



# Strategies & Tax Update

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Fedder, Gurau & Staniewski  
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## Creating Strategies to Build Wealth

### In this Issue:

- ✓ Are you receiving the extra \$100 per month for every child under 6 years old?
- ✓ Dividends taxed at reduced rates, similar to Capital gains.
- ✓ Donate Publicly Listed Securities for added tax reductions.
- ✓ Update your Will to save income taxes and probate fees.
- ✓ GST rate reduction to 6%
- ✓ Choose a year end for your Prof. Corp. to defer tax

## Federal Budget Highlights

### Personal Income Tax

**A** **Canada Employment Tax Credit** is available to individuals with employment income, in the amount of \$250 for 2006 and \$ 1,000 for 2007 and subsequent years.

An individual entitled to the education tax credit will be eligible to claim a **textbook tax credit** equal to \$65 for each month as a full-time student and \$20 for each month as a part-time student.

The total amounts received on account of **scholarships, fellowships, and bursaries** will be excluded from income, if these amounts are received in connection with post-secondary education or occupational training.

The **pension tax credit** will be increased from \$1,000 to \$2,000 that is claimed against eligible pension income.

A **new tax credit for public transit passes** effective July 1, 2006, for the use of the individual, spouse or minor child. The claims are eligible for passes of at least one month in duration, including local bus, streetcar, subway, commuter train, bus and local ferry.

A **new Children's fitness tax credit** is proposed for 2007 and subsequent years for up to \$500 of eligible physical activity program fees paid for children under 16 years.

### Corporate Income Tax

The small **business limit** has been increased to \$400,000 as of January 1, 2007.

The **federal small business rate** is

currently 13.12% and it is proposed that this rate be reduced to 11.50% by 2008 and 11.00% by 2009.

The **carry-forward period for non-capital losses and investment tax credits** will be extended to 20 years from the existing 10 years.

### Universal Child Care Benefit (UCCB)

The UCCB is a new benefit paid monthly to help eligible families provide childcare for their children less than six years of age. As part of the Federal Budget families will receive up to \$1,200 per year for each child under the age of six, paid in installments of \$100 per month per child. There are no family income restrictions in receiving the payments and the amounts will be taxable by the lower income spouse. The program commenced on July 1, 2006. If you currently receive the Canada Child Tax Benefit (CCTB) or previously applied for the CCTB you do not need to apply for the UCCB. To apply, you need to complete Form RC66, CCTB application available at [www.cra.gc.ca/uccb](http://www.cra.gc.ca/uccb) or contact our office.

### Donations of Publicly Listed Securities

For donations after May 1, 2006, the budget proposes to eliminate the tax on accrued gains on the publicly listed securities donated to certain registered charities. In addition, the standard donation tax credit or deduction is still claimed by the individual or corporation. The taxation of the employee stock option benefits will also be eliminated when

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## Important Dates

*Personal Tax Installments*  
*Due September 15, 2006*  
*Due December 15, 2006*

publicly listed securities are acquired under these benefits and subsequently donated to eligible charities. When planning to make donations of securities that are owned with large accrued gains, it is wise to take advantage of these new provisions.

## Reduced Tax on Dividends

The federal government has moved forward on the reduction in personal tax rates on certain eligible dividends. As a result, the top tax bracket results in a combined rate of 26.31%, a decrease from 32.31%. The new tax rate will be applicable if paid by public corporations and private corporations if paid from earnings at the general corporate tax rate. The Ontario government has recently announced that it will follow the similar move by the federal government to reduce taxes on dividends. However, it will commence in 2006 and be phased in over 5 years.

## New 6% GST Rate

Effective July 1, 2006, the GST has been reduced from 7% to 6%. There are transitional rules for specific transactions, including sale of real property, taxable benefits and deemed supplies. There are also rules for transactions straddling the implementation date. Small businesses that provide services that are using the quick method calculation were using a rate of 5% on taxable supplies. The new rate has been reduced to 4.3%. The business is still eligible for a credit of 1% on the first \$30,000 of eligible supplies. Any questions relating to any specific transactions should be directed to our office for further clarification.

## Will Planning

When was the last time you looked at your Will? Have you made a will or is it one of those things on your To Do list? There are significant planning opportunities and as with many things, now is as good a time as any.

A **basic Will** where one spouse leaves their possessions to another is a good start. In this situation any tax on deemed dispositions at the date of death can be deferred as long as the asset has been left to the spouse or a qualified spouse trust.

The opportunity for planning comes when there are children who will ultimately become the beneficiary of the capital. There are additional issues if the children are minors. Who will be the appointed guardian? Who will be trustee over the assets to the point in time that the distribution is made to the children? At what age(s) do you want to distribute these assets to the children? Who will be the executor of the Will and are they capable now and will they be capable in the future?

A planning opportunity available is the use of a **Testamentary Trust**, a trust that is created by the Will. By creating this Trust you have created another taxpayer. For example, if you leave your assets to a Trust that is for the benefit of your spouse, the executor could be given the ability to pay tax on the income earned by the bequeathed assets in the trust and then pay after tax dollars to the spouse. This income would attract tax at a lower rate than if the spouse paid tax on it assuming she already had a substantial amount of income, which was pushing her up into a higher tax bracket. This opportunity is even better if there are several children. On the death of the surviving spouse, the residual could be left to **Trusts for each of the children**. If there were for example three children, then three Trusts could be created in the parents Will which would then create three new taxpayers with three low rates available.

Another relatively new planning

technique has to do with **multiple Wills**. There are some assets, e.g. shares of private Canadian corporations, (i.e. your professional corporation), which do not require probate on transfer.

If you have one Will then these assets are caught if probate is required for any asset you are leaving. However if you have a Primary and a Secondary Will this probate tax can be avoided. The above is a brief outline of the opportunities available in planning one's Will. Contact us to discuss these planning opportunities prior to meeting with your lawyer to draft or update your will.

## Professional Corporations - Tax Tip

Corporations provide many opportunities to save income taxes and build wealth. Currently, you can choose any date for the corporation year end. Choosing a July year end allows the corporation to benefit from tax deferral strategies. The corporation can deduct a management bonus on their July 31, 2006 year end and have 179 days to pay the bonus. If the bonus is paid in January 2007, the person receiving the bonus pays tax in 2007, the year it is received. This income is part of the 2007 personal tax return, where taxes are due in April 2008 resulting in a tax deferral of almost 2 years.

## Referrals

*We would like to take the opportunity to thank our clients who value our service and have recommended our firm to others. We thank you for contributing to the success of our firm.*

Partners  
**Victor Staniewski, CA**  
**Irving Gurau CA**