MANNING ELLIOTT
ACCOUNTANTS & BUSINESS ADVISORS

Tax Tidbits – June 2015

Women rejoice!

In just a few short days, women everywhere will pay less each month for feminine hygiene products. On May 27, 2015 the federal government added feminine hygiene products to the list of zero-rated goods and services, effective July 1, 2015. This is expected to reduce government coffers by $36 million each year.

Zero-rated goods and services are still considered taxable supplies but are subject to a tax rate of 0%. This is in contrast to exempt goods and services which are not taxable supplies.

You might be asking yourself, what's the difference? We don't pay GST/HST on zero-rated or exempt supplies. The main difference between zero-rated and exempt supplies is whether input tax credits can be claimed by producers and sellers of these products. In order to claim ITC's, a company must incur GST/HST in the course of commercial activity, a definition which excludes exempt supplies. Therefore, if a supply is considered zero-rated, a company can still claim ITC's but if a supply is exempt, no ITC's are available.

Other types of zero-rated supplies include some types of transportation services, exported goods and services, medical supplies and prescriptions.

Whether goods are considered taxable or zero-rated can sometimes depend on what quantities or serving sizes are purchased. Are you craving that afternoon baked treat? Did you know if you buy 5 brownies, you will pay GST/HST but add a 6th and no GST/HST is applicable? With the extra $36 million dollars a year Canadian women will now save, purchase that additional brownie so you don't pay tax on that either!

Please contact **Tara Hauck** of the Manning Elliott Tax Team for assistance with any questions.

2015 Budget Highlights

As a follow up to our recent Federal Budget Newsletter, here are a few of the highlights.

Tax-Free Savings Account (TFSA)

The TFSA was introduced in 2009 to encourage savings. Investment income earned in a TFSA and withdrawals from the account are not subject to income tax.

Budget 2015 proposes to increase the annual TFSA contribution limit from $5,500 to $10,000 effective January 1, 2015 and for subsequent years. Even though this is still only proposed legislation, the CRA has announced that financial institutions may immediately allow TFSA account holders to contribute up to the new expected maximum.

Home Accessibility Tax Credit (HATC)

The HATC has been proposed to assist in the cost of renovations to make homes safer and more accessible. Individuals who are 65 years of age or older at the end of 2015 or who are eligible for the Disability Tax Credit at any time during 2015 will be entitled to claim the non-refundable tax credit. Each eligible individual will receive tax relief of 15% on up to $10,000 of eligible expenditures per year made to their principal residence.

Small Business Tax Rate

The tax rate for small businesses in Canada will be reduced by 2% over the next 5 years, at half a percent per year from January 1, 2016 until January 1, 2019. The rate will remain at 11% in 2015 and will be lowered to 9% by 2019. Tax rates for corporations whose fiscal year does not correspond with the calendar year will be pro-rated.

Accelerated CCA Rate for Manufacturing and Processing Machinery and Equipment

Machinery and equipment acquired after 2015 will be included in a new CCA Class 53 and subject to a 50% declining-balance rate. This class will be subject to the half-year rule.

Withholding Tax for Non-Resident Employers

Non-resident employers who send their employees to Canada to work are required to remit withholding tax to the CRA on the Canadian-source income earned regardless of whether the employee would be subject to any Canadian tax. Budget 2015 allows for relief of this obligation for payments made after 2015 for employees who meet the exemption criteria under a tax treaty and do not reside in Canada for more than 89 days for any 12 month period. In addition, the employer must be resident in a country with which Canada has a tax treaty, must not carry on business through a permanent establishment in Canada, and must be certified by the Minister of National Revenue.

Foreign Reporting Requirements

A new simplified foreign income verification statement will be available to taxpayers who hold specified foreign property with a total cost of $100,000-$249,999 for taxation years beginning in 2015.

Non-cash donations

Donations made to registered charities are eligible for a donation tax credit. For 2015, In BC this is equal to 20.06% on the first $200 of donations and 43.7% on remainder. The donations on which the credit can be claimed are limited to 75% of net income.

Currently, income tax legislation allows public company shares and ecological or cultural property to be exempt from capital gains tax, if they are donated to registered charities. This is in addition to the donation tax credit available on its fair market value, (i.e. what it could have sold for).

The 2015 Budget has added private company shares and real estate to the assets exempt from the capital gains tax, effective January 1, 2017. However, the shares or property must be sold, and all or a portion of the cash must be donated within 30 days. The purchaser must deal at arm's length with both the donor and the donee.

The rationale behind this sell/donate requirement is to balance charities' concerns with management and acceptance of the shares or properties, and the government's concerns about valuation abuses. It will be interesting to see once the details are available, whether there may be an exemption for donating real estate that is used in charitable activities by the donee.

There are also new tax rules with respect to donations made by the deceased or his/her Estate which were discussed in the May edition of Tax Tidbits.

Please contact **Wendy Seet** of the Manning Elliott Tax Team with any questions.

And More…

- **Sharp increase in voluntary disclosures**

  The CRA has reported that voluntary disclosures of offshore income and assets have nearly doubled in the year ended March 31, 2015 over the prior year. These submissions captured $780 million of previously unreported income. All taxes and interest must be paid under the voluntary disclosure program, but often penalties are waived and the CRA can reduce the interest rate.

  The increase in offshore-related disclosures is likely due to the CRA's introduction of the Offshore Tax Informant Program ("OTIP") which rewards informants whose tips lead to the collection of at least $100,000 of additional federal tax.

- **Beware of a call from the taxman**

The CRA has reported an increase in fraudulent communications to taxpayers. Recently, taxpayers have received phone calls from individuals purporting to be from the CRA and demanding payment of back taxes by prepaid credit cards or wire transfers. Unsuspecting taxpayers are threatened with possible asset seizure if they fail to pay.

Should you wish to verify the authenticity of a "CRA" caller's telephone number, you should contact the CRA directly. More information can be found here: http://www.cra-arc.gc.ca/ntcs/bwr-eng.html