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What's New for the Tax Year 2014

As 2015 begins, with all our New Year's resolutions, now is the time to make sure you have the information you need regarding your 2014 personal income tax return.

Whether you prepare your own personal tax return or you use the services of a professional accountant, it is useful to know the tax proposals and tax measures that were introduced in the Federal Budget last February and the most recent announcements made in October 2014.

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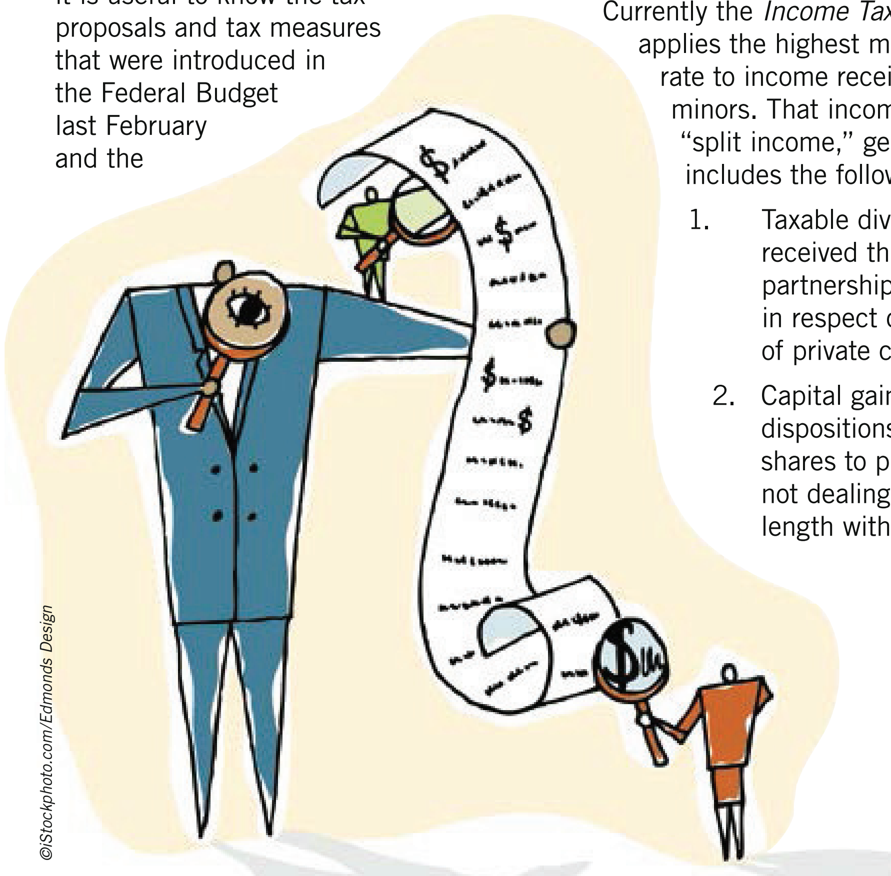

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Split Income

Currently the *Income Tax Act* applies the highest marginal tax rate to income received by minors. That income, defined "split income," generally includes the following.

1. Taxable dividends received through a partnership or trust in respect of shares of private corporations
2. Capital gains from dispositions of those shares to persons not dealing at arm's length with the minor

Effective 2014, the definition of split income will include also income that is paid or allocated directly or indirectly to the minor from a partnership or trust and it is derived from a business or a rental property and the person related to the minor is actively engaged in the activities of the trust or partnership and has in interest in the partnership.

Taxation of Estates and Trusts

Currently, estates and testamentary trusts created by Will calculate their income tax on taxable income by using the same marginal tax rates (graduated rates) as individual taxpayers use. The 2014 Budget proposes that starting in 2016, testamentary trusts and estates arising after death will be subject to a flat top-tax rate; they will not be exempt from making income tax installments, and they won't be able to have off-calendar year end.

Graduated tax rates will apply for the first 36 months of an estate that arises from the death of an individual. After that, the top-tax rate will apply.

Graduated rates will continue to apply for trusts having as their beneficiaries individuals who are eligible for the federal disability tax credit.

Estate Donations

For 2016 and subsequent taxation years, donations made by Will will be deemed to be donations made by the estate and may be claimed in any of the following.

- The taxation year of the estate in which the donation is made
- An earlier taxation year of the estate
- The last 2 taxation years of the deceased individual

The donation must be made within 36 months following the death of the individual.

Personal Tax credits

The medical expense tax credit will be expanded to include cost to design an individualized therapy plan if the following conditions are met.

- An individualized therapy plan is required to access public funding for specialized therapy, or a medical doctor or an occupational therapist—or, in the case of a mental impairment—a medical doctor or psychologist) prescribes an individualized therapy plan.
- The plan is designed for an individual with a severe and prolonged mental or physical impairment who is, because of the impairment, eligible for the Disability Tax Credit.
- The amounts are paid to persons ordinarily engaged in the business of providing such services to unrelated individuals.

The Adoption Expense Tax Credit

This 15 percent nonrefundable tax credit allows adoptive parents to claim eligible adoption expenses relating to the completed adoption of a child under the age of 18.

Eligible adoption expenses include, for example, fees paid to a licensed adoption agency and mandatory immigration expenses in respect of the child. The Adoption Expense Tax Credit may be claimed in the taxation year in which an adoption is completed.

The maximum amount of eligible expenses has been increased to $15,000 per child for 2014. This maximum amount will be indexed to inflation for taxation years after 2014.

