

Year End Tax Update



Tax Update 2009

Income Splitting Opportunity (Action Required)

The federal prescribed interest rate for taxable benefits is 1% until December 31, 2009, the lowest in at least two decades. The low rate offers tax saving opportunities to anyone participating in or refinancing a family income-splitting loan arrangement.

To lock in the 1% rate, you must act before January 1, 2010. As the rate is subject to change every quarter, it could be higher or the same after December 31, 2009.

For family income-splitting loan arrangements, the 1% prescribed rate means it's a good time to make a loan bearing interest at 1% to a low-income spouse and/or other adult family member who will invest the funds. The income earned on the investment exceeding the 1% interest charge can be taxable to the low-income family member at their lower tax rate.

Requirements for this strategy:

- The loan must be entered into before January 1, 2010
- The loan must bear interest at 1%, payable by January 30 of the following

year, and every subsequent year for the duration of the arrangement.

- The borrower's return on the investment must exceed 1%.

The Federal Home Renovation Tax Credit:

The credit is intended for renovations to principal residences (note this includes cottages or other recreational properties that are used personally). The amount of the credit is 15% of the renovations above \$1,000, the maximum amount of the credit is \$1,350, meaning that to utilize the full credit \$10,000 needs to be spent. The credit can be claimed on your personal 2009 tax return. The expenditure must be made between Jan 27, 2009 and February 1, 2010.

The government has determined that the following expenditures (among others) are eligible for the credit (If the homeowner performs the work then only the cost of goods is eligible):

- 1) Central air conditioning unit attached to furnace and heat pump
- 2) Furnace replacement
- 3) Landscaping costs
- 4) Boiler replacement
- 5) A dock as long as it is attached to the land
- 6) Solar panels

- 7) Home Security system
- 8) Outdoor sauna
- 9) Draperies

Purchasing US Real Estate:

Due to the large drop in US real estate prices and the recent strength of the Canadian dollar, many Canadians are considering the purchase of US recreational property. Before purchasing US real estate, US Taxation should be considered. Canadians will be subject to US real estate tax on US Situs property if their worldwide assets exceed 3.5 million for 2009 and one million after 2010 (the tax is repealed for 2010), the tax is based on fair market value and the rate is up to 55%, which is very punitive.

There are various ways to address this. Currently, one of the most popular is the use of a trust structure to hold US property. Structuring should be considered before the purchase is done as structuring after the purchase may not be possible. Consideration should also be given to local property taxes that in some jurisdictions are substantially higher for non-resident owners.

Harmonized Sales Tax:

Effective July 1, 2010 the Provincial Sales Tax (PST) will be harmonized with the Federal Goods and Services Tax (GST) with a new 12% HST replacing the 5% GST and the 7% PST. The HST will tax a broader range of services than the PST, however certain exemptions such as gasoline for motor vehicle, books and children’s clothing, and energy to heat homes will be exempt from the 7% provincial tax.

Consequences of the changes are:

- consumers pay more tax
- some businesses pay less tax as they can claim ITC on the provincial component
- Costs go up for exempt sector: doctors, financial institutions (pay but cannot claim)
- Additional cost for new homes will add \$56,000 to a home price of \$800,000.

Basic Personal Tax Credit:

Effective January 1, 2010, the provincial basic personal tax credit will increase to \$11,000. The increase will save single tax payers approximately \$72 in 2010.

Corporate Tax / Small Business Rate:

Effective 2010 the taxable income subject to the small business corporate rate will increase by \$100,000 to \$500,000. The government also confirmed its intention to continue reducing the small business rate and the rate above \$500,000.

The projected combined federal and provincial rates on active income:

| | <u>Up to 500K</u> | <u>Above 500K</u> |
|------|-------------------|-------------------|
| 2009 | 14.5% | 30% |
| 2010 | 14.00 | 28.5% |
| 2011 | 13.5% | 26.5% |
| 2012 | 13.5% | 25% |

The above information is of a general nature only and is not intended to constitute tax advice. However if you wish to discuss how any of the above affect your planning situation please feel free to contact us at 604.331.2523 or info@investaflex.com.