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THE Quarterly Dividend

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Your guide to income tax & financial planning

FAST TRACK

(Don't) Ask Mr. Google, CPA!!

As some of you may know I have been writing this newsletter since 1992 and during that time have authored many articles on topics that I feel are important to readers.

I have also kept copies of every issue for myself for the odd time that a subject comes up that I have addressed previously. This allows me to refer back to what I wrote at the time

In this Issue:

The Loneliest Man in Town

Most people grew up with the notion that "keeping your word" was something that they just automatically did and was to be expected from others. It was a compliment when someone described you as "a man (woman) of his (her) word' meaning you could be relied upon to follow through with whatever promise you had made to others.

Unfortunately, modern society has abandoned this concept, and people today want everything in writing and witnessed by others, before they feel comfortable that matters under discussion have been concluded.

This is not encouraging, for it says something about ourselves. It makes us look and behave as if the only one to whom we owe any obligation is ourselves. I will only get into a relationship with you as long as there are safeguards that you will perform in the manner that you have promised and my life will not be unduly disturbed.

Keeping one's word must mean more than that. Certainly it means that others can rely on you to follow through with your end of the "deal" so that they can go ahead and make decisions and commitments of their own based upon what you have said.

But keeping one's word also means that we are being truthful to ourselves. We are the ones who are on the hook if we fail to "deliver". There is always a "chain" of events. What I do and how I behave are a consequence of an often unwritten understanding between ourselves as to how each of us acts toward each other. I do not want to jeopardize "what we have going" so I will be meticulous in doing what I promised I would do.

If we all felt a little more like that, perhaps interpersonal relationships would be more trusting and open, and all society would be better off.

Overlapping Rules

The *Income Tax Act* is such a complex document that from time to time you will find overlapping rules that pertain to similar if not the same circumstances. It is then up to the taxpayer to assess his situation and decide which is the best choice and file his taxes accordingly. The "best" example pertains to medical expenses incurred by a taxpayer who qualifies for the Disability Tax Credit.

Rule #1: A taxpayer who qualifies for the disability tax credit may claim the remuneration of a full-time attendant as a medical expense while the patient is in full-time care in a nursing home;

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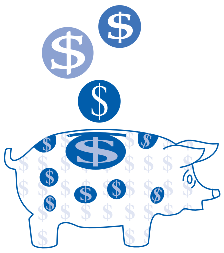


and is a starting point to consider the issue at hand.

Recently someone asked me for some "advice" as to how he might want to proceed in the situation in which he found himself. I immediately recognized that this topic was considered a few years back and found the article in my "archives".

I looked it over and saw that it had held up well and sent it to the person who had approached me. I asked him to read it and let me know if it had been helpful.

I was somewhat disappointed when he got back to me and told me that the information that I had provided was something he could have found himself on the internet and that my article added very little insight into the subject. He didn't even bother to thank me for the effort I had made to find exactly the information he needed/wanted and probably would never have been able to retrieve on his own.

This made me think how I use *Google* and if I too am

Rule #2 A taxpayer who does not qualify for the disability tax credit, may claim the remuneration of a full-time attendant in situations where the patient is still living at home;

Rule #3 A taxpayer who qualifies for the disability tax credit may claim the cost of full-time residency in a nursing home; Note up to here: If the taxpayer claims the medical expenses under any of the three rules above, he cannot claim the disability tax credit as well;

Rule #4 A taxpayer who qualifies for the disability tax credit may claim the remuneration of up to $10000 paid to an attendant (who need not be full-time) as a medical expense. Note that a medical expense claim under this rule can be coupled with the disability tax credit;

Rule #5 A taxpayer who does not qualify for the disability tax credit, may claim expenses incurred to attend a school, institution or other place of care as a medical expense as long as the patient requires the equipment, facilities or personnel provided by the facility; and

Rule #6: A taxpayer who qualifies for the disability tax credit may claim remuneration paid for care and supervision in a group home as a medical expense, while also being allowed to claim the disability tax credit.

