AY Au-Yeung & Company LLP
Chartered Professional Accountants

PERSONAL INCOME TAXATION - 2017
(January 2018)

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 and new proposed tax on split income (TOSI) rules.
- Deferral where possible.
- Consider registered plans to increase deferral and possible income splitting – RRSP including Spousal RRSP, RRIF, RESP, RDSP.
- Families – income splitting with a spouse, claim child care expenses, eligible dependant amounts, adoption expenses and tuition, consider Canada Child Benefit (income-tested).
- Seniors – possible age amount (income-tested), pension income amount.
- Persons with disabilities – consider disability amount, Canada caregiver amount, medical expenses, registered disability savings plan (RDSP), Child Disability Benefit (income-tested), and amount spent on home renovations.

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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 recent changes:

    - The infirm dependant tax credit, the caregiver tax credit and the family caregiver tax credit are replaced with a new 15% non-refundable Canada caregiver credit for 2017 and subsequent years. While the amounts that may be claimed under the new credit are generally consistent with the prior regime, there are some differences. For example, the Canada caregiver credit is not available in respect of non-infirm dependent over 65 years of age residing with their adult children.
    - The eligibility criteria for the tuition tax credit is extended to amounts paid for tuition to a post-secondary institution in Canada for occupational skills courses that are not at the post-secondary level.
    - The federal education and textbook credit has been eliminated for 2017 and the BC education and textbook credit is proposed to be eliminated for 2018.
    - The public transit credit is eliminated effective July 1, 2017, such that public transit passes and electronic fare cards attributable to transit use after June 2017 will not be eligible for the credit.
    - The federal children's fitness and children's arts tax credits have been eliminated for 2017 and later years.
    - The BC children's fitness, children's fitness equipment and children's arts tax credits will be eliminated for 2018.
    - Effective March 22, 2017, nurse practitioners would be able to certify individuals for purposes of qualifying for the disability tax credit.
    - BC will increase the personal income tax rate on taxable income over $ 150,000 from 14.7% to 16.8% starting 2018.

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.

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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.

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.

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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 $ 835,714 for 2017), or qualified farm or fishing property (limit of $ 1,000,000 for 2017).

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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 2017 combined federal and BC tax rates for the different brackets of income are presented in the table below.

2017 Income Tax Rates for Residents of B.C.

Taxable Income			Ineligible Dividends	Eligible Dividends	Capital Gains	Other Income
0	-	38,898	8.61	0	10.03	20.06
38,899	-	45,916	11.70	0	11.35	22.70
45,917	-	77,797	18.13	4.39	14.10	28.20
77,798	-	89,320	21.41	8.25	15.50	31.00
89,321	-	91,831	23.50	10.72	16.40	32.79
91,832	-	108,460	29.94	18.31	19.15	38.29
108,461	-	142,353	32.76	21.64	20.35	40.70
142,353	-	202,800	36.27	25.78	21.85	43.70
Above 202,800			40.95	31.30	23.85	47.70

Note: marginal tax rate for dividends is a percentage of actual dividends received (not grossed-up taxable amount). Marginal tax rate for capital gain is a percentage of total capital gains (not taxable capital gains). Gross-up rate for eligible dividends is 38%, and for non-eligible dividends is 17% in 2017, and 16% in 2018.

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2017 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	$ 11,635	$ 1,745		$ 10,208	$ 517
Age	7,225	1,084		4,578	232
Spouse or eligible dependant	11,635	1,745		8,740	442
Canadian caregiver – regular	$ 6,883 for infirm dependant over 18; $ 2,150 for dependant child under 18	$ 1,032 or $ 322		$ 4,467	$ 226
CPP contributions	Amount contributed; max. $ 2,564	15% x amount		Amount contributed; max. $ 2,564	5.06% x amount
EI premiums	Amount contributed; max. $ 836	15% x amount		Amount contributed; max. $ 836	5.06% x amount
Disability	$ 8,113	1,217		$ 7,656	$ 387
Additional disability for child under 18	4,733	710		4,467	226
Back-to-school	n/a	n/a		$ 250 per school aged child from 5 to 17 years	$ 12 per child
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 $ 2,268	15% x amount		Expense in excess of 3% of net income or $ 2,122	5.06% x amount

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	Federal			BC	
	Amount	Tax Credit		Amount	Tax Credit
Tuition fees	Tuition fees, examination fees for both post-secondary and professional program examinations	15% x amount		Tuition fees	5.06% x amount
Education	Eliminated in 2017	n/a		$ 200/month of full-time & $ 60/month of part-time	5.06% x amount
Textbook	Eliminated in 2017	n/a		n/a	n/a
Canada Employment Credit	Max. $ 1,178	$ 177		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—super credit expires after 2017)		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) prior to July 1, 2017.	15% x amount		n/a	n/a

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	Federal			BC	
	Amount	Tax Credit		Amount	Tax Credit
Children's fitness	Eliminated in 2017	n/a		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
Children's arts	Eliminated in 2017	n/a		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 $ 15,670 per adoption	Max. $ 2,351		Up to $ 15,670	Max. $ 793
First Time Home buyers' tax credit	$ 5,000 of cost of an eligible home	$ 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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