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- improve your business operations
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- save you time
- business start-up
- business acquisition
- cash flow budgeting
- business advice
- financial statements
- corporate tax / planning
- information & accounting systems
(Certified *Quickbooks* Advisors)
- bookkeeping
- payroll tax
- GST / PST
- advising law businesses
- investment in real estate
- personal tax / planning
- estate planning
- in English, Cantonese, Japanese, Mandarin
- in most cases, with set fees

NEWSLETTER (February 2006)

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ATTENTION READERS

Please also visit our website at www.lamlonishio.ca . Previous issues of our newsletter are available on the website. Thank you.

GREAT LEVERAGE POINT

Remove The Risk

In Christopher Hart's book called "Extraordinary Guarantees", he outlines the extraordinary power that guarantees have to help you grow your business.

Whenever a customer makes a purchase, they take a risk that the product or service will not work. **When a business removes the risk for the customer, the business will gain more customers.** That is a simple proposition, isn't it? But simple as it is, it raises all sorts of questions like:

- How do you articulate the guarantee?
- How do you develop systems to cope with it?
- Won't clients or customers take advantage of the guarantee?
- Exactly what should you guarantee?

Of course, "everyone" has guarantees. The problem is that few businesses tell you about them in the right way. For example, what does "unconditionally guaranteed" really mean? It's missing some major elements in constructing powerful guarantees.

There are **three major elements in constructing a guarantee**, PLUS a fourth element which relates to the mind-set. Let's talk about this "mind-set" issue first.

Whenever we talk about guarantees, most people think about the down-side. That is, they start to think that people will rip them off. On occasion, it's true – some people will. However, let's imagine that by having a guarantee so powerful it's hard to resist, you double your sales. Furthermore, let's suppose that 10% of the people claim the guarantee unfairly (the number simply will not be that high – Christopher Hart says it's 0.1%). Still, you are miles ahead because of the extra business. Why should you make restrictive rules for the small percentage of people who are dishonest – rules that adversely affect the huge percentage of people who are honest.

Guarantees have the power to attract attention in the marketplace and that's particularly true **when you link guarantees with key frustrations.**

Consider the case of an international freight forwarding company. Clearly, the marketplace is crowded and many people are undercutting their competitors. The typical sales call is, "Who are you using? What are you paying? I'll beat their price."

But, one company did it differently and became incredibly successful. The owner of the company discovered that the clients' key frustration was that promises of delivery dates, by

other companies, were seldom met. So her offer became this – your package will arrive when we say it will. If it doesn't, we will accept responsibility, even if it may be caused by circumstances out of our control (like a strike). We will apologize AND carry the next three months freight for you free of charge.

Powerful stuff, isn't it? And, in case you're thinking they'd go broke, think again. Their business is booming.

Did the owner offer this guarantee to all her customers? No. She used it powerfully to attract those potential customers that would have a significant lifetime value to her company. She used the guarantee as an offer knowing a) that she could do it anyway and b) that having the guarantee in place would force her to develop systems to make sure it worked.

Here's the key point. **When you build a guarantee and develop systems to make it happen, you totally remove the risk for the customer.**

So, guarantees work. Let's look at the specific things a guarantee should have.

First, **it must be specific.** That is, the customer must understand exactly what will happen if you don't deliver on the promises you've made.

Second, **it must be blatant** – even outrageously blatant. For example, a Marriott Hotel in Philadelphia put it this way: "If, when you get into your room, it isn't the cleanest hotel room you've ever checked into, the first night's accommodation is on us".

Or, here is one of our favorites from the owner of Bugs Burger Bug Killer Company: "If your facility is closed down due to the presence of roaches or rodents, BBBK will pay any fines, as well as all lost profits, PLUS \$5,000." Guarantees like this one stretch the mind, don't they? In fact, it resulted in BBBK holding 80% of any market in which they care to operate.

Third, **link your guarantee into key frustrations.**

A great example of this is Mission Oaks Hospital in the US (private health care). Their guarantee for Emergency Room Care services goes like this: "If you have to wait more than five minutes for emergency room care, the accounting department will refund 25% of your bill." They've tracked a 25% increase in the first year alone. Of course we can't imagine this under Canadian universal health care, but just imagine if they offered this at your local hospital!!

