

Newsletter

Winter 2007

WHEN SHOULD I MAKE MY RRSP CONTRIBUTION AND WHEN SHOULD I DEDUCT IT?

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Clarifying the difference between an RRSP “contribution” and an RRSP “deduction” is crucial, since it can be a useful tax planning technique in the right circumstances.

There are a number of benefits to contributing to an RRSP; most notably, it allows funds to be invested while sheltering the earnings from tax until retirement or early withdrawal. It also provides tax relief in the form of a deduction from taxable income in either the year the contribution is made or in a future year.

This is the critical point to understand. For example, a taxpayer who expects a significant increase in earnings in the next year (moving them into a higher tax bracket) may consider carrying forward the deduction to the next year. Let’s assume:

In 2006, Mr. A has taxable income before deductions of \$50,000 and is able to contribute \$5,000 to his RRSP for 2006. By making a \$5,000 RRSP contribution in 2006, Mr. A gains the benefit of immediately accumulating tax-deferred earnings in his RRSP account. If Mr. A deducts the \$5,000 contribution in 2006, he will realize a tax savings in 2006 of \$1,558 ($\$5,000 \times 31.15\%$ tax rate).

In 2007, Mr. A expects his taxable income before deductions to increase to \$100,000. If Mr. A chooses not to

deduct the \$5,000 contribution until 2007, he will realize a tax savings of \$2,171 ($\$5,000 \times 43.41\%$), resulting in additional tax savings of \$613 ($\$2,171 - \$1,558$). However, by choosing to carry the deduction forward to 2007, there is an opportunity cost to be considered. Could Mr. A have reinvested the \$1,558 he would have received in 2006 to earn the same \$2,171 tax saving he would receive in 2007? To accomplish this, Mr. A would require an after-tax rate of return of approximately 39%.

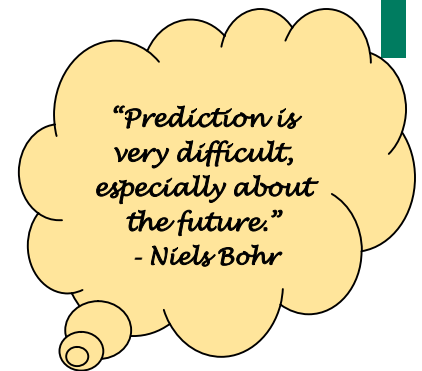
As a general rule, if you have the funds available to contribute to an RRSP, you should do so; however, you should give some consideration to your expected taxable income level before choosing to deduct it in the year contributed. If you don’t contribute to your RRSP in the current year, the contribution room can be carried forward indefinitely.

For 2007, the contribution room is calculated as the lesser of 18% of your 2006 earned income or \$19,000; meaning, you would have had to earn \$105,555 or more in 2006 to reach the maximum 2007 contribution room.

Regardless of whether or not you choose to deduct the contribution in the current year, all contributions related to that year must be reported on your tax return. **Do not exceed** your contribution room by more than \$2,000 or penalties will apply.

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*“Prediction is very difficult, especially about the future.”
- Niels Bohr*



Special points of interest:

- **RRSP Deadline is March 1, 2007**
- **Personal tax instalments:**
 - March 15, 2007
 - June 15, 2007
 - September 15, 2007
 - December 15, 2007

NEW CHILDREN'S FITNESS TAX CREDIT

Author: Tony Sauer, BBA, MSc, MRSB Chartered Accountants

Effective January 1, 2007, the Government of Canada has proposed a new non-refundable tax credit based on physical activity registration fees of up to \$500 per child. The fees must be paid by a parent, at any time during the year, to register a child who is under the age of 16 in an eligible program. Like most other non-refundable tax credits, this credit will be calculated by multiplying the eligible amount by the lowest marginal tax rate (15.5% in 2007). The maximum federal tax savings available this year is \$77.50 per child.

The credit will be available for any ongoing supervised program, suitable for children, in which substantially all of the activities undertaken include a significant amount of physical activity that contributes to cardio-respiratory endurance, plus one or more of the following:

- muscular strength
- muscular endurance
- flexibility, or balance.



While the Canada Revenue Agency (CRA) will administer the credit, the organizations offering the programs are in the best position to determine eligibility for the credit. The CRA will work with these organizations in the coming months to assist them in determining whether a particular program is eligible and, if so, what portion of the fee will qualify. Generally, taxpayers will not need to determine what is or is not eligible. They are

encouraged to ask organizations about the eligibility of their programs for the new credit.

Some other notable features of the new program that taxpayers should be aware of include:

- In cases where children are participating in programs through family memberships, the organization will determine the portion of the fee related to the child or children that would be eligible.
- Fees charged for extra-curricular teams or programs that take place at a school and are managed by either a third-party or the school itself would be eligible.
- For membership fees paid at seasonal or mixed-use facilities that provide more than just physical activities, only the portion of the membership fee that is activities-based would be eligible.

