

TAXADVISOR

Up to Speed: Tax changes

An overview of tax changes while going into RRSP season

FISCAL UPDATE

BY JAMIE GOLOMBEK



Need a little tax tutorial before plunging into another RRSP season? Bring yourself up to speed on last year's tax changes with this succinct overview.

TAX BRACKETS AND PERSONAL TAX CREDITS

On October 30, 2007, as part of the federal government's "mini-budget," the Conservatives announced that the lowest bracket (income up to \$37,178) would be dropped to 15% from 15.5%, retroactive to January 1, 2007.

There was also a continuation of full inflation indexing of the federal tax brackets. The updated brackets are as follows:

Range	Rate
\$0 - \$37,178	15%

\$37,178 - \$74,357	22%
\$74,357 - \$120,887	26%
\$120,887+	29%

Note that the above rates are federal tax brackets; each province other than Alberta (which has adopted a flat tax) also has its own set of brackets, which may vary significantly from the federal numbers.

Maximum CPP contributions are \$1,989.90, while the maximum employment insurance premium is \$720. The year's maximum pension-

able earnings (YMPE) is up \$1,600 to \$43,700. The maximum annual RRSP contribution limit is up to \$19,000 (from \$18,000 in 2006).

As part of the mini-budget, the government announced that the basic personal amount, as well as the spousal or partner amounts, would be increased to \$9,600 from \$8,929.

The March 2007 federal budget introduced a new Child Tax Credit

Feds shut down a Single-Ton-Type tax planning arrangement, calling it "abusive."

calculated on a base amount of \$2,000 per child under the age of 18. The credit can be claimed on the 2007 tax return by either spouse or partner and is not income-tested.

PENSION SPLITTING

This is the first year that the new pension-splitting rules come into play that allow someone receiving pension income to split up to half of that income with his or her spouse or common-law partner. This is accomplished using the new CRA Form T1032.

So, does this spell the end of spousal RRSPs? Not if you still want to pension-split before age 65.

RESP CHANGES

Last year's federal budget also eliminated the annual RESP contribution limit and, instead, increased the lifetime limit to \$50,000 per beneficiary (from \$42,000) and increased the annual Canada Education Savings Grant (CESG) by \$100 to \$500 per year per beneficiary. If the beneficiary has carry-forward CESG room from prior years (retroactive to 1998), the maximum CESG that will be paid in one year is now \$1,000.

RRSP DEADLINE FOR CLIENTS TURNING 71

The RRSP conversion deadline has been increased to age 71 from 69. Individuals who turned 71 in 2007 have only until December 31, 2007, to make their final RRSP contributions. Since someone who turns 71 in 2007 must convert his or her RRSP either into a RRIF or an annuity by the end of the year, this individual does not have the additional 60 days to make his or her 2007 RRSP contribution.

DONATION TAX SHELTERS

Tax shelters are most heavily marketed during the last few weeks of the year, so caution your clients who may be approached by tax shelter promoters. Last summer, the CRA issued a warning about donation tax shelters, saying, "If it sounds too good to be true, don't fall for it. Taxpayers need to know that the CRA is auditing all tax shelter gifting arrangements."

To date, the CRA has audited over 26,000 individuals who have participated in these tax shelters, and, as a result, about \$1.4 billion in claimed donations has been denied. The CRA will soon complete audits of another 20,000 taxpayers, involving close to \$550 million in donations, and is about

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to begin auditing another 50,000 taxpayers who have participated in tax shelter gifting arrangements.

Be sure clients get independent legal and tax advice before investing in any new tax donation scheme.

BEWARE THE SINGLETON SHUFFLE

If you've got clients who have used

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a Singleton-type plan to replace non-deductible debt with tax-deductible debt, they may want to

pay close attention to the March 2007 General Anti-Avoidance Rule (GAAR) decision in *Lipson* (2007 FCA 113) where the Federal Court of Appeal shut down a Singleton-type of tax planning arrangement, calling it "abusive." In October, the Supreme Court of Canada granted leave and will hear the case on April 23, 2008. Stay tuned.

EXERCISE CAUTION WITH JOINT OWNERSHIP

Clients who insist on re-registering their accounts as "joint with right of survivorship" with adult children ought to pay close attention to two recent Supreme Court of Canada decision cases, *Pecore v Pecore* and *Madsen Estate v Saylor*, decided in May 2007. Each case involved a dispute about who was

the "true" owner of joint investment account assets. In each case, true ownership was called into question by survivors once the parent passed away. **AER**

Jamie Golombek, CA, CPA, CFP, CLU, TEP, is the vice-president, Taxation & Estate Planning, at AIM Trimark Investments in Toronto. Contact jamie.golombek@aimtrimark.com.

CANADIAN MONEY MARKET, TAX BRACKET THRESHOLDS

	2008 (\$)	2007 (\$)
Tax Bracket Thresholds		
Taxable Income above which the 22% bracket begins	37,885	37,178
Taxable Income above which the 26% bracket begins	75,769	74,357
Taxable income above which the 29% bracket begins	123,184	120,887
Personal Amounts and Other Amounts Relating to Non-refundable Tax Credits		
Basic personal amount (See note below)	9,600	9,600
Age amount	5,276	5,177
Net income threshold	31,524	30,936
Spouse or common-law partner amount (See note below)	9,600	9,600
Amount for an eligible dependant (See note below)	9,600	9,600
Amount for children under age 18 (maximum per child)	2,038	2,000
Canada employment amount	1,019	1,000
Infirm dependant amount	4,095	4,019
Net income threshold	5,811	5,702
Caregiver amount	4,095	4,019
Net income threshold	13,986	13,726
Disability amount	7,021	6,890
Supplement for children with disabilities	4,095	4,019
Allowable child care and attendant care expenses	2,399	2,354
Maximum adoption expense amount (per adoption)	10,643	10,445
Medical expense tax credit—3% of net income ceiling	1,962	1,926
Refundable medical expense supplement		
Maximum supplement	1,041	1,022
Minimum earnings threshold	3,040	2,984
Family net income threshold	23,057	22,627
Old Age Security repayment threshold	64,718	63,511

	2008 (\$)	2007 (\$)
Goods and Services Tax Credit (GSTC)		
Adult maximum	242	237
Child maximum	127	125
Single supplement	127	125
Phase-in threshold for the single supplement	7,851	7,705
Family net income at which credit begins to phase out	31,524	30,936
Canada Child Tax Benefit		
Base benefit	1,307	1,283
Additional benefit for third child	91	90
Family net income at which base benefit begins to phase out	37,885	37,178
National Child Benefit (NCB) Supplement		
First child	2,025	1,988
Second child	1,792	1,758
Third child	1,704	1,673
Family net income at which NCB supplement begins to phase out	21,287	20,883
Family net income at which NCB supplement phase-out is complete	37,885	37,178
Child Disability Benefit		
Maximum benefit	2,395	2,351
Family net income at which benefit begins to phase out	37,885	37,178
Child Special Allowance (CSA)		
CSA base amount	3,332	3,271

Source: Canada Revenue Agency