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CHARTERED
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This publication is a high-level summary of the most recent tax developments applicable to business owners, investors, and high net worth individuals. Enjoy!


TAX TICKLERS... some quick points to consider...

- **Registering the birth** of your newborn child? You can consent to use the “**Automated Benefits Application**” which allows you to automatically apply for the Canada Child Tax Benefit, the Universal Child Care Benefit, the GST/HST Credit, and Provincial/Territorial programs at the same time. 
- Staying too long in the US can cause major taxation problems! The **joint entry/exit tracking** system between **Canada** and the **US** is scheduled to commence July 1, 2014.
- Employer provided **medical tests** may be a taxable benefit.
- **Incomplete foreign property** disclosures on the T1135 can result in a **\$2,500 penalty**.
- The employer portion of **CPP payments** may have to be **paid twice** in the year when an employee **becomes a contractor**.

Contact us if you have further questions or wish to discuss!

INTERNET BUSINESS ACTIVITIES: Must be reported to the CRA

A recent CRA release announced **additional disclosure** requirements of **Internet Business Activities** for corporations, proprietors and farmers.

A business must disclose if **income is earned** from one or more **webpages** or **websites**. If the business/proprietor doesn't have a webpage, but does have a profile or page describing the business (on blogs, auctions, marketplace or other portal or directory sites), the related information would also have to be disclosed. A taxpayer may earn income from webpages or websites in many different fashions: 

- By **selling goods** and/or services on a business's **own webpage** or website. For example, a business may have a **shopping cart** and process payment transactions themselves or use a **third-party service**.
- If a website doesn't support transactions but the **customers call**, complete and submit a form or **email** to make a purchase order, booking, etc.

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- By **selling goods** and/or services on **auction, marketplace** or similar sites operated by others.
- If the taxpayer earns **income** from **advertising**, income programs, or traffic the site generates.

For example:

- static advertisements on the site for other businesses;
- affiliate programs;
- advertising programs; or
- other types of traffic programs.

Businesses must also disclose the **top 5 income generating webpages** and the **percentage of the gross revenue** generated from the **Internet**.

An **estimate** of gross revenue for proprietors is sufficient if the exact percentage is unknown. No similar relief has been given for corporations.

Action Item: Be aware of your business's online presence and income earned from these websites. This information may be required when filing your year-end tax return!

REPORTING GST/HST: Simple Option for Small Businesses

Many small businesses have adopted the **Quick Method** to **report and remit GST/HST** as an alternative to the traditional method. The Quick Method is substantially **simpler**, resulting in **reduced paperwork** and **bookkeeping costs**.



Businesses with **annual worldwide taxable sales** of up to **\$400,000** (for reporting periods beginning in 2013) can **elect** to employ the Quick Method. Some businesses, including accountants, tax consultants, financial consultants and lawyers, cannot use the Quick Method.

GST/HST payable under the Quick Method is a **specified percentage multiplied by total sales** (including GST/HST collected). The percentage **varies** depending on a) the nature of business activities, and b) the **location** of sales and operations. This contrasts the traditional method, where it is the actual GST/HST collected less GST/HST paid that is due.

Under the Quick Method, the taxpayer doesn't need to track and report GST/HST paid because an estimate of this amount is factored into the specified percentage. Certain exceptions apply with regards to the purchase of capital assets.

The **Quick Method** computations compared to the traditional method should be considered prior to electing.

Action Item: If your business's annual worldwide taxable sales is less than \$400,000, and you are not already using the Quick Method to remit GST/HST, contact us to see if this option would work for you!

SALARY: To Owners and Relatives

Documenting Salary

In a January 30, 2014 Technical Interpretation, the CRA notes that a salary (or dividend) is taxed at the individual level when received. Evidence, such as the **proper documentation** of the minutes of a meeting of directors, and a T4 - T5 indicating the appropriate amount, could show that a payment was made.



CRA also noted that a **journal entry** recording a credit to the loan account of a shareholder does **not**, in and of itself, **constitute a payment of a salary or dividend**. Accounting records or entries serve only to reflect the transactions.

Action Item: When paying salaries to family members, it is often preferable to utilize the standard payroll process – withhold source deductions, issue a T4, provide a cheque or direct deposit, etc.

CRA EXAMINES NON-PROFIT ORGANIZATIONS (NPOs): Is your Entity at Risk?

On February 17, 2014 the CRA released a Report which investigated whether **30,000 organizations** self-identified as an **NPO** actually fulfilled the **criteria required**.
An NPO:

- is a club, society, or association;
- is **not a charity**;
- is **organized and operated** exclusively for social welfare, civic improvement, pleasure, recreation, or any other **purpose except profit**; and,
- whose **income is not payable** to or available for the **personal benefit** of a **proprietor, member or shareholder**.



The CRA found that a **significant portion** of the organizations **failed to meet** at least one of the **requirements**.

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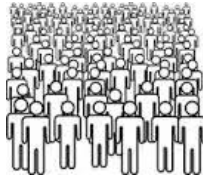
Of these:

- A large portion fell into the **high-risk category**, which includes **organizations earning profits** that were **not incidental** or **not related** to the **non-profit objectives**; organizations with disproportionately **large reserves, surpluses, or retained earnings**; and organizations where **income was payable** or made available for the personal benefit of a **proprietor, member or shareholder**.
- A smaller portion of organizations fell into a **lower risk category**, which includes readily **correctable issues**, such as **filing errors** or not providing enough information to substantiate a not-for-profit purpose in the organization's governing documents.

