

FOR YOUR CONSIDERATION

In the 2nd quarter of 2014

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This publication is a high-level summary of the most recent tax developments applicable to business owners, investors, and high net worth individuals. Enjoy!

TAX TICKLERS... some quick points to consider...

- **Registering the birth** of your newborn child? You can consent to use the **“Automated Benefits Application”** which allows you to automatically apply for the Canada Child Tax Benefit, the Universal Child Care Benefit, the GST/HST Credit, and Provincial/Territorial programs at the same time. 
- Staying too long in the US can cause major taxation problems! The **joint entry/exit tracking** system between **Canada** and the **US** is scheduled to commence July 1, 2014.
- Employer provided **medical tests** may be a taxable benefit.
- **Incomplete foreign property** disclosures on the T1135 can result in a **\$2,500 penalty**.
- The employer portion of **CPP payments** may have to be **paid twice** in the year when an employee **becomes a contractor**.

Contact us if you have further questions or wish to discuss!

INTERNET BUSINESS ACTIVITIES: Must be reported to the CRA

A recent CRA release announced **additional disclosure** requirements of **Internet Business Activities** for corporations, proprietors and farmers.

A business must disclose if **income is earned** from one or more **webpages** or **websites**. If the business/proprietor doesn't have a webpage, but does have a profile or page describing the business (on blogs, auctions, marketplace or other portal or directory sites), the related information would also have to be disclosed. A taxpayer may earn income from webpages or websites in many different fashions:



- By **selling goods** and/or services on a business's **own webpage** or website. For example, a business may have a **shopping cart** and process payment transactions themselves or use a **third-party service**.
- If a website doesn't support transactions but the **customers call**, complete and submit a form or **email** to make a purchase order, booking, etc.

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- By **selling goods** and/or services on **auction, marketplace** or similar sites operated by others.
- If the taxpayer earns **income** from **advertising**, income programs, or traffic the site generates.

For example:

- static advertisements on the site for other businesses;
- affiliate programs;
- advertising programs; or
- other types of traffic programs.

Businesses must also disclose the **top 5 income generating webpages** and the **percentage of the gross revenue** generated from the **Internet**.

An **estimate** of gross revenue for proprietors is sufficient if the exact percentage is unknown. No similar relief has been given for corporations.

Action Item: Be aware of your business's online presence and income earned from these websites. This information may be required when filing your year-end tax return!

REPORTING GST/HST: Simple Option for Small Businesses

Many small businesses have adopted the **Quick Method** to **report and remit GST/HST** as an alternative to the traditional method. The Quick Method is substantially **simpler**, resulting in **reduced paperwork** and **bookkeeping costs**.



Businesses with **annual worldwide taxable sales** of up to **\$400,000** (for reporting periods beginning in 2013) can **elect** to employ the Quick Method. Some businesses, including accountants, tax consultants, financial consultants and lawyers, cannot use the Quick Method.

GST/HST payable under the Quick Method is a **specified percentage multiplied by total sales** (including GST/HST collected). The percentage **varies** depending on a) the nature of business activities, and b) the **location** of sales and operations. This contrasts the traditional method, where it is the actual GST/HST collected less GST/HST paid that is due.

Under the Quick Method, the taxpayer doesn't need to track and report GST/HST paid because an estimate of this amount is factored into the specified percentage. Certain exceptions apply with regards to the purchase of capital assets.

The **Quick Method** computations compared to the traditional method should be considered prior to electing.

Action Item: If your business's annual worldwide taxable sales is less than \$400,000, and you are not already using the Quick Method to remit GST/HST, contact us to see if this option would work for you!

SALARY: To Owners and Relatives

Documenting Salary

In a January 30, 2014 Technical Interpretation, the CRA notes that a salary (or dividend) is taxed at the individual level when received. Evidence, such as the **proper documentation** of the minutes of a meeting of directors, and a T4 - T5 indicating the appropriate amount, could show that a payment was made.



CRA also noted that a **journal entry** recording a credit to the loan account of a shareholder does **not**, in and of itself, **constitute a payment of a salary or dividend**. Accounting records or entries serve only to reflect the transactions.

Action Item: When paying salaries to family members, it is often preferable to utilize the standard payroll process – withhold source deductions, issue a T4, provide a cheque or direct deposit, etc.

CRA EXAMINES NON-PROFIT ORGANIZATIONS (NPOs): Is your Entity at Risk?

On February 17, 2014 the CRA released a Report which investigated whether **30,000 organizations** self-identified as an **NPO** actually fulfilled the **criteria required**.

An NPO:

- is a club, society, or association;
- is **not a charity**;
- is **organized and operated** exclusively for social welfare, civic improvement, pleasure, recreation, or any other **purpose except profit**; and,
- whose **income is not payable** to or available for the **personal benefit** of a **proprietor, member or shareholder**.



The CRA found that a **significant portion** of the organizations **failed to meet** at least one of the **requirements**.

