Strength in Numbers™

Kemp Harvey Group

AUTUMN 2014 NEWSLETTER

inside

STRENGTH IN NUMBERS

INCOME SPLITTING FOR FAMILIES

In October, the federal government introduced income splitting for parents, with the "Family Tax Cut". This tax cut will allow one spouse to transfer up to $50,000 of taxable income to the other spouse.

All types of taxable income are eligible for income splitting. The maximum allowable family tax reduction will be $2,000. The credit will be available for the 2014 and subsequent taxation years.

Families with children may save $2,000 from new credit

There are several requirements that must be met in order to receive the credit. The family must be a two parent household with a child who is under the age of 18 at the end of the year. As well, both spouses must file tax returns for the year and must not have declared bankruptcy in the year.

The credit will be non-refundable, meaning that a taxpayer can only use the tax credit to reduce their federal income taxes to zero.

Like some other credits, it can only be applied against federal taxes, and therefore, it cannot be used to decrease a provincial tax liability. As a result, the credit could reduce a taxpayer's federal income taxes to zero, while still leaving the taxpayer with a provincial income tax obligation. In certain circumstances, a person could have no federal tax payable, while still owing almost $700 of provincial tax.

This credit is very different from income splitting for seniors. Although seniors' income splitting only applies to eligible pension income, it can result in savings of almost $15,000 on a couple's total tax liability, as there is no maximum allowable transfer with seniors' pension splitting.

A couple cannot claim both pension splitting and the Family Tax Cut on the same tax return.

EI PREMIUMS DECREASED FOR SMALL BUSINESSES

The Small Business Job Credit was introduced this fall, and will be available for businesses in 2015 and 2016.

This credit is for small businesses in Canada which have annual EI employer premiums that are less than $15,000. If a business' premiums are below this threshold, its EI rate will drop to 1.60% from the standard rate of 1.88%.

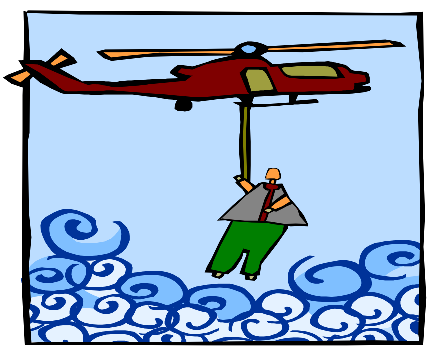
Similar to the current EI hiring credit, the CRA will determine whether a business qualifies for the credit when the business files their annual T4 summary.

EI rates will be decreased by almost 15% for eligible businesses in 2015 and 2016

This credit will replace the EI hiring credit which expired in 2013. Many small businesses will find this credit more beneficial. The maximum credit available through the previous program was $1,000, whereas the new program offers a maximum credit of $2,234. It is anticipated that after 2016, the EI rate for all businesses will be reduced through other measures that will come into effect at that time.

CREDITS FOR SEARCH AND RESCUE

The Search and Rescue Volunteer Tax Credit (SRVTC) has been introduced for the 2014 taxation year. This non-refundable federal tax credit will give search and rescue volunteers the same tax treatment as volunteer fire fighters. The eligible portion of the credit is $3,000 and can result in a total tax savings of up to $450 for an eligible volunteer.



In order to qualify, the volunteer must engage in at least 200 hours of eligible service in the year. Eligible services include responding to and being on call for search and rescue and related emergency calls as a search and rescue volunteer, attending meetings held by the fire department, or participating in required training related to search and rescue services.

As a search and rescue volunteer, a taxpayer may receive up to $1,000 as tax exempt income. However, if they claim this exemption, they cannot also claim the SRVTC. As well, a person cannot claim both the SRVTC and the Volunteer Fire Fighters Tax Credit.

Qualifying organizations must be members of the Search and Rescue Volunteer Association of Canada, the Civil Air Search and Rescue Association, the Canadian Coast Guard Auxiliary, or an organization whose status is recognized by a provincial, municipal or public authority.

DID YOU KNOW...

If an employee is paid a flat rate vehicle allowance, which is not based on kilometres travelled, the allowance will be a taxable benefit to the employee. If it is taxable, the employer will also have to deduct CPP, EI and income tax from the payment. The employee may be able to claim employment expenses on their personal tax return as a deduction to offset this taxable benefit.

CHILDREN'S FITNESS CREDIT INCREASED

In September, the federal government announced that they will be doubling the amount of the Children's Fitness Tax Credit. The maximum credit has been $500 since it was first introduced in 2007. This maximum is being increased to $1,000 per child, starting with the 2014 taxation year.

