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The Federal Budget in Review
Personal and Corporate Taxes

Personal Income Tax Rates

The Budget proposed the following increased personal tax brackets for 2009:
15% on the first \$40,726
22% between \$40,726 and \$81,452
26% between \$81,452 and \$126,264
29% over \$126,264

These tax brackets will be indexed to account for inflation in 2010 and subsequent years.

Basic Personal Exemption

The basic personal amount, the spouse or common-law partner amount and the eligible dependent amount will be increased to \$10,320 (from \$10,100) for 2009 taxation year and indexed to inflation for subsequent years.

Age Credit

For 2009, the amount on which the age credit is based will be increased from \$5,408 to \$6,408 and indexed thereafter. This increase will provide up to an additional \$150 of federal tax savings, depending upon the individual's taxable income for the year. The income level at which this credit is fully phased out will increase from \$68,365 to \$75,032.

Registered Retirement Savings Plans (RRSP)

The Budget proposes to allow a deduction for a decrease in value of the investments held in an RRSP or RRIF subsequent to the annuitant's death and upon the final distribution of the property. This deduction would be carried back and deducted against the year-of-death RRSP/RRIF income inclusion. This measure will apply where the final distribution from the RRSP or RRIF occurs after 2008.

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TAX SEASON 2009

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1983 - 2008

**CELEBRATING
25 YEARS
SERVING OUR
CLIENTS**

TAX SEASON HOURS

In addition to our regular hours, we will be open

Saturdays

March 14-April 25

9am - 1pm

Evenings by Appointment

Closed Good Friday and

Saturday

April 10 & 11

BOOKKEEPING

*Don't have time to keep on top of payroll, GST, PST ??
Let Shpak & Company look after all your bookkeeping needs so you can look after your business !!*

The Federal Budget in Review

Personal and Corporate Taxes

(cont'd from page 1)

Home Renovation Tax Credit (HRTC)

The Budget proposed a 15% non-refundable tax credit to individuals for eligible expenditures in excess of \$1,000, but not more than \$10,000, made in respect of eligible dwellings. This will result in a maximum federal credit of \$1,350 ($\$9,000 \times 15\%$). Work must be performed or goods acquired between January 28, 2009 and January 31, 2010.

Home Buyers Plan

The maximum eligible withdrawal permitted from an RRSP has been increased from \$20,000 to \$25,000 after January 27, 2009.

First Time Home Buyer's Tax Credit

The Budget proposed a new non-refundable tax credit for first-time home buyers who acquire a qualifying home after January 27, 2009. The tax credit is 15% of \$5,000 (or \$750 for 2009) and is claimable in the year in which the home is acquired.

Small Business Deduction (SBD)

The SBD reduces the federal corporate income tax rate to 11% on the first \$400,000 of qualifying active business income earned by a group of associated companies in a year. The Budget proposes to increase this limit to \$500,000 for taxation years ending after December 31, 2008. For taxation years that straddle December 31, 2008 the \$100,000 increase is prorated based on the number of days after December 31, 2008. There are a number of consequential changes as a result of this change.

Capital Cost Allowance (CCA)

Eligible computers and software acquired after January 27, 2009 and before February 2011 will be eligible for a 100% write-off in the first year the equipment is available for use.

Please contact our office for further details on any of these topics.

TAX FREE SAVINGS ACCOUNTS (TFSA)

Introduced in the recent Budget

The budget introduces a new form of registered savings accounts. Starting in 2009, individuals age 18 and over who are resident in Canada can contribute up to \$5,000 annually to their TFSA.

Key features are as follows:

Contributions to TFSA will not be tax deductible.

Withdrawals will be tax-free.

Income, losses and gains on investments in the account will not be taxable, and they will not be taken into account for determining eligibility for certain income-tested benefits or credits.

LATE REMITTANCE OF SOURCE DEDUCTIONS

For corporate remittances due after February 26, 2008, the current 10% fixed penalty is replaced with a graduated penalty as follows:

3% if one to three days late

5% if four to five days late

7% if six to seven days late

10% if more than seven days late

For more information on these topics, contact our office at 604-943-2811 or for a complete detailed list of all changes visit the DEPARTMENT OF FINANCE's web site at

www.budget.gc.ca/2008

2009 Car Allowance and Benefit Limits

January 2009

The federal government recently announced the 2009 monetary limits that apply for income tax purposes for employees who use automobiles in the course of employment or personally.

