at a rate of 5.05%, for a credit of $579.

Quebec: The maximum eligible adoption expense amount for Quebec is $20,000 at a rate of 50%, for a refundable credit of $10,000.

Yukon: The maximum eligible adoption expense amount for Yukon is $11,440 (indexed), at a rate of 7.04%, for a credit of $805.

Medical Expense Credit

An individual may claim a credit for any non-reimbursed medical expenses. The federal credit for 2012 consists of 15% of expenses in excess of the lesser of $2,109 or 3% of the taxpayer's net income for the year. Such expenses may be incurred on the taxpayer's own behalf, or on behalf of their qualified dependant relatives.

The corresponding provincial/territorial credits are as follows:

Alberta: The Alberta credit is 10% of medical expenses in excess of the lesser of $2,233 or 3% of the taxpayer's net income for the year. Such expenses may be incurred on the taxpayer's behalf, or on behalf of their qualified dependant relatives.

British Columbia: The British Columbia credit is 5.06% of medical expenses in excess of the lesser of $2,020 or 3% of the taxpayer's net income for the year. Such expenses may be incurred on the taxpayer's behalf, or on behalf of their qualified dependant relatives.

Manitoba: The Manitoba credit is 10.80% of medical expenses in excess of the lesser of $1,728 or 3% of the taxpayer's net income for the year. Such expenses may be incurred on the taxpayer's behalf, or on behalf of their qualified dependant relatives.

New Brunswick: The New Brunswick credit is 9.10% of medical expenses in excess of the lesser of $2,083 or 3% of the taxpayer's net income for the year. Such expenses may be incurred on the taxpayer's behalf, or on behalf of their qualified dependant relatives.

Newfoundland and Labrador: The Newfoundland and Labrador credit is 7.70% of medical expenses in excess of the lesser of $1,794 or 3% of the taxpayer's net income for the year. Such expenses may be incurred on the taxpayer's behalf, or on behalf of their qualified dependant relatives.

Northwest Territories: The Northwest Territories credit is 5.90% of medical expenses in excess of the lesser of $2,109 or 3% of the taxpayer's net income for the year. The maximum amount of allowable medical expenses that can be claimed for other dependants is $5,000 each.

Nova Scotia: The Nova Scotia credit is 8.79% of medical expenses in excess of the lesser of $1,637 or 3% of the taxpayer's net income for the year. Such expenses may be incurred on the taxpayer's behalf, or on behalf of their qualified dependant relatives.

Nunavut: The Nunavut credit is 4% of medical expenses in excess of the lesser of $2,109 or 3% of the taxpayer's net income for the year. Such expenses may be incurred on the taxpayer's behalf, or on behalf of their qualified dependant relatives.

Ontario: The Ontario credit is 5.05% of medical expenses in excess of the lesser of $2,128 or 3% of the taxpayer's net income for the year. The maximum amount of allowable medical expenses that can be claimed for other dependants is $11,474 each.

Prince Edward Island: The Prince Edward Island credit is 9.80% of medical expenses in excess of the lesser of $1,678 or 3% of the taxpayer's net income for the year. Such expenses may be incurred on the taxpayer's behalf, or on behalf of their qualified dependant relatives.

Quebec: The Quebec credit is 20% of medical expenses in excess of 3% of the taxpayer's family income for the year.

Saskatchewan: The Saskatchewan credit is 11% of medical expenses in excess of the lesser of $2,109 or 3% of the taxpayer's net income for the year. Such expenses may be incurred on the taxpayer's behalf, or on behalf of their qualified dependant relatives.

Yukon: The Yukon credit is 7.04% of medical expenses in excess of the lesser of $2,109 or 3% of the taxpayer's net income for the year. Such expenses may be incurred on the taxpayer's behalf, or on behalf of their qualified dependant relatives.

In each province or territory, when medical expenses are claimed for dependants other than a spouse or common-law partner, the total expenses claimed might need to be reduced by a certain percentage of that dependant's income in excess of the provincial or territorial portion of the basic credit. Check with your Certified General Accountant for details.

Generally, medication must be prescribed by a registered physician or dentist (nurse practitioners are also allowed to prescribe certain medications in all provinces and territories except Yukon), and dispensed and recorded by a qualified pharmacist if such expenses are eligible to be claimed for the medical expense tax credit. Payments may also be issued indirectly to a medical practitioner — that is, through an institution that provides medical services on their behalf.

Receipts must support expenses claimed. Normally, these expenses can be claimed for any 12-month period ending in the year, but should the return be prepared for a deceased taxpayer, that period is expanded to encompass claims for any 24-month period, including the individual's date of death.

tax tips

Taxpayers and their spouses can apportion the medical expenses claimed on behalf of each other to best minimize their overall tax liability. In some cases, it might be advantageous for the lower-income spouse to claim allowable medical expenses.

A parent or other guardian that does not live with and/or have legal custody of a child might still be able to claim certain medical expenses on their behalf. Even if the child is not wholly dependent on the taxpayer, if the taxpayer is providing for their essential needs, factors such as support payments and expenditures for security and education will also be taken into account when CRA decides whether they qualify to deduct such expenses.

Eligible Medical Expenses

The list of expenses eligible for the federal medical expense tax credit includes, but is certainly not limited to, the following:

- attendant care for workers with disabilities — up to two-thirds of earned income with no maximum
- full-time attendant care for individuals with severe and prolonged mental or physical impairments, including all expenses, with no maximum
- supervision of an individual eligible for the DTC who is residing in a Canadian group home devoted to the care of people with a severe and prolonged impairment
- part-time attendant care — up to $10,000, increasing to $20,000 if the individual died during the year
- a block, or annual fee, paid to a medical centre or physician to cover uninsured medical services
- 50% of the cost of an air conditioner needed for a severe chronic ailment, to a maximum of $1,000
- 20% of the cost of a van that is, or will be, adapted for the transportation of an individual using a wheelchair, to a maximum of $5,000
- expenses incurred for moving to accessible housing, to a maximum of $2,000
- a device, such as a wheelchair, to assist an individual who is mobility-impaired
- sign language interpreter fees

- voice recognition software necessary to assist a person with a disability
- various medical devices, along with accessories, required to assist with impaired seeing or hearing
- tutoring services from a non-related person for individuals with a certified learning disability or mental impairment
- certain costs related to attending an educational facility with specialized personnel, equipment, or facilities to address a physical or mental impairment
- a portion of reasonable expenses relating to certain construction or renovation costs incurred to assist an individual with a severe disability gain access to, or be mobile or functional within, their principal place of residence
- reasonable expenses for driveway alterations made to enable a mobility-impaired individual to access a bus
- reasonable travel and related expenses incurred to obtain medical services not available in the vicinity of the patient's home, and necessitating travel of at least 40 kilometres one way, for themselves and for an attendant if a medical practitioner certifies the patient needs to travel with one, to the extent these have not been reimbursed by a provincial/territorial health plan, or other source
- in addition to reasonable travel expenses, taxpayers who must travel at least 80 kilometres one way to obtain medical services may also be able to claim accommodation, meal and parking expenses for themselves and for an attendant if a medical practitioner certifies the patient needs to travel with one (see also Travel Expense Claims, page 117)

The list of expenses eligible for the medical expense credit is lengthy. For a review of eligible medical expenses, and certification that might be required to be eligible to make such claims, refer to CRA publication IT519R2, *Medical Expense and Disability Tax Credits and Attendant Care Expense Deduction*, or other related documents. Also check with your province or territory to see if additional expenses and/or indexing may apply.

tax tips

A pharmacist is considered by CRA to be a medical practitioner. Therefore, if your pharmacist provides such services as running a disease management clinic or other activities for which a fee is payable, this may qualify as a deductible medical expense.

In some jurisdictions, practitioners in so-called "alternative treatment" fields, such as naturopathy, chiropractic medicine, and massage therapy, among others, might qualify as authorized medical practitioners. Check to determine whether expenditures for the services you are receiving are covered for tax purposes.

You may include premiums paid for private health insurance in your medical expense claim.

You may deduct reasonable travel expenses if required to seek specialized medical treatment outside Canada. To qualify, you must have an existing medical condition or illness and seek the care of health professionals.

The cost of full-time care in a nursing home might also include care that is provided by professionals other than those on staff.

A stroller designed specifically for a child with special mobility needs is considered equivalent to a wheelchair and therefore deductible as an eligible medical expense item for tax purposes.

Future parents that are in the process of adopting a child might still be able to claim eligible medical expenses for that child prior to the actual adoption date, provided they become totally responsible for their care and supervision before the child arrives, and the adoption ultimately takes place later that year. This situation could be especially relevant in a case involving an international adoption.

Other Medical Credits

Some taxpayers may qualify for a federal refundable medical expense supplement of up to $1,119 in 2012 (up from $1,089 in 2011). The actual supplement amount is the lesser of $1,119 or 25% of attendant care expenses claimed under the disability supports deduction (see below), plus 25% of allowable expenses claimed under the medical expense tax credit.

To qualify for this supplement, taxpayers must be 18 years of age or older and have total business and employment income of at least $3,268 for the year. This supplement is reduced by 5% of family net income in excess of $24,783, and is eliminated when family net income reaches $47,163.

There are also broad rules governing income earned by a trust established for the benefit of a person with a disability as well as for duty-free goods for an individual with a disability.

Quebec has a refundable tax credit equal to the total of 25% of medical expenses eligible for the non-refundable tax credit and 25% of the amount deducted for impairment support products and services. To qualify, taxpayers must be 18 years of age or older and have total business and employment income of at least $2,825 for the year. The maximum credit of $1,103 is reduced by 5% of family income that exceeds $21,340.

Disability Supports Deduction

The federal disability supports deduction, includes attendant care expenses, plus other disability support expenses that have not otherwise been reimbursed and have been incurred to enable an eligible individual to work or to attend secondary school or a designated educational institution. Under this provision, the maximum deduction is the lesser of eligible non-reimbursed expenses and earned income for the year. If attending school, it is the lesser of eligible non-reimbursed expenses and the least of the following three amounts: the amount by which total income exceeds earned income; $15,000; and $375 times the number of weeks they are in attendance at that school.

Expenses claimed under the disability supports deduction, which include various devices and services to deal with vision, hearing, speaking, and mobility restrictions, among others, cannot also be claimed under the medical expense tax credit.

Other Points Related to Disability and Medical Expenses

Use of the DTC on the tax return of a deceased individual may still be applicable in the year of death if a medical doctor certified before death that the individual had a "severe and prolonged mental or physical impairment" that was reasonably expected to last for at least 12 months.

Seniors living in a retirement home who also qualify for the DTC may claim attendant care expenses of up to $10,000 per year (their estate may claim $20,000 for the year of death).

The attendant care component of fees paid to a retirement home includes the salary and wages paid to employees with respect to the following services provided to a senior:

- health care
- meal preparation
- housekeeping in the resident's personal living space
- laundry for the resident's personal items
- a transportation driver
- security, where applicable

The retirement home must provide the taxpayer or their caregivers with a receipt showing the applicable amounts paid for attendant care.

Generally, expenses paid to a nursing home qualify as tax-deductible medical expenses while those paid to a personal care institution do not, because the care provided to patients in a nursing home tends to be more extensive. However, there may be exceptions to that rule. All or part of the remuneration paid to a personal care facility might, for instance, be

deductible in situations where an individual with a severe and prolonged impairment requires specialized equipment, facilities, or personnel.

Caregivers are also able to deduct reasonable expenses associated with the cost of training required to care for dependant relatives with mental or physical infirmities.

Certain expenses incurred for the purpose of providing care to a person with a disability are exempt from the goods and services tax (GST) and harmonized sales tax (HST). These include a government funded homemaker service provided to an individual in their place of residence, various medical devices, and some recreational programs. For a complete list, consult CRA's guide RC4064, *Medical and Disability — Related Information*.

Tuition Fee and Education Credits

Post-secondary students who are not otherwise reimbursed for the cost of their courses, or who have received financial assistance such as a grant, benefit or other allowance, are generally entitled to a credit for the cost of the courses and certain related school fees they or their families must pay.

In order to qualify for an education credit, full-time students must generally be taking courses of at least three consecutive weeks involving at least 10 hours of study per week for the duration of the course at a designated educational institution. Typically this is at a university, college, or other school in Canada that offers courses at a post-secondary level, or internationally at a university or in a university-related course that leads to a degree.

In 2012, full-time students may claim a federal tuition credit of 15% of eligible tuition fees, plus an education credit of 15% of $400 per month, or $60, with the education credit allowable only if they are attending a designated educational institution as defined by the federal government. The 2011 Federal Budget expanded this credit to cover out-of-pocket examination fees for licensing in professions such as accounting, law,

medicine, and nursing; or for occupational or trade certification/licensing in a variety of fields.

To qualify for an education, tuition, or textbook tax credit (see description below), Canadian students attending an eligible post-secondary educational institution outside of Canada must take a course of at least three consecutive weeks' duration leading up to a degree at a designated university. Qualified Canadian students who live near the U.S. border and commute to an eligible school offering post-secondary education in the United States do not have to be enrolled in a course of at least three weeks' duration leading up to a degree.

The tuition tax credit has no minimum duration requirement for a qualified program that is taken from an eligible Canadian institution.

Provincially and territorially, taxpayers may also claim the tuition fee credit, based on a percentage of eligible tuition fees (except for Quebec). They may also claim the education tax credit as follows in 2012:

Alberta: In Alberta, this credit is indexed; students may claim a monthly provincial credit of up to 10% of $672, or $67.

British Columbia: In British Columbia, students may claim a monthly provincial credit of up to 5.06% of $200, or $10.

Manitoba: In Manitoba, students may claim a monthly provincial credit of up to 10.80% of $400, or $43.

New Brunswick: In New Brunswick, students may claim a monthly provincial credit of up to 9.10% of $400, or $36.

Newfoundland and Labrador: In Newfoundland and Labrador, students may claim a monthly provincial credit of up to 7.70% of $200, or $15.

Northwest Territories: In the Northwest Territories, students may claim a monthly territorial credit of up to 5.90% of $400, or $24.

Nova Scotia: In Nova Scotia, students may claim a monthly provincial credit of up to 8.79% of $200, or $18.

Nunavut: In Nunavut, students may claim a monthly territorial credit of up to 4% of $400, or $16.

Ontario: In Ontario, this credit is indexed; students may claim a monthly provincial credit of up to 5.05% of $506, or $26.

Prince Edward Island: In Prince Edward Island, students may claim a monthly provincial credit of up to 9.80% of $400, or $39.

Quebec: See Quebec's Dependants Credits on page 171.

Saskatchewan: In Saskatchewan, students may claim a monthly provincial credit of up to 11% of $400, or $44.

Yukon: In Yukon, students may claim a monthly territorial credit of up to 7.04% of $400, or $28.

To qualify for these credits, students need not be in full-time attendance, but only enrolled as full-time students. Students with disabilities may also be enrolled part time to qualify for a full-time credit.

Students who are engaged in part-time studies may also claim the federal tuition fee credit of 15% of eligible tuition fees, plus a provincial or territorial credit at applicable rates. "Part time" is generally regarded as a minimum of three consecutive weeks involving at least 12 hours of course work a month at a designated educational institution and in a specified educational program. In 2012, part-time students may also claim a monthly federal education credit of up to 15% of $120, or $18.

Provincially and territorially, the corresponding part-time education credit amounts are as follows in 2012:

Alberta: In Alberta, this credit is indexed; students may claim a monthly provincial credit of up to 10% of $202, or $20.

British Columbia: In British Columbia, students may claim a monthly provincial credit of up to 5.06% of $60, or $3.

Manitoba: In Manitoba, students may claim a monthly provincial credit of up to 10.80% of $120, or $13.

New Brunswick: In New Brunswick, students may claim a monthly provincial credit of up to 9.10% of $120, or $11.

Newfoundland and Labrador: In Newfoundland and Labrador, students may claim a monthly provincial credit of up to 7.70% of $60, or $5.

Northwest Territories: In the Northwest Territories, students may claim a monthly territorial credit of up to 5.90% of $120, or $7.

Nova Scotia: In Nova Scotia, students may claim a monthly provincial credit of up to 8.79% of $60, or $5.

Nunavut: In Nunavut, students may claim a monthly territorial credit of up to 4% of $120, or $5.

Ontario: In Ontario, this credit is indexed; students may claim a monthly provincial credit of up to 5.05% of $151, or $8.

