EASY MONEY

MAKE SURE

your clients don't miss out on the latest tax credits.

By Jamie Golombek

As advisors, how proactive have we been about educating our clients on the myriad tax changes that were announced in 2006 to ensure they minimize their tax payments come April?

Obviously not proactive enough, according to the results of a poll released late last year by H&R Block Canada.

The poll, conducted by Environics Research Group on behalf of H&R Block, surveyed just over 2,000 Canadians last fall and found that more than 50% of them are unaware of the new tax credits.

In fact, only the GST cut (from 7% to 6%) along with the newly introduced Universal Child Care Benefit (UCCB) had double-digit awareness, with 28% and 17%, respectively. Other new tax credits, such as the Canada Employment Credit, the Public Transit Credit and the Textbook Tax Credit, had less than 5% awareness.

But, says Cleo Hamel, a senior tax analyst with H&R Block Canada Inc., while most Canadians will be able to claim new tax credits on their 2006 tax returns, more than 80% of full-time, employed Canadians polled said they were not going to claim the Canada Employment Credit—even though they're entitled to it. "It means more than 11 million Canadians will be missing an easy deduction," she notes.

More good news is that one-third of respondents said they would consult their financial advisors or accountants to assist with tax-credit knowledge. But what about the other two-thirds? Answers ranged from "read the tax form carefully" (12%); to using a tax software package (4%); to simply "don't know" (14%).

Helping clients with the new tax credits is clearly something you can do

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to add true value to your client relationships during the busy tax season. Here's a quick review of five of the most common, yet mostly unknown tax credits, according to the H&R Block survey.

① THE UNIVERSAL CHILD CARE BENEFIT (UCCB)

Perhaps the most significant benefit announced in 2006 for clients with young children was the new UCCB, "designed to assist Canadian families, as they seek to balance work and family life, by supporting their child care choices through direct financial support."

Only 17% of Canadians were able to identify the new UCCB, which means that many of your clients may not even be receiving the $100 per month, per child under the age of six.

NEARLY ALL TYPES OF PUBLIC TRANSIT ARE COVERED, INCLUDING: BUS, STREETCAR, SUBWAY, COMMUTER TRAIN, COMMUTER BUS AND LOCAL FERRY.

To receive the UCCB, your client must have applied by completing the Canada Child Tax Benefit (CCTB) application form. If they already receive the CCTB, they don't have to re-apply and should already be receiving payments.

Although clients can download the CCTB application form from the Canada Revenue Agency's website, (www.universalchildcare.ca) why not have a stack of forms handy in your office for clients who may not yet have applied?

The UCCB is considered taxable income and is reportable by the lower-income spouse or partner (regardless of which spouse or partner actually received the payments) on Line 117 of the 2006 tax return. Your clients should already have received the new RC62, Statement of Universal Child Care Benefit information slip sent by the CRA to all 2006 UCCB recipients earlier this month.

Finally, note that the UCCB will be excluded as income when calculating the CCTB and the Goods and Services Tax/Harmonized Sales Tax (GST/HST) credit "in order to maximize the benefits payable to low- and modest-income earners."

② CANADA EMPLOYMENT CREDIT (CEC)

Only 10% of Canadians that were employed full-time in 2006 and thus qualify for the CEC (as discussed later) intended to claim this credit on their 2006 returns. Clearly, as advisors, we need to have this discussion with each and every one of our employed clients.

Before discussing the mechanics of the new credit, some background history is in order. Prior to the introduction of the CEC, there was a huge inequity between employees and the self-employed when it came to writing off work-related expenses. The current rules treat the self-employed or "independent contractor" much more favourably from a tax point of view, since a self-employed business person can take advantage of numerous tax deductions which are severely restricted for employees.

For example, consider the employee who purchases a home computer, used exclusively in the evenings and on weekends to check e-mail, conduct Internet research and prepare reports. Because of his employee status, he would not be entitled to any capital cost deductions associated with the computer since, under the current rules, employees are only allowed to depreciate automobiles or airplanes.

The government introduced the CEC in recognition of this, as it "gives Canadians a break on what it costs to work, recognizing expenses for things such as home computers, uniforms and supplies."

The good news is that no receipts are required to justify any actual employment-related expenses. In fact, no expenditures actually need to be made. Instead, for 2006, the new credit simply provides tax relief on the lesser of $250 and an individual's employment income for the year. For this year and beyond, the amount on which the credit is calculated is $1,000. Beginning next year, the amount will be fully indexed to inflation.