As a general rule, you are allowed to deduct certain car expenses incurred in the course of your employment if you are ordinarily required to carry on your employment away from your employer's place of business, and you are required to pay the expenses under your contract of employment. You must file Form T2200 signed by your employer with your tax return for the year indicating that the requirements for the deduction have been met.

The monetary limits for 2009 for cars purchased from 2001 to 2009 remain the same as for 2008 and are as follows:

- Capital cost allowance (CCA) in respect of your owned vehicle
 - maximum is \$30,000 plus applicable federal and provincial taxes
- Interest on loans - maximum is \$300 per month
- Leasing costs - general limit is \$800 per month plus applicable federal and provincial taxes.
- Mileage - 52¢ per kilometer for the first 5,000 km and 46¢ cents for each additional km



In the case of an employer-provided car, where the employer pays any of the operating costs, the employee will generally be taxed on an automobile benefit in respect of the employee's personal driving.

The general prescribed rate used to determine the taxable benefit relating to the personal portion of automobile operating expenses paid by employers for 2009 will remain at 24¢ per km. For taxpayers employed principally in selling or leasing automobiles, the prescribed rate will remain at 21¢ per km. The additional benefit of having an employer-provided vehicle available for personal use (i.e., the automobile standby charge) is calculated separately and is also included in the employee's income.

Proposed Measure for Annuitants of Registered Retirement Income Funds (RRIF)

Changes are proposed to reduce the minimum amount that a RRIF annuitant is required to withdraw by 25% for 2008. This change applies to all RRIF annuitants, regardless of their age.

If a RRIF annuitant received the full minimum amount based on existing law in 2008, the proposed changes allow the annuitant to re-contribute up to 25% of the 2008 minimum amount. This amount can be re-contributed to any of the annuitant's RRIFs, life income funds or other locked-in RRIFs. A re-contribution can also be made to a registered retirement savings plan (RRSP) if the individual is 71 years of age or younger at the end of the year in which he or she makes the contribution. RRIF annuitants who want to make a re-contribution should contact their financial institution.

The re-contribution must be made by the later of March 1, 2009, and 30 days after these proposed changes receive Royal Assent. (Because March 1, 2009, falls on a Sunday, March 2, 2009 will be deemed to be the contribution date.)

RRIF annuitants who turn 71 years of age in 2008 and who withdrew a minimum amount are not affected by the proposed changes. Changes were made in 2007 that deemed the 2008 minimum amount for these individuals to be nil.

Personal Income Tax Installments for 2009

You will be required to make installment payments for 2009 if your net tax owing in 2008, 2007 or 2006 is more than \$3,000. Installments will be due March 15, June 15, Sept. 15 and Dec 15, 2009. You will receive installment notices from CRA indicating the required payment amounts.

This does **NOT** include self-employment for individuals whose chief source of income is from farming or fishing. Please call our office for details.

Foreign Exchange Rates

The average rates for fifty-six countries is published in Guide RC4152 on CRA's website at www.cra-arc.gc.ca. This is from the Bank of Canada.

US/CDA - exchange rate is 1.0660

UK/CDA - exchange rate is 1.9619

Adjusted Cost Base of Investments

January 2009

Keeping Track of Your Investments

If you own shares, mutual funds, trust units or similar investments you need to ensure that someone is keeping track of the adjusted cost base of each of these investments. When you sell an investment you must report the sale on your tax return for that year. The difference between the proceeds and the adjusted cost base will be a capital gain or a capital loss. If you deal with a “full service” broker they will usually track the adjusted cost base of your investments. However, the adjusted cost base of investments acquired through discount brokers and investments such as shares, owned directly by investors will be the responsibility of the investor to maintain.

Adjusted Cost Base (ACB)

When an investment is originally purchased, the adjusted cost base (ACB) is equal to the purchase price of the investment. During the period the investment is owned, there can be adjustments to the ACB. There are many different reasons for an adjustment to the ACB, the following tax tip will address some of the more common ones.

