

Inform

2011

A newsletter from **Ritchie Shortt & Tully LLP Chartered Accountants**

Congratulations to Ryan Cavanagh, CA and his wife, Michelle, on the birth of their son on August 23, 2011.

2011 Combined Federal and Ontario Tax Brackets for Individuals

Taxable Income	Regular Income %	Ineligible (Private Corporation) Dividends %	Eligible Canadian Dividends %	Capital Gains %
\$ 0 to \$ 37,774	20.05	2.77	0.00	10.03
\$ 37,774 to \$ 41,544	24.15	7.90	3.88	12.08
\$ 41,544 to \$ 66,514	31.15	16.65	11.72	15.58
\$ 66,514 to \$ 75,550	32.98	17.81	12.50	16.49
\$ 75,550 to \$ 78,361	35.39	20.82	15.90	17.70
\$ 78,361 to \$ 83,088	39.41	23.82	18.32	19.71
\$ 83,088 to \$128,800	43.41	28.82	23.96	21.71
\$128,800 and over	46.41	32.57	28.19	23.21

(This table does not include the Ontario Health Premium)

Children's Arts Tax Credit

Effective 2011, the federal budget proposes a 15% non-refundable tax credit based on an amount of up to \$500 for eligible programs of artistic, cultural, recreational or developmental activities for children under 16 years of age. This credit is in addition to the fitness credit.

Medical Expense Tax Credit

Effective 2011, the \$10,000 limit on eligible medical expenses that can be claimed for a dependant relative is removed.

Child Tax Credit

To ensure that sharing a home does not prevent otherwise-eligible parents from claiming the child tax credit the 2011 Budget proposes to replace the rule that limits the number of claimants to one per domestic establishment.

Tuition Tax Credit

Fees exceeding \$100 paid to an educational institution, professional association, provincial ministry or other similar institution to take an examination required to obtain professional status or to be licensed to practice a profession or trade in Canada are now eligible for the tuition credit. This amendment will not apply to fees for examinations taken in order to begin to study in a profession or field.

Tax on Split Income-Capital Gains

Currently, "split income" includes dividends received by a minor directly or indirectly of unlisted shares of a corporation as well as income from a partnership or trust where the income is derived from a person related to the minor. "Split income" is taxed at the highest marginal tax rate. Capital gains realized on or after March 22, 2011 included in the income of a minor child from a disposition of shares of a corporation (where dividends on those shares would be subject to split income tax) to a person who does not deal at arm's length with a minor will now be subject to the tax on split income.

CPP Changes for 2012

Beginning in 2012, employers must withhold and remit CPP on wages paid to employees between ages 60-70 even if the employee is collecting CPP benefits. If the employee is between 65-70 he/she may file an election to opt out of paying CPP premiums in order to avoid paying CPP in January 2012. These rules also apply to self-employed individuals. In order to avoid paying CPP in January 2012 the election must be filed by December 1st, 2011. There are several other changes related to CPP benefits. Please contact us for more information.

Universal Child Care Benefit (UCCB)

You may deposit UCCB payments to a child's bank account and the investment income earned thereon will be taxed in the child's hands. Be sure to obtain a social insurance number for your child.

Foreign Reporting

Foreign reporting questions have been part of personal and corporate tax return filings for several years. CRA is now assessing penalties for failure to file this information which can reach \$2,500 per year. If you own foreign property with a cost of \$100,000 or more at any time in the year you must file Form T1135. Foreign property includes shares in foreign corporations, foreign real estate, foreign mutual funds, foreign bank accounts, debts owed by non-resident persons and interests in foreign partnerships and trusts. Foreign property excludes personal use property (eg. vacation properties for personal use) and foreign investments held through Canadian mutual funds.

CRA Penalty for Second Offence in Four Year Period

If you fail to report any source of income for the second time in a four year period the penalty is 10% of the unreported income. For example, in 2009 you missed one T5 slip for \$100 then in 2011 you do not include a T4 slip showing \$30,000 the penalty would equal \$3,000. Please review your return carefully to ensure all income is included.

U.S. Tax Filing

All U.S. citizens, dual citizens and Green-Card holders are required to file U.S. tax returns for all years. There may be income tax and reporting issues arising from such items as TFSA's, RRSP's, RESP's and principal residence sales. There are additional filing requirements if you have a financial interest in foreign financial accounts in excess of U.S. \$10,000 at any time during the year. Beginning in 2014, the IRS will require foreign financial institutions to disclose all accounts held by U.S. citizens and Green-Card holders. Please contact our office if you have not been filing U.S. returns for specific advice on becoming compliant.

2011 Federal and Ontario Combined Corporate Income Tax Rates

Canadian Controlled Private Corporations		Other Corporations	
Active Business Income (up to \$500,000)	Investment Income	Manufacturing and Processing	General
15.5%	46.42%*	26.5%	28.25%**

*26.667% of investment income is eligible for refund at a rate of \$1 for every \$3 of dividends paid.

**Note that the general corporate tax rate is scheduled to be reduced to 25% by 2014.

Temporary Hiring Credit for Small Business

A temporary credit of up to \$1,000 will be available to offset any increase in 2011 employment insurance premiums over those paid in 2010. This credit is available to employers with EI premiums below \$10,000 in 2010. This credit will be automatically calculated and refunded upon filing your 2011 T4 Summary.



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