

TAX STRATEGIES FROM **KURT ROSENTRETER** CHARTERED ACCOUNTANT



kurt.rosentreter@manulifesecurities.ca

416-628-5761 ext. 230

2014 TAX PLANNING TIPS SECOND QUARTER

TAX TICKLERS... Some Quick Points to Consider...

- Registering the birth of your newborn child? You can consent to use the "Automated Benefits Application" which allows you to automatically apply for the Canada Child Tax Benefit, the Universal Child Care Benefit, the GST/HST Credit, and Provincial/Territorial programs at the same time.
- Staying too long in the US can cause major taxation problems! The joint entry/exit tracking system between Canada and the US is scheduled to commence July 1, 2014.
- Employer provided medical tests may be a taxable benefit.
- Incomplete foreign property disclosures on the T1135 can result in a \$2,500 penalty.
- The employer portion of CPP payments may have to be paid twice in the year when an employee becomes a contractor.

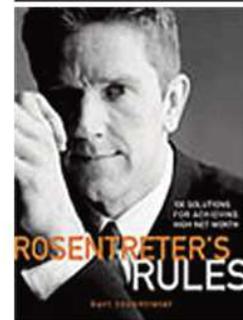
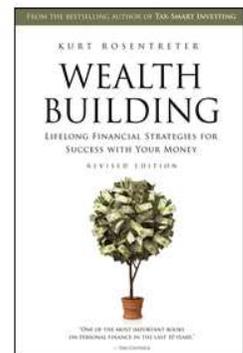
INTERNET BUSINESS ACTIVITIES: Must Be Reported to the CRA

A recent CRA release announced additional disclosure requirements of Internet Business Activities for corporations, proprietors and farmers.

A business must disclose if income is earned from one or more webpages or websites. If the business/proprietor doesn't have a webpage, but does have a profile or page describing the business (on blogs, auctions, marketplace or other portal or directory sites), the related information would also have to be disclosed. A taxpayer may earn income from webpages or websites in many different fashions:

- By selling goods and/or services on a business's own webpage or website. For example, a business may have a shopping cart and process payment transactions themselves or use a third-party service.
- If a website doesn't support transactions but the customers call, complete and submit a form or email to make a purchase order, booking, etc.
- By selling goods and/or services on auction, marketplace or similar sites operated by others.

Kurt's National Best Selling Books



- If the taxpayer earns income from advertising, income programs, or traffic the site generates.

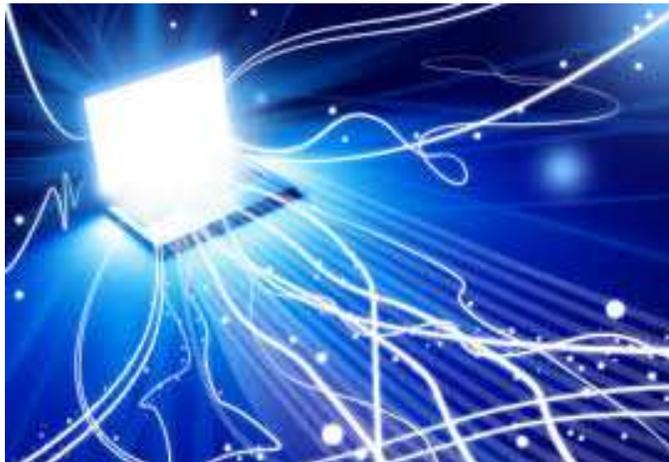
For example:

- * static advertisements on the site for other businesses;
- * affiliate programs;
- * advertising programs; or
- * other types of traffic programs.

Businesses must also disclose the top 5 income generating webpages and the percentage of the gross revenue generated from the Internet.

An estimate of gross revenue for proprietors is sufficient if the exact percentage is unknown. No similar relief has been given for corporations.

Action Item: Be aware of your business's online presence and income earned from these websites. This information may be required when filing your year-end tax return!



