# TAXTICS

*2013 Edition*

## Ontario Tax on High-Income Taxpayers

The Ontario government has passed into law an additional 2% tax on Ontario individuals with income in excess of $500,000. After applying the existing Ontario surtax rates, this tax increase works out to 3.12% on income in excess of the $500,000 threshold. For 2012, the increase is 1.56% since the rate change was applicable as of July 1, 2012. This new Ontario tax rate will be applied to income earned by inter-vivos trusts as well as split income subject to the "kiddie tax".

The combined Federal and Ontario highest tax rates are now:

- Ordinary income – 49.53%
- Eligible dividends – 33.85%
- Non-eligible dividends – 36.47%
- Capital gains – 24.77%

Individuals should consider the options available for keeping income below the $500,000 threshold. An individual could income split with lower income family members by using prescribed rate loans or family trusts where there are significant investable assets. An individual could control the timing of when funds are earned personally by deferring earnings from an owner-managed company to a later, lower tax rate year or by using a company to hold investment assets. These options can be effective for any individual who is a high rate taxpayer, regardless of whether or not this new Ontario tax rate applies to them. If you would like assistance in implementing a tax minimization strategy, please contact our firm.

## Mandatory Electronic Filing

The Canadian government has mandated that beginning in 2013 paid tax preparers must electronically file personal and corporate income tax returns covering 2012 and later taxation years. There are penalties applicable for not filing in an electronic format. All tax returns prepared by our office will now be electronically filed with the Canada Revenue Agency (except when paper-filing of a specific type of return is otherwise mandated). Form T183 must be signed by the taxpayer before the return can be electronically filed.

*Also In This Edition*

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*Links*

- Our 2012 Personal tax checklist is available online at www.crawfordss.com
- Find 2013 Tax Facts online at www.crawfordss.com

*Annual Limits*

- 2013 TFSA - $5,500
- 2013 RRSP - $23,820

**We now accept debit cards in all offices!**

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## Ontario Healthy Homes Tax Credit

Starting with 2012 taxation years, seniors aged 65 or older (and people living with a senior relative) are entitled to a refundable income tax credit to assist with the cost of permanent home modifications that improve accessibility or help a senior be more functional in a home. This new credit was introduced by the Ontario government in the 2012 provincial budget and unlike the Home Renovation Credit of 2009, this credit is permanent and can be used in 2012 and beyond.

The credit is calculated as 15% of qualifying home renovations up to $10,000 per year, giving a maximum credit of $1,500. Amounts claimed by couples would be subject to a combined maximum of $10,000. There is no income threshold for this credit so it can be claimed by high and low income seniors alike. For 2012, qualifying expenditures can be incurred from October 1, 2011 to December 31, 2012. For all subsequent years, qualifying expenditures will be measured on a calendar year basis.

A qualifying expenditure is a renovation or alteration that can reasonably be considered to be undertaken to enable a senior to gain access or mobility, be functional or reduce the risk of harm to a senior within the principal residence. The expenditure must also be of an enduring nature and whose primary purpose is not to increase the value of the residence.

Examples of qualifying expenditures include grab bars and hand rails, ramps, walk-in bathtubs, wheel in showers, door widening, lowering counters, hands free taps, non-slip flooring, additional light fixtures, motion activated lighting and automatic garage door openers, to name a few.

Expenditures for general repairs and maintenance, home appliances, entertainment devices, financing costs, aesthetic improvements, housekeeping, insulation and landscaping are NOT eligible.

There are also a few planning points for the use of this credit that are worth mentioning.

1. You must obtain and keep receipts to substantiate your claim.
2. Even if a senior has no taxes payable, they can still get a refund because of this credit.
3. If someone who is not eligible to claim the credit is planning on assisting a senior with qualifying expenditures, they may consider gifting the funds to the senior and having the senior pay for the expenditures to create a tax credit.
4. If a senior is planning more than $10,000 of qualifying expenditures in one year, they may want to spread the amount out over a couple of years to maximize the credit.

For more information, including a more comprehensive list of eligible expenditures, visit http://www.ontario.ca/taxes-and-benefits/healthy-homes-renovation-tax-credit

## Tax Credit Changes

### Medical Expense Tax Credit

In order to fully recognize the medical and disability related costs incurred by caregivers, the $10,000 limit has been removed on the amount of eligible expenses a caregiver can claim in respect of financially dependent relatives.

### Family Caregiver Tax Credit

The Family Caregiver Tax Credit is a 15 percent non-refundable tax credit on an amount of $2,000 that provides tax relief to caregivers of infirm dependant relatives. This includes, for the first time, infirm spouses, common-law partners, and minor children. Canadians can claim this new, non-refundable tax credit for the first time when filing their 2012 taxes.

