

# Inform

2013

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

Congratulations to Andrew Tully, CPA, CA and his wife, Siobhán, on the birth of their son. We also welcome Jenn Armstrong, CPA, CA and Redeemer University College graduate, Taylor Prins to our staff.

## 2013 Combined Federal and Ontario Tax Brackets for Individuals

Taxable Income	Regular Income %	Ineligible (Private Corporation) Dividends %	Eligible Canadian Dividends %	Capital Gains %
\$ 0 to \$ 39,723	20.05	2.77	0.00	10.03
\$ 39,723 to \$ 43,561	24.15	7.90	3.77	12.08
\$ 43,561 to \$ 69,963	31.15	16.65	13.43	15.58
\$ 69,963 to \$ 79,448	32.98	17.81	14.19	16.49
\$ 79,448 to \$ 82,422	35.39	20.82	17.52	17.70
\$ 82,422 to \$ 87,123	39.41	23.82	19.88	19.70
\$ 87,123 to \$135,054	43.41	28.82	25.40	21.70
\$135,054 to \$509,000	46.41	32.57*	29.54	23.20
\$ 509,000 and over	49.53	36.47**	33.85	24.76

(This table does not include the Ontario Health Premium)

\* proposed 34.92% in 2014 \*\* proposed 38.60% in 2014

### Foreign Reporting (Form T1135)

Canadian residents must report specified foreign property costing more than CDN \$100,000 in total on Form T1135. Beginning in 2013, the normal reassessment period will be extended by three years if the taxpayer has failed to report income from a specified foreign property on their tax return, and Form T1135 was not filed, late-filed or included incomplete or incorrect information concerning a foreign property. Form T1135 has been revised and requires more detailed information. CRA will remind taxpayers on their Notice of Assessment to file Form T1135 if their tax return showed "yes" that they owned foreign property with a total cost of more than \$100,000 during the taxation year.

### First-time Charitable Donor's Super Credit

A first-time donor will be entitled to a one-time federal tax credit equal to 40% for monetary donations of \$200 or less, and 54% for donations between \$200 and \$1,000. An individual is a first-time donor if neither the individual nor the individual's spouse or common-law partner has claimed a charitable donation tax credit after 2007. The maximum donation amount that may be claimed per couple is \$1,000 and this credit applies to donations made on or after March 21, 2013 and before 2018.

### Adoption Expense Tax Credit

The adoption expense tax credit allows an individual to claim a non-refundable credit on eligible expenses (up to a maximum of \$11,669 per child in 2013) in the taxation year in which the adoption period ends. For adoptions finalized after 2012, the adoption period has been extended to begin at the earlier of the time when the adoptive parent makes an application to register with the provincial ministry or provincially licensed agency, and the time when the application is made to a Canadian court.

### Dividend Tax Credit for Ineligible Dividends

The effective tax rate on ineligible dividends paid after 2013 is scheduled to increase. Previously, ineligible dividends were subject to a 25% gross-up and a dividend tax credit of 13.33%. The gross-up has been reduced to 18% and the dividend tax credit to 11%. The top marginal combined federal and Ontario rate for ineligible dividends will increase from 36.47% to 38.60%.



### **Lifetime Capital Gains Exemption**

This exemption is proposed to increase from \$750,000 to \$800,000 for all dispositions of qualified small-business corporation shares, qualified farm property and qualified fishing property after 2013. After 2014, the exemption limit will be indexed to inflation.

### **Restricted Farm Losses (RFL)**

The federal budget proposes to clarify the legislation that a taxpayer's other sources of income must be subordinate to farming in order for farming losses to be fully deductible against income from those other sources. When this is not the case, the farm losses are restricted. The deductible RFL limit has been increased from \$8,750 to \$17,500.

### **Deduction of Safety Deposit Box Fees**

The deduction of safety deposit box fees paid to a financial institution has been eliminated for taxation years that begin on or after March 21, 2013.

### **Ontario Trillium Benefit (OTB)**

Beginning in 2014, individuals will have the option to receive the OTB in a single payment at the end of benefit year (i.e., July 1 to June 30) or they may continue to receive the OTB in regular monthly payments throughout the benefit year. The OTB amount will remain the same under either option. If the total entitlement is less than \$360, a lump sum payment will be made in July.

### **Testamentary Trusts**

For existing and new arrangements for 2016 and later taxation years, it is proposed that testamentary trusts will be subject to a flat tax rate equal to the top rate of combined federal and provincial tax for individuals. Estates would also be subject to this flat top-rate taxation starting immediately after the 36 months following an individual's death. Estates could thus retain access to graduated rates for up to the first 36 months of their administration.

## **2013 Federal and Ontario Combined Corporate Income Tax Rates**

<b>Canadian Controlled Private Corporations</b>		<b>Other Corporations</b>	
<b>Small Business Income (up to \$500,000)</b>	<b>Investment Income</b>	<b>General Manufacturing and Processing</b>	<b>General Active Business Income</b>
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.

### **Employer Health Tax (EHT)**

Effective January 1, 2014, the EHT exemption (shared by a group of associated employers) will increase from \$400,000 to \$450,000 and will be adjusted for inflation every five years.

### **Accelerated CCA for Manufacturing and Processing (M&P) Equipment**

Currently, M&P machinery and equipment acquired by a taxpayer after March 18, 2007 and before 2014 is eligible for a temporary capital cost allowance (CCA) rate of 50% on a straight-line basis, subject to the half-year rule, under Class 29. This temporary CCA has been extended for two years, and will now apply to equipment acquired before 2016. Eligible assets acquired in 2016 and subsequent years will qualify for the regular 30% declining-balance rate (Class 43).

### **HST/GST and Health Care Services**

Effective March 21, 2013, the HST/GST exemption expands "homemaker services" to exempt publicly subsidized or funded "personal care services", such as bathing, feeding, and assistance with dressing and taking medication. The budget also clarified that HST/GST applies to reports, examinations and other services not performed for the protection, maintenance or restoration of the health of a person or for palliative care; for example, services performed solely for the purpose of determining liability in a court proceeding or under an insurance policy.



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