Action Item: Review your NPO status against the above criteria. If you have questions, contact us!

CROWDFUNDING: May Have Tax Costs

Crowdfunding is a novel and increasingly popular means to **raise capital to support various efforts, projects, ventures or ideas**. This concept is based on the idea of raising capital by soliciting many small contributions from a large group of individuals, or a crowd. Contributions are made through various **online services** which provide a **platform** for crowdfunding.



Entrepreneurs, independent artists, and researchers, amongst many others looking to raise capital for their respective projects, may utilize crowdfunding.

Further **information** on crowdfunding can be found on the **National Crowdfunding Association of Canada** website, www.ncfacanada.org.

In an August 16, 2013 Technical Interpretation, CRA noted that **amounts received** by a taxpayer from Crowdfunding activities, related to a **business**, would generally be included in **income** and be taxable. Voluntary payments received by virtue of a profession or a business, are also **taxable**.

Expenses related to Crowdfunding efforts, such as fees paid to online platforms and donor gifts, incurred for gaining or producing income from a business, **may be deductible**.

Action Item: Let us know if you are using crowdfunding!

SCHOLARSHIPS AND TRAINING: May not be a Taxable Benefit

In a November 18, 2013 Technical Interpretation, CRA reviewed a **scholarship plan** for employees of an Organization pursuing post-graduate degrees. The scholarships are **administered** by a Foundation and are **merit-based** with a **formal selection** process. They are available **only** to **employees** of the **Organization**, who must agree to conditions including **employment with the Organization** for a period of time **following** completion of their **studies**.



CRA indicated that a scholarship available only to employees of a particular employer would generally be considered to be **employment income**.

However, CRA also noted that the **taxability** of this amount would **depend on** whether the **primary beneficiary** of the scholarship is the employer or employee. Courses taken to **maintain or upgrade employment-related skills** are generally considered to be for the primary **benefit** of the **employer** where the employee is **expected to resume employment** for a reasonable period after the training is completed. CRA indicated that their policy in this regard would include payments from a third party (other than the employer). Where these conditions are met, the **payment** could be received **tax free**.

Another CRA Guide notes that employment-related training may not be limited to strictly **tuition fees**, but may also include other associated costs such as **books, meals, travel** and **accommodation**.

This Guide also discusses the possibility of providing **tax-free scholarships** to **children** of employees.

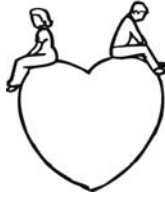
In another December 12, 2013 Technical Interpretation, CRA noted that payments or reimbursements for an employee's tuition fees incurred for **business purposes** are generally **deductible** to the company. They also noted that an employer may normally deduct training expenses for an employee, regardless of whether the employer or employee benefits, provided that such expenses are **reasonable** in the circumstances.

Action Item: Consider providing deductible, and non-taxable, scholarships to employees or employees' children. Ensure these payments are structured properly. Complications arise when such payments are made to owners and related parties.

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SEPARATION: Getting the Dependant Tax Credit

The eligible dependant tax credit is worth more than \$2,000 in tax savings for 2014; the exact amount varies depending on the province of residence.



In a March 27, 2014 *Tax Court of Canada* case (*Sauve vs. H.M.Q.*, 2012-4483(IT)I), the taxpayer (Mr. S) appealed assessments that disallowed a **dependant tax credit** with respect to his two children in 2010 and 2011. The taxpayer has **shared custody** after a relationship breakdown with his former spouse.

Taxpayer loses

The Court noted that the Income Tax Act specifically denies the deduction (dependant tax credit) where the taxpayer is **required to pay a support amount** to the former spouse or common-law partner. However, the act goes on to note that if both spouses are paying child support, the deduction may be available in some scenarios.

Mr. S argued that his former spouse was in essence making a payment because the amount that he paid was reduced or “**set-off**” by the amount that she would otherwise had to have paid.

The Court noted that the concept of “**set-off**” is a mere distraction from the real issue, i.e., whether or not Mr. S is

the only parent making a “child support payment”, therefore the taxpayer was not allowed the credit.

Action Item: Ensure that both spouses are making support payments instead of only one making a net payment.

WEB TIPS: Profitguide.com

Profitguide.com is a website aimed at providing interesting, **relevant** and timely **information** to **Canadian small** and **medium sized corporations**.



This website provides a wide range of **articles**, business rankings, podcasts, **videos**, and daily and weekly news updates across various industries such as **manufacturing, retail and technology**. Some topics addressed include Best Practices for Start-Ups, Human Resources, Financing, Innovation, Leadership, Sales and Marketing, Technology and Strategy and Operation.

Action Item: Sign-up for daily or weekly profitguide.com news updates.

The preceding information is for educational purposes only. As it is impossible to include all situations, circumstances and exceptions in a newsletter such as this, a further review should be done by a qualified professional.

Although every reasonable effort has been made to ensure the accuracy of the information contained in this newsletter, no individual or organization involved in either the preparation or distribution of this letter accepts any contractual, tortious, or any other form of liability for its contents.

For any questions... give us a call.



Gaslight Plaza
307, 579 · 3 Street SE
Medicine Hat, AB
T1A 0H2

Tel · 403 · 526 · 5011
Fax · 403 · 526 · 1011
Web · ebtca.com



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