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THE BAKER GAZETTE YEAR 2019 TAXING TIMES EDITION

2018 Personal combined **B.C. FEDERAL/PROVINCIAL** Personal Tax Calculations.

MARGINAL RATE %

| <u>Taxable Income To</u> \$ | <u>Salary/ Interest</u> \$ | <u>Capital Gains</u> \$ | <u>Eligible Dividends</u> \$ | <u>Ineligible Dividends</u> \$ |
|------------------------------------|-----------------------------------|--------------------------------|-------------------------------------|---------------------------------------|
| 39,676 | 20.1 | 10.3 | 0.0 | 9.2 |
| 46,605 | 22.7 | 11.4 | 0.0 | 12.3 |
| 79,353 | 28.2 | 14.1 | 4.4 | 18.7 |
| 91,107 | 31.0 | 15.5 | 8.3 | 21.9 |
| 93,208 | 32.8 | 16.4 | 10.7 | 24.0 |
| 110,630 | 38.3 | 19.2 | 18.3 | 30.4 |
| 144,489 | 40.7 | 20.4 | 21.6 | 33.2 |
| 150,000 | 43.7 | 21.9 | 25.8 | 36.7 |
| 205,842 | 45.8 | 22.9 | 28.7 | 39.1 |
| 205,842 and up | 49.8 | 24.9 | 34.2 | 43.7 |

'CHARTERED ACCOUNTANT' NOW "CHARTERED PROFESSIONAL ACCOUNTANT" (CA = CPA, CA)

IMPORTANT DATES AND INFORMATION

January 31, 2019 - Interest payments on inter-family and employee loans

February 28, 2019 - T-4's, T-5's

March 1, 2019 - RRSP deadline! Max. \$26,230 based on 2017 income - See Assessment Notice

March 31, 2019 - T3 Returns, T5013 and NR4

April 30, 2019 - Personal T-1 returns due and taxes thereon

June 17, 2019 - Self-employed T-1's including spouse's return

- Date of Death Returns 70 (1) - later of six months after death or April 30th year following death
- T-3 Trust Returns due 90 days from year end. (Testamentary Trusts can be non-calender)
- Corporation Returns and GIFL are due six months from year end.
- Notices of Objection must be filed within 90 days of the Assessment Notice to challenge same.
- Worksafe: Virtually all employers must register, contact 604 244 - 6181 to register and check for eligibility. (worksafebc.com)
- Business Registration on the WEB (businessregistration.gc.ca)
- Foreign Reporting (Form T-1135) is mandatory for residents to report assets of almost any sort that cost \$100,000 and are of a country other than Canada. (See Point 14)
- Basic prescribed interest rates. 1% for first quarter of 2018: 2% for next three quarters.
- Mandatory EFILE for all personal and corporate clients.
- B.C. Excise Taxes: 5% GST 7% PST (PST Info: 1-877-388-4440)
- Pensioners collecting CPP between 65 - 70 who are employed or self-employed can opt out of CPP withholdings by filing Form CPT 30 or if self-employed by electing so on their 2018 T-1 Return. All recipients must pay CPP if collecting same between ages 60 - 65.
- CRA Contact:
 - Personal 1-800-959-8281
 - Corporate 1-800-959-5525
- Services Canada (CPP, OAS and GIS) (1-800-277-9914)

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- 1 -

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SPECIFIC ITEMS

1. Check 2017 Personal T-1 Notice of Assessment for 2018 RRSP eligible amount - Buy RRSP prior to March 1, 2019 for 2018 deductibility. Self-employed individuals should pay particular attention to this calculation. You must report RRSP's purchased in the first sixty days of 2019 on your 2018 return.
2. Accumulate tax information now and keep in a safe place. Proprietors and business people should keep all books, records and receipts for possible tax audit.
3. Donation and alimony are deductible on a calendar year basis only so these amounts should be paid in the calendar year wished to be claimed. Donation of listed stocks allows for the elimination of capital gains altogether and a 48% tax credit. Medical expenses can be deducted for any 12 month period ending in 2018.
4. RRSP's must be converted to RRIF in the year a person reaches age 71. Withdrawal amounts can be based on the lower spouses' age. RRSP overcontributions are allowed to a maximum of \$2,000 for excess contributions. TFSA penalties similar.
5. Principal Residence - Individuals must report the sale of real property whether principal residence for all years or partial. Both spouses or individuals must report their share. (Form #500 - 53). Failure to file form penalties are severe.
6. Capital gains/losses on dispositions must be reported in year earned otherwise tax deduction thereon maybe denied. Please retain all monthly statements regarding mutual funds or securities cost. You should call your financial planner or the actual mutual fund and obtain the actual gain or loss.
7. RRSP home buying plan remains available for up to \$25,000 for individuals purchasing their first principal residence or over five years since last ownership. Lifetime Long Learning Plan (LLP) allows \$10,000 tax free withdrawal to a maximum of \$20,000 Repayable over time. RESP for children - 1st \$2,500 per child - Gov't provides \$600. (24% Return). Income earned is distributed first then the capital and is taxed in beneficiaries hands.

