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IN OUR COMMUNITY

**Willsey Davis & Co. Sponsors
 EMS Shawn Waldron Star of Life Golf Classic**

Willsey Davis & Co. LLP is proud to once again be a sponsor for the Regional EMS Shawn Waldron Star of Life Golf Classic. Last year the golf tournament raised over \$40,000 to support community education programs such as the EMS Cadets & High School First Responders Program, the Safety City Kiosk and the Human Patient Simulation Training Unit. The Star of Life Golf Classic will be held at the Grande Prairie Golf and Country Club on September 9, 2011. http://www.remsfoundation.org/events/star_of_life_golf_classic/

Peace Library System Celebrates 25 Years

Peace Library System is celebrating their 25th Anniversary this year and will be holding their annual Rural Libraries Conference September 22 and 23 in Grande Prairie. Willsey Davis & Co. LLP is pleased to be a coffee break sponsor at the annual conference. <http://www.peacelibrarysystem.ab.ca/Conference-2011>

BUSINESS/PROPERTY INCOME

Acquisition of Automobile

In a 2011 Technical Interpretation, Canada Revenue Agency (CRA) commented on the tax implications of purchasing an automobile that is made available to an employee.

They noted that the taxable standby charge to the employee is based on 2% of the original cost of the automobile per month or, in the case of a leased automobile, two-thirds of the lease cost, excluding insurance, minus amounts paid by the employee to the employer for the use of the automobile.

A reduced standby charge is available if the vehicle is used primarily for business purposes (a 50% test) and the employee's personal use does not exceed 20,004 kilometres per year.

CRA noted that the original cost of the vehicle is the purchase price including options, accessories, GST/HST and PST, but does not include, obviously, the trade-in. Additions made to the automobile after it is purchased which are capitalized are also included (including the GST/HST and the PST). Also included are the tire and battery levies.



Simplified Log Book

CRA recently announced the introduction of a new simplified log book for motor vehicle expense provisions.

Self-employed individuals can now choose to maintain a full log book for one complete year to establish the business use of a vehicle in a base year. After one complete year of keeping the log book to establish a base year, a three-month sample log book can be used to establish business use for the entire year, providing the usage is within the same range (within 10%) of the results of the base year.

EMPLOYMENT INCOME

Motor Vehicle Expenses

In an April 4, 2011 Technical Interpretation, CRA notes that employees may deduct motor vehicle travel expenses if required to carry out his/her employment duties away from the employer's regular place of business and the employee is required by the contract of employment to pay such expenses. A completed Form T2200 is also required.

OWNER MANAGER RENUMERATION

Salary Paid to Family Members – Employment Insurance (EI)

In an April 20, 2011 Tax Court of Canada case, the taxpayer was the son of the owner of the corporation and received a salary from that corporation. The Court found that the salary was not subject to EI on the basis that the employment conditions were different than that which would have been provided to an arm's length employee.

The Court noted that it is difficult for individuals who work for family members to have insurable employment because the personal relationship almost inevitably manifests itself in some way in the employment relationship.

Also, in an April 6, 2011 Tax Court of Canada case, the Court determined that the salary paid by a corporation to the owner's spouse was not subject to EI on the basis that it was not reasonable to conclude that the payer and the Appellant would have entered into a substantially similar contract of employment if they had been dealing with each other at arm's length.

Personal Liability for Unpaid GST/HST

In an April 18, 2011 Tax Court of Canada case, the taxpayer was a director of a corporation that did not remit its GST because the spouse of the shareholder/director was responsible for remitting GST and, due to her ill health, she was unable to make the remittance.

The Court noted that the director did not exercise the degree of care, diligence and skill to prevent the failure to remit the GST that a reasonably prudent person would have exercised in comparable circumstances and, therefore, was personally liable for the unpaid GST.

However, the Court did recommend that the taxpayer discuss the possibility of the waiver of the penalties and interest with the CRA under the Taxpayer Relief Provisions on the basis that the spouse's illness resulted in the GST being unpaid.

GST/HST

Some GST/HST Points to Consider

Even though GST has been around for 20 years, there are still a few areas that CRA always seems to assess upon audit as mistakes and oversights often occur in these areas.

1. Supporting Documentation for ITCs

There are rules that require certain pieces of information be obtained (usually from the invoice) before you can claim an Input Tax Credit (an "ITC") for the GST/HST that you pay.

