"Working together for inspired solutions."

Inform

2016

A newsletter from Ritchie Shortt & Tully LLP Chartered Professional Accountants

Congratulations to Kevin and Amanda Bathe on the birth of their daughter, Isla Marie and to Jenn and Mark Armstrong on the birth of their son, Mavic Ronan. Congratulations also to Janine Snyder (Lough) and Phil Snyder on their marriage.

2016 Combined Federal and Ontario Tax Brackets for Individuals

Taxable Income	Regular Income %	Ineligible (Private Corporation) Dividends %	Eligible Canadian Dividends %	Capital Gains %
$ 0 to $ 41,536	20.05	6.13	0.00	10.03
$ 41,536 to $ 45,282	24.15	10.93	0.00	12.08
$ 45,282 to $ 73,145	29.65	17.37	6.39	14.83
$ 73,145 to $ 83,075	31.48	19.51	8.92	15.74
$ 83,075 to $ 86,176	33.89	22.33	12.24	16.95
$ 86,176 to $ 90,563	37.91	27.03	17.79	18.95
$ 90,563 to $140,388	43.41	33.46	25.38	21.70
$140,388 to $150,000	46.41	36.97	29.52	23.20
$150,000 to $200,000	47.97	38.80	31.67	23.98
$200,000 to $220,000	51.97	43.48	37.19	25.98
$220,000 and up	53.53	45.30	39.34	26.76

(This table does not include the Ontario Health Premium.)

Donation credits
The non-refundable federal donation credit has been increased from 29% to 33% on donations in excess of $200 for individuals whose income exceeds $200,000 and are subject to the new 33% federal tax bracket.

Reporting the sale of a principal residence
The capital gain on the sale of a property designated as your principal residence is not subject to tax. However, beginning with 2016, you should report some basic information regarding the sale of a principal residence, even though it is not taxable. Failure to report the disposition leaves the transaction open to an extended reassessment period beyond the standard three year limitation.

Canada Child Benefit program
Beginning July 1, 2016 the Canada Child Benefit (CCB) program replaces the Universal Child Care Benefit (UCCB) and Canada Child Tax Benefit (CCTB). The new program provides up to $6,400 annually per child under age six and $5,400 per child age six to 17. The benefit is phased out gradually as family income increases over $30,000. Children with disabilities are entitled to an additional $2,730. The amounts received are not taxable and, therefore, do not reduce the amounts available to the family from other programs.

Family Tax Cut eliminated
Beginning in 2016, the family income splitting credit is eliminated. This credit refers to the measure that, during 2014 and 2015, allowed some families with children under age 18 to reduce their tax liability by up to $2,000.

Tuition, Education and Textbook credits
Beginning with 2017, the federal education and textbook credit is no longer available. A federal credit will still be available for tuition fees paid. Amounts carried forward from previous years will not be affected. Beginning September 2017, the Ontario tuition and education tax credits will be eliminated. Credits will be available for studies from January to September 4, 2017. Amounts carried forward from previous years will not be affected.

Children's fitness and arts credits

The federal fitness and arts credits for 2016 will be reduced to 50% of the amounts previously available to $500 for fitness and $250 for arts. These credits will both be eliminated for 2017.
The Ontario Children's Activity Tax Credit remains the same for 2016, but is also eliminated beginning with 2017.

Teacher and Early Childhood Educator School Supply Tax Credit

This new federal tax credit is available to licensed and certified teachers and educators starting in 2016. The refundable credit will provide a cash benefit of up to $150 based on 15% of a maximum of $1,000 of eligible expenditures. To be eligible, the expenditures must be purchased for the purpose of teaching or enhancing learning in a classroom or learning environment. Employers will need to certify that the supplies were used for teaching purposes.

Home Accessibility Tax Credit

Beginning with 2016, taxpayers who are over 65 years of age, or are disabled, may claim a federal non-refundable tax credit equal to 15% of eligible expenses up to $10,000 per year. The resulting non-refundable tax credit is a maximum of $1,500. Eligible expenses are renovations to an eligible dwelling, to make the residence more accessible, functional or safe for the use of the eligible person.
The Ontario Healthy Homes Renovation Tax Credit, previously available to Ontario senior residents is not available after 2016.

2016 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%	50.17%*	25%	26.5%

*30.667% of investment income is eligible for refund at a rate of $1 for every $2.61 of dividends paid.

* * Canadian taxable dividend income (not from a connected corporation) is taxed federally only under Part IV at a rate of 38.33%. This tax is eligible for refund at a rate of $1 for every $2.61 of dividends paid.

Multiplication of the Small Business Deduction

Canadian-controlled private corporations (CCPC) will not be eligible for the small business deduction on income from providing services or property, directly or indirectly, to another private corporation where, at any time in a taxation year, the CCPC, one of its shareholders or a person that does not deal at arm's length with the shareholder, has a direct or indirect interest in the private corporation. This rule will not apply if all or substantially all of the CCPC's active business income is earned from providing services or property to arm's length persons other than the private corporation.
Where a CCPC provides services, directly or indirectly, to a partnership and the CCPC or a shareholder of the CCPC is a member of the partnership, or does not deal at arm's length with a member of the partnership, the specified partnership income rules are extended to the CCPC that will effectively limit the small business limit to that available to the connected/relevantly described member of the partnership.

Conversion of Cumulative Eligible Capital to new Capital Cost Allowance Class 14.1

The eligible capital property (ECP) regime is being replaced with a new capital cost allowance (CCA) class (Class 14.1) for businesses with a 100% inclusion rate and a 5% annual CCA rate. The budget proposes to calculate and transfer cumulative eligible capital (CEC) pool balances to the new CCA class as of January 1, 2017. For the first ten years, the depreciation rate for the new CCA class will be 7% for expenditures incurred before January 1, 2017. Further transition rules are provided, including special transition rules for small businesses.

Transfer of life insurance policies into a corporation

The budget proposes changes to prevent inappropriate tax benefits in situations when a life insurance policy is transferred to a private corporation. In effect, the measure prevents taxpayers from extracting the excess of the fair market value of a policy over its cash surrender value as a tax-free benefit when the policy is transferred to a corporation. This measure will apply to dispositions that occur after March 21, 2016, and may also impact capital dividend account distributions after March 21, 2016 for policies transferred in this manner prior to March 22, 2016.