

WINTER 2017

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the newsletter of Prentice Yates & Clark

The Tax Refund Myth

A “tax refund” is really just the CRA giving you back your own money.

“The government gave me money back” is a common phrase often heard after the April 30 or June 15 filing deadline. The truth is that the government is not being charitable; it is only refunding the tax that you or your employer had overpaid throughout the year.

Because the rate of tax withheld at source throughout the year may be different than the tax rate applicable to your actual taxable income (after taking into consideration all other income and deductions), you might have remitted more money to Ottawa than was necessary. Your “tax refund” is the difference between your remittances and your actual tax liability.

One of the biggest misconceptions is that, upon filing of their personal income tax returns, people with a lower income will likely receive a tax refund while people with a higher income will usually end up owing tax. This is not necessarily true because the tax refund/liability is not based on your income level but rather on the difference between the remittances paid compared to the actual tax liability.

How It Works

For example, assume Mrs. A, who normally earns a \$200,000 annual salary, only worked six months during 2016. Mrs. A’s employer would have withheld taxes based on the \$200,000. However, since Mrs. A worked only half the year, her actual 2016 income was \$100,000. Because the tax remittances calculated on \$200,000 were higher than the actual taxes applicable on the \$100,000, Mrs. A will receive a tax refund.

On the other hand, assume Mr. B has two jobs each paying \$30,000 throughout 2016. Mr. B’s employers would have withheld taxes based on Mr. B’s actual income of \$30,000 from each of them. However, Mr. B’s actual income for 2016 was \$60,000. Because the sum of the two tax remittances calculated on \$30,000 earned from each employer would be lower than the actual taxes applicable on the \$60,000, Mr. B will likely have to pay additional taxes.

In order to avoid such differences between the withheld taxes and the actual tax liability, everyone should review their current personal and taxable income situation to determine whether they can



reduce withholding taxes to minimize the cash advance provided to the treasury. It is very important that your employer be aware of any other sources of income you may have or other deductions to which you are entitled, so that all of it can be considered when determining the appropriate amounts to be withheld.

What Should I Consider?

Here are some of the personal tax credits that your employer should consider in reducing the amount of withholding taxes to be remitted:

- Are you eligible for an age amount (e.g., tax credit available for those 65 or older)?
- Are you eligible for a spousal credit (i.e., if the spouse’s income is under the basic personal amount)?
- Are you (or your children) enrolled at a university, college or other educational institution and are eligible to receive tuition credits?
- Are you (or your dependants) qualified for a disability amount?

Before you approach your employer to reduce source deductions, consider the total of all deductions allowed as well as your individual tax bracket. On the one hand, there is little to be gained in cash flow savings if the overall taxable income reduction is miniscule. On the other hand, if the gain could be substantial, taxpayers should make every effort to minimize the tax dollars advanced to the Canada Revenue Agency (CRA). At the same time, taxpayers should understand the rules and regulations that accompany an attempt to reduce deductions at the source.

Holiday Donations

In lieu of seasonal gifts to individual clients, Prentice Yates & Clark made donations to certain charities.

The Tax Refund Myth - continued

Make sure your TD1 information is correct.

Be Informed

The CRA requires that employees complete a TD1 form when starting employment. Make sure the information provided is correct from the start to enable payroll to make the correct calculations for source deductions. Correct information regarding spousal amounts or caregiver amounts makes a difference to non-refundable tax credits and the calculation of source deductions. If life circumstances have changed, submit a revised TD1 form.

