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Tax Letter

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Workers aged 60 and over—make sure you are clear on CPP contribution rules

If you are 60 to 70 years of age and returned to work in 2013 after being away from the workforce, you may not know about changes to Canada Pension Plan (CPP) contributions that came into effect in January 2012. The changes affect employees and self-employed workers, but not those working in Quebec.

Overview of the changes

- All workers **aged 60 to 65** have to make CPP contributions—even if receiving a CPP or Quebec Pension Plan (QPP) retirement pension.
- **Workers who are 65 to 70** and who are receiving a CPP or QPP retirement pension **have to contribute unless they have taken action** to stop their CPP contributions. By continuing to contribute, they will receive more benefits by way of the new post-retirement benefit (PRB).
- **To stop contributing** to the CPP, workers have to be at least 65 years of age and receiving a CPP or QPP retirement pension. They must do the following:
    - Employees (who may also have self-employment income) have to complete *Form CPT30, Election to Stop Contributing to the Canada Pension Plan*, or *Revocation of a Prior Election*, send the original form to the Canada Revenue Agency (CRA), and give a copy to their employer. The change will take effect on the first day of the month after the employee gives the form to their employer.
    - Self-employed workers must complete *Schedule 8, CPP Contributions on Self-Employment and Other Earnings*, when they file their income tax and benefit return. The change will be effective on the first day of the month referenced in Schedule 8.

Note
If you choose not to contribute by giving a completed copy of Form CPT30 to your employer, you have to wait until the next calendar year before you can start contributing again.

Non-capital losses (including business losses)

If you have a loss from business or property, the loss will be deducted against your income from other sources for that year. For example, if you carried on your own business but were also employed somewhere else as an employee, a loss from your business would reduce your income from the employment.

If these business or property losses exceed your positive income for the year, the excess becomes a "non-capital loss". The non-capital loss can be carried back 3 years or forward 20 years, to offset other sources of income in those years. (For non-capital losses of individuals that arose in 2004 or 2005, the carry forward period is 10 years).

Taxation of Corporate Groups

Unlike some countries, Canada does not allow related corporations to consolidate income or loss for income tax purposes or to otherwise transfer tax attributes between the corporations. (Workarounds exist that effectively allow losses to be transferred, but they require fairly complex transactions.)

The Department announced in the March 21, 2013 federal Budget that its study on the taxation of corporate groups is complete and that there is no plan to move forward with a new system of group tax reporting. However, the Department indicated that "the Government will continue to work with provinces and territories regarding their concerns about the uncertainty of the cost associated with the current approach to loss utilization".

What's new for this tax-filing season?

You may be eligible for new or improved tax relief measures and services when filing your 2013 income tax and benefit return.

- **First-time donor's super credit** - This new credit for first-time donors gives an extra 25% credit for cash donations when you claim your charitable donations tax credit. This means you can get a 40% federal credit for up to $200 in donations and a 54% credit for the part of donations that is over $200 but not more than $1,000. This is in addition to the provincial credit.

- **Family Caregiver amount -** If you have a dependant with an impairment in physical or mental functions, the additional amount you may be able to claim has increased to $2,040 when calculating certain non-refundable tax credits.

- **Pooled Registered Pension Plan (PRPP) -** A PRPP is a new kind of deferred income plan designed to provide retirement income for employees and self-employed individuals who do not have access to a workplace pension.

  Because individuals' assets will be pooled, the PRPP will offer investment and savings opportunities at lower administration costs. An individual can be enrolled in a PRPP by his or her employer, if the employer chooses to participate in the plan. A self-employed individual and an individual whose employer chooses not to participate can open a PRPP account by approaching a PRPP administrator directly.

  Investment options in a PRPP are similar to those available in a registered pension plan.

- **Adoption expenses -** As a parent, you can claim an amount for eligible adoption expenses related to the adoption of a child who is under 18 years of age. The **maximum claim** for each child is $11,440. You can claim these incurred expenses in the tax year including the end of the adoption period in respect of the child.

- **Tax-free savings account (TFSA) -** The Tax-Free Savings Account (TFSA) allows Canadians, age 18 and over, to set money aside tax-free throughout their lifetime. Each calendar year, you can contribute up to the TFSA dollar limit for the year, plus any unused TFSA contribution room from the previous year, and the amount you withdrew the year before.

  The annual TFSA dollar limit for 2013 is $5,500.

  All income earned and withdrawals from a TFSA are generally tax-free. Plus, having a TFSA does not impact federal benefits and credits. It's a great way to save for short and long-term goals.

… from current Tax Court Files

Gains from sales of shares found to be business income

Most individuals who buy and sell shares will report the gains as capital gains, which are only one-half taxed. However, if you spend a significant amount of time in the activity and your trades are very frequent, you could be found to be in the business of buying and selling shares. If so, your gains will be fully included in income.

This happened to the taxpayer in the recent *Wong* case. During the 5 taxation years in question, the taxpayer engaged in more than 600 share trades. Most of the shares were sold either on the same day of purchase or within a few days. The CRA assessed the taxpayer and included his gains from the trades as business income rather than capital gains.

On appeal to the Tax Court of Canada, the CRA position was upheld. The Court did not accept the taxpayer's testimony that he spent little time on trading, or that he was only a casual investor who relied on television business shows to makes his trading decisions. To the contrary, the Tax Court Judge held that "the number of securities which he traded during the period and the duration of the holdings do not support his statement ... the number of trades, the short duration of the holdings, the number of shares purchased and sold definitively indicate that he was engaged in trading in securities during the period." As such, the taxpayer's gains were held to be business income.