



# Newsletter

Spring 2006

## GST CHANGES NEED TO BE IMPLEMENTED

The GST will decrease from 7 to 6%, and HST will go down to 14%, for supplies occurring after June 30, 2006.

It will be crucial to ensure that transactions are properly documented and the correct rate of tax is used. The timing of a supply is determined by four factors. The supplier must report GST/HST based on the **earliest of:**

- the payment due date;
- the invoice date;
- the date the invoice is issued; and
- the actual payment date.

The new residential housing rebates will remain at 36% of tax paid on qualified property, to a maximum of \$7,560 progressively decreasing to zero for property valued over \$450,000. For real estate sales signed off before May 2, 2006 tax will apply at 7%, but where possession **and** title transfer occur after June 30, 2006, there is a special 1% rebate.

Registrants using one of the “Quick” methods for GST reporting must use a new rate for tax-included revenues earned after June 30, 2006.

There is no adjustment to instalment payments for annual GST/HST filers.

The GST owing on taxable benefits will change, with a .5 % reduction for the 2006 tax year, and 1% thereafter.

The tax rate charged on lease payments needs to be adjusted.

Effective April 1, 2007, the interest and penalty rules on GST filings will vanish. The interest rate will change to the T-Bill rate, rounded up to the nearest percent plus 4%. The interest will no longer be deductible for income tax purposes. Late filing penalties, based on the amount owed, will be introduced.

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## DFK CANADA INC. RANKED 10TH LARGEST PUBLIC ACCOUNTING GROUP IN CANADA

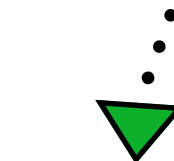
The Bottom Line survey ranked Canada’s Top 30 public accounting firms (by fee volume) for 2005. With combined revenue of all DFK Canada Inc. firms of \$90,000,000, our association would rank as the 10th largest accounting group.

The DFK Canada Inc. firms are ideally structured to service our clients where our role as auditor, tax expert, accountant and trusted advisor is highly valued. We offer our advice on an independent basis, with

an in-depth knowledge of our clients’ business and personal financial goals.

Through our Canadian DFK network of 14 firms, we are able to provide a national scope to our services. Our DFK International association in 68 countries provides services in all international markets. Our dedicated partners, professional and administrative employees are prepared to maintain and increase our value to our clients.

*Always listen to experts. They’ll tell you what can’t be done and why. Then do it.”*  
- Robert A. Heinlein



## Special points of interest:

- *Next personal tax instalments:  
- June 15, 2006  
- Sept. 15, 2006*
- *Bankruptcy changes postponed. RRSP still not protected.*

## DONATION OF SECURITIES TO CHARITIES—BUDGET PROPOSALS

Once again, the Federal government has made a very significant move in support of registered charities by **eliminating the tax on capital gains realized** on the donation of eligible property to a qualified donee, defined as registered charities (excluding private foundations).

The definition of an eligible property is a share, debt obligation or right listed on a prescribed stock exchange, a share of the capital stock of a mutual fund corporation, a unit of a mutual fund trust, or an interest in a related segregated fund trust (effectively shares of a public company), and includes the donation of stock options of corporations listed on prescribed stock exchanges.

The government first introduced the concept of reducing the tax cost on capital gains incurred on

the donation of shares in public companies (stocks) in 1997.

In their first budget, the new Conservative government honoured their pledge to registered charities to completely eliminate this tax cost.

This change is expected to have a significant impact by enticing individuals to donate securities that they may have been hesitant to donate in the past due to the tax consequences previously associated with these gifts.

The following table illustrates the difference to the individual donor, the registered charity, and the Canada Revenue Agency (CRA) between selling stock and donating the net proceeds to charity versus donating the stock directly to a charity.

	DONATE STOCK DIRECTLY		
	INDIVIDUAL DONOR	REGISTERED CHARITY	CRA
Donation of stock to charity	\$ (10,000)	\$ 10,000	\$
Tax on disposition	0		0
Tax savings on donation at top rate in Alberta (41.5%)	4,150		(4,150)
Net Position	<u>\$ (5,850)</u>	<u>\$ 10,000</u>	<u>\$ (4,150)</u>
	SELL STOCK AND DONATE NET PROCEEDS		
Gross proceeds on sale of stock	<u>\$ 10,000</u>	\$	
Tax on gain assuming a cost of \$2,000 for the stock and top rate in Alberta [(\$10,000 - \$2,000) x 50% x 39%]	(1,560)		1,560
Net proceeds available for donation to charity	(8,440)	8,440	
Tax savings on donation at top rate in Alberta (41.5%)	3,503		(3,503)
Net Position	<u>\$ (6,497)</u>	<u>\$ 8,440</u>	<u>\$ (1,943)</u>
	DIFFERENCES		
Net benefit (cost)	<u>\$ 647</u>	<u>\$ 1,560</u>	<u>\$ (2,207)</u>

In this example, the charity and the donor are both ahead when the stock is donated. The donor would have the same tax savings as if they had donated cash, while eliminating the accrued capital gains tax that they had on the stock. The opportunities for estate and tax planning have been greatly enhanced with this change.

