



Newsletter

Winter 2007

WHEN SHOULD I MAKE MY RRSP CONTRIBUTION AND WHEN SHOULD I DEDUCT IT?

Clarifying the difference between an RRSP “contribution” and an RRSP “deduction” is crucial, since it can be a useful tax planning technique in the right circumstances.

There are a number of benefits to contributing to an RRSP; most notably, it allows funds to be invested while sheltering the earnings from tax until retirement or early withdrawal. It also provides tax relief in the form of a deduction from taxable income in either the year the contribution is made or in a future year.

This is the critical point to understand. For example, a taxpayer who expects a significant increase in earnings in the next year (moving them into a higher tax bracket) may consider carrying forward the deduction to the next year. Let’s assume:

In 2006, Mr. A has taxable income before deductions of \$50,000 and is able to contribute \$5,000 to his RRSP for 2006. By making a \$5,000 RRSP contribution in 2006, Mr. A gains the benefit of immediately accumulating tax-deferred earnings in his RRSP account. If Mr. A deducts the \$5,000 contribution in 2006, he will realize a tax savings in 2006 of \$1,920 (\$5,000 x 38.4% tax rate).

In 2007, Mr. A expects his taxable income before deductions to increase to \$100,000. If Mr. A chooses not to

deduct the \$5,000 contribution until 2007, he will realize a tax savings of \$2,285 (\$5,000 x 45.7%), resulting in additional tax savings of \$365 (\$2,285 - \$1,920). However, by choosing to carry the deduction forward to 2007, there is an opportunity cost to be considered. Could Mr. A have reinvested the \$1,920 he would have received in 2006 to earn the same \$2,285 tax saving he would receive in 2007? To accomplish this, Mr. A would require an after-tax rate of return of approximately 19%.

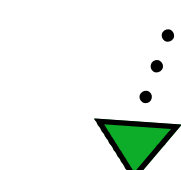
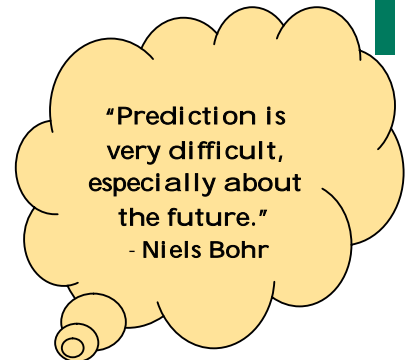
As a general rule, if you have the funds available to contribute to an RRSP, you should do so; however, you should give some consideration to your expected taxable income level before choosing to deduct it in the year contributed. If you don’t contribute to your RRSP in the current year, the contribution room can be carried forward indefinitely.

For 2007, the contribution room is calculated as the lesser of 18% of your 2006 earned income or \$19,000; meaning, you would have had to earn \$105,555 or more in 2006 to reach the maximum 2007 contribution room.

Regardless of whether or not you choose to deduct the contribution in the current year, all contributions related to that year must be reported on your tax return. **Do not exceed** your contribution room by more than \$2,000 or penalties will apply.

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Special points of interest:

- RRSP Deadline is March 1, 2007
- Personal tax instalments:
 - March 15, 2007
 - June 15, 2007
 - September 15, 2007
 - December 15, 2007

NEW CHILDREN'S FITNESS TAX CREDIT

Effective January 1, 2007, the Government of Canada has proposed a new non-refundable tax credit based on physical activity registration fees of up to \$500 per child. The fees must be paid by a parent, at any time during the year, to register a child who is under the age of 16 in an eligible program. Like most other non-refundable tax credits, this credit will be calculated by multiplying the eligible amount by the lowest marginal tax rate (15.5% in 2007).

The credit will be available for any ongoing supervised program, suitable for children, in which substantially all of the activities undertaken include a significant amount of physical activity that contributes to cardio-respiratory endurance, plus one or more of the following:

- muscular strength
- muscular endurance
- flexibility, or balance.



While the Canada Revenue Agency (CRA) will administer the credit, the organizations offering the programs are in the best position to determine eligibility for the credit. The CRA will work with these organizations in the coming months to assist them in determining whether a particular program is eligible and, if so, what portion of the fee will qualify. Generally, taxpayers will not need to determine what is or is not eligible.

They are encouraged to ask organizations about the eligibility of their programs for the new credit.

Some other notable features of the new program that taxpayers should be aware of include:

- In cases where children are participating in programs through family memberships, the organization will determine the portion of the fee related to the child or children that would be eligible.
- Fees charged for extra-curricular teams or programs that take place at a school and are managed by either a third-party or the school itself would be eligible.
- For membership fees paid at seasonal or mixed-use facilities that provide more than just physical activities, only the portion of the membership fee that is activities-based would be eligible.

Children with disabilities, up to and including age 18, will qualify for the tax credit when they participate in activities that would be eligible programs for children without disabilities, regardless of the extent to which they are able to participate. An additional \$500 will be claimable, subject to spending a minimum of \$100 on registration fees, for specific costs that are related to a disabled child's ability to participate in the activity, including:

- equipment and assistive devices
- the cost of transportation to and from the activity
- the cost of attendant care while participating in the activity.

In summary, there will likely be uncertainty as to what is eligible for this tax credit in 2007. Our recommendation is to keep all receipts until the organization your child is involved in gives you clear guidance on what portion of their fees qualify.

GST AND QST CHANGES FOR 2007

If you prepare GST and QST returns, here are the changes for 2006 and 2007 that may be helpful to you when preparing the returns.



GST/QST on Automobiles

- The GST on automobile operating benefits for 2006 is 4.5% and 4.0% thereafter. The QST ratio are 5.5% and 5.3% respectively.
- The GST on automobile standby or other benefits is 5.5/105.5 for 2006 and 5/105 thereafter. For Quebec, the rate is 65/1065.

Input Tax Credit (ITC) and Quebec Tax Rebate

- The ITC for the Employee and Partner Rebate is 6.5/106.5 for 2006 and 6/106 from 2007 onwards. The Quebec rebate is 7/107.
- ITCs are 6/106ths of allowances paid after July 1, 2006. ITCs for reimbursements paid after July 1, 2006, can use 6/106ths or actual or, for meals and entertainment, you may use 50% of 5/105ths of the total (including GST and PST). The Quebec ratio is 7/107ths with similar rules as to federal.

Late Payment Penalties

- The 6% penalty for late payments will not apply to GST reporting periods ending after April 1, 2007; however, it will still apply, with the old prescribed rate of interest, to assessments on earlier periods.
- Interest on late payments for reporting periods ending after April 1, 2007, will be the “basic rate” plus 4% (1st Quarter of 2007 is 9%). The penalty for filing a late GST return becomes 1% plus .25% times the number of complete months overdue (4% max).

Failing to File GST Returns

- Failing to file GST returns demanded after April 1, 2007, will cost \$250 each (used to be the greater of \$250 and 5% of tax owing).

GST/HST Refunds

- For GST periods ending after April 1, 2007, the CRA will not pay interest until 30 days after the later of the date filed and the due date. The rate of interest will be the “basic rate” plus 2% (1st Quarter of 2007 is 7%).
- After April 1, 2007, no refunds will be paid if there are unfiled returns of any kind. The refund can be offset against any amount owing under Excise Tax Act (ETA), Income Tax Act (ITA), or the Air Travellers Security Charge Act (ATSCA).

Income Tax Deductibility

- Income tax deductibility is restricted for all fines and penalties, unless prescribed (the GST 6% late penalty is prescribed and will continue to be deductible when assessed).
- For tax years beginning after March 31, 2007, any interest charged relating to GST will not be deductible.