Prince Edward Island: In Prince Edward Island, students may claim a monthly provincial credit of up to 9.80% of $120, or $12.

Quebec: See Quebec's Dependants Credits on page 171.

Saskatchewan: In Saskatchewan, students may claim a monthly provincial credit of up to 11% of $120, or $13.

Yukon: In Yukon, students may claim a monthly territorial credit of up to 7.04% of $120, or $8.

The same transfer and carryforward provisions applicable to full-time students also apply to part-time students.

Students who are enrolled in a co-op program, in which they spend part of their time in school and part in the workforce, are eligible for the education tax credit only for the period they are attending classes.

There is also a federal textbook tax credit for students eligible for the full-time and part-time education credits. In 2012, the federal textbook credit is 15% of $65, or $10 per month, for full-time students and 15% of $20, or $3, for part-time students.

The purpose of the textbook credit is to provide tax relief to students buying textbooks — not to allow them to claim the actual cost of their textbooks. Therefore, it is not necessary to retain receipts to prove or claim textbook costs.

Nunavut and Yukon have matched this federal provision. In 2012 Nunavut's territorial textbook tax credit is 4% of $65, or $3, and the part-time textbook credit is 4% of $20, or $1, per month. Yukon's territorial textbook tax credit is 7.04% of $65, or $5, and the part-time textbook credit is 7.04% of $20, or $1, per month.

Additional Points Relating to Tuition Fee and Education Credits

A person with a disability who is enrolled in Human Resources and Skills Development Canada (HRSDC) or equivalent provincial/territorial-approved training programs can deduct those related expenses. Under this adult basic education (ABE) deduction, such courses may, for instance, allow taxpayers to finish high school, improve their literacy skills, or upgrade existing educational credentials in order to improve their employment chances.

Students who are pursuing career-related post-secondary education at their own expense are also eligible for the education credit.

Courses taken outside of a university that are designed to improve personal skills would not likely qualify for either the tuition or education

credits. The *Income Tax Act* states that, to qualify for these credits, courses must be designed to improve occupational skills and be held at a certified place of instruction.

If an employer pays an employee's tuition for courses at a designated institution, the employee may not claim either the tuition or education tax credits unless they reimburse that amount to their employer; or include it in their income as a taxable benefit.

Students enrolled in two designated educational institutions in order to achieve a combined course load equivalent to that of a full-time student may be entitled to the full-time education credit, provided at least one of the designated institutions issues the appropriate T2202 or T2202A form (all of these forms are variations of the *Tuition, Education and Textbook Amounts Certificate*) if it is a Canadian institution, or TL11A, TL11C, or TL11D form if outside the country, to indicate that the courses taken at both schools qualify them for that status.

There are some mandatory ancillary charges, such as fees for computer services, labs, health, and athletics that are also eligible for the tuition credit. Tuition fees at a qualified Canadian educational facility must exceed $100 per institution and be claimed on a calendar year basis. Courses must be taken at a post-secondary level or be for occupational skills provided by a qualified educational institution for students 16 or older.

All scholarship, fellowship, or bursary income with respect to postsecondary education or occupational training is fully exempt from taxation, provided it applies to enrolment in a program that entitles the student to claim the education credit. (They must be eligible to claim that education credit during the current, preceding, or following taxation year.) This exemption also covers elementary and secondary school education, such as in a private school setting.

Scholarship, fellowship, or bursary income that doesn't meet this requirement is subject to a $500 tax-exempt ceiling.

Certain limitations might apply to part-time students, unless such individuals have a disability and cannot enrol on a full-time basis. Check with your Certified General Accountant for details.

Taxpayers receiving financial assistance for their post-secondary education through the EI or a similar provincial/territorial program also have access to the education credit.

Students need not necessarily be in physical attendance at a qualified institution in Canada to claim either the tuition or education tax credits. Recent court rulings have interpreted the *Income Tax Act* differently with respect to whether students must physically attend a designated institution outside Canada in order to claim the tuition tax credit. However, there now appears to be a general acceptance that they do not. Therefore, online course participation through, for example, the Internet website of a recognized post-secondary institution either in Canada or internationally may also qualify the taxpayer for both tax credits.

tax tips

If you reside in Canada near the U.S. border and are registered in and commute to a designated educational institution in the United States, you might be able to claim and/or transfer a tuition credit for a course of any duration.

A Canadian satellite campus of a foreign-headquartered university might qualify as a Canadian university if the taxpayer's primary connection (that is, determined by factors such as fees paid, physical or online attendance, examinations taken) was to the Canadian campus.

Tuition fees paid to obtain up to 110 hours of instruction for a commercial pilot's license or to become a professional flying instructor also qualify as eligible tuition fees provided they are taken at a certified flying school or club.

Fees for your child's extracurricular classes may also be eligible for the tuition credit if your child is at least 16 years of age, and if the classes are taken through a certified educational institution in Canada and provide occupational skills. Dance or skating lessons are examples of classes that might qualify.

All or a portion of the fees charged in an internship program may be eligible tuition fees for purposes of the tuition tax credit, provided they relate to the process of academic instruction and do not constitute a placement fee.

CRA has ruled that students may deduct tuition fees paid to an accredited post-secondary institution for audit/hearer courses in which they attend lectures, but do not write examinations, or receive credit.

Transfer of Credits

Unused tuition, education, and textbook credits may be carried forward indefinitely to offset the student's income taxes in future years. Alternatively, students may transfer unused federal credits of up to $5,000, and the same amount provincially/territorially (Ontario's rate is indexed to $6,503), reduced by their income in excess of personal credits, to their spouse or common-law partner, or to their or their spouse's parent or grandparent. The transferred credits must be claimed in the year incurred.

Students who are attending an accredited institution outside Canada — generally in a university-level course of at least three consecutive weeks' duration leading to a degree — are eligible to transfer their unused credits provided they owe Canadian income tax. All, or at least a substantial portion, of their income must be considered taxable income earned in Canada during the year the tuition fees were incurred.

Consult your Certified General Accountant if you attend a higher education facility outside Canada.

Student Loan Interest Credit

A 15% federal tax credit and a provincial/territorial tax credit are available on the repayment of interest on federally or provincially/territorially approved student loans. The provincial and territorial

tax credit corresponds to the rate in the lowest tax bracket for that jurisdiction. These credits are listed in Appendix I on page 251.

To be eligible, students must consolidate their loans with an authorized lender after graduating, and assume responsibility for paying interest by the first day of the seventh month following completion of their studies.

Students have the option of applying that non-transferable credit to either the current year or carrying it forward to any one of, or spread over, the next five taxation years.

Pension Income Credit

The federal government allows a 15% federal tax credit on up to $2,000 of eligible pension income (non-indexed). In 2012, this amounts to a maximum of $300.

Provincial/territorial tax credits at the lowest taxation rates are also available in each jurisdiction. Nunavut, and Yukon mirror the federal government at $2,000 of eligible pension income; there is a territorial credit of $80 in Nunavut and $141 in Yukon. Quebec's amount is indexed to $2,090, from a base of $2,000, for a provincial credit of $418. The rest of the provinces and territories offer a credit on up to $1,000 of eligible pension income. In Alberta and Ontario this pension is indexed from a base of $1,000; it stands at $1,331 in Alberta (for a credit of $133) and $1,300 in Ontario (for a credit of $66) for the 2012 taxation year. In Nova Scotia, the pension remains at $1,173 (for a credit of $103) in 2012, the same as in 2011.

These credits are listed in Appendix I on page 251.

Taxpayers may also transfer to their return any unused pension income credit belonging to their spouse or common-law partner.

Eligible pension income includes, for example, the following:

- life annuity receipts from a superannuation or pension fund, and RPP lifetime benefits, regardless of the recipient's age
- annuity receipts under an RRSP or DPSP, amounts received from an RRIF, and certain other non-government annuities, provided the recipient is at least 65 by the end of the year, or the amounts are received as a consequence of a spouse/ common-law partner's death
- foreign source pensions, such as United States social security and United Kingdom pension income, to the extent such income cannot be excluded as a result of an existing tax convention between Canada and a foreign country

Payments to certain locked-in retirement-based instruments, which are treated like RRSPs and RRIFs for tax purposes, may also qualify for a pension income deduction.

Ineligible pension income includes, for example, the following:

- Canada Pension Plan (CPP) and Quebec Pension Plan (QPP)
- Old Age Security (OAS) and the Guaranteed Income Supplement (GIS)
- lump-sum payments from a pension or superannuation plan
- death benefits
- retiring allowances
- amounts received under a salary deferral arrangement
- payments received out of a retirement compensation arrangement
- any other qualifying income that has been rolled over to an RPP or an RRSP

The federal government allows taxpayers to split qualified pension income with their spouse or common-law partner, by allocating to them up to one-half of such qualified income. When pension income has been allocated in such fashion, both partners must make a joint election on Form T1032, *Joint Election to Split Pension Income*. Many provinces and territories have parallel measures.

Amounts transferred to spouses under the age of 65 might not be eligible for the pension deduction.

tax tips

If you are at least 65, consider creating pension income by converting part of your RRSP to a life annuity or an RRIF if your financial circumstances warrant such a move.

Contributing to a spousal RRSP also creates potential pension income for your spouse or common-law partner.

Charitable Donation Credit

The federal charitable donation tax credit is calculated as 15% on the first $200 of eligible donations, plus 29% of any amount in excess of $200.

The corresponding provincial/territorial tax credits in 2012 are as follows:

Alberta: For Alberta residents, it is 10% of the first $200 and 21% for any amount over $200.

British Columbia: For British Columbia residents, it is 5.06% of the first $200 and 14.70% for any amount over $200.

Manitoba: For Manitoba residents, it is 10.80% of the first $200 and 17.40% for any amount over $200.

New Brunswick: For New Brunswick residents, it is 9.10% of the first $200 and 17.95% for any amount over $200.

Newfoundland and Labrador: For Newfoundland and Labrador residents, it is 7.70% of the first $200 and 13.30% for any amount over $200.

Northwest Territories: For Northwest Territories residents, it is 5.90% of the first $200 and 14.05% for any amount over $200.

Nova Scotia: For Nova Scotia residents, it is 8.79% of the first $200 and 21% for any amount over $200.

Nunavut: For Nunavut residents, it is 4% of the first $200 and 11.50% for any amount over $200.

Ontario: For Ontario residents, it is 5.05% of the first $200 and 11.16% for any amount over $200.

Prince Edward Island: For Prince Edward Island residents, it is 9.80% of the first $200 and 16.70% for any amount over $200.

Quebec: For Quebec residents, it is 20% of the first $200 and 24% for any amount over $200.

Saskatchewan: For Saskatchewan residents, it is 11% of the first $200 and 15% for any amount over $200.

Yukon: For Yukon residents, it is 7.04% of the first $200 and 12.76% for any amount over $200.

A credit can be claimed for donations made in the current and/or preceding five years (if not already claimed) based on an annual limit — generally 75% of net income. That increases to 100% in the taxpayer's year of death and for the preceding year.

tax tips

Make sure you request a tax receipt from the organization to which you are making a tax deductible donation. The receipt should include the charitable organization's registration number with CRA, among other information. You don't need to send receipts if you are completing an electronic return, but you will need to maintain them for your records in case they are requested.

CRA permits taxpayers to choose which spouse or common-law partner will claim the charitable donation credit. To maximize this credit, consider combining both your donations if they total more than $200. If not, it may be best to defer claiming these deductions, subject to the five-year carry-forward limitation, to get above the $200 threshold. Donations already deducted from a paycheque and recorded on a T4 slip may not be transferred to your spouse or common-law partner.

Additional savings may result from reduced provincial or territorial surtaxes in applicable jurisdictions when the higher-income spouse or common-law partner makes the charitable deduction claim.

The Canada-U.S. Tax Convention might provide limited tax relief in certain instances where a Canadian resident provides a charitable gift to a U.S.-based organization. Check with your Certified General Accountant before making a charitable donation to the United States.

Other Points Related to Donations

Donations of appreciated capital property giving rise to capital gains also benefit from higher limits of up to 100% of net income. However, the federal government limits the value of a gift of property for charitable donation purposes to the donor's cost of the property, where such property is donated within three years of acquisition.

Where a donation other than cash is made to a registered charity, the charity must issue a receipt for the FMV of the property at the time the gift is made.

A taxpayer may claim a credit with respect to charitable donations made outside Canada provided it is made to an organization to which the federal government, or representatives thereof, have made a gift during either the current year or the preceding 12 months.

There is no income inclusion rate on capital gains arising from donations of publicly traded securities. There is also no income inclusion for tax purposes for qualifying charitable donations of listed publicly traded securities acquired with employee stock options, as well as in certain instances where taxpayers donate ecologically sensitive land.

Special rules may apply for donations of certain securities to private charitable foundations.

The rules concerning donations of property are complex. For example, the 2011 Federal Budget placed restrictions on the exemption from tax on capital gains with respect to donations of flow-through shares. Other complex donation arrangements, such as those involving leveraged transactions that return a significant benefit to the taxpayer, may also be closely scrutinized by CRA.

Consult your Certified General Accountant if you have questions about the proper tax treatment of charitable donations you make, or the propriety of a particular charitable promotion that is being offered, particularly if these involve donations of property.

CRA provides an online listing of registered charities in English at www.cra-arc.gc.ca/chrts-gvng/lstngs/menu-eng.html or in French at www.cra-arc.gc.ca/chrts-gvng/lstngs/menu-fra.html.

Public Transit Pass Credit

A federal non-refundable tax credit is available for taxpayers who purchase eligible weekly (involving at least four consecutive weekly passes per month), monthly, or longer transit passes. In some instances, even shorter duration passes or electronic payment cards might be acceptable if they accumulate to allow for equivalent travel over a month or longer. Public transit could include transit of various modes, such as local bus, streetcar, subway, commuter train or bus, or local ferry. This credit applies at the rate of 15% for 2012.

Yukon matches the federal provision; in 2012 the territorial credit applies at the rate of 7.04%.

This credit is transferable to a spouse or common-law partner, as well as to parents of dependent children 18 or younger.

tax tips

Save applicable public transit passes and purchase receipts in order to verify the expenses you are claiming for this tax credit.

If, during the course of your commute, you need to take your automobile on a ferry for which you pay monthly or longer fees, you may claim a public transit credit for the ferry costs relating directly to the transport of you and/or other family members, but not those for your automobile.

Children's Fitness Credit

The federal non-refundable Children's Fitness Tax Credit allows parents and guardians to claim up to $500 for fees paid on behalf of a child under the age of 16 (at the beginning of the year in which the expenses are paid) who is enrolled in eligible, supervised sports and physical fitness program activities.

To qualify, a program must include a significant amount of physical activity that contributes to cardio-respiratory endurance plus one or more of: muscular strength, muscular endurance, flexibility, or balance. Examples of activities eligible for this credit include hockey, skating, soccer, karate, football, basketball, folk dancing, swimming, hiking, horseback riding, and sailing.

Programs that are part of a school curriculum are not eligible. However, fees paid for extra-curricular activities that take place in school are eligible.

The program must be either a weekly program lasting for at least eight consecutive weeks; or, if it is a children's camp, a program that runs for at least five consecutive days.

A pro-rated credit is available to cover membership and registration fees for programs in which 50% or fewer of the activities are eligible.

Either parent may claim this credit for eligible annual expenses, or share it between them.

The fitness tax credit applies to children who are eligible for the Disability Tax Credit (DTC) if they are under the age of 18 at the beginning of the year. There is also a separate $500 credit, for a total of $1,000, available to them provided at least $100 is spent on registration fees for an eligible program.

The maximum federal credit in 2012 is 15% of $500, or $75. For taxpayers with children eligible for a $1,000 credit, this benefit doubles to $150.

Manitoba, Nova Scotia, and Yukon also provide a children's fitness tax credit on amounts up to $500, at provincial/territorial rates. Manitoba's program applies to all children and young adults up to and including age 24, while Nova Scotia's program applies to all children younger than 18.

Manitoba and the Yukon match the additional $500 provision, for a total of $1,000, for children who are eligible for the Disability Tax Credit.

British Columbia introduced a children's fitness credit in 2012. Eligibility requirements parallel the federal provision, with maximum eligible expenses up to $500, for a credit of $25, for a child younger than 16 at the beginning of the tax year. The maximum eligible expenses double to $1,000, for a credit of $50, for a child who qualifies for the Disability Tax Credit; in that situation, the age eligibility increases by two years to 18.

