The Quarterly

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Changes to Canada Pension Plan Benefit Payments

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Every few years various departments of the government meet to assess the Canada Pension Plan's ("CPP") benefit and contribution rates. Based upon the government's most recent review of the CPP system, there are a number of changes which will affect those receiving and planning to receive CPP benefits in the next few years.

Currently, the CPP system is based on an average retirement age of 65. This means that if CPP payments begin at age 65, the taxpayer will receive 100% of the entitled amount. CPP claimants also have the option of receiving the payments early at age 60 at a reduction of 6% for each full year taken before age 65. This means that if payments begin at age 62, the taxpayer would receive 82% of the amount they were entitled to had they waited until the age of 65. There is also an option for CPP claimants to begin receiving payments after age 65 if their financial situation allows.

Also, claimants can begin receiving payments as late as age 70 with an increase of 6% of the benefit payments for each full year after turning 65. This means that if payments begin at age 67, the taxpayer would receive 112% of the amount they were entitled to had they began receiving payments at age 65. The 6% factor was consistent for each full year taken before and after reaching 65.

Under the new legislation, the factor is no longer constant at 6% for each full year before and after reaching age 65, but results in a higher annual percentage for those who receive payments after turning 65 and a lower annual percentage for those who receive payments before turning 65.

The following changes in the annual factor are expected to occur in the next several years for CPP claimants who delay receiving CPP benefits beyond age 65:

Year	Annual Increase in CPP Benefits
2010	6% or 0.5% per month
2011	6.84% or 0.57% per month
2012	7.68% or 0.64% per month
2013	8.4% or 0.70% per month

Based upon the above table, this means that by 2013, a CPP claimant who waits until they are 70 before they start to receive benefit payments will receive 142% of the amount they would have received at the age of 65, compared to 130% before the changes to the legislation.

The following changes in the annual factor are expected to occur in the next several years for CPP claimants who begin receiving CPP benefits before age 65:

Year	Annual Decrease in CPP Benefits
2010	6% or 0.5% per month
2011	6% or 0.5% per month
2012	6.24% or 0.52% per month
2013	6.48% or 0.54% per month
2014	6.72% or 0.56% per month
2015	6.96% or 0.58% per month
2016	7.2% or 0.60% per month

Based upon the above table, this means that by 2016, a CPP claimant who begins receiving payments when they reach 60 will receive benefit payments of 64% of the amount they would have received at 65 compared to 70% before the changes to the legislation.

As a result of the above legislative changes, it is important to consider the impact the increase or decrease in benefit payments will have on your financial plan and pension income.

Is Your Will Current?

A review of your will every few years is an important part of your financial and estate plan. Without a will, your family could be left with significant hurdles and delays in taking care of and settling your estate. If you were to die intestate, or without a will, your family may need to make an application to a Court to liquidate and distribute your assets. This process could take months and create hardships for those left behind.

A well prepared will can also help to make sure that only those individuals that you appoint as your executor or executrix will manage your estate. By having this appointment in place before death, family conflicts over who should manage your estate is minimized.

For business owners, having a well prepared and up to date will is even more important considering the number of people who rely on the business activities. When used to aid in the future transition of the business, a will can assist in directing how your business interest will be treated. As a business develops and has new shareholders or partners, the owner's will needs to be revisited to ensure that consideration is given for the new stakeholders who may be affected by your passing.

The following factors will help you decide whether a review and update of your current will is needed. If you answer yes to any of the statements below, consider making an appointment with your lawyer and your trusted business advisor soon to review your will.

- You do not have or cannot find a copy of your will;
- Your will is more than 10 years old;
- You have gotten married, separated or divorced since you last updated your will;
- Your spouse has died since you last updated you will;
- You have had children since you last updated your will or your children are over the age of majority and independent;
- Your current executor has moved away, died, or there has been a breakdown in the relationship since you last drafted your will;
- Your financial position has changed significantly since your will was last updated.

