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PERSONAL INCOME TAXATION - 2010
(January 2011)

General information:

The taxation year for individuals resident in Canada is from January 1 to December 31 of each calendar year.

The deadline for filing the T1 General – Income Tax and Benefit Return is generally April 30th of the following year. Each taxpayer files his or her own return (Canada does not have joint or spousal returns).

For individuals with self-employment income and their spouses, the filing deadline is extended until June 15th of the following year; however, any taxes dues are still payable by April 30th (with interest accruing after that date).

For deceased individuals, the deadline is usually the later of the normal deadline and six months after death.

Items to note:

Taxes can be reduced by various deductions and tax credits. Therefore, timely planning can be helpful. It is very important to keep adequate records and supporting documents. Because Canada has a graduated tax rate system (i.e. higher income, higher tax rates), planning and tax return optimization can also be helpful to reduce taxes.

Areas to consider:

- Income splitting where possible – watch out for income attribution rules.
- Deferral where possible.
- Consider registered plans to increase deferral and possible income splitting – RRSP, RRIF, RESP, RDSP.
- Families – claim child care expenses, eligible dependant or child amounts, children's fitness amount, adoption expenses and tuition, education and textbook amounts for post-secondary or certified occupational education; consider Canada Child Tax Benefit (income-tested)
- Seniors – consider pension income splitting between spouses; possible age amount (income-tested)
- Persons with disabilities – consider disability amount, caregiver amount, medical expenses, registered disability savings plan (RDSP), Child Disability Benefit (income-tested)

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- Keep receipts and documents related to the following:
  - Medical expenses (combine family's expenses and claim by spouse with lower net income; choose optimal 12-month period ending in taxation year)
  - Donations (combine and claim in one spouse's return if combined total exceeds $200)
  - Purchase and sale of properties (including rental properties, securities)
  - Rental operations – leases and expense invoices
  - Business operations – sales and expenditure invoices
- Some positive recent changes:
  - Rollover of RRSP/RRIF/RPP proceeds to RDSP
  - Shared Custody Child Benefits
  - Universal Child Care Benefits for Single Parents

Residents, Citizens and Canadian Taxpayers

Canadian taxation applies on the world-wide income of Canadian residents and Canadian-sourced income of non-residents of Canada. Accordingly, residence is a key concept in Canadian taxation.

Citizenship is not the criteria used for Canadian taxation. Therefore, a Canadian citizen who is not resident in Canada and has no Canadian-sourced income would not be subject to Canadian taxation. A resident of Canada who is not a Canadian citizen would still be taxed on his or her world-wide income.

A taxpayer may be a "factual resident" or a "deemed resident".

A factual resident is someone who meets various tests. These tests involve significant residential ties (dwelling place, spouse, dependants), where any one test may be considered determinative by Canada Revenue Agency (CRA); and secondary residential ties (personal property, social ties, economic ties, immigrant status/work permits, medical insurance, driver's licence, registered vehicle, seasonal dwelling, Canadian passport, memberships), which are looked at collectively to weigh the significance of ties to Canada.

A person may be a deemed resident because he or she has sojourned in Canada for 183 days or more in a year.

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Foreign Property, Foreign Affiliates and Foreign Trusts

There are various reporting requirements for Canadian residents with respect to foreign property, investments and trusts.

A Form T1135 should be completed if the taxpayer has foreign property with an aggregate cost over C$100,000 (excluding foreign personal-use property, foreign property used exclusively in carrying on the taxpayer's active business, and foreign investments included in Canadian registered mutual funds, RRSPs, RRIFs and RPPs).

If a Canadian resident has 1% or more equity interest in a foreign company and total held by him or her and related persons is 10% or more, then the foreign company is a foreign affiliate. A controlled foreign affiliate is a foreign affiliate controlled by the taxpayer or by non-arm's length person(s) or jointly by the taxpayer and non-arm's length persons, OR by the taxpayer and not more than four other residents of Canada, OR by not more than four residents of Canada other than the taxpayer. A Form T1134-A (foreign affiliate) or T1134-B (controlled foreign affiliate) must be completed for each foreign affiliate.

There are also reporting requirements when a Canadian resident has made transfers or loans to a foreign trust (Form T1141) or when a Canadian resident has received distributions from or was indebted to a foreign trust (Form T1142).

Significant penalties apply when a taxpayer has not complied with foreign reporting rules.

Completion of T1 General Income Tax and Benefit Return

1. Identification:

The taxpayer provides personal information, applies for GST/HST credit where applicable, and indicates where he/she has foreign property with a cost of over $100,000.