Threading through the various rules requires attention to detail before determining which requirement applies to you. It appears that rule #4 is the most generous and taxpayers who can qualify here will be better served than those qualifying under the other rules. Here is an example of the application of rule #4:

John's twenty year old son is confined to a wheelchair. He does not live with John and has taxable income of $14000, CPP contributions of $120 and EI contributions of $224. He incurred $4000 in "attendant care" costs throughout the year.

Under "ordinary" rules, John would not be able to claim his son as a dependant because the son's income is too high, but he can claim him, at least partially, due to the special disabled deduction, rule #4, above.

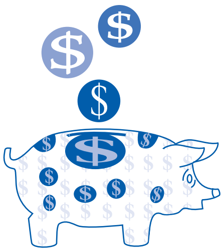
	$
John's taxable income	14000
Less: son's basic personal exemption CPP and EI contributions	12069
Amount needed to bring son's income to $NIL	(a) 1931
John may claim:	
Son's disability exemption	8416
Attendant care costs adjusted for 3% of son's amount in (a) above	3880
	12296
Less (a) above	1931
John may claim this non-refundable credit	10365

Every Financial Statement Tells a Story

One of the most important parts of an accountant's "job" is to take the information that has been compiled by the company (client) and present it in a financial statement format that coveys to the reader what has been" going on" over the past period of time in a manner that is consistent with Generally Accepted Accounting Principles (the basic language of the profession).

While it is true that all financial statements contain a balance sheet and income statement at a minimum, disclosure for review and audit engagements go further to include both a statement of cash flows and notes to the financial statements.

One example where a company's financial information must highlight certain aspects of its operations is when its bank is renewing its credit.



dependent upon it to furnish information that I just blindly accept as being appropriate for my needs.

Google is an invaluable tool for the retrieval of certain factual information but hardly the only resource I would choose to consult when making important personal and financial decisions.

Many people make the mistake of searching the internet for the answer to a particular question that may be technical in scope and beyond the grasp of any website that has been created to appeal to the masses. They simply cannot anticipate every situation that its readers may be experiencing when looking for an "answer".

Most people think that they "know" how to frame the issue at hand when typing in the key words to the search engine. They do not realize that just as with friends and advisors the way the question is posed will to a large extent determine the kind of "answer" they will receive in return.

And while "humans" have non-verbal keys that allow them insight to "feel out"

A company's earnings before interest, taxes, depreciation and amortization, often referred to as EBITDA, is an accounting measure calculated to show a company's "performance" from its core operations.

The measure is designed to put all corporations on the same footing so that they are comparable with other companies in the same industry and beyond.

This is accomplished by looking at revenues minus expenses and highlighting expenditures the company incurred that were outside its core operations. This is how well the company did, taking away how it was financed and the sometimes "open to discussion" methods that management employed when allocating the cost of its capital expenditures to the operations of the business over time.

This is important for the bank and other investors who can then assign one "benchmark" number to the company under review and use that to compare it with others.

It can also be used to analyze a company's likelihood of being able to meet its financial obligations going forward.

Here is how a company's financial presentation might look if it wanted to highlight its EBITDA:

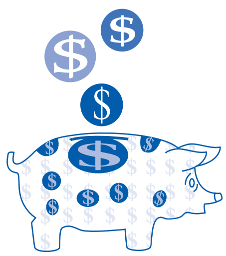
	$
Revenue	700,000
Operating expenses	200,000
Earnings before interest, taxes and amortization/ depreciation (EBITDA)	**500,000**
Amortization/depreciation	130,000
Earnings before interest and taxes	370,000
Interest expense	50,000
Earnings before income taxes (probably already being shown on f/s)	320,000
Provision for income taxes	48,000
Net income for the year	272,000

Paying Other People's Income Taxes

Imagine this scenario: Harvey and Heather are married and jointly own a home valued at $500000. Harvey owes the Canada Revenue Agency taxes going back several years and believes that if he transfers his one-half interest in the residence to Heather, he will "protect" the family from the liability. If worse comes to worst, he will declare personal bankruptcy and the outstanding bill will "go away".