Search and Rescue Volunteers Tax Credit (SRVTC)

This is a new credit to allow eligible ground, air, and marine search and rescue volunteers to claim a 15 percent nonrefundable tax credit based on an amount of $3000.

An eligible individual will be a search and rescue volunteer

- who performs at least 200 hours of volunteer search and rescue services in a taxation year,
- for one or more ground, air, or marine search and rescue organizations,
- that consist primarily of responding to and being on call for search and rescue and related emergencies, attending meetings held by the search and rescue organization, and participating in required training related to search and rescue.

Eligible search and rescue organizations will include search and rescue organizations that are members of the Search and Rescue Volunteer Association of Canada, of the Civil Air Search and Rescue Association, and of the Canadian Coast Guard Auxiliary. Other organizations whose status as a search and rescue organization is recognized by a provincial, municipal, or public authority will also qualify.

The Minister of National Revenue may require an individual who claims the SRVTC to obtain written certification from a team president—or other individual who fulfills a similar role—of an eligible search and rescue organization confirming the number of hours of eligible volunteer search and rescue services performed.

Children Fitness Amount Tax Credit

The amount that can be claimed under this credit for 2014 and subsequent years will be **doubled to $1000 per child**, and that the credit **will be made refundable** effective for the **2015** and subsequent taxation years.

The tax credit is available for prescribed programs of physical activity for their children who are, at the ***beginning*** of the taxation year

- under 16 years of age, or
- under 18 for a child with a disability

The federal tax credit is calculated using the lowest tax rate of 15 percent so the maximum tax credit per child for 2014 will be $150 (previously $75).

Amateur Athlete Trusts

Income that is contributed to an amateur athlete trust after 2013 will qualify as earned income for the purpose of determining the RRSP contribution limit of the trust's beneficiary.

Individuals who contributed to an amateur athlete trust before 2014 will be permitted to make an election to have income that was contributed to the trust in 2011, 2012, and 2013 also qualify as earned income.

An individual's RRSP limit will be re-determined for each of these years, based on the additional earned income created as a result of the election; any additional RRSP room will be added to the individual's RRSP contribution room for 2014. An individual will be required to make the election in writing and submit it to the Canada Revenue Agency on or before March 2, 2015.

Nonresident Trusts

Until the end of 2013, new immigrants were able to transfer their foreign assets into a trust and the income from the foreign source was exempt from Canadian tax for a period of 60 months.

Effective 2014, the 60-month exemption is eliminated, therefore new immigrants will be subject to Canadian income tax on all their worldwide income as soon as they become resident of Canada for tax purposes.

Business Income Tax Measures

Remittance Thresholds for Employer Source Deductions

Employers are required to remit source deductions in respect of employees' income tax, Canada Pension Plan contributions, and Employment Insurance premiums. An employer is included in a particular

category of remitter on the basis of the employer's total average monthly withholding amount in preceding calendar years in respect of these source deductions.

To reduce the tax compliance burden, effective January 1, 2015, the frequency of remittance of source deductions for these employers will be reduced by increasing the threshold level of the total average monthly withholding amounts.

- Employers will be required to remit up to two times per month if, 2 calendar years ago, they had a total average monthly withholding amount of at least $25,000, but less than $100,000, and
- Employers will be required to remit up to four times per month if, 2 calendar years ago, they had a total average monthly withholding amount of at least $100,000.

GST/HST Credit Administration

The Goods and Services Tax/ Harmonized Sales Tax (GST/HST) Credit is a nontaxable benefit that is paid to individuals based on their adjusted family net income. An individual may apply for the GST/HST Credit by checking the GST/HST Credit application box on their annual income tax return. When an individual does so, the Minister of National Revenue is required to send the individual a notice of determination as to their eligibility for the GST/HST Credit.

Effective 2014, there is no need for an individual to apply for the GST/ HST Credit. A notice of determination will be sent to each individual eligible for the GST/HST Credit. In the case of eligible couples, the GST/HST Credit will be paid to the spouse or common law partner whose tax return is assessed first.

Effective last October 30, 2014, new tax measures were announced to help make life more affordable for Canadian families. Some of these measures can be summarized as follows; they will be implemented as of January 1, 2015.

- **The Family Tax Cut, a federal tax credit that will allow a higher-income spouse to transfer up to $50,000 of taxable income to a spouse in a lower tax bracket.** The credit will provide tax relief—capped at $2000—for couples with children under the age of 18, effective for the 2014 tax year.
- **Increasing the Universal Child Care Benefit (UCCB) for children under age 6.** As of January 1, 2015, parents will receive a benefit of $160 per month for each child under the age of 6—up from $100 per month. In a year, parents will receive up to $1920 per child.
- **Expanding the UCCB to children age 6 through 17.** As of January 1, 2015, under the expanded UCCB, parents will receive a benefit of $60 per month for children age 6 through 17. In a year, parents will receive up to $720 per child.
- **Increasing the Child Care Expense Deduction dollar limits by $1000, effective for the 2015 tax year.** The maximum amounts that can be claimed will increase to $8000 from $7000 for children under age 7, to $5000 from $4000 for children age 7 through 16, and to $11,000 from $10,000 for children who are eligible for the Disability Tax Credit.

Families can claim the Family Tax Cut in the Spring of 2015 when they file their 2014 tax returns. They will begin to receive payments under the enhanced UCCB in July 2015. The July UCCB payment will include up to 6 months of benefits to cover the period from January through June 2015. ▲

Please consult a financial professional to discuss your specific situation.

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