

Kathryn Edwards

Recap of Personal Tax Changes



Many changes have been introduced to the personal tax system in the past year.

It can be difficult to keep up! This article is intended to help recap some of the highlights.

Lifetime Capital Gains Exemption

Good news! The 2007 federal budget provided for an increase in the Lifetime Capital Gains Exemption (LCGE) available for capital gains on qualified small-business shares and qualified farm or fishing property. This lifetime exemption has increased from \$500,000 to \$750,000 and is available for qualified dispositions that occur after March 18, 2007. Certain transitional rules apply for dispositions in 2007. This change to the LCGE may impact future tax planning for certain individuals.

RRSPs, RRIFs, and RPPs

- The age limit for the maturity of Registered Retirement Savings Plans (RRSP) has been extended to the end of the year in which the annuitant turns 71. Previous to January 1, 2007, the age limit for maturity of an RRSP was the end of the year the annuitant turned 69.

- Similar rules were also found in the budget to extend the maturity date of Registered Pension Plans (RPP) to match the new RRSP date. (Transitional rules are provided for individuals who turned 70 or 71 in 2007.)
- Further provisions were introduced, effective in 2008, to allow an employee to receive pension benefits from a defined benefit RPP while continuing to accrue further pension benefits at the same time.

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These changes recognize the longer working lives of individuals and can allow more time for pension savings to accrue before retirement.

RESPs

Registered Education Savings plans (RESPs) have been available for many years to assist families to save for their children's postsecondary education costs. The 2007 federal budget has introduced some changes that make these savings plans more flexible.

For example,

- the maximum annual Canada Education Savings Grant (CESG) was increased from \$400 a year to \$500 a year—although the \$7200 lifetime CESG limit remained the same;
- the annual contribution limit of \$4000 was eliminated;
- the lifetime limit was increased from \$42,000 to \$50,000.

Caution should be exercised when considering a large one-time contribution. While an early lump-sum contribution could potentially result in more tax-deferred income, the benefit would be eroded by the loss of the annual CESG, which is subject to a yearly maximum of \$500.

Spousal and Equivalent Amount for Eligible Dependent

The October 30, 2007, economic statement increased the spousal or common law partner amount to \$9600, commencing in 2007. This increase applies also to the equivalent amount for an eligible dependent. The threshold above which the wholly dependent relative's net income must be considered, however, was eliminated by the federal budget. As such, *all* income of the dependent relative must now be taken into account when calculating this credit.

Children's Fitness Tax Credit

The Children's Fitness Tax Credit (CFTC) became effective in 2007. It can allow parents to claim on their returns eligible fees up to \$500 per child under the age of 16 at any time during the year. The fees claimed are multiplied by 15 percent—the lowest personal tax rate—and provide a maximum tax benefit of \$75 per child.

The CFTC is enhanced if a child qualifies for the disability tax credit. In that event, parents may claim up to \$500 per year in eligible fitness expenses paid for the child who is under 18 years of age at the beginning of the year. Also, if at least \$100 in eligible fitness expenses have been paid for the child, an additional amount of \$500 can be added to the eligible fitness expenses actually incurred.

In general, an eligible program

- is a minimum of 8 consecutive weeks long or, for children's camps, 5 consecutive days;

- is supervised;
- is suitable for children; and
- includes a significant amount of physical activity that contributes to cardio-respiratory endurance, plus one or more of muscular strength, muscular endurance, flexibility, or balance.

Parents should request receipts for payments made in respect of eligible programs and retain them for tax purposes.

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Child Tax Credit

Effective January 1, 2007, families with children under the age of 18 are eligible for a \$2000 per child nonrefundable tax credit. This credit may be claimed by either parent and can result in tax savings of approximately \$300 per child.

Refundable Working Income Tax Benefit

Effective January 1, 2007, the refundable Working Income Tax Benefit (WITB) becomes available to low income individuals. You may be eligible for the WITB in 2007 if

- you are 19 years of age or older on December 31, 2007, **and**
- you are a resident of Canada for income tax purposes throughout 2007.

If, however, you are *under* 19 years of age and have a spouse, common law partner, or an eligible dependent on December 31, 2007, you still may be eligible.

The following circumstances will, however, render you *ineligible* for the WITB in 2007:

- you do not have an eligible dependent and are enrolled as a full-time student at a designated educational institution for more than 13 weeks in 2007;
- you are confined to a prison or similar institution for a period of more than 90 days in 2007; **or**

- you do not have to pay tax in Canada because you are an officer or servant of another country, such as a diplomat, or a family member or employee of such person.

The 2007 federal budget also introduced an additional WITB for individuals eligible for the disability tax credit.

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Pension Income Splitting

The new pension income-splitting rules came into effect January 1, 2007. These rules allow for splitting of eligible pension income between spouses or common law partners to a maximum of 50 percent of the transferor's eligible pension income. Certain requirements must be fulfilled to make this joint election; pension income-splitting may not benefit everyone. We refer you to the November 2007 issue of *The Scrivener* magazine in which this topic was covered in some detail.

Caution

This article is intended to recap some of the changes to the personal tax system that have come into effect in the past year. It is not an exhaustive list of changes, nor is it intended to provide a detailed analysis of these legislative changes. The reader should ensure appropriate professional advice is obtained before taking action so that consideration is given to the details of each change and whether more recent tax changes have been proposed or enacted to date, and so that appropriate consideration is given to his or her own individual circumstances. ▲

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