PERSONAL INCOME TAXATION - 2016
(January 2017)

General information:

The taxation year for individuals resident in Canada is from January 1st to December 31st 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 owing 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 including Spousal RRSP, RRIF, RESP, RDSP.
- Families – claim child care expenses, eligible dependant amounts, children’s fitness amount, children’s arts amount, adoption expenses and tuition, education and textbook amounts for post-secondary or certified occupational education; consider Canada Child Benefit (income-tested).
- Seniors – possible age amount (income-tested), pension income amount.
- Persons with disabilities – consider disability amount, caregiver amount, medical expenses, registered disability savings plan (RDSP), Child Disability Benefit (income-tested), family caregiver amount and amount spent on home renovations.

- 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 recent changes:
  - As of July 2016, the Canada child benefit has replaced the Canada child tax benefit (CTTB), the national child benefit supplement (NCBS), and the universal child are benefit (UCCB). The Canada child benefit is a monthly tax free payment for families with children under the age of 18, where the amount of payment is dependent on the number of children and the family net income. As adjusted family net income increases, the benefit is gradually reduced until it reaches zero.
  - The family tax cut, a tax credit of up to $ 2,000 for eligible couples with minor children, has been eliminated for 2016 and later years.
  - Federal home accessibility tax credit is available to qualifying individuals who is 65 years or older, or who is eligible to claim the disability tax credit in the taxation year, for eligible expenses for a qualifying renovation of an eligible dwelling to a maximum $ 10,000.
  - The BC Home Renovation Tax Credit for seniors and persons with disabilities, worth up to a $1,000 per year, is available to seniors 65 and over or a person with a disability or a family member living with a person with a disability, on eligible permanent home renovation expenditures. The maximum amount of credit is $1,000 per year and is calculated as 10% of the qualifying renovation expense (maximum $10,000 in expense). The credit is a refundable tax credit.
  - The children's fitness tax credit has been reduced from $ 1,000 to $ 500 for 2016 and will be eliminated for 2017 and later years.
  - The children's arts tax credit has been reduced from $ 500 to $ 250 for 2016 and will be eliminated for 2017 and later years.
  - The amount that you can contribute to your TFSA has been reduced to $ 5,500 for 2016.
  - The sale of a principal residence must be reported, along with any principal residence designation in 2016. Please refer to our publication dated December 2016 (in our website www.ayco.ca) for more details
  - Teacher and early childhood educator school supply tax credit allow eligible educator to claim a 15% federal refundable tax credit based on expenses up to $ 1,000 for eligible supplies.

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- For 2016 and subsequent taxation years, the top marginal tax rate will apply to certain testamentary trusts and estates. Please refer to our publication dated February 2015 (in our website www.ayco.ca) for more details.

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 license, 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.

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). A simplified reporting method using Form T1135 is also available for individuals who own specified foreign property with a total cost of less than $250,000 throughout the year.

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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. The Form T1134 must be filed with a separate supplement 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 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
- Interest and other investment income
- Rental income
- Taxable capital gains
- Self-employment income (business and professional income, fishing and farming income)

3. Net income:

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. Taxable income:

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 (limit of $ 824,176 for 2016), or qualified farm or fishing property (limit of $ 1,000,000 for 2016).

5. Refund or Balance owing:

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 BC 428. Both federal and provincial taxes are charges at graduated rates, with higher tax rates charged on higher levels of income. The 2016 combined federal and BC tax rates for the different brackets of income are presented in the table below.

2016 Income Tax Rates for Residents of B.C.

Taxable Income			Ineligible Dividends	Eligible Dividends	Capital Gains	Other Income
0	-	38,210	8.27	0	10.03	20.06
38,211	-	45,282	11.36	0	11.35	22.70
45,283	-	76,421	17.79	4.39	14.10	28.20
76,422	-	87,741	21.07	8.25	15.50	31.00
87,742	-	90,563	23.16	10.72	16.40	32.79
90,564	-	106,543	29.60	18.31	19.15	38.29
106,544	-	140,388	32.42	21.64	20.35	40.70
140,389	-	200,000	35.93	25.78	21.85	43.70
Above 200,000			40.61	31.30	23.85	47.70

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2016 Non-refundable tax credits

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 below:

	Federal			**BC**	
	Amount	**Tax Credit**		**Amount**	**Tax Credit**
Basic Personal	$ 11,474	$ 1,721		$ 10,027	$ 507
Age	7,125	1,069		4,497	228
Spouse or eligible dependant	11,474	1,721		8,586	434
Family caregiver amount - dependant child under 18	2,121	318		n/a	n/a
Infirm dependant 18 or over	$ 6,788	$ 1,018		$ 4,388	$ 222
CPP contributions	Amount contributed; max. $ 2,544	15% x amount		Amount contributed; max. $ 2,544	5.06% x amount
EI premiums	Amount contributed; max. $ 955	15% x amount		Amount contributed; max. $ 955	5.06% x amount
Disability	$ 8,001	$ 1,200		$ 7,521	$ 381
Additional disability for child under 18	4,667	700		4,388	222
Caregiver	4,667	700		4,387	222
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 $ 2,237	15% x amount		Expense in excess of 3% of net income or $ 2,085	5.06% x amount
Tuition fees	Tuition fees	15% x amount		Tuition fees	5.06% x amount

	Federal			BC	
	Amount	Tax Credit		Amount	Tax Credit
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
Canada Employment Credit	15% of first $ 1,161	$ 174		n/a	n/a
Charitable donations	Donations (up to 75% of net income)	15% of first $200; 29% or 33% of balance (extra 25% if First-time Donor's Super Credit for up to $1,000 of donations)		Donations (up to 75% of net income)	5.06% of first $ 200; 14.70% of balance
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 or $1,000/child under 18 who qualifies for disability tax credit (eliminate in 2017)	Max. $ 75 or $ 150 for child under 18 who qualifies for disability tax credit (eliminate in 2017)		Up to $ 500/child or $1,000/child under 18 who qualifies for disability tax credit	Max. $ 25 or $50 for child under 18 who qualifies for disability tax credit

	Federal			**BC**	
	Amount	**Tax Credit**		**Amount**	**Tax Credit**
Children's arts	Up to $ 250/child or $750/child under 18 who qualifies for disability tax credit (eliminate in 2017)	Max. $ 38 or $113 for child under 18 who qualifies for disability tax credit (eliminate in 2017)		Up to $ 500 / child or $1,000/child under 18 who qualifies for disability tax credit	Max $ 25 or $50 for child under 18 who qualifies for disability tax credit
Adoption expenses	Up to $ 15,453	Max. $ 2,318		Up to $ 15,453	Max. $ 782
Home buyers' tax credit	$ 5,000	$ 750		n/a	n/a
Home accessibility tax credit	Up to $ 10,000 of qualifying expenses	15% x amount		n/a	n/a
BC Home Renovation tax credit for seniors and persons with disability	n/a	n/a		Up to $ 10,000 of qualifying expenses	10% x amount
Children fitness equipment	n/a	n/a		50% of the existing children's fitness credit amount	Max $ 13
Teacher and early childhood educator school supply	Up to $ 1,000 purchase of eligible supplies	15% x amount		n/a	n/a
Education coaching	n/a	n/a		$ 500	$ 25

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