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KEMP HARVEY GROUP

SUMMER 2011 NEWSLETTER

inside

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NEW CREDITS FOR FAMILIES

On June 6, 2011, the federal government reintroduced the budget which they had tabled prior to the spring election. There were several small tax changes introduced in the budget. Some of the populist tax programs featured in the budget include the new Children's Arts Tax Credit, the additional Family Caregiver Tax Credit and an increase to existing Medical Tax Credit transfers.

Families with young children may benefit from the new arts tax credit.

The Children's Arts Tax Credit has been directed to families with young children. If an individual has a child who is under the age of 16 at the beginning of the 2011 tax year, the taxpayer may receive credit for the first $500 of eligible expenses for a program featuring artistic, cultural, recreational or development activities. Similar to the Children's Fitness Tax Credit, an eligible program must operate for a minimum of eight consecutive weeks. If the eligible program is a camp, the camp must be held for at least five days. The credit can reduce taxes by up to $75.

The Family Caregiver Tax Credit has been earmarked to support families in a different way. It has been introduced for caregivers of dependants with mental or physical infirmity. The new credit is meant to complement any other credits which may have been applicable to families. Infirmed spouses and minor children will qualify for this credit. This non-refundable $2,000 credit can reduce taxes by up to $300.

In addition to the new credits announced by the government, the allowable Medical Tax Credit transfers have been increased. Currently, individuals may claim up to $10,000 of medical expenses transferred from a dependant relative who is not claiming these expenses on their own tax return. The new credit increases the eligible amount by removing the $10,000 cap. This may be particularly advantageous for relatives who are transferring large eligible costs – such as nursing home fees – from a dependant.

Note the budget discussions have included a reduction in corporate taxes. This reduction was announced years ago. As planned, corporations with incomes greater than $500,000 will see federal corporate tax rates drop from 16.5% to 15%.

COMMON-LAW COUPLES DEFINED

Definitions of common-law partnerships vary from agency to agency.

The Canada Revenue Agency has a detailed definition of various domestic relationships, including that of common-law partners.

When you have been living together with someone who is not your spouse, but with whom you have a conjugal relationship or with whom you share a child, you are considered to be living in a common-law relationship.

Depending on the situation, there are different lengths of co-habitation time used to determine whether you are in a common-law relationship. From the perspective of the Canada Revenue Agency, you are deemed to be in such a relationship once you have been living with your partner for twelve months or more.

Common-law relationships are defined by the Canada Revenue Agency (CRA). The marital status claimed can change a couple's taxes and credits.

At that point, you must combine your incomes, in terms of determining your eligibility for the Child Tax Benefits, Harmonized Sales Tax credits and Goods and Services Tax credits.

These factors may reduce the amount of the credits you receive from these programs.

However, it may also allow you to reduce the amount of tax you pay, by allowing you to split your pension with your spouse.

FINAL TAX RETURNS

When you pass away, there is a requirement that you must file a tax return for the year up to your date of death.

This return is due the *latter* of six months after you pass away, or your normal filing deadline for that year.

Because it is the later of the two dates, the six-month deadline will only affect people who pass away in November or December. For example, if you passed away in February of 2011, you would have to file your 2011 tax return by April 30th of 2012 - or June 15th of 2012, if self-employed.

On the other hand, if you pass away on December 17th, 2011, your personal tax return will not be due until June 17th, 2012.

TAX RATES MISUNDERSTOOD

In British Columbia, we have several different federal and provincial income tax rates, ranging from 20.06% to 43.70%.

These tax rates increase as you enter each new income bracket. For instance, using 2010 tax rates and brackets, at $41,145, your tax rate changes from 22.70% to 29.70%.

However, there is a common misconception that all of your income will be taxed at this new percentage.

In fact, you will be only taxed at rates on income earned between each bracket.

Therefore, income up to $36,146 will be taxed at 20.06%; income between $36,146 and $41,145 will be taxed at 22.70%; and income between $41,145 and $72,293 will be taxed at 29.70%.

KEMP HARVEY GROUP WELCOMES TERRACE OFFICE

We are pleased to welcome Kemp Harvey Demers Inc. (KHD) to the Kemp Harvey Group. The firm was established by Donna Demers, CGA in Terrace in 1983. Terrace has always had a vibrant small business sector; Donna and her staff bring a solid understanding of small business owners' needs regarding complicated tax issues. The KHD team offers business owners support with their growing workload of government-related paperwork.

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INSTALMENTS DECIDED BY CRA

During the month of August, the Canada Revenue Agency (CRA) will inform you of any instalments owing. You will be responsible to pay these amounts by the deadlines noted by the CRA.

If you owe more than $3,000 when you file your personal income tax return, you will likely be required to start paying quarterly instalments on your personal taxes.

These instalment payments would equal one half of your taxes owing at April 30th, and would be payable on September 15th and December 15th.

The following year, you would start making instalment payments on March 15th and June 15th, as well.

The amount of these payments would drop to one-quarter of the taxes owing from the previous year.

In future years, the $3,000 threshold will include taxes owing prior to any instalment payments made.

If you want to avoid paying instalments, you can increase the amount of tax deducted from any other income you earn.

You must contact the organization from which you are receiving these funds to notify them that you wish to increase the amount of tax you are deducting from your income.

This may reduce your taxes owing and allow you to fall below the instalment threshold. You will be notified in August if you are required to make instalment payments in September and December. If your main source of income is farming or fishing, you are only required to make one instalment payment in the year, on December 31st.

You will also receive a notice from the Canada Revenue Agency (CRA) in February which will notify you of the payments owing in March and June.

If you do not pay your required instalment, you will be charged interest from the date of the missed instalment payment.