Guarantees can do that for you. BBBK puts it this way: "There are **two fundamentals: the promise and the guarantee.** The promise can't simply be a marketing tool. **It must be built into**

the operational structure and the guarantee must be so self-punitive that producing the promised result is the only viable option."

Guarantees have power – **power to attract attention** in the marketplace, **power to motivate the team**, AND **power to improve profits dramatically**.

Take the "power to motivate the team" concept. When you think about Mission Oaks Hospital, what comes to mind? Do they have systems in place to make sure they honor the guarantee? Of course. Does the guarantee make Team Members more aware of the customer? Of course. So **what could your team do?**

2005 PERSONAL INCOME TAX RETURN CHECKLIST

Appendix A provides a *checklist of information* that will be needed to complete your *2005 Personal Income Tax Return*.



PERSONAL TAX

MEDICAL EXPENSE - OUTSIDE CANADA

In an October 3, 2005 article in the *Globe and Mail* it was noted that an Ontario taxpayer was *reimbursed* for her *medical expenses* by the Ontario Hospital Insurance Plan (*OHIP*) under a decision of the Ontario Health Services Appeal and Review Board for a hip operation *done in Florida*. It was noted that the 18 to 24 month wait that she faced would have caused "medically significant irreversible tissue damage". This follows a similar Ruling for a London, Ontario man who went to Port Huron, Michigan for a hip replacement.

If foreign medical expenses are *not reimbursed* by government authorities, they are usually allowed as a *medical expense credit* on the Canadian personal tax return. Also, the *transportation costs* for the taxpayer and a required attendant may qualify but CRA may request from the taxpayer a *letter* provided by a *medical practitioner* in Canada that *equivalent* medical services were *not available* at their Canadian location.

MEDICAL EXPENSE - SPECIAL SCHOOL

In a November 25, 2005 *Tax Court* of Canada case, the taxpayer's *daughter* had *learning disabilities* and attended a *special school* in Hamilton, Ontario to assist her in overcoming these disabilities.

CRA *allowed* the *tuition fees* as a *medical expense*. The *Tax Court* also *allowed* the *travel expenses* incurred in



driving the daughter to the school from her home in Simcoe each day.

DISABILITY TAX CREDIT

In a November 7, 2005 *Tax Court* of Canada case, the taxpayer was allowed a *Disability Tax Credit* (DTC) in respect of her *son* who suffered from *Attention Deficit Hyperactivity Disorder*.

EMPLOYMENT INCOME

TREASURY BOARD NON-TAXABLE TRAVEL ALLOWANCES

Effective *October 1, 2005*, the Treasury Board increased *non-taxable government travelling allowances* by *5 cents* per kilometre as follows:

<u>Effective</u>	<u>10/1/05</u>	<u>4/1/05</u>	<u>7/1/05</u>
Alberta	49.0	44.0	43.5
British Columbia	49.0	44.0	43.0
Manitoba	47.0	42.0	40.5
New Brunswick	49.5	44.5	43.5
Newfoundland and Labrador	52.5	47.5	47.5
Northwest Territories	54.5	49.5	49.0
Nova Scotia	49.5	44.5	44.0
Nunavut	54.5	49.5	49.0
Ontario	50.5	45.5	45.5
Prince Edward Island	49.0	44.0	44.0
Quebec	53.5	48.5	47.5
Saskatchewan	46.0	41.0	40.0
Yukon	57.0	52.0	50.5

Also, the total *meal and incidental allowance* increased from \$73.90 to **\$74.65** per day.

For details see website http://www.tbs-sct.gc.ca/pubs_pol/hrpubs/TBM_113/tb-dv-c_e.asp.

This could be a *starting point* for providing *non-taxable travel allowances* to employees.

SELF-ADMINISTERED SUPPLEMENTARY UNEMPLOYMENT BENEFIT (SUB) PROGRAMS

The basic *Employment Insurance* (EI) program can be *enhanced* with an employer *top-up plan* called *Supplementary Unemployment Benefit* (SUB) Programs.