Ontario offers an indexed refundable Children's Activity Tax Credit that applies to eligible fitness and non-fitness activities. In 2012, parents and guardians can claim up to $526 of eligible expenses per child credited at a special 10% rate and receive a refundable tax credit up to $53 per child who is under 16 years of age. This credit is worth up to $105 for a child under the age of 18 who has a disability.

Saskatchewan offers a refundable Active Families Benefit that allows parents and guardians to claim up to $150 of eligible expenses per child. The province expanded this program in 2012 to include all children younger than 18, as well as those who turn 18 during the tax year.

tax tip

If you pay family membership fees in a program that involves eligible fitness activities mixed with other activities, you might be able to apply a prorated portion to the children's fitness credit. Make sure you get a receipt from the organization clearly stating the amount that is eligible for a credit.

Children's Arts Credit

The federal non-refundable Children's Arts Tax Credit has similar parameters to the Children's Fitness Tax Credit. It allows parents and guardians to claim up to $500 of eligible expenses, paid on behalf of a child who is under 16 years of age at the beginning of the year in which the expenses are paid.

This credit covers a variety of supervised artistic, cultural, recreational, or developmental activities conducted outside of a school curriculum. It may include, for instance, activities that involve the literary or visual arts, performing arts, music, media, languages, customs, and heritage; provide a substantial focus on wilderness and the natural environment; help children develop and use particular intellectual skills; help develop interpersonal skills; or provide enrichment or tutoring in academic subjects.

To qualify, a program must be one in which more than 50% of the activities offered to children include a significant amount of artistic activity, or more than 50% of the available program time is devoted to artistic activity. In terms of length, it must be either: a weekly program lasting for at least eight consecutive weeks; or if it is a children's camp, a program that runs for at least five consecutive days. Programs that are part of a school curriculum are not eligible.

Either parent may claim this credit for eligible annual expenses or share it between them.

The maximum federal credit in 2012 is 15% of $500, or $75. A child under the age of 18 (at the beginning of the year in which the expenses are paid) who is eligible for the DTC may qualify for a 15% credit on up to $1,000 in eligible expenses, for a maximum credit of $150.

Manitoba has a Children's Arts and Cultural Activity Tax Credit of 10.80% on up to $500 of eligible expenses, or $54, for children under the age of 16. This pertains to participation in eligible non-fitness activities, including artistic, cultural, recreational or developmental endeavours. For a child under the age of 18 who has a disability, the maximum eligible credit doubles.

British Columbia introduced a children's arts credit in 2012. Eligibility requirements parallel the federal provision, with maximum eligible expenses up to $500, for a credit of $25, for a child under 16 at the beginning of the tax year. The maximum expenses eligible double to $1,000, for a credit of $50, for a child who qualifies for the DTC; in that situation, the age eligibility increases by two years to 18.

Volunteer Firefighters Credit

A federal non-refundable Volunteer Firefighters Tax Credit, allows volunteer firefighters who perform at least 200 hours of eligible volunteer firefighting services annually to claim a 15% credit on $3,000, or $450.

Firefighting services include: being on call, and responding to firefighting and related emergency calls; participation in fire-related training; and attending meetings held by the fire department. This credit is not available to individuals who provide other than voluntary services (that is, paid work) to a fire department.

Individuals who choose to receive this credit are not eligible to claim the existing tax exemption for up to $1,000 received from a government, municipal, or public authority for providing emergency services on

a voluntary basis. Taxpayers eligible for this credit should consult their Certified General Accountant if they are uncertain whether the $3,000 tax credit or $1,000 honoraria provides them with the greatest overall benefit.

Newfoundland and Labrador, Nunavut, and Quebec have non-refundable tax credits that match the federal provision. Newfoundland and Labrador's credit is 7.7% on $3,000, or $231. Nunavut's credit is 4% on $538, or $22; Quebec's credit is 16% on $3,000, or $480.

Nova Scotia offers a refundable Volunteer Firefighters and Ground Search and Rescue Tax Credit on $500, at a rate of 8.79%, or $44.

Prince Edward Island introduced a refundable Volunteer Firefighters Tax Credit in 2012, which allows a credit on $500 at a rate of 9.8%, or $49.

First-Time Home Buyers' Credit

There is a federal non-refundable First-Time Home Buyers' Tax Credit (HBTC) for a first-time home buyer who purchases a qualifying home on or after January 28, 2009. They are eligible for a credit of up to 15% on $5,000, or $750.

To qualify, a home buyer or their spouse/common-law partner cannot have owned and lived in another home in the calendar year they make the purchase, or in any of the preceding four years. If they purchase a home in 2012, for example, they must not have owned and lived in a home after 2007. The time and first-home requirements are waived for acquisitions of a home by or on behalf of a taxpayer with a disability who is eligible for the DTC, if the home is purchased for the purpose of providing a more accessible environment or is one better suited for their personal needs.

Any unused portion of a taxpayer's First-Time HBTC may be claimed by their spouse or common-law partner, but the total of all claims cannot exceed the maximum credit of $750.

Saskatchewan has a First-Time Homebuyer's Tax Credit that applies to homes purchased after December 31, 2011. The maximum non-refundable credit is 11% of $10,000, or $1,100. Eligibility rules are similar to the federal program.

British Columbia introduced a temporary First-Time New Home Buyers' Bonus, as a refundable tax credit for first-time home buyers who purchase a newly constructed home in B.C. to serve as their primary residence.

This tax credit is only effective from February 21, 2012 until March 31, 2013; to be eligible qualified individuals must have entered into a written agreement of purchase and sale on or after February 21, 2012.

This credit is calculated as 5% of the purchase price of the home up to a maximum credit of $10,000 (the maximum credit would therefore be claimed on homes worth at least $500,000).

The British Columbia credit is income tested. It is phased out at the rate of 20% of net income in excess of $150,000 for single individuals; for couples, it is phased out at the rate of 10% of family net income in excess of $150,000.

Canada Pension Plan and Employment Insurance Premiums Credits

Individuals who are paying Canada Pension Plan (CPP) and/or Employment Insurance (EI) premiums may claim a 15% federal tax credit, as well as a provincial/territorial tax credit on the amount paid at the rate corresponding to the lowest tax bracket in their jurisdiction.

Self-employed individuals who are paying both the employee and employer portion of CPP premiums may claim a non-refundable credit for one-half the full 9.9% contribution amount — in effect, the employee portion of the CPP (which amounts to 4.95%) — and a deduction from income for the employer's half (also 4.95%).

Self-employed taxpayers have the option of registering to be eligible to participate in the EI program. They can pay premiums related to self-employment income in order to gain access to four types of special benefits, including maternity, parental, sickness, and compassionate care benefits.

In 2012, the maximum federal tax credit available for CPP premiums paid is 15% of $2,307, or $346, (up from $2,218, or $333, in 2011). For EI premiums paid it is 15% of $840, or $126, (up from $787, or $118 in 2011).

In 2012, the maximum annual contribution from employees in Quebec under the QPP is $2,342, based on maximum pensionable earnings of $50,100, less a basic exemption of $3,500, for maximum contributory earnings of $46,600 at a rate of 5.025%. This is up from $2,218, based on maximum contributory earnings of $44,800 at 4.95% in 2011.

The employee portion of Quebec parental insurance plan (QPIP) premiums is assessed at $0.559 per $100 of insurable earnings to a maximum of $66,000, or $369, (up from $0.537 per $100 of insurable earnings to a maximum of $64,000 or $344 in 2011).

Quebec employees pay EI premiums at $1.47 per $100 of insurable earnings to a maximum of $45,900, or $675, (up from $1.41 per $100 of insurable earnings to a maximum of $44,200, or $623 in 2010).

See Appendix I on page 251 for the applicable provincial and territorial rates.

Other Tax Credits

Goods and Services Tax Credit/ Harmonized Sales Tax Credit

Beginning in July 2012, eligible individuals received a goods and services tax (GST)/harmonized sales tax (HST) credit that increased to $260 per adult and $137 per qualified dependent child under age 19, subject to an income test based on family net income. Supplementary GST and HST credits are also available for individuals with no spouse or common-law partner.

For taxpayers without dependants, this supplement is phased in at 2% of net income in excess of $8,439, up to a maximum of $137 (with the total credit being reduced by 5% of family net income in excess of $33,884). Single parents automatically receive the full $137 GST/HST supplement, without any phase-in dependent on income.

The GST/HST credit and supplement are fully indexed for inflation on an annual basis every July 1.

Only one spouse or common-law partner can claim the GST/HST credit on behalf of both spouses and any dependants.

GST/HST credits are paid separately, on a quarterly basis, in July, October, January, and April. When the total credit is less than $100, only one annual payment is made, in July.

The GST/HST credit responds to changes in family circumstances, such as the birth of a child, alteration in marital status, or the taxpayer's attaining the age of 19, in the quarter following such an event. In order for CRA to respond expeditiously to the taxpayer's personal changes, however, the relevant information must be relayed to the Agency on time.

HST administration is handled by the federal government and credit provisions related to the HST in New Brunswick, Nova Scotia, Newfoundland and Labrador, Ontario, and British Columbia are very similar to those of the GST.

tax tips

You must file an income tax return in order to be eligible to receive the GST/HST credit.

Claim $260 (rather than $137) for an eligible dependant.

Political Contribution Tax Credit

Contributions to a registered federal political party or a candidate in a federal election are eligible for a tax credit against federal income tax payable in the year the contribution was made, provided they are supported by valid receipts.

The federal tax credit calculation takes into account:

- three-quarters of the first $400; plus
- one-half of the next $350; and
- one-third of contributions between $750 and $1,275.

Thus, the maximum allowable tax credit of $650 is reached as a result of a political contribution totalling at least $1,275.

Similar provisions are also available for all provinces and territories, although each jurisdiction has a separate calculation for its respective tax credit.

tax tip

To maximize the political contribution tax credit, consider spreading contributions over several years if you wish to donate more than the maximum allowable annual amount for tax purposes.

Foreign Tax Credit

Canadian residents are taxable in Canada on world income from all sources. Income from foreign jurisdictions may also be subject to tax in that jurisdiction.

Foreign tax paid may be claimed as a foreign tax credit against Canadian taxes, subject to limitations. Foreign income that is exempt from tax in a foreign jurisdiction pursuant to, say, a tax treaty, might not be included in the foreign income base for purposes of the tax credit calculation. Although this income may be exempt in a foreign jurisdiction; it must still be included in the taxpayer's world income for Canadian tax purposes.

The onus is on Canadian residents who receive income from foreign sources to ensure that any tax withheld from their pay pursuant to a tax treaty currently in effect between Canada and that country is withheld in the correct amount and percentage.

A separate credit calculation is required for both business and non-business income of each source country. Using Form T1135, *Foreign Income Verification Statement*, taxpayers are also required to annually report specified foreign assets whose total cost exceeded $100,000 at any time during the previous taxation year.

Social security taxes paid to a foreign government are not eligible for Canadian foreign tax credits, with the exception of certain taxes paid in the United States that are covered by provisions in the *Canada-United States Income Tax Convention*.

Overseas Employment Tax Credit

A Canadian resident who performs substantially all employment duties outside of Canada in the course of a taxation year while an employee of a specified employer to whom they are at arm's length (also usually a resident of Canada), or sub-contractor thereof, may qualify for the overseas employment tax credit (OETC).

Specified employers must carry on business in the same country where employees, including professional, administrative, and other support staff, perform their duties. Such jobs are generally held in connection with an overseas natural resource, construction, installation, agricultural, or engineering project, and may also include overseas academic/training positions in support of such endeavours.

This credit potentially shelters from federal tax up to 80% of overseas employment income — including salary, wages, and other remuneration like gratuities, taxable benefits, and stock options — netted off by a reasonable proportion of allowable employment deductions, to a maximum of $100,000 (that is, sheltering up to $80,000).

In 2012, provincial and territorial residents may deduct a certain percentage of the federal OETC, as follows:

Alberta:	35.00%
British Columbia:	Expressed as a variable percentage of provincial tax divided by federal tax, with both figures being calculated before taking into account the OETC.
Manitoba:	50.00%
New Brunswick:	57.00%

Newfoundland and Labrador:	51.30%
Northwest Territories:	45.00%
Nova Scotia:	57.50%
Nunavut:	45.00%
Ontario:	38.50%
Prince Edward Island:	57.50%
Quebec:	An individual residing in Quebec who performs almost all of their duties pertaining to their employment outside Canada for a period of at least 30 consecutive days may take advantage of a foreign employment deduction in calculating their taxable income, of up to 100% of basic salary and allowances. Not based on a percentage of the federal OETC. Special qualifying rules apply.
Saskatchewan:	50.00%
Yukon:	44.00%

To qualify for the OETC, CRA specifies that the taxpayer must work overseas for at least six consecutive months, either in one calendar year or overlapping the previous or next year; however, a 2002 court decision (Rooke) also ruled that, as long as the taxpayer performed all or substantially all of the work outside Canada over the course of a particular taxation year, they would be entitled to the deduction.

"All or substantially all" generally refers to at least 90% of the employee's income being derived from eligible activities during the qualifying period for the OETC.

During this period the taxpayer can still take leave for vacation time and other activities, such as returning to Canada to meet with their employer and/or work briefly here, without prejudicing their status in terms of qualifying for the OETC — provided they continue to perform a substantial amount of their employment duties outside Canada.

An individual who would otherwise be employed by a foreign company, but instead incorporates a Canadian company, which in turn contracts with the foreign company to provide services, cannot claim this amount. This credit is also disallowed if the Canadian company does not employ more than five full-time employees (that is, five full-time employees, plus at least one part-time employee) and the taxpayer is a specified shareholder, or is related to a specified shareholder, who owns at least 10% of the shares together with non-arm's-length parties of the business.

An amendment to this provision of the *Income Tax Act* has been proposed whereby at least 10% of the qualified employer's shares, or the value of any partnership interests, must be held by persons resident in Canada.

CRA recognizes the Government of Canada as a specified employer. Therefore, federal government employees might qualify for the OETC if employed overseas as the result of a government contract, although services provided under a prescribed international development assistance program by the federal government are excluded.

Activities performed under contract with the United Nations might qualify taxpayers for an OETC credit.

Income used by the taxpayer to calculate the OETC may not be used in the calculation of the foreign tax credit.

The 2012 Federal Budget proposed to phase out the OETC over a four-year period, beginning in 2013. The factor applied to an employee's qualifying foreign employment income in determining the OETC will reduce from 80% to 60% in 2013; to 40% in 2014; to 20% in 2015; and be eliminated in 2016.

Some qualified projects or activities committed to in writing prior to March 29, 2012, might not be subject to the reduced percentage phase-out, but will also eliminate by 2016.

Scientific Research and Experimental Development Tax Credit

Generous tax incentives exist to encourage investment in certain research and development (R&D) activities. A scientific research and experimental development investment tax credit (SR&ED ITC) is, for instance, available on qualified capital and current expenditures. This SR&ED ITC can reduce tax payable and/or result in a cash refund.

The SR&ED ITC must generally relate to activity directed towards a scientific and/or technological advancement.

CCPCs may be eligible for SR&ED ITCs at a rate of 35% on the first $3 million of annual eligible expenditures and 20% thereafter (although the $3 million expenditure limit might be reduced as taxable income for the previous taxation year rises above $500,000, and as taxable capital of the previous year exceeds $10 million). Other Canadian companies, along with individuals, may be eligible for SR&ED ITCs at a rate of 20%. SR&ED ITC eligible activities must be business-related and carried on in Canada; this could also include areas considered part of the country's exclusive economic zone, including its airspace, seabed, or subsoil.

The upper limit for the $3 million ITC phase-out is $800,000 of taxable income; and $50 million of taxable capital pertaining to the previous year.

It was announced in the 2012 Federal Budget that the basic tax credit rate on qualified expenditures will reduce from 20% to 15% on January 1, 2014, with a prorating to occur for taxation years that straddle the calendar year end. The 35% rate on the first $3 million of annual eligible expenditures for CCPCs will remain.

Also effective in 2014, expenditures of a capital nature will be excluded from the SR&ED calculation.

Investment tax credits can be carried back up to 3 years and carried forward up to 20 years for losses incurred and credits earned.