Hiring Family Members & Implication on Employment Insurance Premiums

Under the *Employment Insurance Act*, persons who are related to their employer may not be eligible for employment insurance ("EI") benefits. This may mean that the family member is not required to have EI withheld from their wages and the employer is not required to remit the employer's portion of EI.

However, an exception to this rule applies where it can be demonstrated that it would be reasonable to conclude that the employer would have hired an unrelated person under a similar contract of employment. In this circumstance, the employee (although related to the employer) would be entitled to EI benefits and therefore, must have EI deducted from their pay and remitted to the Canada Revenue Agency ("CRA"), along with the employer portion.

When an employer has a spouse or other family member working for them, many of those employers have taken the approach that, due to the non-arm's length nature of their relationship, no EI need be withheld or remitted by either the employer or employee. The savings is evident – in 2011, the maximum EI payable by an employee is $786.76 and the maximum employer portion is $1,101.46.

The CRA has expressed the view that, when the salary is exempt from EI, the salary may be unreasonable and as a result, some portion of that salary may not be deductible to the employer. Furthermore, the CRA has commented that if a portion of the salary expense is denied, they may also take the position that the funds have been appropriated by the employer-shareholder. A shareholder appropriation is taxable to the shareholder, rather than his or her family member. Double tax will result – the employer will be denied a deduction and the shareholder will be taxable on the appropriation of funds.

As a result of the double tax risk, any employers considering exempting family members from EI should proceed cautiously. Since the employment of a family member does not automatically result in the employment being non-insurable for EI purposes, it is advisable to request a ruling from the CRA.

If an employer has previously deducted EI premiums that they shouldn't have because the employee's employment was not insurable, the employer can request a refund of the EI premiums. The CRA will normally require that they have completed a ruling prior to allowing for a refund of premiums. The request must be submitted no later than 3 years after the end of the year in question. For example, if an employer deducted EI premiums in 2007 for employment that was not insurable, the employer could recover premiums for 2007 up to the end of 2010 in 2011.

U.S. Personal Taxation

Filing a U.S. Personal tax return

If you were born in the U.S., are a U.S. citizen living in Canada, or hold a U.S. Green Card, you have an obligation to file a U.S personal tax return.

The U.S. tax system differs from Canada's in that it establishes a liability to pay taxes on the basis of citizenship and, in certain situations, residence. This means that U.S. citizens and green card holders living in Canada must file an annual U.S. personal tax return. Whereas in Canada, the liability to pay taxes is dependent on residency.

Normally U.S. personal tax returns for a particular year must be filed no later than April 15th of the following year. However, there is an automatic extension to June 15th if you are resident outside the U.S. on April 15th.

Disclosure of non-financial interests

In addition to the annual income tax return there is a requirement to disclose on a prescribed information form about your financial interest in non-U.S. (e.g., Canadian) bank accounts.

Implications of not meeting tax and non-financial disclosure requirements

U.S. tax filing obligations are often misunderstood or simply ignored by U.S. citizens or green card holders living in Canada. Ignoring or delaying the filing requirements places one at tremendous risk. The consequences of being liable for failure to file include:

- Being subject to substantial penalties and interest;
- Unpaid taxes and late returns can make returning to the U.S. difficult;
- If you travel on a U.S. passport, you may have difficulty renewing your passport if you cannot provide evidence that all required tax filings have been made; and
- Potential loss of right to make certain important income tax filing elections, such as the election to claim the "foreign earned income exclusion";

Don't let the consequences noted above affect you, ensure that your required U.S. tax obligations are met on a timely basis.

Tax Tip - "Professional Corporations"

Eligible self-employed professionals should consider incorporating their practices to benefit from various tax advantages. Typically, only professionals who are governed by law by a professional body or association can incorporate a professional corporation including accountants, lawyers, physicians, dentists, architects, engineers, and several others.