Home Buyers Tax credit for 1st time owners or no ownership for five years can obtain a federal tax amount of \$750.
8. Instalments - if taxes owing exceed prior years liability then instalments are required. Instalments apply to personal, corporate and GST/HST returns.
9.
 - a) Reporting a nil payroll remittance monthly by phone: Call 1-800-959-2256 and follow prompts
 - b) Taxpayer Relief. If penalty or interest assessed to which fairness is sought: Complete Form RC4288E and send to the Manager, Taxpayer Relief, 9755 King George Blvd., Surrey, B.C. V3T 5E1.

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SPECIFIC ITEMS

10. File returns on time including making required instalments to avoid Non-Deductible penalties and interest. Canada Revenue Agency's (CRA) interest is not competitive and compounds daily.
11. **MAKE SURE YOU HAVE A WILL AND THAT IT IS UP TO DATE.** Ensure you obtain an enduring Power of Attorney. Designate insurance, RRSP and TFSA funds to spouse/beneficiary if appropriate. B.C. Probate fees are \$6 per \$1,000 to \$50,000 (\$25,000 exemption) \$14 per \$1,000 for excess.
12. The age credit is "claimed back" at the rate of 15% of your income in excess of approximately \$36,000 and is completely lost as your income increases to approximately \$83,000.
13. Work Space in Home

In order to deduct such expenses, the work space must either be:

- a) location where individual performs (>50%) duties
- b) used to earn income regularly to meet customers or other persons to perform duties

You can deduct reasonable expenses based on square footage rates. Note - watch principal residence exemption.

14. Offshore Assets Reporting (T1135, T1134)

You or your company will be required to file one or more of Canada Revenue Agency's information returns if you are an individual, corporation, trust or partnership and:

You have an interest in foreign property of more than \$100,000 (including items such as shares, bank accounts, real property, but excluding interests in foreign affiliates, property used in an active business and property in RPP's, RRSP's and RRIF's).

Simplified Method available for taxpayers with a total cost of all specified Foreign Property at any time during year that exceeds \$100,000 but less than \$250,000.

15. TFSA Amounts Annually.

| | |
|--|-------------------|
| 2009 - 2012 | \$ 5,000 per year |
| 2013, 2014 | \$ 5,500 per year |
| 2015 | \$10,000 per year |
| 2016 - 2017 | \$ 5,500 per year |
| 2018 - Forward (Indexed with inflation to nearest \$500) | |

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16. Child Support Payments

Child support payments made assuming original agreement pre - May, 1997 remain deductible from income and are included in the recipient spouse's income. The rules will disallow the deduction of child support payments, for new or amended agreements as of May 1, 1997.

17. Construction companies must file information returns (Contract Payment Reporting System) detailing payments to subcontractors supplying materials and labour in excess of \$500.

18. We recommend all corporations and their shareholders perform proper payroll procedures for all shareholders and employees. Payroll is reported on a calendar year basis and not fiscal.

Bonuses declared must be paid within 180 days of declaration. Please ensure that all employee benefits are included in the employee's T-4. This would include medical services plan payments, automobile standby charges, parking and interest on any shareholder loans.

19. Automobile logs should be maintained to support mileage claimed. Expense receipts should be detailed why it was expended and on whom. CRA has established rules whereby you can set a standard based on previous years percentage. A positive step. Credit card statements are not sufficient support in case of audit for any expense. Ensure any benefit to an employee is taxed appropriately. **CRA AUDITS FOCUS ON ORIGINAL RECEIPTS.**

20. Self-employed contractors should be careful to ensure they are not considered employees. This would also apply to individuals contracting through a Corporation which maybe thought to be a Personal Service Corporation.

21. Tax and Split Income (TOSI) Severe restrictions to income splitting strategies. Small business deduction in Corporation reduced by passive assets in excess of one million dollars and/or \$50,000 passive income. Professional advice advisable.

Comments

Income tax preparation is difficult and under more scrutiny by the Crown. Financial planning must consider tax planning and therefore is tax driven.

In closing, any transaction is viewed by Canada Revenue Agency as being at fair market value with few exceptions. In addition, any expense is deductible assuming it is reasonable and you are allowed to deduct them. Salaries to spouses or children are subject to scrutiny.

The tax liability of any unfiled return always remains liable. File regardless. The Crown will allow voluntary disclosures for unfiled returns.

The 1917 Tax Act was a temporary measure!

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