TAX NEWSLETTER

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A Potential New Attack on Your Bank Account

By Deanna Muise, CPA, CA, TEP
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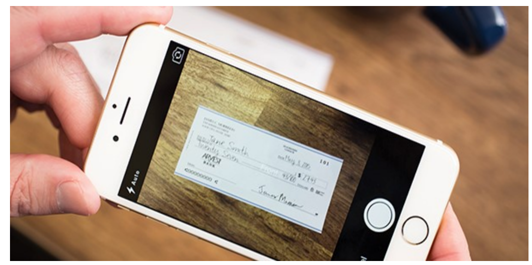
Fraudsters came calling to our office the other day via an attempt to help themselves to some money in our bank account. I want to share the story of what happened as a reminder of how important it is to regularly check your account on-line as well as complete monthly bank reconciliations.

So here is what happened:

We paid a supplier's invoice by mailing them a cheque. Somehow, the cheque did not end up in the supplier's hands and they issued a statement to us advising that payment was still due. Lucky for us, we have an extremely diligent CFO who immediately followed up and found that the cheque had cleared our account but with an altered payee. The bank was able to determine that the cheque was deposited through a mobile banking method such that the recipient bank never handled the original cheque, thus making it easier to hide the alteration.

It gets worse. The thieves then duplicated the image of the cheque, altering the payee, amount and even the cheque numbers and they again deposited the cheques through mobile banking. Our bank was on alert and did not honor the cheques but the thieves attempted to process an additional 8 or 9 cheques between $5,000 and $10,000 each. In the absence of the statement alert from our supplier, this fraud would not have been caught



until after month end when the bank reconciliation was being completed and when the thieves may have had more than one pay day.

From here, the bank closed our account and opened a new one for us, required us to sign Statutory Declarations that the initial and subsequent fraudulent cheques were not our doing, and required us to complete all of the 'normal' steps with opening a new account, including updating information for all auto-pay amounts and transfers.

We were lucky as we suffered no financial losses by catching it early and notifying the bank. This is a sharp reminder of the importance of keeping watch over your bank account on a regular basis.

Keep watch over your bank account on a regular basis.

Fall Economic Statement - Tax Update

By Laura Simmons,
Senior Tax Manager, MRSB

The Fall Economic Statement was released by the Department of Finance on November 21, 2018. Canada's economy continues to remain strong and growing. However, the country has faced several years of uncertainty, including new tax changes in the United States that may impact the Canadian economy. In response to this, along with other factors, the Government has proposed a number of new tax incentives to support and increase business investment in Canada.

Under the current tax rules, the cost of a capital asset, such as building, machinery and equipment, is deducted as capital cost allowance (CCA) over a period of time that corresponds to the useful life of the asset. The new tax incentives will allow Canadian businesses to write off a larger amount of the cost of a newly acquired asset in the year an investment is made. By increasing the deduction available in the first year, the intention is to accelerate tax savings and allow funds to be re-invested in the business for growth.

The tax incentives discussed below will apply to qualifying assets acquired after November 20, 2018. The accelerated tax deductions will be gradually phased out beginning in 2024 and will no longer be available for investments put in use after 2027.

Manufacturing and Processing Equipment

The new rules allow for an immediate write off of the cost of machinery and equipment used for the manufacturing and processing of goods in Canada. This effectively increases the CCA rate for Class 53 assets put in use to 100%.

Specified Clean Energy Equipment

The new rules will also allow for an immediate write off of the cost of specified clean energy equipment. This effectively increases the CCA rate for Classes 43.1 and 43.2 assets put in use to 100%.

Accelerated Investment Incentive

This incentive applies to both tangible and intangible capital assets, with the exception of those assets eligible for a full write off as discussed above. Under the Accelerated Investment Incentive, a business is able to claim up to three times the normal deduction for CCA in the year a capital asset is put into use.

The half-year rule, which reduces the amount of CCA otherwise available by half in the year of acquisition, does not apply under any of the three incentives. Consistent with the existing rules, the accelerated CCA claimed under the incentives will be pro-rated for short taxation years.

The chart below outlines the impact of the proposed measures for the CCA deduction in the first year on select assets as shown.

It is important to note that the total CCA available over the life of an asset does not change with the new tax incentives. The accelerated deduction in the first year will be offset by smaller deductions available in future years. Capital assets acquired in a non-arm's length transaction or on a tax-deferred rollover basis are not eligible for the tax incentives.

The restrictions under the *Income Tax Act* that limit the amount of CCA that may be deducted in a year, related to limited partnerships, specified leasing properties and rental properties, continue to apply.