Employer payments go on top of the \$413/week EI pays, bringing the employee closer to his/her *pre-disability earnings*.

All plans are *registered* with HRSDC (Human Resources and Skills Development Canada). Reference material can be found on the HRSDC website "Guide to SUB Plans".

(www.hrsdc.gc.ca).

TOP ONE HUNDRED EMPLOYERS

The October 22, 2005 issue of the *National Post* included an article on the *top one hundred employers* and provided information on benefits provided to their employees such as:

1. Maternity and compassionate leave Employment Insurance top-ups,
2. Tuition subsidies,
3. Fitness plans,
4. Health Plans,
5. Product discounts, and
6. Scholarships to employees.



PROFESSIONAL DEVELOPMENT PAYMENTS

In an October 17, 2005 *External Technical Interpretation*, CRA notes that when an employee takes employer-paid **training** primarily for the **benefit of the employer**, there is **no taxable benefit** to the employee whether or not the training leads to a degree, diploma or certificate.

For example, it was noted that the Ontario Ministry of Education provides School Boards with grant monies for “Teacher and Support Staff Development” (*TSSD*). \$512 (maximum) is paid tax free to **each employee** for **professional development**.

GIFT CERTIFICATES

In an October 20, 2005 *External Technical Interpretation*, CRA notes that cash or **near-cash gifts and awards** are **not** covered by their policy to permit tax-free gifts and awards of up to **\$500 per year** to an employee. CRA considers near-cash gifts and awards to include securities, gold nuggets, and **gift certificates**.

AUTOMOBILE BENEFITS

Employer-owned automobiles made **available to employees** require reporting of a **taxable benefit** on the employees’ T4s for the **standby charge** and the **operating benefit**. This may be a **complicated** calculation. For example, if the personal kilometres are **less than 20,000** and the automobile is used **more than 50%** for business, the standby charge and operating benefits are **reduced** accordingly.

CRA provides a valuable **online tool** to assist in calculating **taxable benefits** at www.cra.gc.ca/autobenefits-calculator.

CRITICAL ILLNESS INSURANCE

An **employer** may provide “**group critical illness insurance**” for employees which provide **tax deductible premiums** to the employer, **without a taxable benefit** to the employee. Also, when cash is paid to the employee under a Direction to Pay, it may be **non-taxable** to the employee.

BUSINESS/PROPERTY INCOME

SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT (SR&ED)

Some **things to consider** when determining **eligibility** for **SR&ED investment tax credits** include:

1. You do not have to have a scientist working in a laboratory

to qualify. The **business** owner and **staff** may be carrying on SR&ED activities.

2. A claim does **not normally result** in a **CRA audit** of other matters in the business. CRA will simply send a **science consultant** to determine if the claim qualifies as SR&ED. Next, they will send a **financial reviewer** to check the amount of the claim.



3. The claim process includes writing a **technical report** for each SR&ED project and compiling the data (labour, materials, and overhead costs).



4. **Capital equipment**, as well as labour, is eligible for the SR&ED investment tax credit.

5. CRA is looking for evidence of **technological advancement**. Therefore, it is important to emphasize technological goals, not business objectives.

6. Some **CRA Guides** with respect to SR&ED claims include **Guide RC4290** (Refunds for Small Business SR&ED), **Guide RC4270** (Introducing the SR&ED Program’s Account Executive Service), **Guide RC4271** (Pre-Claim Project Review Service), Interpretation Bulletin **IT-151R5**, Form **T661**, Information Circulars **86-4R2** and 3, and 94-1 and 2, and 97-1, **Income Tax Technical News 23** (List of Approved SR&ED entities), and the CRA website www.cra.gc.ca/sred.

7. **Most provinces** also have tax credits for **SR&ED** expenditures.

DIRECTOR FEES PAID TO ADULT CHILDREN

In a September 27, 2005 *Tax Court* of Canada case, CRA disallowed **directors’ fees paid to adult children** in 1997, 1998 and 1999 as being **unreasonable**.

The taxpayer admitted that the appointment of the children as directors was **largely tax driven** so that income earned in excess of the annual **small business deduction limit** could be **expensed** to the adult children. The disallowed expense to the company would result in **double tax** as the amounts had been included in income by the adult children.

