THE SMALLBIZ BUILDER

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This Month:

Stop International Tax Evasion Program

To combat unreported foreign income, the Federal Government introduced the concept that Canada Revenue Agency (CRA) will pay financial rewards to individuals who provide information on major international tax evasion. CRA could pay up to 15% of federal tax collected if the reassessments are in excess of $100,000. Penalties, interest and provincial taxes will be excluded.

Persons requesting rewards will have to meet certain requirements. For example, persons who have been found guilty of tax evasion related to their offer of information will not be eligible for the rewards.

CRA Investigates Small-Town Subcontractors

Recently, CRA auditors reviewed municipal building permits in smaller communities. The auditors were checking for unregistered small-town subcontractors' worksites. The result was that of the over 8,000 building permits reviewed about 33% were for unregistered building contractors. More than $4,400,000 in tax was collected. The CRA focuses on the construction industry because it continues to be a source of unreported income in the underground economy. CRA also investigated hardware stores in more than 18 communities looking for installers that failed to report their income. CRA found that approximately only 7% of the installers were non-filers. The voluntary disclosure program is available for building contractors to bring their reporting up to date. Talk to a Padgett office for help.

Lifetime Capital Gains Exemption (LCGE)

On January 1st, 2016, the LCGE increased to $824,176 of capital gains realized by an individual on qualified small business corporation shares. The LCGE has been indexed to inflation for the years following 2014. The new limits apply to any taxpayer who has claimed the LCGE previously.

For dispositions of qualified farm or fishing property, the LCGE increased to $1,000,000 on April 10, 2015.

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Estate Planning

Estate planners often suggest that the RRSP/RRIF holder designate a beneficiary of the plan. There are many advantages:

- Probate fees can be avoided because the funds transfer direct to the beneficiary.
- The funds are not exposed to the liabilities of the deceased's estate.
- No elections are required for the "refund of premiums" status.
- Premium refunds allow a tax-deferred transfer of funds.
- Reporting on the transfers to a surviving common-law partner or a spouse can be avoided.
- It avoids the exposure where a beneficiary will not sign the agreement which would require the estate to pay tax on the account value.
- It avoids the situation where the executor overlooks the situation entirely.
- There may be advantages to leaving the funds to the estate instead of the individual.
- There may be additional planning opportunities because the elections allow precise amounts to be reflected as a "refund of premiums" or reported on the terminal tax return.
- The executors can use elections to provide flexibility to determine how "refund of premiums" and other assets will be allocated between the eligible beneficiaries. The refund of premiums might be directed to lower income beneficiaries and/or beneficiaries who could make use of the advantages while designating other assets to other beneficiaries.
- A spouse who does not transfer the funds to his or her RRSP/RRIF but instead uses the money for other purposes, forces the deceased's estate to pay the tax. This might not please some of the beneficiaries.
- A testamentary trust could be funded. This is advantageous where "refund of premiums" and/or rollovers are not available. It is also useful if the plan holder does not want an amount left to those beneficiaries.

Contact your Padgett Business Services office to discuss this further, and remember to keep your will up to date.