Winter 2017

In our newsletter, we try to offer a variety of current information and helpful business advice. We welcome any comments.

Sale of Principal Residence - Reporting

In October 2016, the Government announced an administrative change to Canada Revenue Agency (CRA) reporting requirements for the sale of a principal residence.

When you sell your principal residence or when you are considered to have sold it, usually you do not have to report the sale on your income tax return and you do not have to pay tax on any gain from the sale. This is the case if you are eligible for the full income tax exemption (principal residence exemption) because the property was your principal residence for every year you owned it.

Starting with the 2016 tax year, you will be required to report basic information (date of acquisition, proceeds of disposition and description of the property) on your income tax and benefit return when you sell your principal residence to claim the full principal residence exemption.

If you fail to report the sale of a residence you won't be entitled to the principal residence exemption. If you forget to designate a property as your principal residence in the year of sale, you should ask CRA to amend your tax return for that year. CRA will often accept a late designation but penalties could apply at $100 per month up to $8,000.

Tax Credit Changes

Children's Fitness and Arts Credits

The 2016 tax year is the final year that parents can claim two popular federal credits for children's activities. The non-refundable children's arts credit is based on up to $250 of qualifying expenses, and the refundable children's fitness tax credit is based on up to $500 of qualifying expenses.

2016 is also the final year that parents can claim the refundable Ontario children's activity credit.

Home Accessibility Tax Credit

This is a new federal non-refundable tax credit in 2016 to assist seniors and those eligible for the disability tax credit with certain home renovations. It may also be claimed by people related to such a person.

The tax credit is equal to 15% of up to $10,000 of expenses per year that permit these individuals to be more mobile or functional within their home or reduce their risk of harm within their home or from entering their home. In addition, these expenses may also qualify for a medical expense tax credit, and can be claimed for both purposes.

Examples of expenditures that will qualify for this new credit include: the installation of grab bars, walk-in bathtubs and showers and wheel chair ramps.

The Ontario Healthy Homes Renovation Tax Credit is a similar credit available for senior residents in Ontario. 2016 is the final year that this credit can be claimed as it is being discontinued.

School Supply Tax Credit

This is a new federal refundable tax credit for 2016 which is meant to compensate teachers and early childhood educators who often incur personal, unreimbursed costs to purchase teaching supplies to enhance the students' classroom learning environment. The tax credit is equal to 15 percent of up to $1,000 in qualifying school supply expenses each year. For the costs to qualify, employers will be required to certify that the supplies were purchased "for the purchase of teaching or otherwise enhancing learning in a classroom or learning environment." Educators should retain their receipts in case they need to be verified.

DYING INTESTATE

Surveys have constantly shown that only about half of adult Canadians have a will in place. This is despite the fact that these surveys also show that most Canadians appreciate the importance of having a will, and plan to do so in the future.

What happens when someone dies without a will? In this situation intestacy rules will apply and the assets of the estate are distributed according to a formula set out in the applicable provincial legislation.

In Ontario, the distribution scheme is set out in the Succession Law Reform Act as follows. If the deceased has:

- **a spouse only** – the entire estate goes to the surviving spouse;
- **a spouse and one child** – the first $200,000 goes to the spouse, the remainder is split equally between the spouse and child;
- **a spouse and children** – the first $200,000 goes to the spouse, the remainder is split one-third to the spouse, and two-thirds shared equally among the children;
- **children but no spouse** – the children share equally;
- **no spouse or children** – the estate goes to any surviving parent(s); if the parents are predeceased, the siblings share equally, with children of a deceased sibling sharing their parent's share; if only nieces and nephews survive, they share equally;
- **no lawful heirs** – the estate escheats to the Crown (becomes property of the province).

This arbitrary distribution scheme could have negative consequences such as:

- Where the deceased leaves a spouse and children, the spouse's share may be less than what the deceased would have wanted to provide and may cause hardship for the spouse.
- The share of any minor children must be paid into court and held until they attain the age of majority.
- The deceased forfeits the ability to appoint the executor of their choice.
- Income tax and probate planning opportunities are lost.
- The administration of the estate may be more costly and take longer to complete.

These negative consequences of dying intestate can be considerable, adding undue stress at a difficult time. Having an up to date will is the only way to ensure that your testamentary wishes are upheld in a timely and cost-efficient manner.

RECORD KEEPING RETENTION PERIOD

When you operate a business in Canada, Canada Revenue Agency (CRA) requires you to maintain financial books and records. CRA requires that all records and supporting documentation be kept for six years from the end of the last tax year.

The tax year is considered the fiscal year end for a corporation and the calendar year for an individual. The retention period is also required by the *Employment Insurance Act*, the Canada Pension Plan and the *Excise Tax Act* (GST/HST).