The taxpayer argued that one motive to have the children as directors was to **expose them to the business** in the hopes that one day they would become more active in the business and ensure its continuity. However, when the children were first appointed they were all in school and **none** of the children were **employed** during the subject period with the taxpayer, other than in their capacity as directors. They did not participate in the day-to-day operations or management of the corporation. The directors’ fees were determined **based on the draws** of the children and bore **no relationship** between the amount declared and the performance of duties.

CRA and the Taxpayer Both Lose/Win

The Court found that director fees of \$11,600 paid to one child who did have a *possible interest* in the business, signed documents, and had liability risks were *allowed*.

With respect to the *other children*, only \$1,500 per child per year was *allowed* on the basis that they did have some *liability risks* as directors.

RETIREMENT COMPENSATION ARRANGEMENTS

A corporation may consider declaring a *deductible* payment to a *Retirement Compensation Arrangement* (RCA) rather than a bonus payable to the shareholders. This is because, even though a *50% refundable tax* is payable to CRA on the amount allocated to the RCA, it may be possible to *borrow funds* against this 50% and the amounts in the RCA. Therefore, *funds may be available* to the business which would not be available if the bonus had been declared and income tax paid to CRA.

THEFTS

In an October 13, 2005 *Tax Court* of Canada case, Mr. G carried on a *proprietorship grocery store*. His *spouse*, who did much of the work, allegedly stole funds from the proprietorship. The taxpayer argued that this should be a *deduction* to the proprietorship.

Taxpayer Loses!

The Court noted that this was *likely a partnership* and thefts made by a partner are *not deductible* to the business. Even if it was a proprietorship, thefts made by *senior employees* in a position to control or act as an owner are likely *not deductible*.

MUTUAL FUNDS

CRA *Guide RC4169* provides information on the "*Tax Treatment of Mutual Funds for Individuals*" including what is a mutual fund, how income from mutual funds is taxed, how to report income from information slips, calculating capital gains on redemption and sale, adjusted cost base calculations and examples.

CAPITAL GAINS/LOSSES

PRINCIPAL RESIDENCE EXEMPTION (P.R.E.)

In a November 9, 2005 *Tax Court* of Canada case, the taxpayer was a *contractor* who acquired land and *constructed a home* in Niagara Falls which was *sold two and one-half years* later at a gain of \$32,000 for which the taxpayer claimed the *P.R.E.* and the *GST new housing rebate*.

Both were *disallowed* by *CRA* on the basis that the property was *inventory* acquired with the intention of *resale*.

Taxpayer Wins!

The *Court* noted that, *even though* the individual was a *contractor*, the *primary intention* was to *build a residence* for his family which was *very specific* to their individual taste and needs.

Therefore, the *P.R.E.* and the *GST new housing rebate* were allowed.

AGRICULTURAL LAND RESERVE

In an October 25, 2005 *External Technical Interpretation*, CRA notes that where a residence is on an *agricultural land reserve* which *cannot be subdivided* and has been used on a *continuous basis* for the *home*, these are very *strong factors* to indicate that the *entire property* is eligible for the *principal residence exemption* even though it is in excess of one-half hectare.



SHARE OF BANKRUPT/INSOLVENT CORPORATION

In a November 24, 2005 *External Technical Interpretation*, CRA notes that a taxpayer may *elect* to claim a *loss* on shares where the corporation:

(i) becomes *Bankrupt* during the year;

(ii) is under a *Winding-Up Order*; or

(iii) is *insolvent*,

and *neither* the corporation nor a corporation controlled by it *carries on business*, the fair market *value* of the shares is *nil* and it is reasonable to expect that the corporation will be *dissolved or wound-up*.

ESTATE PLANNING/CHARITIES

NON-PROFIT ORGANIZATIONS (NPO)

In a September 22, 2005 *External Technical Interpretation*, CRA notes that for a club, society or association to receive *non-taxable treatment* the *NPO* must be operated *exclusively* for social welfare, civic improvement, pleasure or recreation or for any other purposes *except profit*.