## Recent Graduates

The partners and staff of Crawford Smith and Swallow Chartered Accountants LLP would like to recognize the following staff members on their recent accomplishments:

**Frank Calabrese** passed the 2012 Uniform Evaluation (UFE). This was the final step for Frank to become a Chartered Accountant (CA). Frank provides accounting, assurance and taxation services for a variety of clients from our Niagara-on-the-Lake office.

**Curtis Capuano** has recently completed the Professional Applications and Competence Evaluations on his way to becoming a newly qualified Certified General Accountant (CGA). Curtis provides accounting and taxation services in our Niagara Falls office.

**Teresa Mastroianni** also completed the Professional Applications and Competence Evaluations and is a Certified General Accountant. Teresa provides accounting and taxation services for a wide range of clients from our Niagara Falls office.

**Jordan Perri** passed the 2012 Uniform Evaluation (UFE) and completed his practical experience requirements to become a Chartered Accountant (CA). Jordan provides accounting, assurance and taxation services primarily for our public sector clients from our Niagara Falls office.

# Canadians Wintering Outside Canada

If you are a Canadian resident who spends a significant amount of time in the United States (US) every year, your presence could create US tax and reporting obligations if you are considered to be a “US resident”.

You are a US Resident if you meet the substantial presence test in the US. You will meet this test if you are present in the US for at least:

- 31 days in 2012 and
- 183 days during 2010, 2011 and 2012 [counting 1/6 of the 2010 days, 1/3 of the 2011 days and all of the 2012 days.]

Note - Days commuting to work in the US do not count.

As a quick example, a person who vacationed in the US for 123 days in 3 consecutive years would meet the substantial presence test [(1/6 x 123) + (1/3 x 123) + 123 = 183]. This person would be considered a US resident and have to file U.S. tax and information returns.

A person who meets the substantial presence test and would otherwise be considered a US resident will not be considered a US resident if they:

- spend less than 183 days in the US in 2012,
- have a tax home in another county and
- establish a closer connection to the foreign country than the US.

A person could "elect" to claim a closer connection to Canada by filing Form 8840 – “Closer Connection Exception” by June 15, 2013. In which case, the person would be treated as a non-resident of the US and not be subject to US tax and information return filing requirements. Form 8840 must be timely filed to be valid. A US tax number is not required to file Form 8840.

If Form 8840 is not timely filed or the person spends more than 183 days in the US, they can only claim US non-resident status under the tax treaty. The person would file a US tax return with a Form 8833 – “Treaty Based Return Position” and would need a US tax number in order to do this.

If you are claiming US non-residency status under the tax treaty, you are still obligated to file the following forms, as well as other forms, in order to avoid significant U.S. penalties:

- Form TD F 90-22.1 "Report of Foreign Bank and Financial Accounts" – reports Canadian and other foreign bank and investment accounts if combined value is over $10,000 at any time in the year

- Form 5471 "Information Return of U.S. Persons with Respect to Certain Foreign Corporations" – information return to disclose income information about Canadian and other foreign corporations

The US is becoming more aggressive in discovering non-filers, so it is important that you address your filing requirements.

# What's New – U.S. Tax

The Patient Protection and Affordable Care Act has added new taxes that are effective beginning in 2013. The income thresholds for the new taxes are as follows: 1) married filing joint - $250,000; 2) single - $200,000; and 3) married filing separate - $125,000.

1. An additional 0.9% Medicare tax (rate will increase from 1.45% to 2.35%) will apply to employees with wages in excess of the above threshold amounts. An employer must withhold the 0.9% tax from the employee when wages paid by the employer to the employee exceed $200,000. Any over or under remittance would be reconciled when the employee filed his or her personal tax return.

2. An additional 3.8% net investment income tax will apply to the lesser of (1) net investment income or (2) modified adjusted gross income in excess of the above threshold amounts. Net investment income includes interest, dividends, annuities, royalties, rents and capital gains. There is an exception from net investment income for property used in a business. The 3.8% tax applies to a U.S. citizen or resident, but it is not applicable for a non-resident alien.

The American Taxpayer Relief Act included a number of tax changes that are effective beginning in 2013. Some of the more significant changes include:

Taxpayers earning more than $400,000 (married taxpayers - $450,000) will see the top marginal tax rate increase from 35% to 39.6% and the tax rate on dividends and capital gains increase from 15% to 20%.

The Act did not extend the 2012 payroll tax reduction that had reduced OASDI taxes from 6.2% to 4.2%.

The maximum Federal estate tax rate was set at 40% and an inflation-adjusted $5 million exclusion from the estate tax was provided.

A new voluntary disclosure initiative ("New Streamlined Filing Compliance Procedures for Non-Resident, Non-Filer U.S. Taxpayers") was introduced in the summer of 2012 for U.S. persons living outside the U.S. that were non-compliant with their U.S. tax filings. Additional information on this initiative is available on the IRS website or by contacting our firm.