Potential Tax Savings and Deferral

A significant advantage of using a professional corporation is the ability to defer taxes by retaining income in the corporation that is subject to lower small business tax rates. The current combined Federal and Ontario small business corporate tax rate is 15.5% on the first $500,000 of annual active business income. If the professional does not personally require all of the income to live on, a corporation can provide significant tax savings.

Professional income earned through a corporation is taxed at two levels – once at the corporate level and then again at the shareholder level when the profits are distributed to you as dividend income. Since the income at the corporate level is taxed at a lower rate than your personal income, a tax deferral opportunity exists when the income is taxed in the corporation and retained in the corporation. The deferral ceases when the corporation's retained earnings are paid out to the shareholder as a dividend.

Remuneration Flexibility

An incorporated professional can choose to receive a combination of salary and dividends from a professional corporation. Sufficient salary should be paid to allow for maximum RRSP contributions. A corporation may also allow for increased retirement savings through an individual pension plan or a retirement compensation arrangement, and the contributions to either of these plans are deductible to the corporation.

Access to the Capital Gains Exemption

The $750,000 capital gains exemption for the disposition of shares of a small business corporation may be available on the sale of shares of the professional corporation or their deemed disposition at death.

Family Tax Planning

All shares of the professional corporation must be owned by members of the regulating association, except in the case of physicians, surgeons and dentists, whose spouses, children (through trusts) and parents are able to own non-voting shares of the corporation. This provides for income-splitting opportunities as dividends may be paid to family member shareholders with no other sources of income in order to benefit from lower marginal personal tax rates and the dividend tax credit. In addition, the capital gains exemption may be multiplied if shares are held by the professional and family members.

TAX TIP deals with a wide variety of issues and the information is general in nature. As each person's circumstances are unique, readers are urged to consult W&P prior to acting on the basis of material in this Tax Tip. If you have any questions regarding the content of this or any other Tax Tips, please contact the W&P Tax Group.

W&P Newsbits

We are pleased to announce the following new additions to our Team:

Jeremy Fink, CA
Jeremy Fink, CA is joining the firm's accounting group as a Manager. Jeremy graduated from the University of Windsor with a Bachelor of Commerce and holds a Bachelor of Arts, Economics from York University. Jeremy brings 17 years of public accounting experience to the firm.

Antonio Calabria
Antonio has joined the firm's accounting group as an Analyst. Antonio is a recent graduate from York University and is starting his career in public accounting.

Welcome Jeremy and Antonio!

Williams & Partners is Celebrating 20 Years!

We are very proud to announce that we will be celebrating our twentieth anniversary this coming November.

From very humble beginnings with only six people, we have grown to a complement of approximately fifty team members covering various disciplines including accounting, audit, taxation, and forensic, along with anti-money laundering legislation advice and compliance evaluation.

We are very grateful for the tremendous support from our clients, the exemplary efforts of our team and the close friendships we have developed over the years. We look forward to servicing our clientele, developing our team members and strengthening our relationships for many years to come.

We will be hosting a reception in the Atrium of our office at 675 Cochrane Drive on Thursday, October 13, 2011 from 6:00 pm to 9:00 pm. We welcome you to join us in the celebration of our milestone. Please contact Maria Pinto of our office at (416) 969-8166, ext. 221 to confirm your attendance.

Fall 2011 Planner	September 15th	3rd income tax instalment payment for 2011 due
	October 10th	Thanksgiving Day
	October 13th	Williams & Partners 20th Anniversary Cocktail Reception
	November 11th	Rememberance Day

CONTACT US
You can reach us by phone at **416.969.8166** or on-line at **www.williamsandpartners.com.**

NOTICE
Williams & Partners distributes tax tips on a regular basis via email to our clients. If you wish to be on our email distribution list for tax tips, please contact Jackie Pincente at 416-969-8166 ext. 235, or by email to jackie.pincente@williamsandpartners.com.