Children with disabilities, up to and including age 18, will qualify for the tax credit when they participate in activities that would be eligible programs for children without disabilities, regardless of the extent to which they are able to participate. An additional \$500 will be claimable, subject to spending a minimum of \$100 on registration fees, for specific costs that are related to a disabled child's ability to participate in the activity, including:

- equipment and assistive devices
- the cost of transportation to and from the activity
- the cost of attendant care while participating in the activity.

In summary, there will likely be uncertainty as to what is eligible for this tax credit in 2007. Our recommendation is to keep all receipts until the organization your child is involved in gives you clear guidance on what portion of their fees qualify.

For those interested in learning more, see the Department of Finance's backgrounder at <http://www.fin.gc.ca/news06/06-084e.html>.

GST CHANGES FOR 2007

Author: Barry Hull, Director of Commodity Tax Services, Kingston Ross Pasnak, LLP

If you prepare GST returns, here are the changes for 2006 and 2007 that may be helpful to you when preparing the returns.



GST on Automobiles

- The GST on automobile operating benefits for 2006 is 4.5% and 4.0% thereafter.
- The GST on automobile standby or other benefits is 5.5/105.5 for 2006 and 5/105 thereafter.

Input Tax Credit (ITC)

- The ITC for the Employee and Partner Rebate is 6.5/106.5 for 2006 and 6/106 from 2007 onwards.
- ITCs are 6/106ths of allowances paid after July 1, 2006. ITCs for reimbursements paid after July 1, 2006, can use 6/106ths or actual or, for meals and entertainment, you may use 50% of 5/105ths of the total (including GST and PST).

Late Payment Penalties

- The 6% penalty for late payments will not apply to GST reporting periods ending after April 1,

2007; however, it will still apply, with the old prescribed rate of interest, to assessments on earlier periods.

- Interest on late payments for reporting periods ending after April 1, 2007, will be the “basic rate” plus 4% (1st Quarter of 2007 is 9%). The penalty for filing a late GST return becomes 1% plus .25% times the number of complete months overdue (4% max).

Failing to File GST Returns

- Failing to file GST returns demanded after April 1, 2007, will cost \$250 each (used to be the greater of \$250 and 5% of tax owing).

GST/HST Refunds

- For GST periods ending after April 1, 2007, the CRA will not pay interest until 30 days after the later of the date filed and the due date. The rate of interest will be the “basic rate” plus 2% (1st Quarter of 2007 is 7%).
- After April 1, 2007, no refunds will be paid if there are unfiled returns of any kind. The refund can be offset against any amount owing under Excise Tax Act (ETA), Income Tax Act (ITA), or the Air Travellers Security Charge Act (ATSCA).

Income Tax Deductibility

- Income tax deductibility is restricted for all fines and penalties, unless prescribed (the GST 6% late penalty is prescribed and will continue to be deductible when assessed).
- For tax years beginning after March 31, 2007, any interest charged relating to GST will not be deductible.

PENALTIES FOR REPEATED FAILURE TO REPORT INCOME

Author: Norm Taylor, CA, Senior Tax Manager, Kingston Ross Pasnak LLP

If a taxpayer fails to report any amount on their income tax return for a year, and has also failed to report an amount in any of the preceding three taxation years, the taxpayer is liable for a 10% penalty on the unreported income under the Canadian Income Tax Act. As well, under some provincial Income Tax Acts, the taxpayer is liable for an additional 10% penalty on the unreported income. The penalty requires no intent to wilfully deceive or negligence to be applicable.



The Canada Revenue Agency (CRA) has been assessing the penalties automatically; therefore, it is prudent to ensure all income slips are reported on your income tax return. If you forget to include a slip, the CRA's matching program will most likely find it.

For example, in 2003, an Alberta taxpayer misses a T5 slip from the Bank of Montréal for interest of \$100.00, and the CRA matches the slip to the return and reassesses. In 2006, the taxpayer misses an additional T5 slip from the Bank of Montréal for a taxable dividend of \$125.00, and the CRA matches the slip to the return and reassesses. The tax on the 2006 T5 Slip will be a maximum of \$30.00 ⁽¹⁾, plus interest. However, the penalties will be \$12.50 federally and \$12.50 provincially and, in certain cases, may exceed the tax payable.

Therefore, if any amount is unreported, disclosure of the amount should be made forthwith on a T1 Adjustment Request. We note, however, any amount later reported on a T1 Adjustment Request could still technically be assessed the penalties; although, in the past, the CRA has not been assessing the penalty when amounts are disclosed on a T1 Adjustment Request.

⁽¹⁾ Based on the highest marginal tax rate in Alberta.



**LOOKING FOR
Seasonal Tax Return Preparers**

GGFL is seeking experienced tax preparers from **March 1 to April 30**.

If you are interested, please contact Lisa Lawrence at **(613) 728-5831 x 271** or **send your resume to employment@ggfl.ca**.

FREE CA TAX CLINIC PROGRAM

For over 20 years, GGFL has been giving back to the community by providing staff volunteers to prepare free tax returns for low-income seniors, families, and individuals at Free CA Tax Clinics.

The pilot program began in Toronto in 1969 through The Institute of Chartered Accountants of Ontario (ICAO).

Our staff is looking forward to volunteering again this year.



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