Lam Lo Nishio, Chartered Accountants *

*an association of incorporated professionals

659-G Moberly Road, Vancouver, BC Canada V5Z 4B2
Tel: 604-872-8883 Fax: 604-872-8889 Web: www.lamlonishio.ca

Michael T. Y. Lam E-mail: mike@lamlonishio.ca
Bernard Y. H. Lo bernard@lamlonishio.ca
Don T. Nishio don@lamlonishio.ca

We are committed to ***working with you*** to:

- improve your business operations
- grow your business
- improve your business life
- optimize your taxes
- give you peace of mind
- save you time

We ***enthusiastically*** offer you the following services:

- 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
- investment in real estate
- personal tax / planning
- estate planning
- in English, Cantonese, Japanese, Mandarin
- in most cases, with set fees

IN THIS ISSUE...

今月号目次

ATTENTION READERS

Please also visit our website at www.lamlonishio.ca. Previous issues of our newsletter are available on the website. Please note that **WE HAVE MOVED to 659-G Moberly Road, Vancouver, BC V5Z 4B2.** Our telephone, fax and e-mail contacts remain the same. A map to our new office is on the Contact Us page of our web site.

GREAT LEVERAGE POINT

The Power of ONE

Australian author (and former advertising man) Bryce Courtney wrote a brilliant book called "The Power of One" about the experiences of a young boy growing up in South Africa. It's a powerful story.

The reality is that "ONE" does have power – power which is often missed or generalized.

So often, we see letters written that begin something like:

> *Dear Sir/Madam,*
> *As all of our customers know, this is our 53rd year of business…..*

On the other hand, think about the following:

> *Dear Don,*
> *As YOU know, this is the 53rd year of our business…..*

Do you see the difference? When I open the second letter, I feel that you're writing to me. The Power of One.

I recall a story of a marketing consultant getting a call from a client. "I'm having enormous difficulty writing an advertisement," said the client. Her response? "That's because you're trying to write an advertisement."

She went on to explain that although the advertisement which he was writing was being inserted in a newspaper with a 100,000 readers, **each page, each advertisement, each word was only read by one reader at a time**.

You must **direct the advertisement at that one reader**! The Power of One.

All advertisements, flyers or commercials need a headline. A headline is an advertisement for the advertisement. Its purpose should be to cull out only those who are most qualified to be a prospect for your proposition. Without exception, **humorous, abstract, or circuitous advertisements are a waste.**

If you run advertisements in newspapers, magazines, TV or radio, and your product is pest control, you should <u>not</u> use headlines or opening statements like, "Got the bug to clean the house?," or "This problem affects every home-owner."

Instead, **create a headline or opening that states the purpose of the advertisement and qualifies the reader**. For example: "If <u>your</u> home is plagued by ants, roaches, or mice, we can eliminate the problem in less than 4 hours and keep it that way with our monthly maintenance service."

Whatever you sell, and whomever you want to reach with your story or message**, <u>be specific.</u>** Send your message directly to that one prospective customer and tell him / her what you're offering.

Here's a **strategy that will help you do it better**:

1) Attract the attention of your target audience in your headline or opening remarks**. Speak to the individual reader and use words like "you."**

2) State your proposition or offer.

3) Use the rest of the advertisement to **develop, support, and present your offer and reasons why the prospect should embrace it.**

4) Finally, **tell that prospect how to act**.

From now on, send the message only to the people who are primary prospects – the Power of One. (Never again be satisfied with humorous, non-specific, or abstract headlines or advertisements.)

PERSONAL TAX

MEDICAL EXPENSE - AIR CONDITIONER

In an April 27, 2009 **External Technical Interpretation**, CRA notes that a taxpayer may claim the cost of installing a central **air conditioner** as a **medical expense** providing certain tests are met. In particular, the taxpayer needs a **prescription** from his/her **doctor** which **indicates** that he/she needs an air conditioner to help cope with an ailment which is both **severe and chronic**. Also, the medical expense claim for an air conditioner is limited to the lesser of **$1,000** and 50% of its cost.

MEDICAL EXPENSES - OUT-OF-COUNTRY

In a May 19, 2009 **External Technical Interpretation**, CRA notes that the cost of **stem cell therapy** which is **not available in Canada** will qualify as a **medical expense.** This includes payments to **medical practitioners** and **hospitals** and the **transportation and travel expenses** for the **patient.** Also, where an individual has been **certified** as being incapable of traveling alone, costs for an **accompanying individual** are included.

CRA did note that **certain requirements** must be met such as substantially **equivalent medical services not being available** in the individual's locality.