To apply for a claim to this credit, businesses and individuals must complete Form T661, *Scientific Research and Experimental Development (SR&ED) Expenditures Claim*. Individuals must also complete Form T2038 (IND), *Investment Tax Credit (Individuals)*, while corporations must complete Form T2SCH31, *Investment Tax Credit — Corporations*.

SR&ED claims must be filed within 12 months of the filing due date of the taxpayer's income tax return.

Several provincial and at least one territorial jurisdiction (Yukon) offer R&D tax credit programs related to the SR&ED ITC credit.

Consult your Certified General Accountant to see if and how this credit might apply to certain activities and expenditures related to your business.

tax tips

Keep a detailed record of your SR&ED work. The tax courts tend to favour a meticulous approach towards documenting various steps, results, and conclusions to prove the work is attempting to provide a scientific and/or technological advancement.

Carefully monitor the use of related materials that comprise a portion of your SR&ED ITC. Such costs are permitted in the ITC calculation only to the extent they are actually applied in the research and development process, as opposed to some other commercial use.

You need not have incurred the SR&ED expenditures during the same year in which a related deduction is claimed.

The salary of a Canadian who is engaged in SR&ED activities outside the country, but which supports eligible activities within Canada, might also constitute an eligible SR&ED expenditure.

Because the opportunity for a SR&ED ITC will generally be lost if the claim is not filed on time, it is a good idea for businesses or individuals that wish to make a claim to do so well in advance of the final due date. It is best to provide CRA with enough time to review the claim and confirm that everything required has been received. CRA says a claim filed "at least 90 days before the reporting deadline" will provide sufficient time for them to review it and advise the claimant of any deficiencies in advance of the deadline.

Additional Tax Considerations

Canada Child Tax Benefit

The Canada Child Tax Benefit (CCTB) is an income-tested benefit with two components: the CCTB base benefit for low- and middle-income families and the National Child Benefit (NCB) supplement for low-income families. It involves a monthly non-taxable payment made to a custodial parent of children under the age of 18.

The CCTB and NCB supplement are both fully indexed for inflation on an annual basis every July 1.

The base value of the CCTB stands at $1,405 beginning July 2012 (up from $1,367), with a $98 supplement (up from $95) added for a third and subsequent qualified child.

The CCTB benefit begins to be phased out at 2% of family net income above $42,707 (up from $41,544 in 2011) for one dependent child, and 4% of family net income above that threshold for two or more children.

Effective July 2012, the NCB supplement increased to $2,177 for the first child, $1,926 for the second child, and $1,832 for each subsequent child (from $2,118, $1,873, and $1,782 respectively). The NCB supplement begins to reduce as net family income rises above $24,863 (up from $24,183).

As a result of the above changes, maximum annual combined CCTB benefits and NCB supplements increased to $3,582 for the first child, $3,331 for the second child, and $3,335 for additional children (from $3,485 for the first child, $3,240 for the second child, and $3,244 for each subsequent child).

The threshold level of net family income at which the NCB supplement is fully phased out has increased to $42,707 (from $41,544).

Both spouses/common-law partners who are living together must file an income tax return in order for one of them to receive the CCTB and NCB supplement.

Related child benefit amounts for Alberta, British Columbia, New Brunswick, Newfoundland and Labrador, Northwest Territories, Nova Scotia, Nunavut, Ontario, and Yukon are also administered by CRA.

Parents who are separated or divorced might each be eligible to receive a portion of the annual CCTB allotment on behalf of their dependant children if they share custody or even if the non-custodial parent temporarily resides with the children for at least one month during the year. The parent with whom the child resided on the first day of a month is generally considered to be responsible for their care and upbringing and therefore eligible for the benefit in that particular month.

Special rules might apply to certain situations involving foster parents.

See also see Appendix II on page 281.

Child Disability Benefit

The federal government offers a Child Disability Benefit (CDB). Effective July 1, 2012, it provides parents of children that have a disability with a supplement to the CCTB of up to $2,575 annually (up from $2,504 for the previous 12 months) per qualified child. In order to be eligible to receive this credit, their child must have a medical condition that qualifies them for the DTC.

The full $2,575 benefit for the first eligible child is phased out at 2% of family income in excess of the NCB supplement threshold limit of $42,707 (up from $41,544 for the previous 12 months). Thus, families who have one child who qualifies for both the full NCB supplement and CDB will receive a total annual CCTB benefit of $6,157 on behalf of that child for the 12 months beginning July 1, 2012.

The CDB is eliminated completely when the net income of a family responsible for one child that has a disability reaches $171,457. That limit will be higher if more children with a disability are being cared for.

The CDB may also be claimed with respect to certain dependants, provided they don't require the credit to reduce their own tax liability after claiming personal, age, pension credits, and any credits relative to EI and CPP premiums paid.

The list of relatives to whom the unused portion of an individual's Disability Tax Credit may be transferred under certain circumstances includes a parent, grandparent, child, grandchild, brother, sister, aunt, uncle, nephew, or niece of that individual or their spouse/common-law partner, provided the individual with a disability is living with the supporting person and is at least partially dependent on them.

Universal Child Care Benefit

The federal government offers Canadians a Universal Child Care Benefit (UCCB). The UCCB provides all families in Canada with $100 per month, or $1,200 per year, for each child under the age of six. It is taxable in the hands of the lower-income spouse or common-law partner

in families with two spouses or partners, or in the hands of the single taxpayer in families without two spouses or partners.

Single parents have the option of including UCCB payments in their own income, or alternatively as income of the dependant for whom an Eligible Dependant Credit is claimed; or if unable to claim such a credit, in the income of a child for whom the UCCB is received. This option is designed to ensure that single parents are not disadvantaged by their family status, by providing tax treatment comparable to single earners in two-parent families.

Amounts received under the UCCB will not adversely affect income-tested federal benefits receivable such as old age security (OAS) or EI.

Families with eligible children that already receive the CCTB automatically receive the UCCB benefit. Those that do not will have to apply to CRA.

Working Income Tax Benefit

In 2012, the refundable Working Income Tax Benefit (WITB) provides up to $970 for individual taxpayers 19 or over without dependants, whose earned income exceeds $3,000. This credit is reduced by 15% of net family income in excess of $11,011, which would fully eliminate this benefit at net family income of $17,478. The WITB is $1,762 for families, including couples or single parents 19 or over, with earned income in excess of $3,000, reduced by 15% of net family income in excess of $15,205, which would eliminate this benefit at $26,952.

The WITB is calculated at the rate of 25% of each dollar of earned income in excess of $3,000, reaching a maximum benefit at $6,880 of earned income for individuals and $10,048 of earned income for families.

Individuals who are not classified as dependants, who are eligible for the DTC, and who have at least $1,150 in earned income will also receive an additional disability supplement that will provide up to a maximum credit of $485. This disability supplement is reduced by 15% of net

family income in excess of $17,478 for single individuals and $26,950 for families, which would fully eliminate this benefit at net family income of $20,711 for single taxpayers and $30,183 for families.

Full-time students with no dependants are not eligible for this WITB.

The amounts for both the WITB and WITB supplement vary for residents of Alberta, British Columbia, Nunavut, and Quebec.

Old Age Security

The old age security (OAS) pension is available to most Canadians when they reach age 65. The maximum OAS pension amount payable in 2012 is approximately $6,500. However, a clawback provision reduces OAS pensions for individuals with net income exceeding $69,562. The clawback rate of 15% eliminates the entire OAS benefit at approximately $112,900 of net income.

The government announced in its 2012 Federal Budget that, beginning on July 1, 2013, individuals who are eligible for the OAS pension may elect to defer receiving OAS for up to five years, in return for a higher annual pension. Their pension will increase by 0.6% per month of deferral, or 7.2% annually.

The budget also announced a significant long-term change in the age of eligibility for OAS and the guaranteed income supplement (GIS — see stanza below), increasing from 65 to 67, beginning in 2023 and ending in 2029. This phase-in of a higher age for eligibility will only affect individuals who were under 54 as of March 31, 2012.

See the Service Canada website at www.servicecanada.gc.ca for a complete description of eligibility requirements.

Guaranteed Income Supplement

The guaranteed income supplement (GIS) is paid to individuals age 65 or over who qualify based on low income. GIS receipts are included in

net income, affecting tax calculations, although an offsetting deduction allows individuals to exclude GIS benefits from taxable income. You must apply for GIS annually, in a separate application from your tax return. Contact Service Canada at 1-800-277-9914 to inquire about eligibility and the application process.

Alternative Minimum Tax

Individuals are generally subject to alternative minimum tax (AMT) in situations where the AMT exceeds ordinary taxes payable. AMT is computed on adjusted taxable income in excess of $40,000 at the lowest federal tax rate of 15% in 2012 (with credits allowed for certain personal amounts), plus the applicable 2012 provincial/territorial tax, as follows:

Alberta	35.00%
British Columbia	33.70%
Manitoba	50.00%
New Brunswick	57.00%
Newfoundland and Labrador	51.30%
Northwest Territories	45.00%
Nova Scotia	57.50%
Nunavut	45.00%
Ontario	33.67%
Prince Edward Island	57.50%
Quebec	16.00%, based on provincial AMT rules that provide for a basic exemption of $40,000 to be applied against adjusted taxable income for some individuals. Special rules apply.
Saskatchewan	50.00%
Yukon	44.00%

Taxpayers may be liable to pay AMT if the following items are on their tax return:

- taxable dividends
- a federal political contribution

- the overseas employment tax credit
- a labour-sponsored fund tax credit
- taxable capital gains
- a loss from a multiple-unit residential building (MURB) or certified film where CCA is taken
- net losses from resource properties
- a logging tax credit
- employee stock options or share deductions
- an employee home relocation deduction
- any losses or carrying charges arising from limited partnerships or investments identified as tax shelters

AMT paid in excess of ordinary tax in one year is eligible to be carried forward seven years and deducted against tax payable in excess of the AMT liability in future years.

An individual who makes quarterly tax instalments is required to take the AMT into account for the purpose of determining instalments payable. This minimum tax is not applicable in the year of death.

Check with your Certified General Accountant if you think AMT might apply in your situation.

Foreign Pensions

Individuals who reside in Canada must normally pay Canadian tax on any pension income received from a foreign country when it, in combination with other eligible sources of pension income exceeds the Canadian equivalent of $2,000 federally. In the provinces and territories, the base deduction varies between $1,000 and $2,000 (in Alberta, Nova Scotia, Ontario, and Quebec these amounts are indexed). See page 208. Certain deductions may be allowed to avoid double taxation with the host country as determined by the existence of any tax conventions between Canada and that other country. Other conditions might also apply. For instance, Canada's tax agreement with Germany stipulates that social security benefits cannot be taxed more in the receiving country than had the recipient resided in the paying country.

Canada has tax conventions with about 100 countries around the world. These agreements detail the appropriate tax treatment for a variety of issues that may arise when taxpayers have ties to Canada and another nation. Taxpayers with ties to another nation who have questions about their tax status, and potential remedies available to them should there be a dispute, should consult their Certified General Accountant.

United States Filing Requirements

The United States imposes tax and/or filing requirements on Canadians in certain circumstances. Canadians who are considered residents for U.S. income tax purposes are subject to U.S. tax on their world income.

U.S. residency is determined on the basis of either immigration status or physical presence. The substantial presence test uses a formula taking into account the number of days individuals are present in the country during the current year, along with a fraction of the days they were present during the two preceding years.

Canadians who are considered U.S. residents under the substantial presence test, but who are not in the United States for more than 182 days during the year, can avoid being considered residents for tax purposes by filing a closer connection statement. To qualify, individuals must show that closer connections to Canada exist, substantiated by the location of a permanent home or business establishment/employment, as well as factors such as family and other social relationships.

Even taxpayers who maintain significant residential ties to the United States or another country — including possibly holding citizenship in that jurisdiction — might still be considered to be Canadian residents for tax purposes, depending on a number of factors. These include their length of stay in Canada (whether it is for a substantial period of time, or is occasional or intermittent, for instance), physical and/or financial property owned, maintenance of health coverage, driver's licence, social insurance number, existence of a bank account, and personal or business connections here.

The *Canada-United States Tax Treaty* determines residency for U.S. tax purposes for Canadians who are present in the United States in excess of 182 days. Taxpayers with dual citizenship in both Canada and the United States may also be subject to special rules. In certain instances, an apportionment of income earned in both countries might be required.

Complex taxation rules might also apply in situations where an individual is moving from one country to the other.

Check with your Certified General Accountant to determine your income tax filing requirements if you have ties to both countries and may therefore have obligations to both CRA and the U.S. Internal Revenue Service (IRS). IRS has recently announced specific new filing requirements for U.S. citizens living abroad.

tax tips

The international location of a permanent home or business establishment will significantly affect both personal and corporate taxes. Therefore, a tax accountant and/or lawyer should be consulted if there is any ambiguity in this area.

An increasing number of Canadians own vacation property in the United States. Several complex tax issues, including estate-related matters, could result on both sides of the border, depending on factors such as joint ownership with a spouse and/or others (that is, time sharing), especially if there is any commercial use associated with that property. Consult your Certified General Accountant to sort out these matters.

Instalments

Instalments are required from self-employed taxpayers, or those whose taxes have not otherwise been withheld by their employer, if the difference between tax payable and amounts withheld at source is greater than $3,000 ($1,800 for residents of Quebec) in both the current and either of the two preceding years (for farmers and fishers, both of the two preceding years).

Quarterly instalments are due on the 15th of March, June, September, and December (for farmers and fishers, one instalment only is due on December 31).

The total required instalment amount is equal to the preceding year's tax payable or estimated current year's tax payable, if lower. (For farmers and fishers, the instalment payable is two-thirds of this amount.)

CRA sends instalment reminders based on a formula, with the first two instalments based on half of the second preceding year's net tax payable plus CPP contributions payable; and the last two instalments based on the preceding year's net tax payable and CPP (minus the first two instalments already paid during the current year). Alternatively, taxpayers may choose to pay all four instalments on the basis of the preceding year's net tax payable if they feel that is more advantageous.

Interest is compounded daily and charged on late or deficient instalments at a prescribed rate (refer to Appendix VI, page 303, as well as Appendix VII, page 307). If the interest on deficient instalments is more than $1,000, an additional penalty of 50% on that excess may apply. If instalments are paid according to CRA's instalment reminders, no liability for interest or penalty will be assessed.

tax tip

If your instalment has been late or deficient in the past, consider prepaying or overpaying future instalments. CRA will offset interest on early or excess instalments against interest charged for the same year (although interest on any net balance will not be paid).

Penalties and Interest Charges on Overdue Taxes

Individual taxpayers who do not file their returns by April 30 of the subsequent year (June 15 if they or their spouse or common-law partner have self-employed income) may be required to pay a late-filing penalty. This penalty is 5% of the balance owing, plus 1% for each month

the return is late, up to a maximum of 12 months (with a maximum potential penalty of 17%).

An additional penalty applies when returns are filed late and taxpayers have already received a late-filing penalty during any of the three preceding years. This repeater penalty is equal to 10% of the tax owing at the due date plus 2% each month the return is late, up to 20 months (and a maximum potential penalty of 50%).

Interest is charged on unpaid tax and penalties from the due date. Where there is self-employment income, the due date of the tax return is deferred to June 15; however, the balance of tax remains due on April 30 and interest will be charged on any balance owing from that date. This interest, charged at a prescribed rate, is compounded daily (refer to Appendix VI, page 303, as well as Appendix VII, page 307). Penalties and interest paid are not tax deductible.

Interest received from CRA for overpayments is taxable in the year of receipt.

tax tips

To avoid penalties, file your return on time even if you are unable to pay the tax balance due.

Even if you have your return prepared by a tax professional, you still need to conduct due diligence and review their work the best you can before signing off, as you may ultimately be liable for penalties and interest as a result of errors.

Notice of Objection

Taxpayers who disagree with the assessment they receive on their income tax return can formally object to the findings by writing to the Chief of Appeals at their Tax Services Office or Tax Centre. Alternatively, they can fill out Form T400A, *Objection — Income Tax Act*. The time limit for individual taxpayers to file this objection is the later of 90 days after the mailing date of the Notice of Assessment or one year after the taxpayer's

filing due date (accompanied by a written application, made on a timely basis, to CRA).

For GST/HST objections, taxpayers can complete and mail *Form* GST159, *Notice of Objection (GST/HST)* to the Chief of Appeals at their Tax Services Office. This must be done within 90 days of the mailing of their Notice of Assessment or Notice of Determination. Taxpayers who wish to file a Notice of Objection with respect to a CRA assessment must do so in writing, providing all relevant details. It is also vitally important that the taxpayer adhere to all deadlines established by CRA.