However, if an association happens to realize incidental profits from their non-profit activities, it *may still qualify* as a *NPO* unless the *primary purpose* is "*for profit*".

DIRECTOR LIABILITY

Directors of *non-profit organizations* may be sued because of *actual, or alleged, errors* such as wrongful employee termination, discrimination, unpaid salaries, environmental damage, unpaid GST and employee source deductions, etc. Lawsuits could come from many sources such as government, creditors, members of the public, employees, and even fellow directors.

Therefore, it may be important to have *director and officer liability insurance* that covers directors, officers, volunteers, staff and employees.



DISCRETIONARY FAMILY TRUST

It may be advantageous to have a Discretionary Family Trust (*DFT*) own a *class of shares* of a *family corporation* so that *dividends* may be paid on the class for *income splitting*

purposes. (Caution - dividends allocated to *minor children* may be subject to the *Kiddy Tax*.)

Also, upon a *sale* of the shares, the *capital gain* can be allocated to a number of beneficiaries of the *DFT* thereby *multiplying* the *capital gain exemption*.

It may also be advisable to have *another class of shares* of the *family corporation* owned by another *corporation* so that dividends may be paid tax free on that class for *creditor proofing* and to maintain the *qualified small business corporation status* of the operating company.

Caution

Specialized legal and tax advice is needed in dealing with a *DFT*.

CHARITABLE DONATIONS

A number of *charitable donation tax shelters* were again offered by promoters in 2005. For example, a donation of \$10,000 may provide two donation receipts, one for **\$10,000** and, another for, say, \$30,000. The \$30,000 typically relates to an asset received from a *Trust* which is in return donated to a charity for the \$30,000 receipt.

CRA warned taxpayers of the *pitfalls and risks* in these plans in a November 22, 2005 Release.

ART FLIPS - A LOSER

In a September 24, 2004 *Tax Court* of Canada case, the Court *allowed* the taxpayer's appeal where **\$8,571** of *art prints* were *purchased and donated*. A receipt for **\$29,400** was claimed as a donation tax credit based on *individual retail values* for each of the prints.

Taxpayer Loses - in the Federal Court of Appeal (FCA)

In this November 21, 2005 *FCA* case, the taxpayer made purchases and donations through *CVI Art Management Inc.* The *Federal Court* noted that the evidence provided by the taxpayer on the *individual retail values* for each print was *not acceptable* because there was a normal market for the "*group*" of prints. The evidence was that *CVI* only sold *groups of prints*. Therefore, the highest price paid for the "*group*" of prints is the *correct value* for donation purposes. This is approximately equal to the **\$8,571 paid** by the taxpayer for the *prints*.

Editor's Comment

CRA will *likely proceed* against thousands of taxpayers involved in *art flip donations* as these cases were put on hold pending this *FCA* decision.

OFFICIAL DONATION RECEIPTS

In a December 2, 2005 *Registered Charity CRA Release* it was noted that registered charities have to include the *name and website address of CRA* on official *donation receipts* as of *January 1, 2006*.

GST

DUE DILIGENCE DEFENSE FOR A GST PENALTY

CRA's seven-page *GST/HST Policy Statement P-237* discusses the *due diligence defense* for penalties imposed under the Excise Tax Act for *failure to remit or pay GST*.

The Release has examples including one where the *due diligence defense* was *accepted* because the taxpayer *researched* product information, *compared* the product to similarly classified items, *consulted* *CRA* publications and the Excise Tax Act, and *questioned* the distributor of the product. Also, the registrant sought *formal advice* from an *accountant*, and *unknowingly* provided incomplete information to obtain advice from *CRA* officials.

DIRECTOR LIABILITY

In a November 22, 2005 *Tax Court* of Canada case, the *director* was assessed with *personal liability* for *unremitted GST*.

Taxpayer Wins!

The Court noted that the taxpayer had *resigned* as a director on April 21, 1997 well *over two years* before the date of the June 3, 2002 assessment. Therefore, the assessment was *statute-barred*.



AGENTS

In a seven-page *GST/HST Info Sheet G1-012*, *CRA* discuss *agents* and the *GST implications* related thereto.