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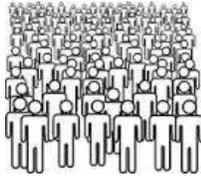
Of these:

- A large portion fell into the **high-risk category**, which includes **organizations earning profits** that were **not incidental** or **not related** to the **non-profit objectives**; organizations with disproportionately **large reserves, surpluses, or retained earnings**; and organizations where **income was payable** or made available for the personal benefit of a **proprietor, member or shareholder**.
- A smaller portion of organizations fell into a **lower risk category**, which includes readily **correctable issues**, such as **filing errors** or not providing enough information to substantiate a not-for-profit purpose in the organization's governing documents.

Action Item: Review your NPO status against the above criteria. If you have questions, contact us!

CROWDFUNDING: May Have Tax Costs

Crowdfunding is a novel and increasingly popular means to **raise capital to support various efforts, projects, ventures or ideas**. This concept is based on the idea of raising capital by soliciting many small contributions from a large group of individuals, or a crowd. Contributions are made through various **online services** which provide a **platform** for crowdfunding.



Entrepreneurs, independent artists, and researchers, amongst many others looking to raise capital for their respective projects, may utilize crowdfunding.

Further **information** on crowdfunding can be found on the **National Crowdfunding Association of Canada** website, www.ncfacanada.org.

In an August 16, 2013 Technical Interpretation, CRA noted that **amounts received** by a taxpayer from Crowdfunding activities, related to a **business**, would generally be included in **income** and be taxable. Voluntary payments received by virtue of a profession or a business, are also **taxable**.

Expenses related to Crowdfunding efforts, such as fees paid to online platforms and donor gifts, incurred for gaining or producing income from a business, **may be deductible**.

Action Item: Let us know if you are using crowdfunding!

SCHOLARSHIPS AND TRAINING: May not be a Taxable Benefit

In a November 18, 2013 Technical Interpretation, CRA reviewed a **scholarship plan** for employees of an Organization pursuing post-graduate degrees. The scholarships are **administered** by a Foundation and are **merit-based** with a **formal selection** process. They are available **only** to **employees** of the **Organization**, who must agree to conditions including **employment with the Organization** for a period of time **following** completion of their **studies**.



CRA indicated that a scholarship available only to employees of a particular employer would generally be considered to be **employment income**.

However, CRA also noted that the **taxability** of this amount would **depend on** whether the **primary beneficiary** of the scholarship is the employer or employee. Courses taken to **maintain or upgrade employment-related skills** are generally considered to be for the primary **benefit** of the **employer** where the employee is **expected to resume employment** for a reasonable period after the training is completed. CRA indicated that their policy in this regard would include payments from a third party (other than the employer). Where these conditions are met, the **payment** could be received **tax free**.

Another CRA Guide notes that employment-related training may not be limited to strictly **tuition fees**, but may also include other associated costs such as **books, meals, travel** and **accommodation**.

This Guide also discusses the possibility of providing **tax-free scholarships to children** of employees.

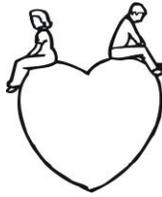
In another December 12, 2013 Technical Interpretation, CRA noted that payments or reimbursements for an employee's tuition fees incurred for **business purposes** are generally **deductible** to the company. They also noted that an employer may normally deduct training expenses for an employee, regardless of whether the employer or employee benefits, provided that such expenses are **reasonable** in the circumstances.

Action Item: Consider providing deductible, and non-taxable, scholarships to employees or employees' children. Ensure these payments are structured properly. Complications arise when such payments are made to owners and related parties.

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SEPARATION: Getting the Dependant Tax Credit

The eligible dependant tax credit is worth more than \$2,000 in tax savings for 2014; the exact amount varies depending on the province of residence.



In a March 27, 2014 *Tax Court of Canada* case (*Sauve vs. H.M.Q.*, 2012-4483(IT)I), the taxpayer (Mr. S) appealed assessments that disallowed a **dependant tax credit** with respect to his two children in 2010 and 2011. The taxpayer has **shared custody** after a relationship breakdown with his former spouse.

Taxpayer loses

The Court noted that the Income Tax Act specifically denies the deduction (dependant tax credit) where the taxpayer is **required to pay a support amount** to the former spouse or common-law partner. However, the act goes on to note that if both spouses are paying child support, the deduction may be available in some scenarios.

Mr. S argued that his former spouse was in essence making a payment because the amount that he paid was reduced or “**set-off**” by the amount that she would otherwise had to have paid.

The Court noted that the concept of “**set-off**” is a mere distraction from the real issue, i.e., whether or not Mr. S is

the only parent making a “child support payment”, therefore the taxpayer was not allowed the credit.

Action Item: Ensure that both spouses are making support payments instead of only one making a net payment.

WEB TIPS: Profitguide.com

Profitguide.com is a website aimed at providing interesting, **relevant** and timely **information** to **Canadian small** and **medium sized corporations**.



This website provides a wide range of **articles**, business rankings, podcasts, **videos**, and daily and weekly news updates across various industries such as **manufacturing, retail and technology**. Some topics addressed include Best Practices for Start-Ups, Human Resources, Financing, Innovation, Leadership, Sales and Marketing, Technology and Strategy and Operation.

Action Item: Sign-up for daily or weekly profitguide.com news updates.

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For any questions... give us a call.

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