CRA also notes that even where medical services are available nearer to the individual's locality, if it is **reasonable** to **travel** to the place where the medical services were obtained, the **reasonability requirement** may be **met**.

MEDICAL EXPENSE - TUITION FEES

In an April 7, 2009 **Tax Court** of Canada case, the taxpayer claimed **tuition fees** paid to **Foothills Academy** of $10,499 and $21,525 as a **medical expense**.

The Court noted that the taxpayer must provide a **certificate** of an appropriately qualified person (example, a doctor) certifying that:

(i) the person has a **mental or physical handicap**; and

(ii) the person requires equipment, facilities or personnel specially provided by **that school** for care, or care and training.

Taxpayer Wins - Partially

The Court disallowed the **medical expense** due to an **inadequate certificate**. CRA did say that if a proper certificate was provided they would reconsider the claim. However, a **portion** could still be claimed (estimated to be 20%) as remuneration for **tutoring services,** that are supplementary to the primary education of the patient who has a learning disability or mental impairment as certified in writing by a medical practitioner.

EMPLOYMENT INCOME

CRA ADMINISTRATIVE CHANGES

On June 11, 2009, CRA introduced administrative **policy changes** for taxable employment benefits. This is a **brief summary** of some of the changes.

Overtime Meals and Allowances Provided to Employees

Commencing in **2009**, CRA will consider **no taxable benefit** to arise if:

- the value of the meal or meal allowance is **reasonable**; a value of up to $17 will generally be considered reasonable,
- the employee works **two or more hours** of overtime right before or right after his/her scheduled hours of work, and
- the overtime is **infrequent** and **occasional** in nature. Less than three times a week will generally be considered infrequent or occasional. However, this condition may also be met where the meal or allowance is provided three or more times per week on an occasional basis to meet **workload demands** such as major repairs or periodic financial reporting.

If overtime occurs on a **frequent basis** or becomes the **norm**, CRA considers the overtime meal allowances to be **taxable** since they start taking on the characteristic of additional remuneration.

Municipality or Metropolitan Area

Commencing in **2009**, CRA will accept that **allowances** paid for travel **within a municipality or metropolitan area** may be **excluded** from income if the allowance is paid **primarily** for the **benefit** of the **employer**. An allowance may be excluded from income when its principal objective is to ensure that the employee's duties are undertaken in a more efficient manner during the course of a work shift, and where allowances paid are not indicative of an alternative form of remuneration.

Loyalty Programs

Commencing in **2009**, CRA will **no longer** require **loyalty points** (e.g., frequent flyer points) that are **controlled** by the **employee** to be added as employment income by the employee as long as:

- the points are **not** converted to **cash**,
- the plan or arrangement is **not** indicative of an **alternate form** of remuneration, or
- the plan or arrangement is **not** for **tax avoidance** purposes.

Where an **employer controls** the points (e.g., a company credit card), the employer **will continue** to be required to report the fair market value of any benefits received by the employee on the employee's **T4 Slips** when the points are redeemed.

Non-Cash Gifts and Non-Cash Awards

The **current rules** are that up to **two gifts** and **two awards** costing **$500 or less** respectively are **non-taxable** to the employee and **deductible** to the employer.

Commencing in **2010**, the following changes are being made to CRA's **gift and award policy**:

- Non-cash gifts and non-cash awards to an arm's length employee, **regardless of the number**, will **not** be

taxable to the extent that the total aggregate value of **all** non-cash **gifts and awards** to that employee is less than or equal to $500 annually. The total value in excess of **$500 annually** will be taxable.

- In **addition** to the above, a separate non-cash **long-service/anniversary award** may also qualify for **non-taxable status** to the extent its total value **is $500 or less**. The value in excess of $500 will be taxable. To **qualify**, the **anniversary award cannot** be for **less than five years** of services or for five years **since** the **last long-service award** had been provided to the employee. For the purpose of applying the $500 thresholds, the annual **gifts and awards** threshold and the **long-service/anniversary awards threshold** are **separate**. In other words, a short fall in value under one policy cannot be used to offset an excess value of the other.
- The employer gift and award policy will **not apply** to **non-arm's length employees** (e.g., relative of the proprietor, shareholders of closely held corporations) or related persons of the non-arm's length employee.
- For clarification purposes, items of an **immaterial or nominal value**, such as coffee, tea, T-shirts with employer logos, mugs, plaques, trophies, etc. will **not** be considered a **taxable benefit** to employees. Also, **performance-related awards** (e.g., sales targets) or **cash and near-cash awards** (e.g., gift certificates) will **continue** to fall **outside** the administrative policy and will be required to be included in the taxable **income** of the employee.