The Tax Court of Canada (TCC) is the first judicial level to which a tax dispute can be taken. Subsequent appeals of a TCC judgment must then be made to the Federal Court of Appeal (FCA) within 30 days of the decision being announced (excluding July and August). The final potential spot to resolve a dispute is with the Supreme Court of Canada; however, the Supreme Court must first approve the cases it hears and in practice only a small percentage of applications will be allowed to present to the nation's highest court.

Information about taxpayer objection and appeal rights is also online: see document P148, entitled *Resolving Your Dispute: Objections and Appeal Rights under the Income Tax Act*, available in English at www.cra-arc.gc.ca/E/pub/tg/p148/README.html and in French at www.cra-arc.gc.ca/F/pub/tg/p148/.

tax tip

Taxpayers who wish to file a Notice of Objection with respect to a CRA assessment must do so in writing, providing all relevant details. It is also vitally important that the taxpayer adheres to all deadlines established by CRA.

Taxpayer Relief Provisions

This series of legislation, previously known as the Fairness Package, allows CRA to use discretion under certain circumstances in the following areas:

- with respect to the acceptance of late, amended, or revoked elections
- to waive or cancel part or all of a penalty or interest where taxpayers have not complied with a requirement under the *Income Tax Act* or applicable regulation because of extraordinary circumstances beyond their control, such as a personal situation like a serious illness, or a natural disaster like a severe weather-related event
- to reassess or make a redetermination on an income tax return to give a refund, or to apply a refund against amounts owing beyond the normal three-year period

Details are outlined in CRA Information Circular IC07-1, *Taxpayer Relief Provisions*, which replaces and consolidates the information in previous information circulars IC92-1, 92-2, and 92-3. This can be found in English at www.cra-arc.gc.ca/E/pub/tp/ic07-1/README.html and in French at www.cra-arc.gc.ca/F/pub/tp/ic07-1.

The period in which a taxpayer may make a request to CRA for relief under the above provisions has traditionally been limited to 10 years from the end of the calendar year corresponding to the tax year or fiscal period in question. However, a 2011 decision by the Federal Court of Appeal (Bozzer) supported a broadening of the definition of this 10-year limitation to include annual interest accruals originating from the underlying tax debt, which CRA has changed its policy to reflect.

(It is important to note that this 10-year limitation does not apply to any other non-relief requests, such as filing a Notice of Objection, to which taxpayers must adhere to strict CRA deadlines.)

Taxpayers can make their requests in writing to a district office or taxation centre with all relevant information, including their name, address, social insurance number, the applicable taxation year(s), and documents to support the application, including records of dates, times, and names of people from whom information was received. If they believe the agency has not exercised its discretion in a fair and reasonable

manner, they may request — in writing — that the director of the district office or taxation centre review their situation.

The CRA website contains a link to CRA's voluntary disclosures program (VDP) in English at www.cra-arc.gc.ca/gncy/nvstgtns/vdp-eng.html, and in French at www.cra-arc.gc.ca/gncy/nvstgtns/vdp-fra.html. This site provides a description of the VDP, including the obligations of the taxpayer, and the circumstances upon which relief from penalty and prosecution under the VDP may be considered. It also links to documents, such as CRA's Information Circular IC001R2, that describe in more detail how the VDP operates.

tax tips

Relief provisions might apply to certain areas in Canada when a natural disaster affects taxpayers' ability to file their returns on time. In 2008, for instance, CRA provided relief with respect to penalties and interest for certain New Brunswick residents who were affected by flooding around the April 30 deadline.

Electronic financial records, preferably along with backup, must be retained for audit purposes, even if you have already printed off hard copies of such documents. Check with CRA or your Certified General Accountant regarding the appropriate minimum retention period for your tax records in order to help maintain an efficient and comprehensive record retention system.

Tax Alert Initiative

CRA's Tax Alert Initiative is online in English at www.cra-arc.gc.ca/gncy/lrt/menu-eng.html and in French at www.cra-arc.gc.ca/gncy/lrt/menu-fra.html. This program offers concentrated information on a variety of tax-related topics, including unsavoury tax-avoidance schemes; the serious consequences associated with tax evasion; tax shelters and havens; and a description of how the underground economy hurts Canadians.

The website also contains tips on how to become an informed donor to charities; information about how CRA conducts audits and investigations, including what taxpayers need to know if they are being audited; and a description of fairness and taxpayer rights, among a multitude of other topics.

Taxpayer Bill of Rights

CRA and the federal Department of Finance have released a Taxpayer Bill of Rights, which includes 15 rights about issues ranging from service, privacy, and procedures dealing with tax disputes, among others, to an additional five commitments to small businesses in Canada.

The establishment of a Taxpayers' Ombudsman to "operate independently and at arm's length from CRA" was also announced. Among other duties, the mandate of this office is to "conduct impartial and independent reviews of service-related complaints about CRA."

Details about both the Taxpayer Bill of Rights and Taxpayers' Ombudsman are available in English at www.cra-arc.gc.ca/menu-e.html and in French at www.cra-arc.gc.ca/menu-fra.html.

Other CRA Tax Services

CRA also provides an online service called My Account, which is accessible through the main site. This allows individuals to access their personal income tax-related information. They can access this site by providing their date of birth, social insurance number, income from their tax return, and special web-access username and password.

An online service, entitled My Payment, has also been established. This allows individuals to make tax remittances directly from their account at participating financial institutions. This site is accessible in English at www.cra-arc.gc.ca/mypayment/ and in French at www.cra-arc.gc.ca/esrvc-srvce/tx/mypymnt/menu-fra.html.

tax tip

Taxpayers who would like to authorize a third party, such as another family member or a professional financial advisor like a Certified General Accountant, to deal with CRA on their behalf, including online, can do so by completing Form T1013, *Authorizing or Cancelling a Representative*. They can log on in English to www.cra-arc.gc.ca/E/pbg/tf/t1013/README.html and in French to www.cra-arc.gc.ca/F/pbg/tf/t1013/.

Estate Planning

An individual is deemed to have disposed of all assets owned, at FMV, on their date of death. Estate planning can minimize tax consequences at death by implementing specific tax-deferral measures in advance. Such measures include inter-spousal rollovers of assets, rollovers to corporations, the creation of family trusts, and estate freezes.

Since estate tax planning is complex and beyond the scope of this tax-planning book, consider seeking professional advice from your Certified General Accountant.

Conclusion

Tax planning is always necessary — particularly under an income tax system such as Canada's that incorporates a progressive rate schedule with rules that allow or disallow specific transactions and courses of action.

Furthermore, new federal and provincial laws and policies are constantly being introduced; these often have a direct effect on specific tax strategies, because new opportunities may arise and old approaches may no longer be appropriate or valid as a result. It is, therefore, incumbent upon taxpayers to remain aware of contemporary tax rules that are applicable to specific actions being contemplated.

For these reasons, it is also a good idea to review any tax-planning proposals with a Certified General Accountant.

Link to Canada Revenue Agency, NETFILE:

Canada Revenue Agency has developed a new and highly secure online personal income tax filing service called NETFILE.

By using NETFILE certified tax preparation software, individuals can file personal income tax returns online. Visit www.netfile.gc.ca to file your return or for more information.

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Appendix I

Personal Tax Credits

Description	Federal Rates		Alberta Rates	
	2012 Federal Amount	Maximum Federal Credit[1]	2012 Provincial Amount	Maximum Provincial Credit[1]
Basic personal	$10,822	$1,623	$17,282	$1,728
Employment	1,095	164	0	0
Spousal or common-law partner [2]	10,822	1,623	17,282	1,728
– reduced by net income over $0 (federally)				
– reduced by net income over $0 (Alberta)				
Eligible dependant [2]	10,822	1,623	17,282	1,728
– reduced by net income over $0 (federally)				
– reduced by net income over $0 (Alberta)				
Age				
– over 64 [3][4]	6,720	1,008	4,816	482
– reduced by net income over $33,884 (federally)				
– reduced by net income over $35,851 (Alberta)				
Disability [5]	7,546	1,132	13,331	1,333
Disability supplement for child under 18 [2]	4,402	660	10,004	1,000
– reduced by child care and attendant care expenses over $2,578 (federally)				
– reduced by child care and attendant care expenses over $2,728 (Alberta)				

Infirm Dependants				
18 and over(2)	6,402^	960	10,004	1,000
– reduced by net income over $6,420 (federally)^				
– reduced by net income over $6,609 (Alberta)				
Caregiver (2)	4,402	660	10,004	1,000
– reduced by net income over $15,033 (federally)				
– reduced by net income over $15,906 (Alberta)				
Adoption	11,440	1,716	11,820	1,182
Child (6) (under 18 years)	2,191	329	0	0
Children's fitness**	500	75	0	0
Children's arts**	500	75	0	0
Eligible medical expenses	each 100	15	100	10
– less 3% of net income to a maximum of $2,109 (federally) and $2,233 (Alberta)				
Tuition (7)(8)	each 100	15	100	10
Education credit per month of qualified attendance (8)				
– full time	400	60	672*	67
– part time	120	18	202*	20
Textbook credit per month of qualified attendance				
– full time	65	10	0	0
– part time	20	3	0	0
Student loan interest	each 100	15	100	10

Pension income received to a maximum of [4]	2,000	300	1,331*	133
Donations				
– first $200	each 100	15	100	10
– excess [9]	each 100	29	100	21
Public transit pass	each 100	15	100	0
First-time home buyers	5,000	750	0	0
Volunteer firefighters	3,000	450	0	0
CPP (premiums paid) [10]	2,307	346	2,307	231
EI (premiums paid) [11]	840	126	840	84

* Education and pension amounts indexed in Alberta only.

** The federal children's fitness and arts credits double for a child with a disability.

^ Federal amounts for infirm dependants 18 and over include an additional $2,000 component from the family caregiver credit.

Description	British Columbia Rates		Manitoba Rates	
	2012 Provincial Amount	**Maximum Provincial Credit[1]**	**2012 Provincial Amount**	**Maximum Provincial Credit[1]**
Basic personal	$11,354	$575	$8,634	$932
Employment	0	0	0	0
Spousal or common-law partner [2]	9,964	504	8,634	932
– reduced by net income over $996 (British Columbia)				
– reduced by net income over $0 (Manitoba)				
Eligible dependant [2]	9,964	504	8,634	932
– reduced by net income over $996 (British Columbia)				
– reduced by net income over $0 (Manitoba)				
Age				
– over 64 [3][4]	4,356	220	3,728	403
– reduced by net income over $32,424 (British Columbia)				
– reduced by net income over $27,749 (Manitoba)				
Disability [5]	7,285	369	6,180	667
Disability supplement for child under 18 [2]	4,250	215	3,605	389
– reduced by child care and attendant care expenses over $2,468 (British Columbia)				
– reduced by child care and attendant care expenses over $2,112 (Manitoba)				
Infirm Dependants 18 and over[2]	4,250	215	3,605	389
– reduced by net income over $6,770 (British Columbia)				
– reduced by net income over $5,115 (Manitoba)				

Caregiver amount [2]	4,250	215	3,605	389
– reduced by net income over $14,385 (British Columbia)				
– reduced by net income over $12,312 (Manitoba)				
Adoption	11,440	579	10,000	1,080
Child [6] (under 18 years)	0	0	0	0
Children's fitness*	500	25	500**	54
Children's arts*	500	25	500	54
Eligible medical expenses	each 100	5.06	100	10.80
– less 3% of net income to a maximum of $2,020 (British Columbia) and $1,728 (Manitoba)				
Tuition [7][8]	each 100	5.06	100	10.80
Education credit per month of qualified attendance [8]				
– full time	200	10	400	43
– part time	60	3	120	13
Textbook credit per month of qualified attendance				
– full time	0	0	0	0
– part time	0	0	0	0
Student loan interest	each 100	5.06	100	10.80
Pension income received to a maximum of [4]	1,000	51	1,000	108
Donations				
– first $200	each 100	5.06	100	10.80
– excess [9]	each 100	14.70	100	17.40

Public transit pass	each 100	0	100	0
First-time home buyers***	See footnote		0	0
Volunteer firefighters	0	0	0	0
CPP (premiums paid) (10)	2,307	117	2,307	249
EI (premiums paid) (11)	840	43	840	91

* The children's fitness and arts credits double for a child that has a disability in British Columbia and Manitoba.

** Manitoba's fitness credit covers children and young adults up to and including age 24.

*** British Columbia's temporary refundable credit is called the First-Time New Home Buyers' Bonus. In place between February 21, 2012, and March 31, 2013, this credit is worth 5% of the purchase price of a newly constructed home up to a maximum credit of $10,000.

Description	New Brunswick Rates		Newfoundland and Labrador Rates	
	2012 Provincial Amount	**Maximum Provincial Credit**[1]	**2012 Provincial Amount**	**Maximum Provincial Credit**[1]
Basic personal	$9,203	$837	$8,237	$634
Employment	0	0	0	0
Spousal or common-law partner [2]	7,815	711	6,731	518
– reduced by net income over $782 (New Brunswick)				
– reduced by net income over $674 (Newfoundland and Labrador)				
Eligible dependant [2]	7,815	711	6,731	518
– reduced by net income over $782 (New Brunswick)				
– reduced by net income over $674 (Newfoundland and Labrador)				
Age				
– over 64 [3][4]	4,494	409	5,258	405
– reduced by net income over $33,455 (New Brunswick)				
– reduced by net income over $28,814 (Newfoundland and Labrador)				
Disability [5]	7,451	678	5,558	428
Disability supplement for child under 18 [2]	4,346	396	2,616	201
– reduced by child care and attendant care expenses over $2,545 (New Brunswick)				
– reduced by child care and attendant care expenses over $2,223 (Newfoundland and Labrador)				

Infirm Dependants 18 and over [2]	4,347	396	2,616	201
– reduced by net income over $6,167 (New Brunswick)				
– reduced by net income over $5,621 (Newfoundland and Labrador)				
Caregiver [2]	4,346	395	2,615	201
– reduced by net income over $14,844 (New Brunswick)				
– reduced by net income over $12,784 (Newfoundland and Labrador)				
Adoption	0	0	11,116	856
Child [6] (under 18 years)	0	0	7,000*	539
Children's fitness	0	0	0	0
Children's arts	0	0	0	0
Eligible medical expenses	each 100	9.10	100	7.70
– less 3% of net income to a maximum of $2,083 (New Brunswick) and $1,794 (Newfoundland and Labrador)				
Tuition [7][8]	each 100	9.10	100	7.70
Education credit per month of qualified attendance [8]				
– full time	400	36	200	15
– part time	120	11	60	5
Textbook credit per month of qualified attendance				
– full time	0	0	0	0
– part time	0	0	0	0
Student loan interest	each 100	9.10	100	7.70

Pension income received to a maximum of [4]	1,000	91	1,000	77
Donations				
– first $200	each 100	9.10	100	7.70
– excess [9]	each 100	17.95	100	13.30
Public transit pass	each 100	0	100	0
First-time home buyers	0	0	0	0
Volunteer firefighters	0	0	3,000	231
CPP (premiums paid) [10]	2,307	210	2,307	178
EI (premiums paid) [11]	840	76	840	65

* Newfoundland and Labrador's credit covers child care expenses. The maximum amount is $7,000 for children up to age 7, and $4,000 for children between the ages of 7 and 16.

