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Tax Letter

IRMINA M KOZA, CMA

DORELLE Business Services
DORELLE TAX

www.dorelle.ca

PH: 705.503.0490
DIR: 705.220.5475
FAX: 705.503.0540

irmina@dorelle.ca

Call or e-mail for an appointment

Barrie, ON

Scientific Research & Experimental Development (SR&ED)

The ***objective of the SR&ED*** tax incentive program is to encourage Canadian businesses of all sizes and in all sectors to conduct research and development (R&D) in Canada. The SR&ED program:

- Is the largest single source of federal government support for industrial R&D in Canada
- Provides $3.6 billion in Investment Tax Credits (ITCs) to 23,000 companies annually (2011 figures)
- Small businesses represent over 75% of the claims

Certain ***requirements must be met*** in order to qualify:

- Claimant must operate a business in Canada in the taxation year
- Expenditures must be incurred
- SR&ED must be carried out in Canada directly by the claimant or on his/her behalf (current development: certain expenditures for SR&ED performed outside Canada are now permitted)
- The SR&ED must be related to the claimant's business
- You have to file your complete claim by your Reporting Deadline: the day that is 12 months after the filing due date of the return of income for that year

The ***Program offers*** the following:

- Allowable SR&ED expenditures incurred (including capital) qualify for immediate write-off, or indefinite carry forward (until such time when beneficial to apply)
- ITCs of 20% or 35% can be offset against federal taxes otherwise payable and/or refunded

The typical ***types of SR&ED*** claims include:

- **Refundable Claims** – Claimants eligible for 35% refund (small corporations, individuals and some partnerships)
- **Non-Refundable Claims** – Claimants eligible for a 20% non-refundable tax credit (mostly large corporations and multinationals)
- **Taxpayer-Requested adjustments** – either of the above claims for the prior taxation year for which a tax return has already been filed

HST Reporting – simplified Quick Method

The Quick Method is a ***simplified accounting*** option available to help small businesses calculate their net tax for HST purposes. This method reduces paperwork and makes it easier to calculate HST remittances and file HST returns because it eliminates the need to report the actual HST paid or payable on most purchases.

When you use the **Quick Method**, you still charge the HST at the rate of 13% (in Ontario) on your taxable supplies of goods and services. However, to calculate the amount of HST to remit, you multiply the amount of your HST included supplies for the reporting period by the Quick Method **remittance rate**, or rates, that apply in your situation. **Remittance rates** for Ontario are **4.4%** before July, 2010 and **8.8%** after July, 2010.

The remittance rate of the **Quick Method** is less than the tax that you charge. This means that you remit only a part of the tax that you collect, or that is collectible. Since you cannot claim input tax credits (ITCs) on most of your purchases when you use this method, the part of the tax that you keep accounts for the approximate value of the ITCs you would otherwise have claimed.

To elect to use the Quick Method, complete and send Form GST74, *Election and Revocation of an Election to Use the Quick Method of Accounting*, to your tax services office.
Generally, the election stays in effect as long as the total annual revenue (including HST) **does not exceed $200,000**, or until you become a person that cannot use this method (i.e. on the Exceptions list).

Certain Conditions and Exceptions on who can use this method apply.

Note
Whether the Quick Method will be more beneficial for you to use than the regular method depends on your specific situation.

Reviewing Returns @ Canada Revenue Agency – how does it work?

The CRA does several reviews to make sure that income, deductions, and credits are accurately reported and filed. There are ***four main*** review programs:

Pre-assessment Review Program – The CRA electronically analyzes returns to identify situations that represent a higher risk of tax loss. Various deductions and credits are reviewed, and contact with the taxpayer may be made by mail before a notice of assessment is issued. The peak period for this type of review is **February to July**.

Processing Review Program – similar to previous review except the review takes place after notice of assessment has been issued. The returns are reviewed to make sure that certain claimed deductions and credits are accurate and are supported by appropriate documentation. The CRA may also ask a taxpayer for proof of payment. In specific instances, a taxpayer may be asked to send more information to support his or her claim, such as cancelled cheques or bank statements. If a review identifies an error, the taxpayer will receive a new notice of assessment. The peak period for this type of review is **June to November**.

Matching Program - This program makes sure that information slips filed by a third party, such as an employer or a bank, correspond to the information the taxpayer reported. Payers and financial institutions submit to the CRA a copy of all slips they issue to taxpayers, which the CRA cross-references with returns after notices of assessment are issued.

For example, the income amount an individual reports on his or her tax return can be compared to the employment income shown on T4 slips that the individual's employer has filed with the CRA, or to the investment income shown on T5 slips.

All returns are matched to third-party information slips. If there is a discrepancy between the income reported by a taxpayer and the income reported by a third party, the CRA may contact the taxpayer or a representative by mail or telephone for clarification. If the CRA determines that an adjustment is required after completing the review, it will send a new notice of assessment to the taxpayer.

Also, the Matching Program corrects errors relating to an individual's RRSP deduction limit and spousal-related claims, including child-care expenses and provincial/territorial tax credits/reductions. The peak period for this type of review is **September to March**.

RRSP Excess Contribution Review Program - This program makes sure that taxpayer records are correct and that any required T1-OVP, *Individual Tax Return for RRSP Excess Contributions* forms are filed by the taxpayer. Through this program, the CRA identifies taxpayers with potential registered retirement savings plan (RRSP) excess contributions and communicates with them to review their situation.

Tax Planning Suggestion – *First-time and Previous Home Owners*

First-time home buyers, previous home owners who have not owned a home since December 31, 2007 and have repaid in full any previous Home Buyer's Plan withdrawals, and certain disabled persons – may **withdraw** up to the *lesser of* **$25,000** and the **RRSP contributed total $'s** as of 90 days prior to the withdrawal, to fund the acquisition of a **"principal place of residence".** First-time home buyers are also eligible for a non-refundable tax credit of up to $750.

Updates

MY OFFICE LOCATION!

I am now located at 9 Mccausland Crt., Barrie, Ontario (intersection of Essa Rd and Veterans Dr) ... Please call or e-mail for an appointment as I may be away visiting clients and unable to see you without prior notification.

Corporate Fiscal Year End

Many corporations have year ends ending mid-year. If you are a shareholder of one of those corporations please ensure you deliver your documents to my office two weeks after the end of your fiscal year… Corporate Tax ($) is due 3 months after the end of the tax year, even though the Corporate Return (T2) filing deadline is up to 6 months after the end of the fiscal year.