Capital Gains Realized from Trust Units

T3 slips report the various sources of income allocated out of a trust. Trust units and most mutual funds are trusts for income tax purposes. They allocate all of their income out to their unit holders on a pro rata basis. This allows the unit holders to pay tax on that income rather than the trust. However, the amount of cash distributions in a year may be greater than the income of the trust. In that case, part of the distribution received by the investor is a return of part of their original investment. Box 42 on the T3 slip reports the excess of the distributions over the investor’s share of income of the trust. This amount is called a cost base reduction. The amount is subtracted from the current ACB of the investment. For example, suppose some trust units were purchased for a total purchase price of \$10,000. In the first year of ownership, \$500 of cash distributions were paid. The trust allocated \$100 of income to this investor. The remaining \$400 represents a return of capital and reduces the ACB of the investment. The new ACB of this investment is \$9,600. If the investor now sells the trust units for \$10,000 he/she will realize a \$400 capital gain (the difference between the proceeds and the revised ACB.)

Dividend Reinvestments

If an investor owns mutual fund units, the investor may receive cash distributions or may simply reinvest any distributions. Similarly, some investors may be enrolled in a dividend reinvestment plan for stock investments that they own. In these situations the investor needs to add all of the reinvestments to the ACB. For example, if an investor purchases 1,000 units of a mutual fund for \$10,000, the ACB of the investment would be \$10,000. In the first year, the mutual fund distributes income of \$120, which is reinvested in 10.91 units of the mutual fund at a reinvestment price of \$11.00 per unit. The investor now owns 1,010.91 units of the mutual fund with an ACB of \$10,120. In the second year the mutual fund distributes \$150 of income to this investor, which is reinvested at \$12 per unit (12.50 more units). The investor now owns 1,023.41 units of the mutual fund with an ACB of \$10,270. If he/she now sells these units at \$12/unit there will be proceeds of \$12,280.92 resulting in a capital gain of \$2,010.92. The investor has paid tax on the distributions of \$120 and \$150 in years one and two even though the money was automatically reinvested and never received in cash. A dividend reinvestment plan works similar to this.

Disposing of Your Investment

When an investor disposes of an investment, the proceeds of disposition are reported to the Canada Revenue Agency. The ACB of the investment is not reported. It is the investor’s responsibility to know the ACB of the investments that are sold. Therefore, to avoid a lot of work in the year of disposition it is advisable to update the ACB of investments on an annual basis.

PERSONAL TAX CHECKLIST

In order for us to prepare your tax return on a timely basis, please bring in as much complete information as possible when dropping off your package.

Please include your Notice of Assessment for 2007 (sent to you from CRA) and any other CRA correspondence.

Client name: _____

Telephone(____) _____ Fax (____) _____ E-mail _____

Address change: indicate only if changed from previous return filed _____

Marital Status: Indicate only if changed. YES _____ Date of Change _____

SIN (new clients only): _____ Birthdate (new clients only): _____

Income:

- ♦ Employment – T4 (Issue deadline is February 28)
- ♦ Employment Insurance – T4E
- ♦ Old Age security – T4A (OAS)
- ♦ Other Pensions – T4A Consider pension income splitting? Y____ N ____
- ♦ Canada Pension Plan benefits – T4A(P)
- ♦ RRSP's – attach T4RSP, T4RIF - attach spouses info if income splitting pensions
- ♦ Mutual Funds and other Trust Income—T3 (Issue deadline is March 31)
- ♦ Interest – Bank, Trust, Bonds – T3/T5/T600
- ♦ Dividends – T5/T600 (Issue deadline is February 28)
- ♦ WCB—T5008
- ♦ Business/Professional/Partnership/Director Fees – Financial Statements or T5013 or a summarized list of income
- ♦ Rental Property (attach details of income, expenses, purchases and sales)
- ♦ Capital Gains/Losses. Did you dispose of any capital properties this year? (attach copies of sales detail, original purchase documentation and 1994 capital gains election made)
- ♦ Spousal support -provide copy of post April 30, 1997 agreement(s) or election, if changed or not previously provided; or court order
- ♦ Foreign pension amounts in Canadian dollars
- ♦ RC62 Universal Child Care Benefits
- ♦ Other income (e.g., stock options, annuities, scholarships, fellowships, bursaries, research grants, T4PS, T5018 and any other "T" slips that you may have received)