Currently, the CRA charges interest at a rate of 5% per annum, compounded daily.

You may also be charged a penalty if the amount of your instalment interest is greater than $1,000.

TAXPAYERS CAN APPLY LOSSES TO GAINS

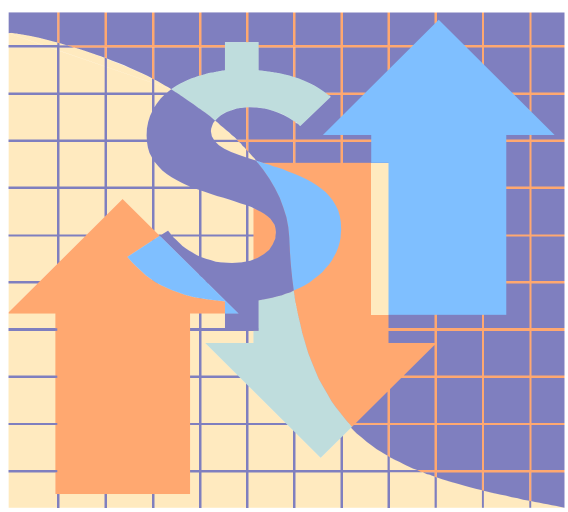
In the past few weeks, you may have received your Notice of Assessment indicating that the Canada Revenue Agency (CRA) has either accepted your tax return as filed, or has made changes they deemed necessary.

One of the more common notes you will find on your Notice of Assessment is related to the amount of capital losses which are available to be claimed on your tax return. These amounts are related to losses incurred during prior years on shares you have sold.

You are limited in your ability to claim these losses. You can claim these losses against any capital gains you earn in the future.

If you incur a capital loss in the current year, that capital loss can be carried back and applied against any of the net capital gains reported on your tax return in the previous three years.

There is no time limit for you to claim these losses. You can carry them forward indefinitely until the year you pass away, at which time you can claim the losses against any income you earn in that year or the previous year.



Your Notice of Assessment may contain information regarding your capital losses.

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KEMP HARVEY GROUP

Kemp Harvey Burch Kientz Inc.
Box 2020; 619 Central Avenue
Grand Forks, BC V0H 1H0
Phone 250.442.2121 Fax 250.442.5825
grandforks@khgcga.com

Kemp Harvey Goodison Hamilton Inc.
103-4430 Halifax Street
Burnaby, BC V5C 5R4
Phone 604.291.1470 Fax 604.291.0264
burnaby@khgcga.com

Kemp Harvey Kemp Inc.
445 Ellis Street
Penticton, BC V2A 4M1
Phone 250.492.8800 Fax 250.492.6921
penticton@khgcga.com

Kemp Harvey Kemp Inc.
Box 1039; 8901 Main Street
Osoyoos, BC V0H 1V0
Phone 250.495.3223 Fax 250.495.3559
terry.craig@shaw.ca

Kemp Harvey Hunt Ward Inc.
101-1593 Sutherland Avenue
Kelowna, BC V1Y 5Y7
Phone 250.763.8029 Fax 250.763.5155
khkelowna@khgcga.com

Kemp Harvey Laidman-Betts Inc.
206-3334 30th Avenue
Vernon, BC V1T 2C8
Phone 250.545.1544 Fax 250.260.3641
khvernon@khgcga.com

Kemp Harvey Casorso Inc.
Box 1478; 34864 97th Street
Oliver, BC V0H 1T0
Phone 250.498.4977 Fax 250.498.4330
mike.sutton@khgcga.com

Kemp Harvey Kok de Roca-Chan Inc.
2300-2850 Shaughnessy Street
Port Coquitlam, BC V3C 6K5
Phone 778.285.7888 Fax 604.937.3422
poco@khgcga.com

Kemp Harvey Kok de Roca-Chan Inc.
210-1140 Austin Avenue
Coquitlam, BC V3K 3P5
Phone 604.937.3444 Fax 604.937.3422
tricities@khgcga.com

Kemp Harvey Demers Inc.
4734 Park Avenue
Terrace, BC V8G 1W1
Phone 250.638.8705 Fax 250.638.0600
terrace@khgcga.com

Changes to BC HST

In response to pressure from the public, the British Columbia provincial government recently introduced several measures related to the Harmonized Sales Tax (HST).

In particular, the government officials are proposing to reduce the Harmonized Sales Tax rate from 12% to 11% in July 2012, and, then, to 10% in July 2014.

In addition, if the Harmonized Sales Tax is not repealed in the present referendum, families will receive $175 for each child under the age of 18.

With these changes, British Columbia's low income seniors will also receive a cheque of $175 in 2011.

To offset the revenue lost through these measures, the British Columbia government will be increasing the provincial corporate tax rate from 10% to 12% for companies with an annual net income of more than $500,000.

More HST-related credit cheques could be mailed out to British Columbia families this year.

Credits: New Taxpayers

Many Canadians miss out on refundable tax credits because they do not file their personal income tax returns in a timely manner.

In particular, students often do not file their returns because they do not have any income, and they do not realize that they could get money back from the government if they filed these returns.

However, you need to file your return in order to get the valuable GST/HST credit, British Columbia Low Income Climate Action Tax Credit and the British Columbia Harmonized Sales Tax Credit. The total annual amount of these credits, assuming the taxpayer has no income, is currently $598.50.

You can start receiving these credits in the month you turn 19 years old.

First-time tax filers, including graduates over 19, may be eligible for tax credits. They can receive retroactive payments due to them.

You can go back to file old tax returns if you missed out on federal credits in the past ten years.

VISIT US ON-LINE AT
WWW.KHGCGA.COM