See **www.cra.gc.ca/tx/bsnss/tpcs/pyrll/bnfts/gfts/menu-eng.html** for more information.

BUSINESS/PROPERTY INCOME

RESTRUCTURING OF BORROWINGS

In a March 31, 2009 **External Technical Interpretation**, CRA was asked to review a situation where the taxpayer has a **mortgage** on a **personal property** (**interest expense** is **non-deductible**) and proposes to **sell investments** (such as shares and bonds), use the proceeds to **repay** the **personal mortgage**, and then secure a joint line of credit with the personal property as security in order to **acquire investment assets** to earn income.

CRA notes that a taxpayer may **restructure borrowings** and the **ownership** of assets so that the **interest** is **deductible** for tax purposes.
Caution: **Professional assistance** is needed in this area.

DEDUCTIBLE LIFE INSURANCE PREMIUMS

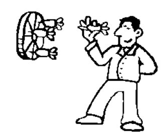
Premiums payable by a taxpayer under a **life insurance policy** used as **collateral** for a **loan** may be **deductible** in computing income from a **business or property** where certain conditions are met including:

(i) the life insurance policy is **assigned** to a financial institution in the **course of borrowing** for business or property purposes;
(ii) the **assignment** of the life insurance policy is **required** by the financial institution as **collateral** for the borrowing; and
(iii) the **interest payable** in respect of the borrowing is otherwise **deductible** in computing the taxpayer's income for the year.

OWNER-MANAGER REMUNERATION

INDIVIDUAL PENSION PLANS (IPPs)

General Information



An **Individual Pension Plan** (**IPP**) is a **defined benefit** pension allowed under tax legislation. Once established, it eliminates most of the individual's RRSP deduction limit. Therefore, an **IPP** could be considered as a **replacement** retirement savings vehicle for an **RRSP**.

Comparison with RRSP

RRSPs work well for younger employees. Tax-free compound interest growth on RRSP contributions over their long pre-retirement asset accumulation period can provide an adequate pension. However, an RRSP does not work as well for employees close to retirement. For example, a $21,000 RRSP contribution for a 60-year old employee does not buy much pension as the shorter pre-retirement period does not allow sufficient time for the magic of compound interest to work. At the **older ages**, an employee would require a **defined benefit** type of **pension plan** such as an **IPP** to provide **contributions** that are **in excess** of the **RRSP** deduction limit.

IPP Contributions

IPP contributions are **deductible** by the employer against corporate income.
For **2009**, an IPP member would require approximately **$122,000 of employment income** to maximize IPP contributions. Sample 2009 IPP contribution amounts for the different ages include: approximately $23,000 for age 40; $28,000 for age 50; $33,000 for age 60 and $36,000 for age 65.

IPP contributions are based on both **income and age,** and **increase** with **age**.

An **IPP** also allows the employer to make **past service contributions** on behalf of the member.

Ideal IPP Candidates & Time for Implementation

The ideal IPP candidates are **shareholder employees** or **senior executives** of profitable companies as well as **incorporated professionals** who are close to retirement.

The best time to implement an IPP is probably when the employer is having a hugely **profitable year** and is looking for tax deductions. The significant **IPP past service contribution** amount would be a good way to reduce corporate income to under the **small business limit.**

IPP Terminal Funding

IPPs are subject to many **funding restrictions** through actuarial assumptions. However, **catch-up contributions** can be done after pension commencement. This can be quite significant and can be tied in nicely with the **shareholder's exit** from the business.

ESTATE PLANNING

EXPENSES INCURRED BY VOLUNTEERS ON BEHALF OF A REGISTERED CHARITY

In an April 28, 2009 CRA Release, CRA notes that where a **volunteer** has a **right to reimbursement** from the registered charity for expenses incurred, the charity may treat a **reimbursement waiver** from the volunteer as a **gift in kind** and issue a **receipt** for income tax purposes.

A **written direction** from the volunteer should be obtained confirming the right to reimbursement and direct the registered charity to issue a receipt rather than provide reimbursement - for example, "I ____ direct that the funds to which I am entitled by way of reimbursement for ____, and would otherwise be forwarded to me by cash or cheque, be transferred to ____ as my gift."

The charity should also have a **policy in place** on reimbursing volunteers.

The charity should report the amount of the **gift** on the Registered Charity Information Return (Form **T3010**).

HOME RENOVATION TAX CREDIT

Under **proposed changes** a taxpayer can claim a **non-refundable tax credit** on the **2009** personal income tax return based on **eligible expenditures** incurred for **work performed** or **goods acquired** after January 27, 2009, and before **February 1, 2010**, in respect of an **eligible dwelling**.