The CEC is claimed on Line 363 of Schedule 1 of the federal 2006 return and is worth 15.25% on a maximum of $250 for 2006 and 15.5% on a maximum of $1,000 for this year and beyond.

③ TAX CREDIT FOR PUBLIC TRANSIT PASSES

The May 2006 budget also introduced the new tax credit for public transit "to encourage individuals to use public transit, ease traffic congestion in urban areas and improve the environment."

Awareness of this credit also ranked low in the H&R Block survey, with only 3% of respondents able to specifically recall this new credit. In Toronto, where about one in four use public transport of some kind, only 17% of respondents said they were planning to claim this new credit.

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The new non-refundable tax credit was equal to 15.25% for 2006 (now 15.5%) multiplied by the cost of monthly (or longer) public transportation passes. The credit applies to transit passes valid for travel on or after July 1, 2006.

To illustrate the potential tax savings, let's say Kari purchases monthly passes costing $100 per month throughout the year. This year, she will receive about $180 in federal tax relief (calculated as approximately $100 x 12 x 15.5%).

Nearly all types of public transit are covered, including: bus, streetcar, subway, commuter train, commuter bus and local ferry. The credit can be claimed by the public transit user for his or her own costs and for costs of his or her spouse's or common-law partner's passes, as well as for any children (under 19 years old).

Remind clients that they need to retain their receipts and/or passes for tax verification purposes.

The new credit is claimed on Line 364 of Schedule 1 of the 2006 federal tax return.

④ ENHANCED PENSION INCOME CREDIT

While the new ability for seniors to split pension income only begins this year, the doubling of the pension income credit to $2,000 from $1,000 was announced in last year's budget. Yet, according to the H&R Block survey, only 24% of seniors age 60 and over planned to take advantage of this credit on their 2006 returns.

The credit provides a non-refundable reduction in taxes payable on the first $2,000 of "qualified pension income." If your clients are 65 and over, "qualified pension income" includes not only normal pension income coming from a formal, registered pension plan (RPP) but can also include: lifetime annuity payments under a registered retirement savings plan (RRSP); or a deferred profit sharing plan (DPSP); or payments from a registered retirement income fund (RRIF).

For clients under 65, the definition of "qualified pension income" is much more restrictive in that it includes only regular pension payments and certain other payments received as a result of the death of a client's spouse or common-law partner.

If you have clients who are at least 65, ensure they receive at least $2,000 a year from their RRIF so that they can take advantage of this credit. Clients aged 65 to 68 need not convert their entire RRSP to a RRIF until the year in which they turn 69.

However, should they wish to take advantage of this credit, discuss with them the possibility of transferring some of their RRSP money to a RRIF prior to age 69 so they will be in a position to claim.

⑤ NEW TAX PLANNING FOR STUDENTS

Have clients with kids in full-time post-secondary education? If so, they need to be aware of two changes: the new textbook tax credit and the scholarship and bursary income exemption.

The textbook credit will assist students to offset the heavy burden often associated with the purchase of textbooks.

The tax credit is calculated by multiplying the lowest personal income tax rate (i.e., 15.25% for 2006 and 15.5% for this year) by $65 for each month the student qualifies for the full-time education tax credit amount, or $20 for each month the student qualifies for the part-time education tax credit amount.

Just like education and tuition credits, any unused textbook tax credit amounts may be carried forward indefinitely to future years or may be transferred to a spouse, common-law partner, parent, or grandparent.

THE CURRENT RULES TREAT THE SELF-EMPLOYED OR "INDEPENDENT CONTRACTOR" MUCH MORE FAVOURABLY FROM A TAX POINT OF VIEW.

Finally, the May 2006 budget also exempted all post-secondary scholarship, fellowship or bursary income from tax. The full exemption will only apply to amounts received while the student is enrolled in programs which entitle him or her to claim the education tax credit.

This includes most programs at the post-secondary level as well as programs at educational institutions certified by the Minister of Human Resources and Social Development as providing occupational skills.

The H&R Block survey showed that only 1% of Canadians polled were aware of the new scholarship and bursary exemption. In fact, none of the respondents even mentioned the textbook tax credit—reaffirming that financial advisors are in the best position to educate Canadians on these and other valuable, yet unknown, new tax opportunities. AE

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