CRA Form T1213

Should you have significant deductions available in any given year to reduce the withholding taxes at source, file a "Form T1213 Request to Reduce Tax Deductions at Source" (see CRA website for the forms). Regulations require that this form be submitted each year; however, if similar circumstances will exist for two consecutive years, you can apply for two years as long as you submit one T1213 form for each year. Given the CRA's response time, it may be advisable to consider the two-year option and provide such data to the CRA before the end of 2017 so that it will become effective January 1, 2018. When you receive the letter of approval from the CRA, submit it to your employer to reduce the source deduction amount or adjust your instalment payments as required. Some of the tax deductions that can reduce the tax withholding at source are listed below:

- Will you be contributing a lot of money to your RRSP for the next few years?
- Are there significant child care expenses?
- Are you making any support payments?
- Does your employee contract or self-employment require you to pay for work-related expenses such as vehicle, lodging, supplies, or tools?
- Will you split pension income with a spouse in a lower income bracket?
- Are you anticipating costly moving expenses when moving for employment reasons?
- Do you have non-capital losses you can carry forward for a number of years?
- Do you pay significant brokerage fees to manage your investment portfolio?
- Have you borrowed for investment purposes?
- Have you purchased rental properties that will create rental losses for the foreseeable future?

CRA Interest Percentages

In the event you do not make sufficient source deductions or instalment payments, the CRA will charge you with interest and penalties of 5% on overdue income taxes. If you are overzealous and overcontribute to the treasury, the prescribed rate for refunds of overpaid tax is 3% for individuals.



Example

A single adult in Ontario earning \$100,000 employment income had source reductions for 2016 of approximately \$24,829 or \$2,069 per month. If the anticipated RRSP contribution for 2016 was \$12,000, the tax liability would have been \$19,763 (using 2016 tables), an annual cash flow reduction to the CRA of \$5,066 (\$422/month).

If other factors increased the overall deductions to \$20,000, total source deductions drop to \$17,127 and thus reduce cash outflow to the CRA to approximately \$7,702 (\$642/month).

By filing the T1213 form, the foregoing scenario anticipates two-year reductions in cash outflow to the CRA ranging from \$10,132 to \$15,404. Rather than waiting for a lump-sum refund at the time of filing, these funds could be received each month and used to pay down a mortgage, reduce high-interest debt or invest in additional RRSP, Tax Free Savings Account (TFSA) or make other investments.

Keep Cash Advances to a Minimum

As personal debt and the cost of living rise, taxpayers should consider the financial advantages of ensuring cash advances to the treasury meet their obligations and nothing more. The advantages of reviewing the impending 2018 and 2019 taxation years with your CPA and forecasting the potential to put money in your pocket sooner, rather than later, is certainly worthwhile. ♦



Cannabis 101

The pending revision of Canada's marijuana laws will affect the workplace.

Liberalisation of Canada's marijuana laws appears to be imminent. The *Cannabis Act* is currently expected to become law in 2018 and will decriminalize certain activities and make marijuana more widely available under a controlled production, distribution and sales system. Whether or not you agree with the intent of the proposed *Cannabis Act*, the loosening of the laws governing the sale and use of marijuana raises important questions for businesses regarding health, safety and legal liability.

Most provincial and territorial occupational health and safety regulations require an employer to take all reasonable means to ensure the protection of their workers. The employer also has a reasonable expectation that employees should not be impaired on the job. The question then becomes when are employees impaired and whether, if they believe themselves to be impaired, they are required to inform their employer.

Employer Responsibility

All employers recognize that, if an employee is incapacitated to the extent that they cannot perform their assigned tasks, the employer is required to either allow a leave of absence or find a task within the organization that allows the employee to rehabilitate so as not to create safety or health issues for other workers.

Cannabis 101 - continued

Employers may have to pay for medicinal marijuana.

It may come as a surprise to employers to discover that, in the event an employee is injured on the job, the employer, as part of the restitution/rehabilitation package, could be required to pay for the employee's use of prescribed medicinal marijuana. This would not be dissimilar to the payment for any other medication that may be required to assist an injured employee in getting back to work.

Employment Agreements

Employment agreements usually address issues such as alcohol, the use of smartphones while driving and sexual harassment. These agreements reflect management's due diligence in acting to avoid or mitigate huge losses from lawsuits against the company. Even though both employees and employers have a responsibility to ensure a safe workplace, the employer, its management and directors bear the ultimate legal responsibility.

In the matter of marijuana prescribed by a doctor for pain relief, employees may be unable to travel to jurisdictions with criminal laws for possession. Not only does this cause concern for the employer, but it may also jeopardize an employee's future if arrested, charged and convicted by a foreign government. A prohibition on future travel for work in such jurisdictions may never be lifted.