Unfortunately for Harvey, the CRA is way ahead of him. Under s.160(1) of the Income tax Act the Agency can assess Heather for the taxes that Harvey owes up to $250000 if there is no mortgage on the property, or $250000 minus one-half of the existing mortgage if there is one.

The income tax provision in question requires four criteria be met: **(a) there must be a transfer of property**; here, Harvey transferred his 50% interest in the matrimonial home to Heather; **(b) the transfer must be to a non-arm's length party** which includes a spouse or common-law partner, a parent or child, brother or sister or someone who has adopted the other; **(c) the transfer must have taken place at a time when the transferor had a tax debt** (even if a Notice of Assessment has not as yet been issued. This brings up a shocking scenario where the transfer takes place for "other reasons" and the transferee is caught with a tax debt of



the questioner and ask follow up queries to assist them in coming to an answer, the computer has no such capability and accepts everything at face value.

The next time someone tells you that they have done their "research" on a particular topic or issue, remember that most likely, all they did was consult Mr. Google to see what he had to say.

Remind him that humans cannot be "replaced" in such situations. Computers will provide you "something" for a very inexpensive price. But it will not give you the depth you need or the substance that you want. Tell them once again, that as in most things in life, you get what you pay for.

Thanks for Your Referrals

We very much appreciate your referrals. If you know of someone who can benefit from the services we provide or who would like to receive our publication, please let us know. We will send them a copy with your compliments.

which no one had been aware at the time of the transfer and presumably would not have occurred had it been "common knowledge"; and **(d) there must have been an absence or insuffiency of consideration**. Since there is a difference between Harvey's share of the home ($250000) and the amount he received back from Heather when he transferred it to her ($NIL), the amount of the benefit that has been transferred is $250000.

Finally, the government may issue the assessment "at any time", meaning that they have a vastly extended period of time to act upon this debt

Are Big Changes Coming to Your TFSA?

Since Tax Free Savings Accounts were enacted into legislation in 2009, they have become extremely popular. Statistics show that there are now 13.5 million TSFA's "out there" and that some of them have grown significantly from the $57500 in funds that their holders have been able to contribute.

In fact, as of 2016, there were over 18000 plans with TSFA values of $100000 or more. And some substantially more, perhaps even up to $500000.

This has not gone unnoticed by the Canada Revenue Agency who have spent sleepless nights trying to figure out how they can get some "piece of the action" from this ever growing pie.

They, of course, never disappoint!! And here is a summary of their current thoughts: (a) target all TSFA holders with plan values of $250000 or more (though this threshold could change to a lower number if that is what they decide); and (b) audit the plan holdings to see exactly what assets are being held in individual plans to "make sure" they comply with what CRA thinks they should have.

The second option is particularly worrisome.

Many of the plans with the most growth are a result of taxpayers' trading on equity stocks over the years leading up to the recent declines on worldwide stock exchanges.

Under the Income Tax Act, "day traders" have come under scrutiny for showing "winners" as capital gains and "losers" as "business losses". The CRA has challenged taxpayers who trade outside their TFSA's by looking at such things as frequency of transactions, period of ownership, knowledge of the market, time spent and financing. They want consistency, no matter how successful the taxpayer may (or may not) be.

The CRA may be considering changing the rules on TFSA's to eliminate holdings that are the result of taxpayers conducting a "business" within their plans. And they would apply the same definition of determining whether a "day trader" is a business inside of the TFSA to whether he is conducting a "business" outside his plan.

So far there are no restrictions to conducting a "business" within your TFSA, but if the CRA decides that they are "losing too much tax revenue" by having taxpayers put their "winners" into their TFSA's and leave the "losers" outside as business losses, they might push for the government of the day to change the legislation.