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Inform

Fall 2010

A newsletter from Ritchie Shortt & Tully LLP Chartered Accountants

We are pleased to announce that **Paula Van Kessel, CA** gave birth to a healthy baby boy on October 8, 2010. We look forward to Paula's return to our office in the Fall of 2011.

2010 Combined Federal and Ontario Tax Brackets for Individuals

Taxable Income	Regular Income %	Ineligible (Private Corporation) Dividends %	Eligible Canadian Dividends %	Capital Gains %
$ 0 to $ 37,106	0 - 20.05	2.77	0.00	10.03
$ 37,107 to $ 40,970	24.15	7.89	3.96	12.08
$ 40,971 to $ 65,344	31.15	16.64	9.76	15.58
$ 65,345 to $ 74,214	32.98	17.81	10.55	16.49
$ 74,215 to $ 76,986	35.39	20.82	14.03	17.70
$ 76,987 to $ 81,941	39.41	23.82	16.49	19.70
$ 81,942 to $127,021	43.41	28.82	22.25	21.70
$127,022 and over	46.41	32.57	26.57	23.20

(This table does not include the Ontario Health Premium)

Benefits Entitlement – Shared Custody

Currently only one individual (the primary caregiver parent) can receive the Canada Child Tax Benefit (CCTB), Universal Child Care Benefit (UCCB), and child component of the HST credit. Effective July 2011, two individuals who share custody of a child can share the CCTB and UCCB each month as well as the child component of the HST credit each quarter.

Universal Child Care Benefit (UCCB) for Single Parents

Currently the UCCB is taxable in the single parent's income. Effective in 2010 and subsequent taxation years a single parent has the option to have the benefit included in the income of the child for whom the Eligible Dependant Credit is claimed or, subject to certain conditions, in the income of one of the children for whom the UCCB is paid.

Employment Insurance (EI) Benefits – Self-Employed Individuals

If you are self-employed, you may be eligible for special EI benefits (maternity, parental, sickness, and compassionate care) starting in January 2011, if you meet certain criteria. Currently self-employed individuals do not have access to any EI benefits under the EI program. You will be required to opt into the EI program at least 1 year prior to claiming benefits. If you opt into the program during the 2010 calendar year, you will pay the same EI premium rate as salaried employees ($747 maximum for 2010). You are not required to pay the employer's portion of the premium rate, as you will not have access to EI regular benefits. You can opt out of the EI program at the end of any tax year as long as you have never claimed any benefits. However, once you claim benefits, you will have to contribute on self-employed earnings for a long as you are self-employed.

Canada Pension Plan Changes in 2012

Currently an individual may drop 15% of the years from the calculation of benefits. This rate will be increased to 16% in 2012. Beginning in 2012, individuals under age 65 receiving CPP retirement benefits will be required to make CPP contributions on any pensionable earnings. The early pension reduction will be gradually increased from 0.5% to 0.6% for each month that the pension is taken before age 65.

Medical Expenses

After March 4, 2010, expenses incurred for purely cosmetic procedures (including related services, travel and other) will not be eligible for the medical expense tax credit unless the expenses are required for medical or reconstructive purposes. In Ontario, HST will apply to surgical or non-surgical purely cosmetic procedures, devices or goods used or provided with cosmetic procedures and related services.

Over Contributions to Your Tax-Free Savings Account (TFSA)

You can re-contribute money withdrawn from your TFSA. However, the contribution room is not increased until the beginning of the following year. Note that a transfer of a TFSA account from either one institution to another or a transfer within a single institution within the same year should not be considered a new contribution. However, in some cases, the institution may have incorrectly reported the transfer as a new contribution for purposes of the information sent to CRA. In such cases, amended records may have to be filed. Canada Revenue Agency has been flexible with respect to penalties in **2009 only** where there has been a genuine misunderstanding of the rules.

Tax Treatment of Employee Stock Options

Effective March 5, 2010, employees with stock options from public companies can no longer file an election to defer the taxation of a stock option benefit of up to $100,000 from the tax year in which the options are exercised to the tax year in which the shares acquired under the agreement are sold. Another change impacts hybrid stock option plans which allow you to exercise your options or dispose of your option rights in exchange for a cash payment from your employer. Under the current rules, if you choose the "cash out" option, your employer can fully deduct the cash payment as a business expense, and you may also be able to claim a deduction equal to 50% of the stock option benefit included in your income (i.e., the amount by which the fair market value of the shares at the time the option is exercised exceeds the price you paid for them). It is proposed that the 50% deduction will only be available on the "cash out" option if your employer waives the right to deduct the cash payment.

Ontario Children's Activity Tax Credit

Effective for 2010 and subsequent tax years, eligible parents and guardians will be able to claim a refundable tax credit of up to $50 per child under 16 ($100 per disabled child under 18) for eligible expenditures incurred for enrolment of a child in qualifying fitness or **non-fitness** activities. Instruction in music, dramatic arts, dance and visual arts, language instruction, Scouts and Girl Guides are some of the eligible activities.

Simplified Logbook for Motor Vehicle Expenses

June 28, 2010, CRA introduced a new Simplified Logbook for motor vehicle expense provisions. CRA will consider giving considerable weight to a logbook maintained for a sample period as evidence of a full year's usage if (a) the taxpayer has previously filled out and retained a logbook covering a full 12 month period that was typical – this is the base year, (b) a logbook for a sample period of at least one continuous 3 month period in each subsequent year has been maintained, (c) the distances travelled in the 3 month sample period is within 10% of the corresponding figures for the same 3 month period in the base year and (d) the annual business use of the vehicle in a subsequent year does not vary by more than 10% in comparison to the base year.

2010 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
16,00%*	47.67%**	29.00%	31.00%***

*Ontario decreased the small business corporate tax rate from 5.5% to 4.5% effective July 1, 2010.
**26.667% of investment income is eligible for refund at a rate of $1 for every $3 of dividends paid.
***The general federal corporate tax rate was decreased from 19% to 18% effective January 1, 2010.
The general Ontario corporate tax rate was decreased from 14% to 12% effective July 1, 2010.
Note that the general corporate tax rate is scheduled to be reduced from 31% in 2010 to 25% by July 1, 2013.

Capital Cost Allowance Changes

A reminder of the following short-term tax relief changes to capital cost allowance:

- Computer equipment and systems software purchased before February 1, 2011 will qualify for a 100% deduction in the year of purchase (not subject to the half year rule)
- The 50% straight-line accelerated capital cost allowance rate for investment in manufacturing or processing machinery and equipment is extended to 2011

Harmonized Sales Tax

On July 1, 2010, HST was implemented in Ontario at 13%. Complex rules were introduced for the HST/GST to be charged at the rate effective at the address of the recipient of the goods or services. Also, restricted input tax credit rules exist for large businesses. Please contact us for assistance with your particular matter.

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