TRANSITION OF BC COMPANIES

The B. C. Business Corporation Act came into existence March 29, 2004. The Act has modernized corporate law in BC and streamlined the filing requirements for companies. To comply with the Act, all companies incorporated under the old Company Act before March 29, 2004 are required to electronically file a Transition Application (i.e. re-register) using Corporate Online. The **deadline for transitioning is March 29, 2006**.

This is an opportunity to revisit your company's articles, share provisions, etc., and make changes if advantageous. Such changes should be made in consultation with your lawyer. In addition, such changes may have tax implications and we suggest that you also consult your accountant.

If you have any questions, you can call the Transition Help-line toll-free at 1-888-356-8017.

NEW CHEQUE SECURITY RULES

Effective Dec. 31, 2006, all cheques and the accounting software used to print those cheques must **meet the new Canadian Payments Association ("CPA") regulations**, in order to be processed by any bank or financial institution in Canada.

The words "cheque number", "date" and "amount" can **not** be pre-printed on **computer** cheques. In addition, the date and

amount fields have to be printed in a very specific way and in a standardized location.

If you print your cheques using a computer, you will have to order new cheques before the end of 2006. Old cheques are still acceptable if hand-written.

Users of Quickbooks accounting software **must have either version Quickbooks 2005 or Quickbooks 2006** in order to comply with the new rules. Please contact us if you wish to acquire the Quickbooks 2006 software.

WEB TIPS

CALLING TIPS

Skype.com is a *convenient, cost effective* method of *calling to both computers and landlines (normal telephones)*.

Skype offers *free computer to computer calling* (the program needs to be installed on both the sending and receiving computers). In addition, Skype has the ability to call, or receive calls, from a typical telephone. There are

approximately 30 countries to which a call can be made where the charges hover just under 3 cents/minute! The prices for the rest of the countries generally lie significantly below normal retail charges.



DID YOU KNOW...

ENERGY COSTS

On October 6, 2005 - 2005-066 - The Department of Finance introduced *Federal* measures to *offset higher energy costs* including payment of **\$250** to *families* entitled to receive the *National Child Benefit* in January, 2006; **\$250** to *senior couples* where both spouses are entitled to receive the *Guaranteed Income Supplement* (GIS) in January, 2006; and **\$125** to *single seniors* entitled to receive the GIS in January, 2006.

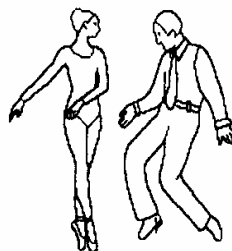
A person must have *filed a 2004 income tax return* before they qualify for the Energy Cost Benefit. Also, if you have never applied for the *Canada Child Tax Benefit* (CCTB), you must complete the CCTB application (RC66) to register your children.

For more information call 1-800-OCANADA.

Editor's Comment

The *Alberta Resource Rebate* of **\$400** will be paid to *every* Albertan **18 years** of age or over at **December 31, 2005**.

Children *under age 18* get the rebate via the primary caregiver listed for the *Canada Child Tax Benefit*.



The **2004 Personal Tax Return** must be filed by **December 31, 2006**.

NATURAL RESOURCES CANADA

Canada Mortgage and Housing Corporation (*CMHC*) will provide assistance through the Residential Rehabilitation Assistance Program (*RRAP*). Single, row and semi-detached *housing* may be eligible for financial assistance of between **\$3,500 and \$5,000** for *energy retrofits* such as draft-proofing, heating system upgrades and window replacements if the house was **built prior to 1980**.

To *qualify*, the household must meet certain household income requirements. For example, a four-person household with two children residing in *Hamilton* with a household income of **\$44,500** or less would be *eligible* for assistance. The same household would have to earn \$34,000 or less if they resided in *Kamloops* because of the lower cost of housing in that market. Funding will also be provided for *multiple-unit buildings* and rooming houses of between **\$1,000 and \$1,500 per unit**. The program will be available in **January, 2006**.

For details contact Grace Thrasher, CMHC, 1-613-748-2375 or see http://www.nrcan-nrcan.gc.ca/media/newsreleases/2005/200577a_e.htm.