Drug Testing

The employer has a responsibility to establish the grounds for any proposed drug testing. Some businesses have employment agreements that require drug testing to ensure employees are not impaired. The liberalisation of the marijuana laws creates a whole new area of uncertainty as to whether an employee is impaired. Random drug testing of employees can become problematic. If the employee refuses and they are fired, they might sue for wrongful dismissal. Further, some chemical components of marijuana, as for some other drugs, may linger in the employee's system and be picked up by the test even though the person is no longer impaired.

Review Your Contracts

Your business may have employee contracts which stipulate that substance abuse is not allowed on the job site. What happens in the event one of your employees is on medicinal marijuana? Is this in violation of the contract? Is this in violation of safety regulations? Is it a violation of the Charter of Rights and Freedoms?

- Owner-managers are well advised to seek professional assistance as well as legal advice to review all:
- contracts with companies and government agencies from whom they receive contract work
- employment contracts
- policies and procedures on the safe use of machinery and equipment
- protocols for detecting impairment and the penalties and/or sanctions that may need to be rewritten
- medical insurance policies
- insurance policies for third-party liability or vehicle insurance that may contain caveats that cancel payout in the event of drug use
- in-house education programs to make sure workers know how to recognize their impairment and when to communicate their inability to perform their tasks safely.

It is difficult if not impossible at the present moment to determine the consequences of legalizing marijuana and its impact on employers, employees and existing contractual arrangements with contractors, subcontractors, government and regulatory authorities, both within our borders and without.

Examine Procedures and Protocols

Good business practice suggests that owner-managers become proactive and educate themselves on the effects the pending legislation may have on their business. Procedures and protocols may have to be changed or new ones created to ensure a workplace that accommodates the health concerns of the workers without compromising the safety of the workplace. ♦



Registered Retirement Savings Plans

Make your 2017 RRSP contribution before March 1, 2018.

The 2017 RRSP contribution limit is 18% of your 2016 earned income to a maximum of \$26,010. (For those who have not topped up every year, this is the additional room now available.) Earned income includes self-employed net income, net income from a partnership, payments from supplementary unemployment benefit plans, CPP/QPP disability payments, salary, wages, taxable alimony or maintenance received, royalty and net research grants and net rental income.

Passive income such as investment income, taxable capital gains, death benefits and limited partnership income is not included within the calculation.

Losses from a self-employed business or partnership must be used to reduce earned income. If net rental losses are available, earned income is reduced accordingly. Any deductible alimony or maintenance payments also reduce earned income for the purpose of calculating your RRSP contribution limit.

Pension Adjustments

Your RRSP contribution level is further reduced by the pension adjustment which is any amounts you earn as part of your employer's Registered Pension Plan or Deferred Profit Sharing Plan. The pension adjustment was created by the Canada Revenue Agency to equalize the rates at which persons with and without employee plans can contribute annually to their retirement savings.

When considering your 2017 RRSP contributions, you should subtract an amount contributed under a company pension plan. For example, if your earned income is \$100,000 and your company contributed \$7,000 to your RRSP, your contribution should not exceed \$11,000 (i.e., \$18,000 - \$7,000).

Defined Contribution Benefit Plan

In a defined contribution benefit plan (i.e., one in which the employee's contribution is matched by the employer), the employee and employer might each contribute \$1,500 for a pension adjustment of \$3,000. The maximum personal contribution limit could thus not exceed \$23,010 (\$26,010 - \$3,000), assuming of course there were no carry forwards from previous years.

Defined Benefit Pension Plan

Estimating the pension adjustment for a defined benefit plan can be based upon a flat benefit, a career average benefit or final or best averages benefit. As such, it is best to speak to the payroll department

Registered Retirement Savings Plans - continued

to determine the pension adjustment in order to avoid over contribution which can result in penalties from the CRA.