A taxpayer can save up to $150 of federal tax with this credit, up from the current maximum of $75.

The provincial government also provides a credit of $500, which provides a maximum provincial tax saving of $25.

The provincial government has not commented on whether they will match the federal increase. 2012 was the first year the provincial credit was available, five years after the federal credit was introduced.

Children's fitness encouraged by new credit

In addition, the federal government will be making this credit refundable, starting in 2015. Previously, low income families may have been unable to use the credit, as non-refundable credits can only be used to reduce federal taxes to zero. If a taxpayer owed no tax prior to the credit, they would receive no benefit from it. Making this credit refundable will allow low income taxpayers to benefit from this credit.

The tax credit applies to children under 16, or under 18 if they are eligible for the disability amount.

There have been no changes to the types of activities that qualify for the credit.

TAXES RAISED FOR HIGHEST EARNERS IN ONTARIO

A recent global trend in taxation has been to increase the tax rates of the highest income earners.

Will BC match Ontario's tax rate increases?

An additional more localized trend has been for the BC government to change provincial tax rates soon after similar changes in Ontario.

Recently, the BC Ministry of Finance added a temporary tax bracket for people who earn over $150,000, at 45.8%. This was announced soon after the Ontario government introduced their own tax for high income earners, at 49.53% for income above $514,090.

This summer, the Ontario government again increased taxes at the highest bracket. The top tax bracket of 49.53% now starts at $220,000, instead of $514,090. In addition, a new tax bracket was created for taxable income between $150,000 and $220,000, to be taxed at 47.97%, up from 46.41%.

It will be interesting to see if the BC government does the same with their own tax rates in the coming years.

DID YOU KNOW...

The Canada Revenue Agency (CRA) has recently revised their interpretation of what forms a common law partnership for tax purposes. Previously, a couple had to live together for a year to be considered common law spouses by the CRA.

Now a couple may qualify as common law even if they have only lived together for a few months, depending on other characteristics of the relationship. This could be particularly advantageous for those couples who otherwise would not qualify for income splitting.

STRENGTH IN NUMBERS

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 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 Craig 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.
203-1740 Gordon Drive
Kelowna, BC V1Y 3H2
Phone 250.763.8029 Fax 250.763.5155
kelowna@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 Kok de Roca-Chan Inc.
210-1140 Austin Avenue
Coquitlam, BC V3K 3P5
Phone 604.937.3444 Fax 604.937.3422
coquitlam@khgcga.com

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

VISIT US AT
WWW.KHGCGA.COM
FOLLOW US ON
TWITTER AND FACEBOOK

CHILD BENEFITS INCREASED

In addition to the Family Tax Cut, the federal government introduced changes to other child benefits this fall.

The Universal Child Care Benefit (UCCB), a monthly benefit paid to parents for each child under the age of 6, has been increased from $100 to $160 per month. A second tier has also been created, for children aged 6 to 17 years old. Parents with children in this category will receive $60 per month.

The increase will take effect in June 2015, at which time eligible families will receive retroactive payments for the first six months of 2015. As long as parents are registered to receive other federal child care benefits, no registration is required to receive these benefits.

As a consequence of this measure, the Child Tax Credit, which was a federal non-refundable tax credit that a parent received for each child under the age of 18, has been eliminated as of 2015. The credit will still be available for 2014. The total credit is $2,234, and a taxpayer can save up to $335 from this credit.

UCCB payments will continue to be taxable, as they have in the past.

Increases to the Universal Child Care benefit will be introduced in 2015

The income will be reported on the tax return of the lower earning spouse. Assuming that the recipient is in the lowest tax bracket, the total net payment that a parent would receive in the year would be $576. Combined with the $335 that is lost from the elimination of the Child Tax Credit, the net gain for each child would be $241.

Receipt of these benefits have no effect on eligibility for the Basic Child Tax Benefit, as income received under the UCCB does not affect this program.

One benefit of the increase in the UCCB for low income families is that they may not have earned enough income to be able to use the non-refundable Child Tax Credit in the past, whereas they will receive a benefit through this program.

KH PARTNER ELECTED TO CGA BOARD

We would like to congratulate Jim Burch on his election to the CGA-BC Board of Governors commencing January 1st. This legacy Board is part of the joint council of CGA, CA and CMA organizations and will exist until the Chartered Professional Accountants designation is introduced by the BC Government and then proclaimed into law. The Kemp Harvey Group is proud to have a representative on the joint council which is responsible for setting the direction for the combined organizations.