Deductions:

- ♦ Declarations of Conditions of Employment (detail and attach form T2200 signed by your employer)
- ♦ If your employer required you to have a home office, a vehicle, a cell phone, or other expenses which you were not reimbursed for, you may be eligible to deduct some of these expenses. Apprentices may claim certain tool expenses.
- ♦ Allowable business investment losses (refer to Capital Gains/Losses above)
- ♦ Sole Proprietor Business expenses
 - Automobile expenses including business mileage and total mileage, new purchase or lease, gas, regular repairs & maintenance, insurance, parking relating to business
 - Home office expenses including phone, hydro, gas, property taxes and utilities (if you own the home), rent, insurance, office supplies, repairs & maintenance, mortgage interest
 - Office square footage and total square footage and the number of rooms in the home
 - Any new assets purchased for the business
 - Copy of GST return for 2008 if already filed and applicable
 - Advertising

Deductions - cont'd

- ◆ Child Care expenses (attach receipts)
 - For individual child care providers - Include S.I.N. and address
 - For summer camps - Indicate number of weeks that child was in residence
 - For Child Fitness tax credit (for dependents 17 years of age at the end of the year or 19 years of age if eligible for the disability credit)
 - Other receipts for child care (e.g. Preschool,)
- ◆ Details regarding in home care for dependent relatives (attach receipts)
- ◆ Disability deduction for you or dependant (if first time claim, attach T2201 completed by your physician). Disability supports expenses (speech, sight, hearing, etc)
- ◆ Registered Retirement Savings Plan contributions (attach receipts)
- ◆ Annual union, professional dues (attach receipts)
- ◆ Moving expenses (MUST attach receipts), Indicate distance moved to new employment, include cost of maintaining a vacant former residence
- ◆ Federal and provincial political contributions (attach receipts)
- ◆ Spousal support or separation allowances paid - include name(s) and address(es) of recipient(s); attach a copy of the agreement or court order for spousal support which was signed on or after May 1, 1997 or election, if changed or not previously provided
- ◆ Carrying charges (interest on money borrowed to earn dividends and interest, investment counseling fees, interest for limited partnerships, safety deposit box, investment counsel fees)
- ◆ Other deductions and expenses (attach receipts) (e.g. public transit)
- ◆ Charitable donations (attach receipts)
- ◆ Medical expenses (attach receipts) and details of private health insurance premiums, including amounts paid while traveling. For dependents over 18 years of age, up to \$10,000 can be transferred.
- ◆ Tuition fees for yourself or a dependent- attach a **completed (signed, dated, etc)** T2202/T2202A. This form can be obtained by going on the education institution's web site, signing in with their student ID and printing the form.
- ◆ Labor-sponsored funds – T5006
- ◆ Details of accounting fees
- ◆ Details of lump sum pension plan contributions and T10 forms
- ◆ For wholly-dependent persons, please attach list and indicate for each dependant: name, address if different, relationship, birth date, S.I.N., and net income. Note infirmity, if any.
- ◆ Adoption expenses
- ◆ Film & video production eligible for tax credit, tax shelter credits, mining tax credit expenses, business R&D
- ◆ Clergy residence deduction info, T1223

Other deductions:

- ◆ 2008 installment amount(s), attach February 2009 notice. Total remitted: \$ _____
- ◆ Attach details of RRSP – Home Buyers' Plan or Lifelong Learning Plan withdrawals and/or Canada Revenue's Statement of Account – Home Buyer's Plan, if received
- ◆ Amount of any distributions or loans from foreign trusts received in 2008
- ◆ Details of previous capital gains exemptions claimed, business investment losses and cumulative net investment loss accounts
- ◆ Details regarding residence in a prescribed area which qualifies for the Isolated Area Deduction
- ◆ Details of carry forwards from previous years including losses, donations, forward averaging amounts, registered retirement savings plans contributions not previously claimed
- ◆ Details of foreign property, other than personal use property, if aggregate cost is in excess of \$100,000
- ◆ Details of any new dependants

Are we filing a return for any of your children? Please circle one: Yes or No