Minimum Age Caveat

There is no minimum age to establish an RRSP. If, for instance, a 10-year-old earned \$50,000 from royalties, the maximum RRSP contribution would be \$9,000 (i.e., 18% of \$50,000). Unfortunately, a child under the age of 18 is a minor and cannot be bound by a contract, nor can the parent or guardian register one on their behalf. However, since the child's filed tax returns would indicate the eligible RRSP contribution amount created by the \$50,000, that amount can be carried forward and used after the age of majority (i.e., age 18) has been reached.

In-Kind Transfers

RRSP-eligible investments held in a non-registered fund can be transferred into your RRSP. This in-kind transfer may trigger a taxable capital gain in the year of the transfer calculated as the difference between the adjusted cost base and the deemed selling price (i.e., the fair market value at the date of the transfer). However, if the deemed sale price was below the original cost, the capital loss cannot be claimed. Interest accrued (i.e., interest earned but not received) up to the date of the in-kind transfer must be included in the taxpayer's income.

Avoid overcontributing and you avoid penalties.

Overcontribution

The CRA allows a buffer of \$2,000 of overcontribution but going beyond that amount results in a penalty of 1% each month on the excess amount. To avoid overcontributing, review either your Notice of Reassessment or go online to your CRA account and review your contribution level. Relying on your RRSP investment agent or your 2016 tax return for your eligible contribution may not always be right because they may not reflect changes made to prior years' income tax filings that will impact the carry-forward figures. You should also estimate your pension adjustment and subtract the adjustment accordingly from your eligible amount.

Timing of Contributions

RRSP contributions can be any time in the current year or up to the end of the first 60 days of the following year (adjusted for leap years and when the sixtieth day falls on a weekend). Contributions can be made in one lump sum or piecemeal throughout the year with payroll deductions or payment from personal accounts. You may register as many RRSPs as you want and contribute to all as long as the total yearly contributions do not exceed your allowed maximum. Accrued uncontributed amounts from previous years can be added to your RRSP at any time.

Contributions if Over the Age of 71

If you are over the age of 71, you can still make contributions to a spousal RRSP if the spouse or common-law partner is not over 71 and you have earned income in the year of contribution.

It should be noted, however, that should the spouse withdraw the contribution made to the spousal RRSP in the year of contribution, then the contributor will be taxed as if the funds had been withdrawn by the contributor. This attribution rule applies not only to the year of contribution, but also to the two years following the contribution.

Withdrawal for Home Buyer Plan

Individuals can withdraw up to \$25,000 from their RRSP tax free for a home purchase. The withdrawal rule applies to both spouses and common-law partners. However, the amount must be paid back to the RRSP over the 15 years following the withdrawal. If the yearly amount is not replaced, the amount will be added to the taxable income in that year. If you or your spouse (or common-law partner) have owned a principal residence in the five years immediately prior to the year of withdrawal, the withdrawal rules may not apply. It is best to check with your chartered professional accountant to ensure compliance with the rules governing withdrawals.

RRSP Contribution Deadline Is March 1, 2018

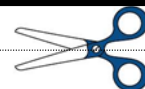
The deadline for 2017 RRSP contributions is March 1, 2018. Now is the time to review your RRSP contribution room along with your estimated earned income for the 2017 calendar year. A review now will enable you to complete some tax planning, build your savings for the future and reduce your tax liability for 2017. ♦

Inside PYC

The annual **Golden Horseshoe Co-operative Housing Federation** AGM/Winter Workshops Supplier Expo will be held January 27th in St. Catharines where J.J. Pauze will be at the Supplier Expo.

Congratulations to **Ellie Montgomery, Property Administrator, Victor Davis Memorial Court Non-Profit Homes Inc.** Ms. Montgomery won the draw for the Niagara Presents gift basket courtesy of Prentice Yates & Clark at the recent ONPHA Conference and Trade Show.

We would like to welcome **Shae Andrews and Tenish Gordon** as new members of our professional staff.



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If you would like to contact us by e-mail, we can be reached at *info@pyc.net*. Some of the articles appearing in this issue of *info@pyc.net* were prepared by the Chartered Professional Accountants of Canada for the clients of its members.