Description	Northwest Territories Rates		Nova Scotia Rates	
	2012 Territorial Amount	**Maximum Territorial Credit[1]**	**2012 Provincial Amount**	**Maximum Provincial Credit[1]**
Basic personal	$13,280	$784	$8,481	$745
Employment	0	0	0	0
Spousal or common-law partner credit [2]	13,280	784	8,481	745
– reduced by net income over $0 (Northwest Territories)				
– reduced by net income over $848 (Nova Scotia)				
Eligible dependant [2]	13,280	784	8,481	745
– reduced by net income over $0 (Northwest Territories)				
– reduced by net income over $848 (Nova Scotia)				
Age				
– over 64 [3][4]	6,496	383	4,141	364
– reduced by net income over $33,884 (Northwest Territories)				
– reduced by net income over $30,828 (Nova Scotia)				
Disability [5]	10,770	635	7,341	645
Disability supplement for child under 18 [2]	4,402	260	3,449	303
– reduced by child care and attendant care expenses over $2,578 (Northwest Territories)				
– reduced by child care and attendant care expenses over $2,346 (Nova Scotia)				

Infirm Dependants				
18 and over[2]	4,402	260	2,798	246
– reduced by net income over $6,246 (Northwest Territories)				
– reduced by net income over $5,683 (Nova Scotia)				
Caregiver [2]	4,402	260	4,898	431
– reduced by net income over $15,033 (Northwest Territories)				
– reduced by net income over $13,677 (Nova Scotia)				
Adoption	0	0	0	0
Child [6] (under 18 years)	0	0	1,200^	105
Children's fitness	0	0	500*	44
Children's arts	0	0	0	0
Eligible medical expenses	each 100	5.90	100	8.79
– less 3% of net income to a maximum of $2,109 (Northwest Territories) and $1,637 (Nova Scotia)				
Tuition [7][8]	each 100	5.90	100	8.79
Education credit per month of qualified attendance [8]				
– full time	400	24	200	18
– part time	120	7	60	5
Textbook credit per month of qualified attendance				
– full time	0	0	0	0
– part time	0	0	0	0
Student loan interest	each 100	5.90	100	8.79

Pension income received to a maximum of (4)	1,000	59	1,173**	103
Donations				
– first $200	each 100	5.90	100	8.79
– excess (9)	each 100	14.05	100	21.00
Public transit pass	each 100	0	100	0
First-time home buyers	0	0	0	0
Volunteer firefighters	0	0	500	44 (refundable)
CPP (premiums paid) (10)	2,307	136	2,307	203
EI (premiums paid) (11)	840	50	840	74

* Nova Scotia's Healthy Living Tax Incentive credit applies to all children less than 18 years of age.

** Pension amount indexed in Nova Scotia

^ Nova Scotia child credit available at $100 a month for each month an eligible child is under 6 years of age at the beginning of that month, to a maximum of $1,200 per year.

Description	Nunavut Rates		Ontario Rates	
	2012 Territorial Amount	**Maximum Territorial Credit[1]**	**2012 Provincial Amount**	**Maximum Provincial Credit[1]**
Basic personal	$12,211	$488	$9,405	$475
Employment	0	0	0	0
Spousal or common-law partner [2]	12,211	488	7,986	403
– reduced by net income over $0 (Nunavut)				
– reduced by net income over $798 (Ontario)				
Eligible dependant [2]	12,211	488	7,986	403
– reduced by net income over $0 (Nunavut)				
– reduced by net income over $798 (Ontario)				
Age				
– over 64 [3][4]	9,158	366	4,592	232
– reduced by net income over $33,884 (Nunavut)				
– reduced by net income over $34,183 (Ontario)				
Disability [5]	12,211	488	7,598	384
Disability supplement for child under 18 [2]	4,402	176	4,432	224
– reduced by child care and attendant care expenses over $2,578 (Nunavut)				
– reduced by child care and attendant care expenses over $2,595 (Ontario)				
Infirm Dependants 18 and over [2]	4,402	176	4,433	224
– reduced by net income over $6,246 (Nunavut)				
– reduced by net income over $6,301 (Ontario)				

Caregiver [2]	4,402	176	4,433	224
– reduced by net income over $15,033 (Nunavut)				
– reduced by net income over $15,165 (Ontario)				
Adoption	0	0	11,474	579
Child [6] (under 18 years)	1,200^	48	0	0
Children's fitness**	0	0	526	53
Children's arts**	0	0	0	0
Eligible medical expenses	each 100	4	100	5.05
– less 3% of net income to a maximum of $2,109 (Nunavut) and $2,128 (Ontario)				
Tuition [7][8]	each 100	4	100	5.05
Education credit per month of qualified attendance [8]				
– full time	400	16	506*	26
– part time	120	5	151*	8
Textbook credit per month of qualified attendance				
– full time	65	3	0	0
– part time	20	1	0	0
Student loan interest	each 100	4	100	5.05
Pension income received to a maximum of [4]	2,000	80	1,300*	66
Donations				
– first $200	each 100	4	100	5.05
– excess [9]	each 100	11.50	100	11.16

Public transit pass	each 100	0	100	0
First-time home buyers	0	0	0	0
Volunteer firefighters	538	22	0	0
CPP (premiums paid) (10)	2,307	92	2,307	116
EI (premiums paid) (11)	840	34	840	42

* Education and pension amounts indexed in Ontario.

** Ontario's refundable Children's Activity Tax Credit of up to 10% of $526, or $53 per child applies to eligible fitness and non-fitness activities. The credit doubles for a child with a disability.

^ Nunavut child credit available up to and including the year in which the child turns six.

Description	Prince Edward Island Rates		Quebec Rates	
	2012 Provincial Amount	**Maximum Provincial Credit**[1]	**2012 Provincial Amount**	**Maximum Provincial Credit**[1]
Basic personal	$7,708	$755	$10,925	$2,185
Employment	0	0	0	0
Spousal or common-law partner [2][12]	6,546	642	N/A	N/A
– reduced by net income over $655 (Prince Edward Island)				
Eligible dependant [2][12]	6,294	617	N/A	N/A
– reduced by net income over $629 (Prince Edward Island)				
Age				
– over 64 [3][4]	3,764	369	2,350	470
– reduced by net income over $28,019 (Prince Edward Island)				
– reduced by net family income over $31,695 (Quebec)				
Disability [5]	6,890	675	2,485	497
Disability supplement for child under 18 [2][12]	4,019	394	N/A	N/A
– reduced by child care and attendant care expenses over $2,354 (Prince Edward Island)				
Infirm Dependants 18 and over [2][12]	2,446	240	N/A	N/A
– reduced by net income over $4,966 (Prince Edward Island)				
Dependants 18 and over**	see above		2,930	586

Caregiver [2]	2,446	240		1,104 (refundable)
– reduced by net income over $11,953 (Prince Edward Island)				
– reduced by net income over $22,075 (Quebec)				
2nd refundable caregiver amount			5,200	1,560
– reduced by 3% of family income over $53,465 (Quebec)				
Adoption	0	0	20,000	10,000* (refundable)
Child (6) (under 18 years)	1,200^	118	0	0
Children's fitness	0	0	0	0
Children's arts	0	0	0	0
Eligible medical expenses	each 100	9.80	100	20
– less 3% of net income to a maximum of $1,678 (Prince Edward Island)				
– less 3% of family income (Quebec)				
Tuition [7][8][12]	each 100	9.80	N/A	N/A
Education credit per month of qualified attendance [8][12]				
– full time	400	39	N/A	N/A
– part time	120	12	N/A	N/A
Textbook credit per month of qualified attendance [12]				
– full time	0	0	N/A	N/A
– part time	0	0	N/A	N/A
Student loan interest	each 100	9.80	100	20

Pension income received				
to a maximum of[4]	1,000	98	2,090	418
– reduced by net family income over $31,695 (Quebec)				
Donations				
– first $200	each 100	9.80	100	20
– excess[9]	each 100	16.70	100	24
Public transit pass	each 100	0	100	0
First-time home buyers	0	0	0	0
Volunteer firefighters	500	49 (refundable)	3,000	480
CPP/QPP				
(premiums paid)[10]	2,307	226	2,342	—
QPIP				
(premiums paid)[10]			369	—
EI				
(premiums paid)[11]	840	82	675	—

* Quebec — credit also available for certain medical treatments for infertility. The refundable credit is equal to 50% of eligible expenses up to $20,000 for a maximum credit of $10,000.

** Quebec — reduced by 80% of the dependant's income, excluding scholarships, fellowships, bursaries, and other awards, with the credit phased out at an income level of $3,663.

^ PEI child credit available at $100 a month for each month an eligible child is under 6 years of age at the beginning of that month, to a maximum of $1,200 per year.

Description	Saskatchewan Rates		Yukon Rates	
	2012 Provincial Amount	**Maximum Provincial Credit[1]**	**2012 Territorial Amount**	**Maximum Territorial Credit[1]**
Basic personal	$14,942	$1,644	$10,822	$762
Employment	0	0	1,095	77
Spousal or common-law partner [2] – reduced by net income over $1,495 (Saskatchewan) – reduced by net income over $0 (Yukon)	14,942	1,644	10,822	762
Eligible dependant [2] – reduced by net income over $1,495 (Saskatchewan) – reduced by net income over $0 (Yukon)	14,942	1,644	10,822	762
Age – over 64 [3][4] – reduced by net income over $33,884 (Saskatchewan) – reduced by net income over $33,884 (Yukon)	4,552	501	6,720	473
Senior supplement – over age 64	1,202	132	N/A	N/A
Disability [5]	8,803	968	7,546	531
Disability supplement for child under 18 [2] – reduced by child care and attendant care expenses over $2,579 (Saskatchewan) – reduced by child care and attendant care expenses over $2,578 (Yukon)	8,803	968	4,402	310

Infirm Dependants 18 and over (2)	8,803	968	6,402^	451
– reduced by net income over $6,246 (Saskatchewan)				
– reduced by net income over $6,420 (Yukon)^				
Caregiver (2)	8,803	968	4,402	310
– reduced by net income over $15,034 (Saskatchewan)				
– reduced by net income over $15,033 (Yukon)				
Adoption	0	0	11,440	805
Child* (6)	5,668 (under 19 years)	623	2,191 (under 18 years)	154
Children's fitness**	See footnote		500	35
Children's arts	0	0	0	0
Eligible medical expenses	each 100	11	100	7.04
– less 3% of net income to a maximum of $2,109 (Saskatchewan) and $2,109 (Yukon)				
Tuition (7)(8)	each 100	11	100	7.04
Education credit per month of qualified attendance (8)				
– full time	400	44	400	28
– part time	120	13	120	8
Textbook credit per month of qualified attendance				
– full time	0	0	65	5
– part time	0	0	20	1
Student loan interest	each 100	11	100	7.04

Pension income received to a maximum of[4]	1,000	110	2,000	141
Donations				
– first $200	each 100	11	100	7.04
– excess[9]	each 100	15	100	12.76
Public transit pass	each 100	0	100	7.04
First-time home buyers	10,000	1,100	0	0
Volunteer firefighters	0	0	0	0
CPP (premiums paid)[10]	2,307	254	2,307	162
EI (premiums paid)[11]	840	92	840	59

* Saskatchewan's child credit applies to children under the age of 19; Yukon's is for children under 18 — the same age limit as the federal child credit.

** Saskatchewan offers a refundable credit of up to $150 per child, called the Active Families Benefit, for the parent or legal guardian of a child under age 18 or who turns 18 during the tax year, who participates in various eligible cultural, recreational, or sporting activities.

** Yukon's children's fitness credit doubles for a child with a disability.

^ Yukon amounts for infirm dependants 18 and over include an additional $2,000 component from the family caregiver credit.

(1) Federal credits are calculated at 15% of gross amount, except donations over $200, which are calculated at 29%. Provincial/territorial credits are calculated at the lowest tax bracket rate, except for donations over $200, whose totals are calculated at the highest tax bracket rate in that jurisdiction (see Appendix III, page 283 for rates).

Both credits apply to reduce basic tax, before surtaxes, and have a higher real value if surtaxes otherwise apply.

(2) Where the dependant's net income is in excess of the indicated threshold, the excess decreases the gross amount for the purpose of calculating the credit.

The federal portion of the spousal or common-law partner and eligible dependant credits is eliminated when net income reaches $10,822. If the $2,000 family caregiver tax credit amount is applied to the spousal/common-law partner or eligible dependant credits, that ceiling is increased to $12,822. The provincial/territorial portion of these credits is eliminated when net income reaches the following amounts:

– Alberta: $17,282
– British Columbia: $10,960
– Manitoba: $8,634
– New Brunswick: $8,597
– Newfoundland and Labrador: $7,405
– Northwest Territories: $13,280
– Nova Scotia: $9,329
– Nunavut: $12,211
– Ontario: $8,784
– Prince Edward Island: $7,201 (spousal only); $6,923 for eligible dependant
– Quebec: N/A
– Saskatchewan: $16,437
– Yukon: $10,822

For Yukon, if the $2,000 family caregiver credit amount is applied to the spousal or eligible dependant credits, that ceiling is increased to $12,822.

The federal portion of the disability supplement for children under 18 is eliminated when child care and attendant care expenses reach $6,980. The provincial/territorial portion of this credit is eliminated when net income reaches the following amounts:

– Alberta: $12,732
– British Columbia: $6,718
– Manitoba: $5,717
– New Brunswick: $6,891
– Newfoundland and Labrador: $4,839
– Northwest Territories: $6,980
– Nova Scotia: $5,795
– Nunavut: $6,980
– Ontario: $7,027
– Prince Edward Island: $6,373
– Quebec: N/A
– Saskatchewan: $11,382
– Yukon: $6,980

The federal portion of the infirm dependant credit is eliminated when net income reaches $12,822. The provincial/territorial portion of this credit is eliminated when net income reaches the following amounts:

– Alberta: $16,613
– British Columbia: $11,020
– Manitoba: $8,720
– New Brunswick: $10,514
– Newfoundland and Labrador: $8,237
– Northwest Territories: $10,648
– Nova Scotia: $8,481
– Nunavut: $10,648
– Ontario: $10,734
– Prince Edward Island: $7,412
– Quebec: N/A
– Saskatchewan: $15,049
– Yukon: $12,822

With the caregiver amount, the federal credit is eliminated when net income reaches $19,435. If the $2,000 family caregiver tax credit amount is applied to the caregiver credit, that credit is eliminated when net income reaches $21,435. The provincial/territorial portion is eliminated when net income reaches the following amounts:

- Alberta: $25,910
- British Columbia: $18,635
- Manitoba: $15,917
- New Brunswick: $19,190
- Newfoundland and Labrador: $15,399
- Northwest Territories: $19,435
- Nova Scotia: $18,575
- Nunavut: $19,435
- Ontario: $19,598
- Prince Edward Island: $14,399
- Quebec: N/A
- Saskatchewan: $23,837
- Yukon: $19,435

For Yukon, if the $2,000 family caregiver tax credit amount is applied to the caregiver credit, that credit is eliminated when net income reaches $21,435.

(3) The federal credit for age amount is reduced by 15% of net income over $33,884. The federal portion of this credit is therefore eliminated when net income reaches $78,684. The provincial/territorial credit for age amount is reduced by 15% of net income over the following amounts:

- Alberta: $35,851
- British Columbia: $32,424
- Manitoba: $27,749
- New Brunswick: $33,455
- Newfoundland and Labrador: $28,814
- Northwest Territories: $33,884
- Nova Scotia: $30,828
- Nunavut: $33,884
- Ontario: $34,183
- Prince Edward Island: $28,019
- Quebec: Combined with the amount for pension income and the amount for a person living alone or with a dependant. The sum of these amounts is reduced by 15% of net family income in excess of $31,695.

– Saskatchewan: $33,884
– Yukon: $33,884

The provincial/territorial portion of this credit is therefore eliminated when net income reaches the following amounts:

– Alberta: $67,958
– British Columbia: $61,464
– Manitoba: $52,602
– New Brunswick: $63,415
– Newfoundland and Labrador: $63,867
– Northwest Territories: $77,191
– Nova Scotia: $58,435
– Nunavut: $94,938
– Ontario: $64,797
– Prince Edward Island: $53,112
– Quebec: N/A (see notation above)
– Saskatchewan: $64,231
– Yukon: $78,684

(4) Age and pension credits may be transferred to a spouse or common-law partner to the extent not required by the taxpayer.

(5) Disability credits may be transferred to a supporting person (specifically to a spouse or common-law partner in Quebec) to the extent not required by the taxpayer with a disability.

(6) Any unused portion of the federal child credit may be transferred between spouses. If the $2,000 family caregiver tax credit amount is applied to the federal child tax credit or the Yukon territorial child tax credit, the amount eligible for a credit increases to $4,191.

(7) Must exceed $100 per institution.

(8) Federal tuition and education credits to a maximum of 15% of $5,000, and provincial/territorial tuition and education credits to a maximum of the following amounts may be transferred to a spouse

or common-law partner, parent, or grandparent to the extent not required by the student:

– Alberta:	10.00% of $5,000
– British Columbia:	5.06% of $5,000
– Manitoba:	10.80% of $5,000
– New Brunswick:	9.10% of $5,000
– Newfoundland and Labrador:	7.70% of $5,000
– Northwest Territories:	5.90% of $5,000
– Nova Scotia:	8.79% of $5,000
– Nunavut:	4.00% of $5,000
– Ontario:	5.05% of $6,503 (indexed)
– Prince Edward Island:	9.80% of $5,000
– Quebec:	See note 12, below
– Saskatchewan:	11.00% of $5,000
– Yukon:	7.04% of $5,000

Alternatively, unused credits can be carried forward indefinitely by the student, although the outstanding balance must be reduced in future years as soon as adequate income is earned to absorb the credits.