SALE TO U.S. PURCHASER

Where a Canadian individual is about to *sell shares* of a Canadian corporation *to a U.S. person*, if the corporation is converted to an *Unlimited Liability Corporation* (ULC) before the sale, the sale may be viewed as an *asset acquisition* for *U.S. purposes* even though it is a *share sale* for *Canadian purposes*. Therefore, the U.S. purchaser would receive flow-through advantages while the Canadian vendor would still be eligible for capital gains treatment.

Alberta and *Nova Scotia* Corporation Acts currently provide for ULCs. We understand that *other provinces* (including British Columbia and Ontario) are considering *similar legislation*.

Caution: Specialized *expertise* is needed.

GUARANTEED INCOME SUPPLEMENTS

In the past, *over 200,000* elderly taxpayers *missed out* on claiming approximately \$300 million in *Supplemental Old Age Security* benefits because they have not applied for them. This information comes from Statistics Canada.

Since 2002, *Social Development Canada* has been using *tax returns* to *identify* and contact persons who may have not claimed the low-income supplement, even though they qualify. *First-time applicants* and those wishing to *be reconsidered* after losing eligibility and those *not filing a tax return* must *submit an application* directly to Social Development Canada.

CAREGIVERS

The Federal Government mentioned that it will be announcing the *expansion* of the *Employment Insurance* (EI) program for *caregivers* of dying persons.

Currently, persons caring for dying persons must be a *direct kin*, such as a spouse, child or parent to qualify for EI payments.

CHILD SUPPORT - THE 40% RULE

In a November 10, 2005 *Supreme Court* case, the Court ruled that a divorced father *cannot automatically reduce* his child support if he spends *greater than 40%* of the time with his child.

In this case, the Supreme Court noted that *increased time spent* with the child *does not necessarily* mean that there has to be *lower child support payments*.

ARREARS

In a November 1, 2005 *Tax Court* of Canada case, the taxpayer was in *arrears* on *spousal and child support* and made a *lump-sum payment* of \$25,000 which *released* him from any *past and future* obligations arising from the arrears.

Taxpayer Loses

The Court found that this was a *capital payment* in *settlement* of all amounts payable. It is *not deductible* to the payor.

The preceding information is for educational purposes only. As it is impossible to include all situations, circumstances and exceptions in a commentary such as this, a further review should be done. Every effort has been made to ensure the accuracy of the information contained in this commentary. However, because of the nature of the subject, no person or firm involved in the distribution or preparation of this commentary accepts any

APPENDIX A

2005 PERSONAL INCOME TAX RETURN CHECKLIST

INFORMATION REQUIRED INCLUDES:

1. All **information slips** such as T3, T4, T4A, T4A(OAS), T4A(P), T4E, T4F, T4PS, T4RIF, T4RSP, T5, T10, T2200, T2202, T100, T101, T600, T1163, T1164, TL11A, T5003, T5007, T5008, T5013, T5018 (Subcontractors) and corresponding provincial slips.
2. Details of **other income** for which no T slips have been received such as:
 - other employment income (including stock option plans and Election Form T1212),
 - business income,
 - partnership income,
 - rental income,
 - alimony, separation allowances, child maintenance,
 - pensions,
 - interest income earned but not yet received - example Canada Savings Bonds, Deferred Annuities, Term Deposits, Treasury Bills, Mutual Funds, Strip Bonds, Compound Interest Bonds
 - professional fees,
 - director fees,
 - scholarships, fellowships, bursaries,
 - replacement properties acquired.
3. Details of **other expenses** such as:
 - employment related expenses - Provide Form T2200 - Declaration of Conditions of Employment,
 - tools acquired by apprentice vehicle mechanics,
 - business and employment purchases like vehicles, supplies, etc.,
 - interest on money borrowed to purchase investments,
 - investment counsel fees,
 - moving expenses - including costs of maintaining a vacant former residence,
 - child care expenses,
 - alimony, separation allowances, child maintenance,
 - safety deposit box fees,
 - accounting fees,
 - pension plan contributions,
 - film and video production eligible for tax credit,
 - mining tax credit expenses,
 - business research and development,
 - adoption related expenses,
 - clergy residence deduction information, including Form T1223,
 - disability supports expenses (speech, sight, hearing, learning aids for impaired individuals and attendant care expenses).
4. Details of **other investments** such as:
 - real estate or oil and gas investments - including financial statements,
 - labour-sponsored funds,
 - Registered Education Savings Plans.

