

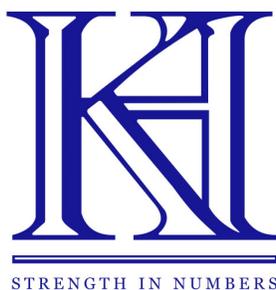
# KEMP HARVEY GROUP

CHARTERED PROFESSIONAL ACCOUNTANTS

SUMMER 2017  NEWSLETTER

## inside

CAREGIVER CREDITS ARE BEING RESHAPED	2
BUS PASSES WILL NO LONGER QUALIFY FOR A TAX CREDIT	2
LAWYERS WILL HAVE TO BEGIN REPORTING WORK IN PROCESS ON TAX RETURNS	3
MINIMUM WAGE IS INCREASING THIS FALL	3
ALL RIDE SHARING SERVICES WILL HAVE TO CHARGE GST	4
STUDENTS ARE LOSING ANOTHER TAX CREDIT	4
ALLOWANCES OF CERTAIN ELECTED OFFICIALS WILL BE FULLY TAXABLE	4



## SMALL BUSINESS TAX REDUCTION

In the provincial budget this spring, the Liberal government introduced a bill reducing the provincial corporate tax rate for small businesses from 2.5% to 2%, effective April 1, 2017.

Combined with the federal small business rate, the new total tax rate for qualifying businesses in British Columbia will be reduced from 13% to 12.5%. The new NDP government has announced that they do not plan on reversing this reduction.

This rate would apply for net income earned by a qualifying company up to \$500,000.

This tax reduction would reduce the tax rate for small businesses corporations to the same percentage as Alberta and Saskatchewan. Only Manitoba has a lower small business corporate tax rate at 10.5%.



*Taxes for qualified small business corporations in BC have been reduced from 13% to 12.5% as of April 1, 2017.*

Because of this change, the provincial government has also reduced the dividend tax credit available on non-eligible dividend distributions from these companies. The dividend tax credit has been reduced from 17% to 15%.

As a result, the highest rate of tax on these dividends will increase to 40.95%.

During the election campaign, the NDP announced that they planned on raising the corporate tax rate for business income that did

not qualify for the small business deduction from 11% to 12%.

Combined with the federal corporate tax rate for these businesses, this would increase the total tax rate from 26% to 27%.

BC currently has the lowest general corporate tax rate of any province in Canada. Even if the rate was increased to 27%, BC would still share the lowest general corporate tax rate in Canada with Alberta, Saskatchewan, and Manitoba.

## CONSOLIDATION OF CAREGIVER TAX CREDIT

Several federal tax credits will be amalgamated into one larger credit in the current tax year.

The infirm dependant tax credit, caregiver tax credit, and family caregiver credit will be replaced by a non-refundable Canada caregiver credit.

A total of \$6,883 can be claimed for each infirm family member who is dependant on the taxpayer.

This list would include parents, grandparents, aunts, uncles, sib-



lings, nieces, nephews, and adult children.

There will also be a credit of \$2,150 that will be available for the taxpayer's spouse or common-law partner, an

infirm dependant who also qualifies for the equivalent to spouse credit, and an infirm child who is under the age of 18 at the end of the taxation year.

The amount of the credit will be reduced when the infirm dependant's income is greater than \$16,163.

Under the previous system, a taxpayer who cared for a non-infirm senior dependant in their home qualified for the infirm credit. Under the amalgamated credit, the senior must be infirm in order for the taxpayer to receive the credit.

## TRANSIT PASS TAX CREDIT ELIMINATED

The transit pass tax credit was eliminated in the federal budget this spring.

This 15% non-refundable credit allowed the purchase of eligible transit passes to be used to reduce federal taxes payable. These passes had to be purchased for periods of at least one week in order to qualify.

The credit will still be allowable for passes that were purchased for periods prior to July 2017.

If the pass period includes July 1, the total amount of the credit will have to be prorated. For example, if a taxpayer purchased a 2017 annual pass for \$500, they would be able to claim the por-

tion of the purchase which was applicable to the period prior to July. In this example, they would be able to claim one half of the total, which would be \$250.



It was determined that the transit pass tax credit was not encouraging more people to use transit as compared to other forms of transportation, which was part of the reason for the demise of the credit.

The tax credit had originally been introduced in 2006.

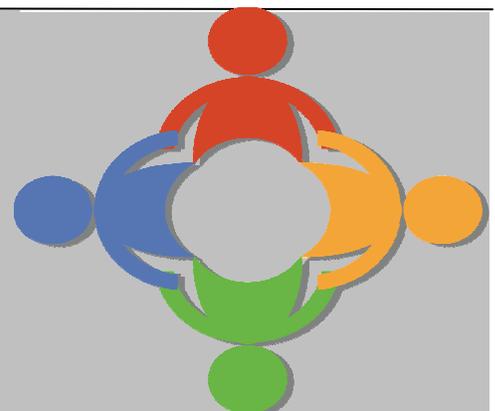
## DID YOU KNOW...

In 2013, the federal government introduced a first time donor's super credit.

If a taxpayer had not made a charitable donation in the previous five years, any current year

donations would receive a tax credit which was significantly higher than donations from other taxpayers.