(9) To a maximum of 75% of net income for all donations, including those made to the Crown or Crown agencies, except in the year of death or the immediately preceding year, when the ceiling is 100% of net income.

(10) Employee and employer contribution rates for CPP pensionable earnings are each assessed at 4.95% of pensionable earnings up to a maximum of $50,100, less a basic $3,500 exemption, for a credit of $2,307. Self-employed individuals must pay both the employer and employee halves of this payment (a total of 9.9%), but are entitled to a non-refundable tax credit for one-half of the premiums paid and a deduction from income for the other half.

The employee portion of Quebec parental insurance plan (QPIP) premiums is assessed at $0.559 per $100 of insurable earnings to a maximum of $66,000, or $369.

[11] The employee portion of EI premiums is assessed at $1.83 per $100 of insurable earnings to a maximum of $45,900, or $840, for a credit of $126.

In Quebec, the employee portion of EI premiums is assessed at $1.47 per $100 of insurable earnings up to $45,900, or $675.

[12] A number of special rules apply to Quebec's dependant, disability, medical, tuition, and education credits.

- Refundable and non-refundable credits are available for Quebec taxpayers with dependants, and there is also a person living alone credit. An individual who has a child with a disability is eligible for a supplement to child assistance payments. See page 171 for detailed information on these credits.
- A refundable adapted work premium is paid to Quebec residents who have a severely limited capacity to secure employment. See page 182 for details.
- There is a provincial refundable credit equal to 25% of medical expenses eligible for the non-refundable credit, plus 25% of the amount deducted for impairment support products and services. In 2012, this credit is available up to a maximum amount of $1,103, reduced by 5% of family income in excess of $21,340. See page 198 for detailed information.
- There is a maximum education credit of 20% of $2,015, or $403 per term, for up to two terms a year, available for a supporting parent of minor children. See page 172 for detailed information.

Appendix IA

Ordering of Federal Non-Refundable Tax Credits

The *Income Tax Act* requires that the federal non-refundable tax credits be claimed in the following order:

- personal tax credits (that is, basic personal tax credit, spousal and spousal equivalent tax credits, and dependant/caregiver tax credits)
- age credit for an individual who has attained the age of 65
- credit for employee contributions to the CPP and employee premiums for EI
- credit for an individual who is in receipt of certain pension income
- credit for Canada employment income
- credit for adoption expenses
- credit for eligible long-term transit passes
- credit for child fitness tax credit/children's arts tax credit
- first-time home buyer's tax credit
- volunteer firefighters tax credit
- credit for severe and prolonged mental or physical impairment of
  - (i) an individual; or
  - (ii) a dependant
- credit for unused tuition, education, and textbook tax credits
- tuition credit for fees of a student enrolled at a designated educational institution
- the tax credit for a student enrolled in a qualifying education program at a designated educational institution (that is, enabled through the payment of child care or attendant care expenses)
- education and textbook tax credits
- credit in respect of unused tax credits for tuition, education, or textbooks that are transferred to the student's parent or grandparent
- credit in respect of unused tax credits for tuition, education, textbooks, age, pension, and mental or physical impairment of an individual that are transferred from the individual to the individual's spouse or common-law partner
- credit for medical expenses

- credit for charitable donations
- credit for interest on student loans
- credit in respect of the tax on dividends (see page 93, in the chapter on Investment Income and Expenses)

Appendix II

Components of the Canada Child Tax Benefit

	Maximum Benefit Effective July 1, 2012
Base Benefit	
Basic amount per child	$1,405
Additional benefit for third child and subsequent children	98
National Child Benefit Supplement	
First child	2,177
Second child	1,926
Third child and subsequent children	1,832
Combined CCTB Benefit and NCB Supplement	
First child	3,582
Second child	3,331
Third child and subsequent children	3,335
Changes to the Income Thresholds of the CCTB	
Base Benefit	
Start phase-out	42,707
National Child Benefit Supplement	
Start phase-out	24,863
End phase-out	42,707
Child Disability Benefit	
Maximum benefit	2,575
Start phase-out	42,707

Appendix III

Marginal Tax Rates — Federal and Provincial/Territorial — 2012**

Marginal Tax Rates — Federal — 2012

Taxable Income	Tax	On Next
$0	$0 + 15%	$42,707
42,708	6,406 + 22%	42,707
85,415	15,802 + 26%	46,992
132,407	28,020 + 29%	remainder

Marginal Tax Rates — Alberta — 2012

Taxable Income	Tax	On Next
$0	10% flat tax	remainder

Marginal Tax Rates — British Columbia — 2012

Taxable Income	Tax	On Next
$0	$0 + 5.06%	$37,013
37,014	1,873 + 7.70%	37,015
74,029	4,723 + 10.50%	10,965
84,994	5,874 + 12.29%	18,212
103,206	8,112 + 14.70%	remainder

Marginal Tax Rates — Manitoba — 2012

Taxable Income	Tax	On Next
$0	$0 + 10.80%	$31,000
31,001	3,348 + 12.75%	36,000
67,001	7,938 + 17.40%	remainder

Marginal Tax Rates — New Brunswick — 2012

Taxable Income	Tax	On Next
$0	$0 + 9.10%	$38,190
38,191	3,475 + 12.10%	38,190
76,381	8,096 + 12.40%	47,798
124,179	14,023 + 14.30%	remainder

Marginal Tax Rates — Newfoundland and Labrador — 2012

Taxable Income	Tax	On Next
$0	$0 + 7.70%	$32,893
32,894	2,533 + 12.50%	32,892
65,786	6,644 + 13.30%	remainder

Marginal Tax Rates — Northwest Territories — 2012

Taxable Income	Tax	On Next
$0	$0 + 5.90%	$38,679
38,680	2,282 + 8.60%	38,681
77,361	5,609 + 12.20%	48,411
125,772	11,515 + 14.05%	remainder

Marginal Tax Rates — Nova Scotia — 2012

Taxable Income	Tax	On Next
$0	$0 + 8.79%	$29,590
29,591	2,601 + 14.95%	29,590
59,181	7,025 + 16.67%	33,820
93,001	12,662 + 17.50%	57,000
150,001	22,637 + 21.00%	remainder

Marginal Tax Rates — Nunavut — 2012

Taxable Income	Tax	On Next
$0	$0 + 4.00%	$40,721
40,722	1,629 + 7.00%	40,721
81,443	4,479 + 9.00%	50,964
132,407	9,066 + 11.50%	remainder

Marginal Tax Rates — Ontario — 2012

Taxable Income	Tax*	On Next
$0	$0 + 5.05%	$39,020
39,021	1,971 + 9.15%	39,023
78,044	5,541 + 11.16%	421,957
500,001	52,632 + 12.16%	remainder

* Plus Ontario surtax of 20% on provincial tax between $4,213 and $5,392, and an additional 36%, for a total of 56%, on provincial tax above $5,392.

Marginal Tax Rates — Prince Edward Island — 2012

Taxable Income	Tax*	On Next
$0	$0 + 9.80%	$31,984
31,985	3,134 + 13.80%	31,985
63,970	7,548 + 16.70%	remainder

* Plus Prince Edward Island surtax of 10% on provincial tax above $12,500.

Marginal Tax Rates — Quebec — 2012

Taxable Income	Tax	On Next
$0	$0 + 16.00%	$40,100
40,101	6,416 + 20.00%	40,100
80,201	14,436 + 24.00%	remainder

Marginal Tax Rates — Saskatchewan — 2012

Taxable Income	Tax	On Next
$0	$0 + 11.00%	$42,065
42,066	4,627 + 13.00%	78,120
120,186	14,783 + 15.00%	remainder

Marginal Tax Rates — Yukon — 2012

Taxable Income	Tax*	On Next
$0	$0 + 7.04%	$42,707
42,708	3,007 + 9.68%	42,707
85,415	7,141 + 11.44%	46,992
132,407	12,517 + 12.76%	remainder

* Plus Yukon surtax of 5% on territorial tax above $6,000.

** The calculated tax payable amounts are considered to be net of any personal deductions, including non-refundable tax credits, and so on. They do not take into account surtax payable in the provinces and territories to which that applies. Surtax rates and amounts are, however, separately denoted for each relevant jurisdiction.

Appendix IV

Top Combined Federal/Provincial/Territorial Tax Rates — 2012

Combined Top Marginal Rate[1]

Province/ Territory	Provincial/ Territorial Rate	Ordinary Income	Capital Gains	Eligible Dividend *#	Non-Eligible Dividend *##
Alberta	10.00%	39.00%	19.50%	19.29%	27.71%
British Columbia	14.70	43.70	21.85	25.78	33.71
Manitoba	17.40	46.40	23.20	32.26	39.15
New Brunswick	14.30	43.30	21.65	22.47	30.83
Newfoundland and Labrador	13.30	42.30	21.15	22.47	29.96
Northwest Territories	14.05	43.05	21.53	22.81	29.65
Nova Scotia	21.00	50.00	25.00	36.06	36.21
Nunavut	11.50	40.50	20.25	27.56	28.96
Ontario	12.16	47.97	23.98	31.69	34.52
PEI	16.70	47.37	23.69	28.70	41.17
Quebec	24.00	48.22	24.11	32.81	36.35
Saskatchewan	15.00	44.00	22.00	24.81	33.33
Yukon	12.76	42.40	21.20	15.93^	30.41

* Calculated on actual dividends, not grossed-up amount for tax purposes. These rates take into account the two-tier dividend tax structure provinces and territories have implemented. Check with your Certified General Accountant to confirm which dividend rates apply to you.

Eligible dividends include those received from a public Canadian corporation and certain private, resident corporations that have not benefited from the small business deduction on their taxable income.

Non-eligible dividends are generally paid by Canadian-controlled private corporations (CCPC) that have benefited from the small business deduction on their taxable income.

^ Yukon eligible dividends at top marginal rate are a range from 15.93% to 19.29%.

Provincial and territorial rates listed in this grouping are calculated independently of federal tax rates. In each case, lower rates apply to the lower income brackets. Quebec residents receive an abatement of 16.5% of the basic federal tax.

(1) Combined rates for ordinary income, capital gains, and dividends, listed above, reflect the following provincial or territorial surtaxes:

Alberta	– no provincial surtaxes
British Columbia	– no provincial surtaxes
Manitoba	– no provincial surtaxes
New Brunswick	– no provincial surtaxes
Newfoundland and Labrador	– no provincial surtaxes
Nova Scotia	– no provincial surtaxes
Ontario	– 20% on provincial tax between $4,213 and $5,392, inclusive, and an additional 36%, for a total of 56% on provincial tax in excess of $5,392
PEI	– 10% on provincial tax in excess of $12,500
Quebec	– no provincial surtaxes
Saskatchewan	– no provincial surtaxes
Northwest Territories	– no territorial surtaxes
Nunavut	– no territorial surtaxes
Yukon	– 5% on territorial tax in excess of $6,000

Appendix V

Combined Federal and Provincial/Territorial Marginal Tax Rates for Canadian Residents — 2012 [1]

Alberta:

Taxable Income	Ordinary Income	Capital Gains	Eligible Dividend*^	Non-Eligible Dividend*
At $10,823	15.00%	7.50%	(0.03)%	2.08%
At $17,283	25.00	12.50	(0.03)	10.21
At $42,708	32.00	16.00	9.63	18.96
At $85,415	36.00	18.00	15.15	23.96
At $132,407	39.00	19.50	19.29	27.71

* See note on page 296.
^ Eligible dividend range of -0.03% to 0% at taxable income of $10,823.
Eligible dividend range of -0.03% to 0% at taxable income of $17,283.

British Columbia:

Taxable Income	Ordinary Income	Capital Gains	Eligible Dividend*^	Non-Eligible Dividend*
At $10,823	15.00%	7.50%	(0.03)%	2.08%
At $11,355	20.06	10.03	(6.84)	4.16
At $37,014	22.70	11.35	(3.20)	7.46
At $42,708	29.70	14.85	6.46	16.21
At $74,029	32.50	16.25	10.32	19.71
At $84,994	34.29	17.15	12.79	21.95
At $85,415	38.29	19.15	18.31	26.95
At $103,206	40.70	20.35	21.64	29.96
At $132,407	43.70	21.85	25.78	33.71

* See note on page 296.
^ Eligible dividend range of -0.03% to 0% at taxable income of $10,823.
Eligible dividend range of -6.84% to 0% at taxable income of $11,355.
Eligible dividend range of -3.20% to 0% at taxable income of $37,014.
Eligible dividend range of 6.46% to 9.63% at taxable income of $42,708.

Manitoba:

Taxable Income	Ordinary Income	Capital Gains	Eligible Dividend*^	Non-Eligible Dividend*
At $10,823	25.80%	12.90%	3.84%	13.40%
At $31,001	27.75	13.88	6.53	15.83
At $42,708	34.75	17.38	16.19	24.58
At $67,001	39.40	19.70	22.60	30.40
At $85,415	43.40	21.70	28.12	35.40
At $132,407	46.40	23.20	32.26	39.15

* See note on page 296.
^ Eligible dividend range of 3.84% to 3.86% at taxable income of $10,823.
Eligible dividend range of 6.53% to 6.56% at taxable income of $31,001.

New Brunswick:

Taxable Income	Ordinary Income	Capital Gains	Eligible Dividend*^	Non-Eligible Dividend*
At $10,823	24.10%	12.05%	(4.03)%	6.83%
At $38,191	27.10	13.55	0.11	10.58
At $42,708	34.10	17.05	9.77	19.33
At $76,381	34.40	17.20	10.18	19.71
At $85,415	38.40	19.20	15.70	24.71
At $124,179	40.30	20.15	18.33	27.08
At $132,407	43.30	21.65	22.47	30.83

* See note on page 296.
^ Eligible dividend range of -4.03% to 0% at taxable income of $10,823.
Eligible dividend range of 0.11% to 0.14% at taxable income of $38,191.

Newfoundland and Labrador:

Taxable Income	Ordinary Income	Capital Gains	Eligible Dividend*^	Non-Eligible Dividend*
At $10,823	22.70%	11.35%	(4.58)%	5.46%
At $32,894	27.50	13.75	2.04	11.46
At $42,707	34.50	17.25	11.70	20.21
At $65,786	35.30	17.65	12.81	21.21
At $85,415	39.30	19.65	18.33	26.21
At $132,407	42.30	21.15	22.47	29.96

* See note on page 296.
^ Eligible dividend range of -4.58% to 0% at taxable income of $10,823.
Eligible dividend range of 2.04% to 2.07% at taxable income of $32,894.

Northwest Territories:

Taxable Income	Ordinary Income	Capital Gains	Eligible Dividend*^	Non-Eligible Dividend*^^
At $10,823	15.00%	7.50%	(0.03)%	2.08%
At $13,281	20.90	10.45	(7.76)	1.96
At $38,680	23.60	11.80	(4.03)	5.33
At $42,708	30.60	15.30	5.63	14.08
At $77,361	34.20	17.10	10.60	18.58
At $85,415	38.20	19.10	16.12	23.58
At $125,772	40.05	20.03	18.67	25.90
At $132,407	43.05	21.53	22.81	29.65

* See note on page 296.
^ Eligible dividend range of -0.03% to 0% at taxable income of $10,823.
Eligible dividend range of -7.76% to 0% at taxable income of $13,281.
Eligible dividend range of -4.03% to 0% at taxable income of $38,680.
Eligible dividend range of 5.63% to 9.63% at taxable income of $42,708.
^^ Non-eligible dividend range of 1.96% to 2.08% at taxable income of $13,281.

Nova Scotia:

Taxable Income	Ordinary Income	Capital Gains	Eligible Dividend*^	Non-Eligible Dividend*
At $10,823	23.79%	11.90%	(0.11)%	3.45%
At $29,591	29.95	14.98	8.39	11.15
At $42,708	36.95	18.48	18.05	19.90
At $59,181	38.67	19.34	20.42	22.05
At $85,415	42.67	21.34	25.94	27.05
At $93,001	43.50	21.75	27.09	28.08
At $132,407	46.50	23.25	31.23	31.83
At $150,001	50.00	25.00	36.06	36.21

* See note on page 296.
^ Eligible dividend range of -0.11% to 0% at taxable income of $10,823.
Eligible dividend range of 8.39% to 8.42% at taxable income of $29,591.