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5. Details and *receipts* for:
 - Registered Retirement Savings Plan (RRSP) contributions,
 - professional dues,
 - tuition fees - including mandatory ancillary fees, and Forms T2202, TL11A and TL11D,
 - charitable donations (including publicly traded securities),
 - medical expenses (including certain medical related modifications to new or existing home and travel expenses),
 - political contributions.
 6. Details of *capital gains and losses* realized in 2005.
Also, new rules now permit rollovers for foreign share spin-offs and various foreign share reorganizations.
 7. Details of previous capital gain exemptions claimed, business investment losses and cumulative net investment loss accounts.
 8. Name, address, date of birth, S.I.N., and province of *residence* on December 31, 2005.
 9. *Marital/common-law status* and spouse/partner's income, S.I.N. and birth date.
 10. List of *dependents* - including their incomes and birth dates.
 11. If you or one of your dependents was in full time attendance at a *college or university*, details concerning name of institution, number of months in attendance, tuition fees, income of dependent, Form T2202.
 12. Are you *disabled or are any of your dependents* disabled? Provide Form T2201 - disability tax credit certificate. This also includes extensive therapy such as kidney dialysis and certain cystic fibrosis therapy. Also, the *transfer rules* include relatives such as parents, grandparents, child, grandchild, brothers, sisters, aunts, uncles, nephews or nieces.

Persons with *disabilities* also may receive tax relief for the cost of *disability supports* (eg. sign language services, talking textbooks, etc.) incurred for the purpose of *employment* or *education*.
 13. Details regarding residence in a prescribed area which qualifies for the *Isolated Area Deduction*.
 14. Information regarding *child tax credit* receipts.
 15. Details regarding *RRSP - Home Buyers' Plan* withdrawals and repayments; *RRSP - Lifelong Learning Plan* repayment.
 16. Receipts for 2005 income tax *installments* or, payments of tax.
 17. Copy of 2004 personal tax *returns*, 2004 Assessment *Notices* and any correspondence from Canada Revenue Agency (CRA).
 18. 2005 *Personalized Tax information* which CRA may have sent you.
 19. Do you want your *tax refund or credit* deposited directly to your account in a financial institution? Yes/No.

To start direct deposit, or to change banking information, attach a void personalized cheque or your branch, institution and account number.
 20. Details of *carry forwards* from previous years including losses, donations, forward averaging amounts, registered retirement savings plans.
 21. Details of *foreign property* owned at any time in 2005 including cash, stocks, trusts, partnerships, real estate, tangible and intangible property, contingent interests, convertible property, etc..
 22. Details of *income* from, or *distributions* to, *foreign entities* such as foreign affiliates and trusts.
 23. Details of your *Pension Adjustment Reversal* if you ceased employment and were in a Registered Pension Plan or a Deferred Profit Sharing Plan. (T10 Slip)
 24. If you provided *in-home care* for a *parent or grandparent* (including in-laws) 65 years of age or over, or an infirm *dependent relative*, a federal tax credit may be available.

Also, the caregiver may claim related *training costs* as a medical expense credit.

25. Interest paid on qualifying *student loans* is eligible for a tax credit.

26. Retroactive lump-sum payments

Individuals receiving qualifying retroactive *lump-sum payments* over \$3,000 may be allowed to use a special mechanism to compute the tax.

27. Changes in *family circumstance* that could affect the *Goods and Services Tax Credit*, such as births, deaths, marriages, reaching the age of 19 years, and becoming or ceasing to be a resident in Canada.

28. *Children born* on or after *January 1, 2004* to low or middle income parents may be entitled to a *Canada Learning Bond* of \$500 in the initial year and \$100 per year until age 15. Please ask us for details

29. **Do you have any personal interest expense** – such as on a house mortgage or vehicle?

If so, it may be possible to take steps to convert this into deductible interest.