2. Meals & Entertainment

Where meal and entertainment expenses are subject to a 50% limitation for income tax, the GST/HST is also limited to 50%.

3. Reimbursement of Employee Expenses

Don't forget that when you reimburse an employee for business expenses, you may be eligible to claim an ITC for the GST/HST that was paid by the employee.

Professional advice may be needed in these GST/HST areas.



Tax Tips, Traps

...and other financial facts

FEDERAL BUDGET

On June 6, 2011 a new Federal Budget for the 2011 fiscal period was presented.

The Federal Government notes that it will:

- provide \$80 million in new funding over three years to help small and medium-sized businesses accelerate their adoption of key information and communications technologies;
- provide nearly \$870 million over two years to address climate change and air quality, including the extension of the ecoENERGY Retrofit-Homes program;
- introduce a 15-per-cent Children's Arts Tax Credit, provided on up to \$500 of eligible expenditures;
- provide a temporary Hiring Credit for Small Business of up to \$1,000 against a small firm's increase in its 2011 Employment Insurance (EI) premiums to encourage hiring;
- limit deferral opportunities for corporations with investments in partnerships;
- enhance the Guaranteed Income Supplement (GIS) via a top-up benefit of up to \$600 annually for single seniors and \$840 for couples.

There were no new corporate or individual tax rates introduced.

ESTATE PLANNING

Excess RRSP Contributions

In a February 23, 2011 Tax Court of Canada case, the taxpayer was successfully assessed by CRA. Tax and penalties were charged in the amount of \$1,040 and \$177 for the 2004 taxation year and \$1,099 and \$187 for the 2005 taxation year for excess RRSP contributions.

Old Age Security (OAS) - Clawback

The maximum monthly OAS benefit is \$533.70 for the third quarter of 2011. The 2011 clawback of OAS benefits starts at 15% of net income over \$67,668 and is completely eliminated at income of \$110,038.

In addition, there will be a repayment of "clawed back" OAS for the next year based on 1/12 of the total estimated repayment on the previous year

commencing in July of the next year. If the next year's income is going to be significantly less, a waiver for this clawback could be requested.

This repayment is called a Recovery Tax. The Recovery Tax is indicated in Box 22 of the T4-OAS and this can be claimed as a tax payment on the return for that year.

PERSONAL TAX

Medical Expense Tax Credit (METC) – Cosmetic Procedures

In an April 4, 2011 Technical Interpretation, CRA notes that eligible medical expenses exclude amounts paid for purely cosmetic purposes, unless necessary for medical or reconstructive purposes.

CRA opined that expenditures such as liposuction, hair replacement procedures, botulinum toxin injections, and teeth whitening would generally not qualify for the METC.

A cosmetic procedure will qualify for the METC if it is required for medical or reconstructive purposes such as expenditures that would ameliorate a deformity arising from a congenital abnormality, a personal injury resulting from an accident or trauma, or a disfiguring disease.

CRA notes that a general statement on a receipt indicating that the procedure was "not purely for cosmetic procedures" would not, by itself, be determinative. It may be necessary to provide additional information to determine that a cosmetic procedure qualifies for the METC such as a description of the nature and purpose of the procedure.

Common-Law Partner

In an April 11, 2011 Technical Interpretation, CRA notes that a "common-law partner" means a person who cohabits in a conjugal relationship with the taxpayer and, either has cohabited with the taxpayer for a continuous period of at least one year, or is considered to be a "parent" of a child of whom the taxpayer is also a parent.

This is relevant for income tax and other purposes.



Tax Tips, Traps

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DID YOU KNOW?

New Filing Requirements

On September 17, 2010, CRA announced that, effective for fiscal periods ending after December 31, 2010, a Canadian Partnership, or a Partnership that carries on a business in Canada, must file a T5013 Partnership Information Return where one of the following conditions are met:

- At the end of the fiscal period the revenues plus expenses are greater than \$2 million or, the Partnership has more than \$5 million in assets.
- At any time during the fiscal period the Partnership was either a tiered Partnership, had a Partner that was a corporation or a Trust, invested in flow-through shares of a principal business corporation that incurred Canadian resource expenses and renounced these expenses to the Partnership or had received a written request from CRA to file a T5013 Information Return.



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