Nunavut:

Taxable Income	Ordinary Income	Capital Gains	Eligible Dividend*^	Non-Eligible Dividend*
At $10,823	15.00%	7.50%	(0.03)%	2.08%
At $12,212	19.00	9.50	(2.11)	2.08
At $40,722	22.00	11.00	2.03	5.83
At $42,708	29.00	14.50	11.69	14.58
At $81,443	31.00	15.50	14.45	17.08
At $85,415	35.00	17.50	19.97	22.08
At $132,407	40.50	20.25	27.56	28.96

* See note on page 296.
^ Eligible dividend range of -0.03% to 0% at taxable income of $10,823.
Eligible dividend range of -2.11% to 0% at taxable income of $12,212.
Eligible dividend range of 2.03% to 2.06% at taxable income of $40,722.

Ontario:

Taxable Income	Ordinary Income	Capital Gains	Eligible Dividend*^	Non-Eligible Dividend*
At $10,823	20.05%	10.03%	(1.89)%	2.77%
At $39,021	24.15	12.08	3.77	7.90
At $42,708	31.15	15.58	13.43	16.65
At $68,719**	32.98	16.49	14.19	17.81
At $78,044	35.39	17.70	17.52	20.82
At $80,964**	39.41	19.70	19.88	23.82
At $85,415	43.41	21.70	25.40	28.82
At $132,407	46.41	23.20	29.54	32.57
At $500,001	47.97	23.98	31.69	34.52

* See note on page 296.
^ Eligible dividend range of -1.89% to 0% at taxable income of $10,823.

Eligible dividend range of 3.77% to 3.80% at taxable income of $39,021

** Provincial surtaxes apply.

Prince Edward Island:

Taxable Income	Ordinary Income	Capital Gains	Eligible Dividend*^	Non-Eligible Dividend*
At $10,823	24.80%	12.40%	(0.99)%	13.08%
At $31,985	28.80	14.40	4.53	18.08
At $42,708	35.80	17.90	14.19	26.83
At $63,970	38.70	19.35	18.19	30.46
At $85,415	42.70	21.35	23.71	35.46
At $98,144**	44.37	22.19	24.56	37.42
At $132,407	47.37	23.69	28.70	41.17

* See note on page 296.

^ Eligible dividend range of -0.99% to 0% at taxable income of $10,823. Eligible dividend range of 4.53% to 4.55% at taxable income of $31,985.

** Provincial surtaxes apply.

Quebec:

Taxable Income	Ordinary Income***	Capital Gains***	Eligible Dividend***^	Non-Eligible Dividend***
At $10,823	12.53%	6.26%	(0.02)%	1.74%
At $13,657	28.53	14.26	5.64	11.74
At $40,101	32.53	16.26	11.16	16.74
At $42,708	38.37	19.19	19.22	24.05
At $80,201	42.37	21.19	24.74	29.05
At $85,415	45.71	22.86	29.35	33.22
At $132,407	48.22	24.11	32.81	36.35

*** Quebec residents receive an abatement of 16.5% of the basic federal tax, which is factored in to the above calculations.

^ Eligible dividend range of -0.02% to 0% at taxable income of $10,823. Eligible dividend range of 5.64% to 5.66% at taxable income of $13,657. Eligible dividend range of 11.16% to 11.18% at taxable income of $40,101.

Saskatchewan:

Taxable Income	Ordinary Income	Capital Gains	Eligible Dividend*^	Non-Eligible Dividend*
At $10,823	15.00%	7.50%	(0.03)%	2.08%
At $14,943	26.00	13.00	(0.03)	10.83
At $42,066	28.00	14.00	2.73	13.33
At $42,708	35.00	17.50	12.39	22.08
At $85,415	39.00	19.50	17.91	27.08
At $120,186	41.00	20.50	20.67	29.58
At $132,407	44.00	22.00	24.81	33.33

* See note on page 296.

^ Eligible dividend range of -0.03% to 0% at taxable income of $10,823. Eligible dividend range of -0.03% to 0% at taxable income of $14,943. Eligible dividend range of 2.73% to 2.76% at taxable income of $42,066.

Yukon:

Taxable Income	Ordinary Income	Capital Gains	Eligible Dividend*^	Non-Eligible Dividend*
At $10,823	22.04%	11.02%	(11.12)%	5.25%
At $42,708	31.68	15.84	2.18	17.30
At $81,501**	32.16	16.08	1.81	17.62
At $85,415	38.01	19.01	9.88	24.93
At $132,407	42.40	21.20	15.93	30.41

* See note on page 296.
^ Eligible dividend range of -11.12% to 0% at taxable income of $10,823.
Eligible dividend range of 2.18% to 9.63% at taxable income of $42,708.
Eligible dividend range of 1.81% to 9.63% at taxable income of $81,501.
Eligible dividend range of 9.88% to 15.15% at taxable income of $85,415.
Eligible dividend range of 15.93% to 19.29% at taxable income of $132,407.
** Provincial surtaxes apply.

* Calculated on actual dividends, not grossed-up amount for tax purposes. These rates take into account the two-tier dividend tax structure. Check with your Certified General Accountant to confirm which dividend rates are applicable to you.

Eligible dividends include those received from a public Canadian corporation and certain private, resident corporations that have not benefited from the small business deduction on their taxable income. Negative rates of return for certain taxable income amounts, which may represent tax credits or refunds, are approximate figures only because federal tax and provincial/territorial tax are calculated separately and cannot typically be offset against one another.

Non-eligible dividends are generally paid by Canadian-controlled private corporations (CCPC) that have benefited from the small business deduction on their taxable income.

[1] Federal and provincial/territorial tax rates are listed before personal credits are applied, except for rates that take into account applicable provincial/territorial surtax (as denoted by a double asterisk **), which are net of the basic personal credit only. Quebec tax rates include the basic federal tax abatement of 16.5% (as denoted by triple asterisk ***). See the chapter on Federal and Provincial/Territorial Non-Refundable Tax Credits, beginning on page 165 as well as Appendix I, beginning on page 251, for tax credit information.

It is assumed that each tax bracket is composed of ordinary income. The rate indicated is the marginal rate for additional income of the type noted.

The above tables take into effect provincial and territorial rates. In 2012, they are as follows:

Alberta:

Taxable Income:	
All levels — flat tax of	10.00%

Surtax: None

British Columbia:

Taxable Income:	
To $37,013	5.06%
From $37,014 to $74,028	7.70%
From $74,029 to $84,993	10.50%
From $84,994 to $103,205	12.29%
Over $103,205	14.70%

Surtax: None

Manitoba:

Taxable Income:	
To $31,000	10.80%
From $31,001 to $67,000	12.75%
Over $67,000	17.40%

Surtax: None

New Brunswick:

Taxable Income:	
To $38,190	9.10%
From $38,191 to $76,380	12.10%
From $76,381 to $124,178	12.40%
Over $124,178	14.30%

Surtax: None

Newfoundland and Labrador:

Taxable Income:	
To $32,893	7.70%
From $32,894 to $65,785	12.50%
Over $65,785	13.30%

Surtax: None

Northwest Territories:

Taxable Income:	
To $38,679	5.90%
From $38,680 to $77,360	8.60%
From $77,361 to $125,771	12.20%
Over $125,771	14.05%

Surtax: None

Nova Scotia:

Taxable Income:	
To $29,590	8.79%
From $29,591 to $59,180	14.95%
From $59,181 to $93,000	16.67%
From $93,001 to $150,000	17.50%
Over $150,000	21.00%

Surtax: None

Nunavut:

Taxable Income:	
To $40,721	4.00%
From $40,722 to $81,442	7.00%
From $81,443 to $132,406	9.00%
Over $132,406	11.50%

Surtax: None

Ontario:

Taxable Income:	
To $39,020	5.05%
From $39,021 to $78,043	9.15%
From $78,044 to $500,000	11.16%
Over $500,000	12.16%

Surtax: 20% of provincial tax between $4,213 and $5,392, plus an additional 36%, for a total of 56%, on provincial tax in excess of $5,392

Prince Edward Island:

Taxable Income:	
To $31,984	9.80%
From $31,985 to $63,969	13.80%
Over $63,969	16.70%

Surtax: 10% of provincial tax in excess of $12,500

Quebec:

Taxable Income:	
To $40,100	16.00%
From $40,101 to $80,200	20.00%
Over $80,200	24.00%

Surtax: None

Saskatchewan:

Taxable Income:	
To $42,065	11.00%
From $42,066 to $120,185	13.00%
Over $120,185	15.00%

Surtax: None

Yukon:

Taxable Income:	
To $42,707	7.04%
From $42,708 to $85,414	9.68%
From $85,415 to $132,406	11.44%
Over $132,406	12.76%

Surtax: 5% of territorial tax in excess of $6,000

The tables also take into account various provincial surtaxes, as noted above.

Taxable income brackets are indexed annually by a formula based on the federal and provincial CPI increases. The above rates are therefore subject to change as a result of both that and measures brought forth in budgets introduced after the publication date.

Appendix VI

Canadian Tax-Planning and Filing Deadlines — 2013*

Be sure to also visit www.cga.org/pdnet/taxcalendar2013 to download your free at-a-glance *2013 Tax Calendar*. A great way to keep your tax planning on track!

First Quarter

January 15	Deadline for employees who acquired qualified publicly listed shares under employee stock option plans in 2012 to file a letter indicating their intention to defer related benefits.
January 30	Pay intra-family loan interest related to previous taxation year, to avoid income attribution.
February 14	Reimburse employer for company car operating costs, to reduce operating benefit for the previous calendar year (optional).
February 28	Last day to report personal use for previous calendar year if personal distance travelled was not greater than 20,000 kilometres and at least 50% of the distance was for business purposes, in order to reduce standby charge for company car (optional). For practical purposes, taxpayers who choose to make this report should really do so by mid-February.
	Last day to issue T4s, T4As, and T5s to persons and CRA.
	Last day for issuers of TFSAs to file their annual information return.
March 1	Last day to make personal and spousal RRSP contributions applicable to previous taxation year.

March 15	First-quarter instalment due from taxpayers who are required to remit quarterly.
March 31	File trust income tax return for trusts with a December 31 year end. As March 31, 2013, falls on a Sunday, this deadline will automatically be extended until Monday, April 1.

Second Quarter

April 30	File personal income tax return for previous taxation year and remit balance due, if any, to CRA. File GST/HST rebate application for employee-related expenses deducted in previous taxation year.
June 15	Second-quarter instalment due from taxpayers who are required to remit quarterly. As June 15, 2013, falls on a Saturday, this deadline will automatically be extended until Monday, June 17. Due date for personal tax returns of individuals with self-employed business income, or spouses/common-law partners of taxpayers with self-employed business income. (Payment of tax balance still due April 30.) As June 15, 2013, falls on a Saturday, this deadline will automatically be extended until Monday, June 17.

Third Quarter

September 15	Third-quarter instalment due from taxpayers who are required to remit quarterly. As September 15, 2013, falls on a Sunday, this deadline will automatically be extended until Monday, September 16.

Fourth Quarter

December 15	Fourth-quarter instalment due from taxpayers who are required to remit quarterly. As December 15, 2013,

falls on a Sunday, this deadline will automatically be extended until Monday, December 16.

December 31 — Annual tax instalment due from individuals whose chief source of income is farming or fishing, and who choose not to remit quarterly.

Deadline for taxpayers age 71 (born in 1942) to ensure 2013 contributions to their own RRSP are made. It is also the deadline for such individuals to convert their RRSPs to either RRIFs or life annuities. (People in that situation should, however, consult a Certified General Accountant who practices personal financial planning well in advance of that date to discuss the various options available to them.)

Deadline for taxpayers who qualify to have the operating cost benefit with respect to an automobile used for employment, calculated as half the amount of the annual standby charge, to notify their employer in writing of such intentions.

Ensure that tax-deductible fees (for example, accounting, investment counsel, interest carrying charges, and safety deposit box), expenses (for example, employee-related moving expenses), and credits (for example, for charitable donations and medical expenses) for the current taxation year have been paid.

* Federal deadlines only. Consult your provincial or territorial finance or equivalent ministry to determine relevant provincial/territorial tax-filing deadlines.

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Appendix VII

Prescribed CRA Interest Rates on Overdue and Unpaid Income Taxes

Federal

	Receiver General Payments To	Receiver General Payments From	All Other Purposes
2011			
1st quarter	5%	3%	1%
2nd quarter	5	3	1
3rd quarter	5	3	1
4th quarter	5	3	1
2012			
1st quarter	5%	3%	1%
2nd quarter	5	3	1
3rd quarter	5	3	1
4th quarter	5	3	1

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Appendix VIII

Glossary of Abbreviations and Acronyms

ABE	Adult basic education
ABIL	Allowable business investment loss
ACB	Adjusted cost base
AIDA	Agricultural income disaster assistance
AMPA	*Agricultural Marketing Programs Act*
AMT	Alternative minimum tax
APF	Agricultural policy framework
AVC	Additional voluntary contribution
CCA	Capital cost allowance
CCPC	Canadian-controlled private corporation
CCTB	Canada child tax benefit
CDB	Child disability benefit
CDNX	Canadian venture exchange
CDSB	Canada disability savings bond
CDSG	Canada disability savings grant
CESG	Canada Education Savings Grant
CLB	Canada Learning Bond
CNIL	Cumulative net investment loss
CPI	Consumer price index
CPP	Canada Pension Plan
CRA	Canada Revenue Agency
CRCE	Canadian renewable and conservation expenses
DAP	Disability-assistance payments
DOF	Department of Finance
DPSP	Deferred profit-sharing plan
DRIP	Dividend reinvestment plan
DSLP	Deferred salary leave plan
DTC	Disability tax credit
EAP	Educational assistance payments
EHT	Employer health tax
EI	Employment insurance
ELHT	Employee life and health trust

EO-LSVCC	Employee ownership labour-sponsored venture capital corporation
FCA	Federal Court of Appeal
FCTC	Family caregiver tax credit
FMV	Fair market value
GAAR	General anti-avoidance rule
GIC	Guaranteed investment certificate
GIS	Guaranteed income supplement
GST	Goods and services tax
HBP	Home buyers' plan
HBTC	Home Buyers' Tax Credit
HST	Harmonized sales tax
IC	Information circular
IPP	Individual Pension Plan
IRS	Internal Revenue Service (United States)
ITC	Investment tax credit
LDAP	Lifetime disability-assistance payments
LIF	Life income fund
LIRA	Locked-in retirement account
LLP	Lifelong Learning Plan
LP	Limited partnership
LSIF	Labour-sponsored investment fund
LSVCC	Labour-sponsored venture capital corporation
LTT	Land transfer tax
MIA	Mandatory inventory adjustment
MURB	Multiple-unit residential building
NCB	National child benefit
OAS	Old Age Security
OETC	Overseas employment tax credit
OIA	Optional inventory adjustment
PA	Pension adjustment
PAR	Pension adjustment reversal
PHSP	Private health services plan
PRPP	Pooled registered pension plan
PSPA	Past service pension adjustment
PST	Provincial sales tax
QPIP	Quebec Parental Insurance Plan

QPP	Quebec Pension Plan
R&D	Research and development
RCA	Retirement compensation arrangement
RDSP	Registered disability savings plan
REOP	Reasonable expectation of profit
RESP	Registered education savings plan
RLIF	Restricted life income fund
RPP	Registered pension plan
RRIF	Registered retirement income fund
RRSP	Registered retirement savings plan
SBC	Small business corporation
SDSP	Specified disability savings plan
SIFT	Specified investment flow-through
SIN	Social insurance number
SPP	Saskatchewan Pension Plan
SR&ED	Scientific research and experimental development
TCEW	Tax Credit for Experienced Workers (Quebec)
TCC	Tax Court of Canada
TFSA	Tax-free savings account
TONI	Tax on income
UCC	Undepreciated capital cost
UCCB	Universal child care benefit
UL	Universal life
VDP	Voluntary Disclosures Program
VRSP	Voluntary Retirement Savings Plan (Quebec)
WITB	Working income tax benefit
WSIB	Workplace Safety and Insurance Board

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