REPORTING GST/HST: Simple Option for Small Businesses

Many small businesses have adopted the Quick Method to report and remit GST/HST as an alternative to the traditional method. The Quick Method is substantially simpler, resulting in reduced paperwork and bookkeeping costs.

Businesses with annual worldwide taxable sales of up to \$400,000 (for reporting periods beginning in 2013) can elect to employ the Quick Method. Some businesses, including accountants, tax consultants, financial consultants and lawyers, cannot use the Quick Method.

GST/HST payable under the Quick Method is a specified percentage multiplied by total sales (including GST/HST collected). The percentage varies depending on a) the nature of business activities, and b) the location of sales and operations. This contrasts the traditional method, where it is the actual GST/HST collected less GST/HST paid that is due.



SMALL BUSINESS

Under the Quick Method, the taxpayer doesn't need to track and report GST/HST paid because an estimate of this amount is factored into the specified percentage. Certain exceptions apply with regards to the purchase of capital assets.

The Quick Method computations compared to the traditional method should be considered prior to electing.

SALARY: To Owners and Relatives

Documenting Salary

In a January 30, 2014 Technical Interpretation, the CRA notes that a salary (or dividend) is taxed at the individual level when received. Evidence, such as the proper documentation of the minutes of a meeting of directors, and a T4 - T5 indicating the appropriate amount, could show that a payment was made.

CRA also noted that a journal entry recording a credit to the loan account of a shareholder does not, in and of itself, constitute a payment of a salary or dividend. Accounting records or entries serve only to reflect the transactions.

Action Item: When paying salaries to family members, it is often preferable to utilize the standard payroll process – withhold source deductions, issue a T4, provide a cheque or direct deposit, etc.

CRA EXAMINES NON-PROFIT ORGANIZATIONS (NPOs): Is Your Entity at Risk?

On February 17, 2014 the CRA released a Report which investigated whether 30,000 organizations self-identified as an NPO actually fulfilled the criteria required.

An NPO:

- * is a club, society, or association;
- * is not a charity;
- * is organized and operated exclusively for social welfare, civic improvement, pleasure, recreation, or any other purpose except profit; and,
- * whose income is not payable to or available for the personal benefit of a proprietor, member or shareholder.

The CRA found that a significant portion of the organizations failed to meet at least one of the requirements.

Of these:

- * A large portion fell into the high-risk category, which includes organizations earning profits that were not incidental or not related to the non-profit objectives; organizations with disproportionately large reserves, surpluses, or retained earnings; and organizations where income was payable or made available for the personal benefit of a proprietor, member or shareholder.
- * A smaller portion of organizations fell into a lower risk category, which includes readily correctable issues, such as filing errors or not providing enough information to substantiate a not-for-profit purpose in the organization's governing documents.



CROWDFUNDING: May Have Tax Costs



Crowdfunding is a novel and increasingly popular means to raise capital to support various efforts, projects, ventures or ideas. This concept is based on the idea of raising capital by soliciting many small contributions from a large group of individuals, or a crowd. Contributions are made through various online services which provide a platform for crowdfunding.

Entrepreneurs, independent artists, and researchers, amongst many others looking to raise capital for their respective projects, may utilize crowdfunding.

Further information on crowdfunding can be found on the National Crowdfunding Association of Canada website, www.ncfacanada.org.

In an August 16, 2013 Technical Interpretation, CRA noted that amounts received by a taxpayer from Crowdfunding activities, related to a business, would generally be included in income and be taxable. Voluntary payments received by virtue of a profession or a business, are also taxable.

Expenses related to Crowdfunding efforts, such as fees paid to online platforms and donor gifts, incurred for gaining or producing income from a business, may be deductible.

SCHOLARSHIPS AND TRAINING: May Not be a Taxable Benefit

In a November 18, 2013 Technical Interpretation, CRA reviewed a scholarship plan for employees of an Organization pursuing post-graduate degrees. The scholarships are administered by a Foundation and are merit-based with a formal selection process. They are available only to employees of the Organization, who must agree to conditions including employment with the Organization for a period of time following completion of their studies.

