

Inform

2012

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

Congratulations to Andrew Tully, CA and his wife, Siobhan, on the birth of their son, and to Paula Van Kessel, CA and her husband, Jeff, on the birth of their daughter. We also welcome Kevin Bathe, CA to our staff and congratulate him on his marriage to Amanda.

2012 Combined Federal and Ontario Tax Brackets for Individuals

Taxable Income	Regular Income %	Ineligible (Private Corporation) Dividends %	Eligible Canadian Dividends %	Capital Gains %
\$ 0 to \$ 39,020	20.05	2.77	0.00	10.03
\$ 39,020 to \$ 42,707	24.15	7.90	3.80	12.08
\$ 42,707 to \$ 68,713	31.15	16.65	13.43	15.58
\$ 68,713 to \$ 78,043	32.98	17.81	14.19	16.49
\$ 78,043 to \$ 80,955	35.39	20.82	17.51	17.70
\$ 80,955 to \$ 85,414	39.41	23.82	19.88	19.71
\$ 85,414 to \$132,406	43.41	28.82	25.40	21.71
\$132,406 to \$500,000	46.41	32.57	29.54	23.21
\$500,000 and over	47.97	34.52	31.69	23.99

(This table does not include the Ontario Health Premium)

Ontario Personal Tax Rates

In 2012, the 20% Ontario surtax will apply where the basic Ontario tax exceeds \$4,213 and the additional 36% surtax will apply to basic Ontario tax over \$5,392. This tax affects individuals with taxable income over \$500,000. As shown in the tax chart above, this has pushed the top marginal tax rate in Ontario from 46.41% to 47.97% in 2012 and to 49.53% in 2013. Tax planning to limit the amount of income taxed at this top rate is now more important than ever.

Strategies include:

1. Income splitting with family members. Current legislation requires interest at 1% be charged on spousal loans making shifting income to a low income spouse very inexpensive.
2. Leave earnings in a corporation rather than paying out bonuses or dividends.
3. Transferring investments into a corporation.
4. If your income is temporarily over \$500,000, consider purchasing flow-through shares in that year to create a tax deduction.

Old Age Security (OAS)

Beginning in 2023, the age of eligibility for OAS will gradually increase from age 65 to 67 with full implementation by 2029. Persons aged 54 or older as of March 31, 2012 are not affected. Also, beginning in July 2013, you have the option of deferring OAS for up to 5 years. The annual payments will be higher if you choose to defer.

Family Caregiver Tax Credit

Beginning in 2012, there is a \$2,000 tax credit available to caregivers of infirm relatives including spouses, common-law partners and minor children.

Ontario Healthy Homes Renovation Tax Credit

Effective in 2012, this credit is a 15% refundable credit on up to \$10,000 of eligible expenses per year incurred on or after October 1, 2011 for permanent home modifications that improve mobility and accessibility for seniors. The individual does not have to be disabled. Eligible expenses include ramps, stair lifts, walk-in tubs, handrails and more.

Temporary Hiring Credit for Small Business

The temporary hiring credit has been extended for 2012. A credit of up to \$1,000 is available if an employer's 2012 employment insurance (EI) premiums exceed those paid in 2011. An eligible employer has total EI premiums in 2011 of \$10,000 or less. This credit is automatically processed by Canada Revenue Agency.

Requests for Information

New rules will require us to electronically file all eligible returns. This may result in an increased number of requests for information from Canada Revenue Agency (CRA) after the return is filed. Such a request is not an audit. CRA requests supporting receipts for items that are not otherwise available to them. Common requests include tuition and education credits, medical expenses, charitable donations and moving expenses. Please provide us with this correspondence promptly. It is also important to note that CRA will not contact you by email. Any such emails are scams.

Workers Safety Insurance Board (WSIB)

Effective January 1, 2013 independent operators, sole proprietors, partners and executive officers in the construction industry will no longer be able to opt out of paying WSIB premiums. Certain exceptions exist for partners or executive officers who do not provide any construction work and in circumstances where only home renovation work is done through a direct contract with the homeowner. If you need assistance determining if this change affects you please contact us or visit www.beregisteredbready.ca.

Ontario Corporate Income Tax Rate

The Ontario general corporate income tax rate has been declining in recent years and was scheduled for further decreases in 2012 and 2013. It has now been announced that the rate will be held at 11.5% until the budget is balanced. The Ontario corporate tax rate on income eligible for the small business deduction will remain at 4.5%. The combined federal and Ontario rates for 2012 are as follows:

2012 Federal and Ontario Combined Corporate Income Tax Rates

Canadian Controlled Private Corporations		Other Corporations	
Small Business Income (up to \$500,000)	Investment Income	General Manufacturing and Processing	General Active Business Income
15.5%	46.17%*	25%	26.5%

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

Personal Services Business

A personal services business is where the shareholder can reasonably be regarded as an employee of the client. For fiscal periods commencing after October 31, 2011 the corporate tax rate applicable will be 39.5%. It is time to revisit your corporate status and your tax planning strategies if you may be operating a personal service business.

Harmonized Sales Tax (HST)

If you provide services or products outside Ontario, the 13% HST may not apply to the sale. Generally speaking, the tax rate in the customer's province is relevant. These place of supply rules are complex, please contact us for specific advice.

HST Quick Method

Effective for reporting periods beginning after 2012, the annual taxable sales threshold for businesses eligible to elect to use the quick method will increase from \$200,000 to \$400,000 of HST-included sales. Under this method, you do not track input tax credits and you remit less than 13% on your sales.



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