2. Total income:

The taxpayer lists income from all sources that are subject to taxation to calculate total income. The most common sources of income are:

- Employment income (including most benefits)
- Pension income
- Dividend income

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- Interest and other investment income
- Rental income
- Taxable capital gains
- Self-employment income (business and professional income, fishing and farming income)

3. <u>Net income:</u>

Net income is determined after certain allowable deductions are subtracted from total income. The most common of these deductions are:

- RPP and RRSP deductions
- Union or professional dues
- Child care expenses
- Carrying charges and interest

4. <u>Taxable income:</u>

Taxable income is determined after certain additional deductions are subtracted from net income. The most common of these deductions are:

- Losses of other years (non-capital, capital and limited partnership losses)
- Capital gains deduction for qualified small business corporation shares, or qualified farm or fishing property

5. <u>Refund or Balance owing:</u>

The federal tax and provincial tax of the taxpayer are aggregated to arrive at total taxes payable. Any taxes already withheld at source or paid by instalments are subtracted from taxes payable to arrive at the balance owing or refund due to the taxpayer.

The calculation of the federal tax based on the taxpayers' taxable income is done on Schedule 1, while the BC provincial tax is done on the BC 428. Both federal and provincial taxes are charges at graduated rates, with higher tax rates charged on higher levels of income. The 2010 combined federal and BC tax rates for the different brackets of income are presented in the table on page 5.

Taxpayers are allowed certain federal and provincial non-refundable tax credits, which reduce their federal and provincial taxes payable. The amounts of the major non-refundable tax credit items and their resulting tax credit (tax reduction) amounts are listed on pages 5 and 6.

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2010 Income Tax Rates for Residents of B.C.

Taxable Income	Ineligible Dividends	Eligible Dividends	Capital Gains	Other Income
0 - 35,859	4.16	-12.59	10.03	20.06
35,860 - 40,970	7.46	-8.79	11.35	22.70
40,971 - 71,719	16.21	1.29	14.85	29.70
71,720 - 81,941	19.71	5.32	16.25	32.50
81,942 - 82,342	24.71	11.08	18.25	36.50
82,343 - 99,987	26.95	13.66	19.15	38.29
99,988 - 127,021	29.96	17.13	20.35	40.70
Above 127,021	33.71	21.45	21.85	43.70

2010 Non-refundable tax credits

	Federal			BC	
	Amount	Tax Credit		Amount	Tax Credit
Basic Personal	$ 10,382	$ 1,557		$ 11,000	$ 557
Age	6,446	967		4,220	214
Spouse or eligible dependant	10,382	1,557		9,653	488
Dependant child under 18	2,101	315		n/a	n/a
Infirm dependant 18 or over	4,223	633		4,118	208
CPP contributions	Amount contributed; max. $2,163.15	15% x amount		Amount contributed; max. $2,163.15	5.06% x amount
EI premiums	Amount contributed; max. $747.36	15% x amount		Amount contributed; max. $747.36	5.06% x amount
Disability	7,239	1,086		7,058	357
Additional disability for child under 18	4,223	633		4,118	208

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	Federal			**BC**	
	Amount	**Tax Credit**		**Amount**	**Tax Credit**
Caregiver	4,223	633		4,118	208
Pension	pension amount; max. $ 2,000	max. $ 300		pension amount; max. $ 1,000	max. $ 51
Medical expense	expense in excess of 3% of net income or $ 2,024	15% x amount		expense in excess of 3% of net income or $ 1,957	5.06% x amount
Tuition fees	tuition fees	15% x amount		tuition fees	5.06% x amount
Education	$ 400/month of full-time & $ 120/month of part-time	15% x amount		$ 200/month of full-time & $ 60/month of part-time	5.06% x amount
Textbook	$ 65/month of full-time & $ 20/month of part-time	15% x amount		n/a	n/a
Charitable donations	donations (up to 75% of net income)	15% of first $ 200; 29% of balance		donations (up to 75% of net income)	5.06% of first $ 200; 14.7% of balance
Canada Employment Credit	15% of first $ 1,051	$ 158		n/a	n/a
Public transit	amounts paid for eligible public transit passes (self, spouse, children under 19)	15% x amount		n/a	n/a
Children's fitness	up to $ 500/child	max. $ 75		n/a	n/a
Adoption expenses	up to $ 10,975	max. $ 1,646		up to $ 10,975	max. $ 555