The **HRTC** applies to eligible expenditures of more than $1,000, but not more than $10,000, resulting in a maximum credit of $1,350 [($10,000 - $1,000) x 15%].

The CRA site at **www.cra.gc.ca/hrtc** notes that generally **any dwelling** that you own and is **used personally** by you or your family can **qualify**, including your **home or cottage**.

The CRA site also includes this **example**. William and his spouse Marie pay **$5,000** to purchase an energy efficient furnace for their **home** and **$3,500** to build a deck at their **cottage**. They also decide to have the area around the deck **landscaped** for **$2,500**, bringing their total cost to $11,000 ($5,000 + $3,500 + $2,500). Marie claims an **HRTC** of **$1,350** ($10,000 - $1,000 @15%).

Also, William and Marie may be eligible for the **eco ENERGY Retrofit-Homes Grant**. For more information about the eco ENERGY program see **www.ecoaction.gc.ca**.

Examples of **eligible costs** include renovating a kitchen, bathroom, or basement; new carpet or hardwood floors; building an addition, garage, deck, garden/storage shed, or fence; re-shingling a roof; a new furnace, wood stove, boiler, fireplace, water softener, or water heater; a new driveway or resurfacing a driveway; interior or exterior painting; window coverings directly attached to the window frame and whose removal would alter the nature of the dwelling; laying new sod; permanent swimming pools; fixtures (lights, fans); **associated costs** such **as permits**, professional services, equipment rentals and incidental expenses.

Expenses that will **not qualify** include furniture, appliances, audio and visual electronics, tools, carpet or housecleaning, maintenance contracts, and financing contracts.

Also, CRA notes in a May 19, 2009 **External Technical Interpretation**, that any **window covering**, including blinds, shutters and shades, that is directly attached to the window frame and whose removal would alter the nature of the dwelling will **qualify** for the **HRTC**. However, draperies or curtains would generally not be considered to be fixtures and will not qualify for the HRTC.

Also, CRA notes that the larger, heavier type of **hot tub** that needs to be **hardwired directly** to the homeowner's electrical panel would **qualify** for the HRTC. However, the "**plug-and-play**" type that comes with the cord connected and ready to use, without the need of a permanent electrical installation, would **not qualify** as it is not enduring in nature and integral to the eligible dwelling.

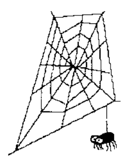
GST/HST

GST/HST NEW HOUSING REBATES

In April, 2009, CRA released 27-page **Guide RC4028**, GST/HST New Housing Rebate, which provides information if you built or bought a **new or substantially renovated house** (including a condominium unit and a mobile home), if you built a **major addition** to your existing house or if you **converted** a non-residential property into your house. The Guide explains the **New Housing Rebate** including Forms GST190 and 191.

INVESTMENT MANAGEMENT FEES

In an April 16, 2009 **Federal Court of Appeal** case, the Court found that the fees paid to certain **investment managers** were **exempt from GST** because they are **financial services**.



Editor's Comment

The **investor** who has paid GST on investment manager fees could consider making a **GST rebate claim** under the Excise Tax Act for the two preceding years, assuming that the Government does not retroactively change the law. This should be discussed with your investment manager.

SALE OF REAL PROPERTY

Under the Excise Tax Act, sales of **real property** in Canada are generally **subject to GST/HST** unless the supply is eligible for a specific **exemption** such as where the sale is made by an **individual**, unless it was used primarily in a business carried on by the individual with a reasonable expectation of profit.

INPUT TAX CREDITS (ITCs) - CAUTION

In a 2009 **Federal Court of Appeal** case, Telus **acquired business assets** from EdTel and filed a joint election under the Excise Tax Act such that the purchase resulted in **no GST**. However, some of the business assets acquired had not yet been paid for by EdTel and, therefore, the Agreement stated that **Telus would pay** the **unpaid liabilities** plus the **GST** owing of **$1.8 million**.

CRA successfully disallowed the **$1.8 million of GST ITCs** on the basis that **Telus** was **not** the **recipient of the supplies** for GST purposes.

Editor's Comment

Also, in **corporate structures**, it is **important** to ensure that it is only the **recipient** of the **supply** that may **claim** the **ITC**. CRA has made **reassessments** where the **wrong person** in a **corporate group** has claimed the **ITCs**.

HOME CONSTRUCTION INDUSTRY

In a **41-page** CRA Release (**RC4052**), CRA discusses the GST/HST information for the **Home Construction Industry** including who remits the tax, filing the return, claiming Input Tax Credits, substantial renovations, sales of real property, grants and subsidies, and special situations.