Andrea Agnoloni

2016 Tax Changes in the Works

Last October, Canada sent a clear message for change by electing our new popular Prime Minister Justin Trudeau.

With all the political changes promised during the election campaign, we now must face some key tax changes. A date for the implementation of the tax changes has not been determined but we can be sure they will be proposed with the 2016 Federal Budget.

Let's look at some of the changes we should expect, based on the Liberal Party's election platform.

Personal Tax Rates

- Federal income tax rates will be reduced from the current 22.00% to 20.50% on income between $45,282 and $90,563. That is to keep the promise to assist the middle class.
- The combined Federal and British Columbia tax rates for that level of income will be between 28.20% and 32.79%, down from 29.70% and 34.29%.
- Canadians earning more than $200,000 will face an increase from the current 29.00% to 33.00%; when combined with BC rates, the highest marginal tax rate will be 47.70%, up from the current 45.80%.
- If you are in the top tax bracket and have the option to defer income to 2016, you may not want to defer but take the income in 2015 and save the extra 4% in taxes.

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Personal Tax Credits

The Family Tax Cut, introduced last October 2014 for the 2014 taxation year, provided for a nonrefundable tax credit of up to $2000 for couples with children under age 18. The provision of the credit allowed the higher-earning spouse to notionally transfer up to $50,000 of income to the spouse to average-down the marginal tax rates.

The election platform of the new government pledged to remove that tax credit.

Education Credits

Every student attending a postsecondary institution can claim

- the education tax credit of 15% of $400 or $120 times the number of months in full-time or part-time enrollment, and
- the textbook tax credit calculated at 15% of $65 or $20 times the number of months in full-time or part-time enrollment.

According to the election promises, that credit will be cancelled.

Child Tax Credits

Currently, there are three programs to help Canadian families raise their children.

- Universal Child Care Benefit
- Child Tax Benefit
- National Child Benefit Supplement

Some of the programs are not based on income; everybody eligible can receive them. The new changes will tie the eligibility of the benefits to household income, however.

Currently, it has been proposed that the new benefit start at $6400 per year per child under the age of 6 and $5400 per year per child aged 6 to 17, all tax-free.

The benefit will be gradually reduced, depending on the household income. It is expected that the new program will result in higher benefits for the average Canadian family.

Tax-Free Savings Accounts

Currently, every Canadian can contribute up to $10,000 per year to the TFSA.

That contribution is expected to be reduced to the previous level of $5500 per year.

Employee Stock Options

- Under the current rules, employees who exercise stock options are taxed on the difference between the exercise price and the fair market value at the time the option is exercised. That is considered employment income.
- If the stock is of a Canadian Controlled Private Corporation, the employee can claim a deduction of 50% of the taxable income. Therefore, the stock option is taxed in the same way as a capital gain.
- The election platform of the Liberal Party is proposing to limit the deduction to the first $100,000 in annual employment income benefit from stock options. Therefore, any income from stock options in excess of $100,000 will no longer receive capital-gains-like treatment.
- That measure, together with the introduction of the 33% tax bracket over $200,000 of income, will have a big impact on high-income earners.

Teacher's Tax Credit

- If you are a teacher, you should expect to receive a nonrefundable tax credit of up to $150 if you buy up to $1000 of school supplies to be used in the classroom.

Small Business Tax Rates

- Under the current rules, a Canadian Controlled Private Corporation that earns income from an active business is entitled to the small-business deduction on the first $500,000 of profits, thereby reducing the federal corporate tax to 11%.
- Between 2016 and 2019, the rate will be decreased to 9% on a graduating basis. The election platform has pledged to reduce the rate to 9% per cent, as well, but no details on the timing have been announced.
- It appears, however, that the new government will look at measures to prevent income-splitting through the use of corporations. No details have been announced on the topic, but it is possible the new measure will be designed around the strategies of income-splitting among family members.

Please consult a financial professional to discuss your specific situation. ▲

Andrea Agnoloni, CPA, CGA, Notary Public,
is a Principal with EPR North Vancouver,
an Independent Member Firm of EPR Canada Group Inc.

Telephone: 604 987-8101
andrea@eprnv.ca
www.eprnv.ca
www.facebook.com/eprnv

Top 10 Tax Filing Errors

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A few years ago, Canada Revenue Agency compiled a list of the most common errors taxpayers make when filing their own tax returns.

1. Mathematical errors, adding, or subtracting incorrectly
2. Not reducing the income received for workers' compensation, social assistance payments, and net federal supplements when calculating the taxable income
3. Claiming provincial tax credit incorrectly
4. Not including the pension adjustment indicated on T4 slips, which affects the unused registered retirement savings plan deduction room for the following year
5. Claiming the incorrect GST credit by using incorrect spousal income amounts
6. Entering the wrong amount on the lines of the tax returns that are for contributions and overpayments to Canada Pension Plan and Employment Insurance
7. Claiming the wrong amounts for RRSP contributions
8. Not claiming the basic personal amount
9. Claiming the spousal amount incorrectly
10. Not claiming or claiming incorrectly the age amount

Other errors are usually related to the failure to claim deductions from carry-forward amounts from previous years, for example, carry-forwards for unclaimed home office expenses and capital and noncapital losses.

If You Make An Error

What should you do if you discover you made an error when you filed your tax return or received an additional tax slip after the return was filed?

- Write to the Tax Centre where the return was filed, with an explanation of the error or with the additional information. Preferably, use form T1 ADJ, available on the CRA website. You can also go to the CRA website and make changes directly using the MY Account service.
- If you discovered the error 90 days after you received the Notice of Assessment, you can still request the adjustment. Under the Fairness Legislation, you can apply for a change going back 10 years. If the request for adjustment is made within 3 years of the date of the Notice of Assessment, however, CRA will normally process the adjustment, with some exceptions.
- If you discover an error in your favour and the 90-day limit will expire before CRA will issue a re-assessment, it is advisable to file a Notice of Objection to protect the right to correct the error.