Other Tax Measures

- The Mineral Exploration Tax Credit, which is scheduled to expire March 31, 2019 will be extended to March 31, 2024.
- The Government will introduce a new category of qualified donees which will include eligible non-profit journalism organizations. This will allow the organizations to receive funding from registered charities and to issue official donation receipts, allowing individual donors to benefit from the charitable donation tax credit and corporate donors to benefit from the tax deduction.
- A new refundable tax credit will be introduced for qualifying news organizations to be effective January 1, 2019. The tax credit will support labour costs associated with the production of news content and will generally be available to both non-profit and for-profit news organizations.
- A new temporary, non-refundable 15% tax credit will be introduced for qualifying subscribers of eligible digital news media. Additional details are to be provided in Budget 2019.

Maximum First Year Capital Cost Allowance	Existing Rules	Proposed Measures to Dec. 31, 2023
Immediate expensing		
Manufacturing and processing equipment	25%	100%
Clean energy equipment	25%	100%
Accelerated Investment Incentive		
Computer software - Class 12	50%	100%
Computers - Class 50	27.50%	82.50%
Motor vehicles - Class 10	15%	45%
Office equipment - Class 20	10%	30%
Buildings used in manufacturing and processing - Class 19	5%	15%

Small Business and the Tax Revolt - The Dust Has Settled: Where do we Stand?

By Chad Saikaley, CPA, CA, TEP
Partner and Head of Tax at GGFL LLP

When Finance Minister Bill Morneau announced proposed changes to federal income tax legislation in 2017, he infuriated small and medium-sized business owners, the backbone of Canada's economy.

What Morneau framed as a tax on the rich seemed more of an attack on those who risk everything to start a business.

As the furore built, the Senate National Finance Committee launched its cross-Canada tour to seek input from stakeholders and urged the government to put the changes on ice for a year to better assess the ramifications.

Morneau also invited input from the business community during his own in-person 'listening tour' across the country.

At issue were tax on split income (TOSI) rules and income from passive investments (i.e., investments not directly related to the business enterprise).

Faced with a sustained backlash, Morneau softened the proposed measures – a little – and went ahead with cuts to the small business tax rate. In 2019, the combined Federal and Ontario small business tax rate will be 12.5 per cent compared to its pre-cut high of 15 per cent.

I was an early critic of Morneau's proposed changes and wrote this shortly after the measures were announced.

"The accounting community accepts that the current legislation is not perfect and many of us support some of the changes. But we also know that this proposed targeting of small business corporations is less a crackdown on the wealthy, more an attack on middle-class Canadians . . ."

So, what do those owners of small and medium-sized businesses need to know now that the dust has settled?

Good News:

The measures are not as punitive as they were initially. But, if the government had waited for that year recommended by the Senate, they could have arrived at better solutions.

TOSI is the tax imposed when a firm's owner improperly splits income among non-employee family members to reduce the owner's income tax.

When people go into business, they put everything on the line. They have no pension plan and initially, at least, are often not drawing a full salary. Income splitting with a family member offers some financial support to the entrepreneur.

I concede that some tightening of the TOSI rules was justified.

Some wealthier people were abusing income splitting, so to a degree, you could understand the need for changes. But the government measures went way beyond what was necessary.

The bad news today is that the tax picture is bleaker for small and medium-sized business owners.

The good news is that tax reduction and deferral opportunities are still available.

Even with the passive income rules, you can still defer tax for an operating business that uses earnings to reinvest in the business.

And don't abandon the idea of a family trust, he advises. They still have value.

At the outset, many incorrectly assumed that there was no longer a benefit to having a family trust. We never believed that at GGFL, because there was always more to a trust than income splitting.

There are financial and non-financial benefits that are still available, depending on individual circumstances.

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Small Business and the Tax Revolt - The dust has settled: Where do we stand?

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Among other benefits, a trust can offer creditor protection of assets, provide opportunities to move wealth from one generation to the next, and minimize the tax implications on death.

The dust that cleared has since been replaced by mists of uncertainty – partly because of that massive U.S. tax reduction and the assumption that provinces would fall into line behind the federal proposals.

Post-election changes in provincial governments – notably in Ontario – have proven that assumption wrong.

Our finance minister is now scrambling to remain competitive with the States because the Americans went in exactly the opposite direction, making it less attractive to invest in Canada. To compensate, Morneau is offering accelerated deductions on certain capital investments within Canada, but will it be enough?

The bottom line is that the federal changes have left small and medium-sized Canadian businesses worse off, but not without the opportunity to alleviate their tax burdens.

The changes do make it less attractive to be an entrepreneur in Canada.

You have to be more sure of your financial prospects, and that means less risk taking. The passive income changes further widen the gap between employees with guaranteed pension plans and job security versus the self-employed who must take care of their own financial future.

This article was originally posted on the Ottawa Business Journal website https://obj.ca/article/GGFL-small-business-and-tax-revolt.