**Effective May 3, 2006, there is no tax on capital gains realized on the donation of eligible property (primarily shares in public companies) to qualified donees.**

## IMPACT OF 2006 BUDGET ON TAX RATES

The federal budget of May 2, 2006 contained several tax reduction measures:

- The threshold for the Small Business Deduction on active earnings will increase from \$300,000 to \$400,000 effective January 1, 2007.
- The federal surtax of 1.12% will be eliminated for all businesses effective January 1, 2008.
- The dividend gross-up will be increased from 25% to 45% (and the corresponding dividend tax credit will be increased from 13.33% to 18.97%) for any corporate active business income that has already been taxed at the highest corporate tax rate, retroactive to January 1, 2006.

The change relating to dividends has the following impact:

- It puts income trusts, public companies and Canadian Controlled Private Corporations (CCPC) high active business earnings (i.e., not investment income) on a more equal taxation level.
- It makes it more attractive for CCPC's to leave income in the corporation above the \$300,000/\$400,000 threshold, since the total taxes payable are less than before the budget. The tax cost initially to the company is 32.12% in Alberta, and after the dividend payment the total tax cost is 48.47%.

The following is an illustration of the tax treatment of various types of active business corporate income, both under the existing rules and the proposed rules:

	-----Current-----		Proposed	
	Salary or Trust Income to Individual	CCPC Small Business Tax Rate	CCPC on Active Income > \$400,000	CCPC on Active Income > \$400,000
Net income before taxes	\$ 0	\$ 100,000	\$ 100,000	\$ 100,000
Federal rate - 13.12% or 22.12%	0	(13,120)	(22,120)	(22,120)
Provincial rate - 3% or 10.00%	0	(3,000)	(10,000)	(10,000)
Net corporate cash - to be paid as dividend in the future	0	83,880	67,880	67,880
2006 Personal cash from bonus	100,000	0	0	0
2006 Federal personal tax @ 39%	(39,000)			
2006 After-tax cash	61,000	0	0	0
Future dividend	0	83,880	67,880	67,880
Federal taxes (old - 19.58%, new 14.55%)	0	(16,423)	(13,291)	(9,877)
Provincial taxes (old - 4.5%, new 3.34%)	0	(3,775)	(3,055)	(2,267)
Total cash from dividend	0	63,682	51,534	55,736
Net personal cash	61,000	63,682	51,534	55,736
Total taxes paid	\$ 39,000	\$ 36,318	\$ 48,466	\$ 44,264

### Comments:

- Alberta corporate and personal tax rates are used above, with the assumption that the Alberta government will match the federal reduction of taxes on dividends.
- Paying dividends instead of salaries is now more attractive, especially when other payroll costs such as CPP and EI are considered; however, dividends are not earned income for RRSP purposes and the new increased dividend gross-up could result in a clawback of Old Age Security.
- Unlike salaries, dividends are not subject to Canada Revenue Agency's (CRA) reasonableness tests.
- With the 45% dividend gross-up, a person with no other income can earn approximately \$67,000 of dividends, compared to approximately \$36,000 with the 25% dividend gross-up and pay little or no personal income tax.

## WHAT CAN I ACCESS ON MY CRA ACCOUNT?

Everything you wanted to know about your personal tax return but were afraid to ask, is now only a click away!

Now you can find out all about your tax return without having to spend long waits on hold with the Canada Revenue Agency (CRA).

You can access your personal tax information, at any time, just by following a few steps on the CRA web site.

### See information about your:

- Tax refund or balance owing
- Direct deposit details
- RRSP, Home Buyers' Plan, and Lifelong Learning Plan information
- Tax returns and carryover amounts
- Account balance and payments on filing
- Instalment payments made
- Canada Child Tax Benefit (CCTB) account balance, and statement of account
- GST/HST credit account balance, and statement of account
- Authorized representative details
- Addresses and telephone numbers

### Manage your personal income tax and benefit account online by:

- Changing your return
- Changing your address or telephone numbers

- Authorizing your representative
- Registering your formal dispute

**To register with My Account: (Note: You will need your Notice of assessment from 2004 or 2005.)** Go to: <http://www.cra-arc.gc.ca/eservices/tax/individuals/myaccount/menu-e.html>.

- Click on "Register for a Government of Canada epass"
- Click on "Register now," click on "yes"
- Once in "Log In or Register," click on "Register," click on "yes"
- Enter all the information they request
- Continue
- Create Your User ID
- Print your recovery questions for future reference, continue
- Create your password, continue
- Enter your password, continue

### CRA Activation Code notification

To ensure the security of your personal information, a CRA Activation Code will be mailed to your address on record with the Canada Revenue Agency. You should receive it within approximately five business days.

Make sure you enter your CRA Activation Code before the **expiry date** shown on your letter.

### Come grow with us!

**KMSS** is growing nicely and is continually *seeking* enthusiastic, career-minded *accountants, at all levels*, to join our firm.

Please visit our web site – [www.kmss.ca](http://www.kmss.ca) – to see if KMSS would be the "perfect fit" for you. If so, please *submit your resume* to [careers@kmss.ca](mailto:careers@kmss.ca).

Kenway Mack Slusarchuk Stewart LLP is dedicated to providing hands on business and tax advisory services for our clients. For more information about our firm, please visit our website at [www.kmss.ca](http://www.kmss.ca).

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