CRA indicated that a scholarship available only to employees of a particular employer would generally be considered to be employment income.

However, CRA also noted that the taxability of this amount would depend on whether the primary beneficiary of the scholarship is the employer or employee. Courses taken to maintain or upgrade employment-related skills are generally considered to be for the primary benefit of the employer where the employee is expected to resume employment for a reasonable period after the training is completed. CRA indicated that their policy in this regard would include payments from a third party (other than the employer). Where these conditions are met, the payment could be received tax free.

Another CRA Guide notes that employment-related training may not be limited to strictly tuition fees, but may also include other associated costs such as books, meals, travel and accommodation. This Guide also discusses the possibility of providing tax-free scholarships to children of employees.

In another December 12, 2013 Technical Interpretation, CRA noted that payments or reimbursements for an employee's tuition fees incurred for business purposes are generally deductible to the company. They also noted that an employer



may normally deduct training expenses for an employee, regardless of whether the employer or employee benefits, provided that such expenses are reasonable in the circumstances.

Action Item: Consider providing deductible, and non-taxable, scholarships to employees or employees' children. Ensure these payments are structured properly. Complications arise when such payments are made to owners and related parties.

SEPARATION: Getting the Dependant Tax Credit

The eligible dependant tax credit is worth more than \$2,000 in tax savings for 2014; the exact amount varies depending on the province of residence.

In a March 27, 2014 Tax Court of Canada case (*Sauve vs. H.M.Q.*, 2012-4483(IT)I), the taxpayer (Mr. S) appealed assessments that disallowed a dependant tax credit with respect to his two children in 2010 and 2011. The taxpayer has shared custody after a relationship breakdown with his former spouse.

Taxpayer loses

The Court noted that the Income Tax Act specifically denies the deduction (dependant tax credit) where the taxpayer is required to pay a support amount to the former spouse or common-law partner. However, the act goes on to note that if both spouses are paying child support, the deduction may be available in some scenarios.

Mr. S argued that his former spouse was in essence making a payment because the amount that he paid was reduced or "set-off" by the amount that she would otherwise had to have paid.

The Court noted that the concept of "set-off" is a mere distraction from the real issue, i.e., whether or not Mr. S is the only parent making a "child support payment", therefore the taxpayer was not allowed the credit.

Action Item: Ensure that both spouses are making support payments instead of only one making a net payment.

HOW KURT AND TEAM CAN HELP YOU WITH TAXES

- **Oversee annual tax return preparation**
- **Thorough personal and business tax planning opportunity reviews**
- **Implementing life insurance to cover taxes at death**
- **Tax smart portfolio investment strategies**
- **Small business advanced tax planning**
- **Tax effective design of retirement cash flows**
- **Tax wise Will design**



Mutual funds, stocks, bonds, and financial planning are offered through Manulife Securities Incorporated. Insurance products and services are offered through Manulife Securities Insurance Inc. (a licensed life insurance agency and affiliate of Manulife Securities) by Manulife Securities Advisors licensed as life agents. The opinions expressed are those of the author and may not necessarily reflect those of Manulife Securities Incorporated.

The Wealth Management Practice of Kurt Rosentreter
Kurt Rosentreter, CA, CFP, CLU, TEP, FMA, CIMA, FCSI, CIM
Senior Financial Advisor, Manulife Securities Incorporated
Certified Financial Planner, Manulife Securities Insurance Inc.

Manulife Securities and the block design are registered service marks and trade marks of The Manufacturers Life Insurance Company and are used by it and its affiliates including Manulife Securities Incorporated / Manulife Securities Insurance Inc.

Manulife Securities Incorporated is a Member of the Canadian Investor Protection Fund.

 **Manulife Securities**
| For your future[®]

T: 416-628-5761 ext. 230 F: 416-225-8650
TF: 1-866-275-5878 (1-866-ASK-KURT)
kurt.rosentreter@manulifesecurities.ca