The federal government announced that they will not be extending this tax credit beyond the 2017 tax year.

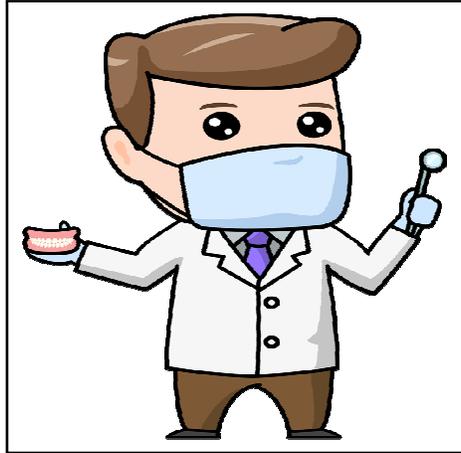


## PROFESSIONAL WORK IN PROCESS TO BE TAXED

In a policy change that caught many by surprise, the federal government eliminated the tax deferral from billed based accounting in the 2017 budget.

Currently, certain designated professionals such as doctors, dentists, lawyers and accountants have the option of reporting their taxable income based on when they bill clients for their work, rather than when their work has been completed.

As a result, these professionals have not had to report their unbilled work in process on their tax returns.



Effective for tax years starting after March 22, 2017, these professionals must report their work in process as taxable income.

For the first year, they will only have to include one half of their work in

process in taxable income. However, in year 2, they must begin reporting the entire amount of their work in process.

These taxpayers can elect to report the lower of the cost and the fair market value of their work in process, if some of it is deemed not billable.

Such a change will better match income and expenses of these businesses. Previously, expenses incurred to earn this deferred income have been allowable in the current year, allowing these taxpayers to claim a deduction without including the associated income.

## MINIMUM WAGE INCREASING IN BC

Effective September 15th, the minimum wage in British Columbia will be going up again.

The minimum wage will be increasing from \$10.85 per hour to \$11.35 per hour.

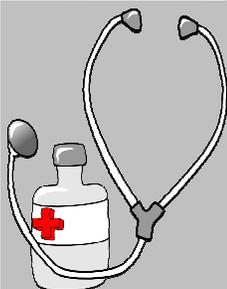
Currently, Alberta has the highest minimum wage in Canada, at \$12.20. By the end of 2018, they will have raised their minimum wage to \$15.00. The Ontario government is



planning to do the same by 2019. The new government in BC has stated that they also want a \$15.00 minimum wage in this province.

Based on a 40 hour work week with two weeks vacation, a person receiving the new minimum wage in BC will earn \$23,608.00 per year.

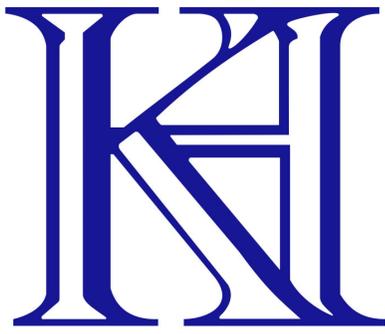
At \$15.00 per hour, this person's income will increase to \$31,200.00 annually.



### DID YOU KNOW...

Medical expenses that are paid outside of Canada can qualify for the medical expense tax credit on personal income tax returns. As long as the expenditure meets the required conditions to be considered a quali-

fied medical expense, the Canada Revenue Agency has stated that they would not deny the expense based solely on the fact that it was incurred outside of Canada. This could include travel to the other country.



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## UBER DRIVERS MUST REGISTER FOR GST

Since the introduction of Uber and other ride sharing services several years ago, there have been many complaints of an unfair advantage for these services as compared to ordinary taxi services.

Taxi drivers and chauffeurs have had to register for GST, without consideration of their total annual income. On the other hand, individuals who offered other ride sharing services have previously only needed to register for GST if they had annual sales which totalled over a threshold of \$30,000.



As of July 1, 2017, the Excise Tax Act is being amended to include drivers of ride sharing services in the definition of a taxi driver. This means that these taxpayers must charge GST even if they are under the threshold.

## PROVINCIAL EDUCATION CREDIT ELIMINATED

Previously the federal government announced that they would be eliminating the education and textbook credit for students starting with the 2017 taxation year.

This credit provided both full time and part time students with a non-refundable tax credit of up to \$400 per month. Any amounts not used in the current year could be carried forward to use in a future year.

The BC government announced that they will also be eliminating the education credit, although it will not be eliminated until the 2018 taxation year. Any credits that are not used in 2017 can still be carried forward to future years.

Payments of tuition paid to eligible institutions will continue to qualify for both federal and provincial credits.

## TAXATION OF OFFICER ALLOWANCES TO CHANGE

There has been a change to non-accountable allowances paid to certain elected representatives to reimburse them for work related expenditures.

Currently, these types of allowances, which are paid to members of legislative assemblies, officers who are elected to incorporated municipalities, officers of municipal utility boards, and members of public school boards, may be non-taxable.

If the non-accountable allowance has been less than 1/3 of the total salary and allowances paid to the officer, none of the allowance has been taxable. Only the portion over 1/3 of the total has had to be reported as a taxable benefit.

Effective for the 2019 taxation year, the entire amount of the non-accountable allowance will have to be reported by the individual as taxable income.