

# The Allied Advantage

Spring 2013

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## Federal Budget Highlights

### Lifetime Capital Gains Exemption

The lifetime capital gains exemption will be increased to \$800,000 (from \$750,000) on dispositions of qualified farm property and qualified small business corporation shares effective for the 2014 taxation year. This amount will then be indexed for inflation for tax years after 2014.

### Restricted Farm Losses

The 2013 budget will double the amount that part-time farmers can claim against their income from other sources. The restricted farm loss deduction limit will now be \$17,500 as opposed to \$8,750.

### Canada Job Grant Program

This program could provide up to \$15,000 per person or more for training. To be eligible, businesses must have a plan to train unemployed and under-employed Canadians for an existing or better job. The budget also expands and extends the temporary hiring tax credit for small businesses.

In particular, the temporary credit will provide up to \$1,000 against a small company's increase in its 2013 Employment Insurance (EI) premiums over those paid in 2012, to employers with total EI premiums of \$15,000 or less in 2012.

### Safety Deposit Box Deduction

The government is eliminating the tax deduction available for the cost of renting a safety deposit box incurred for the purpose of earning business or investment income.

### Temporary Foreign Workers

Reforms will be made to Canada's temporary foreign worker program in a way to ensure that Canadian's are given the first chance at available jobs. Details on these reforms will be released in the coming months, however the government has indicated they will only allow the use of temporary foreign workers in situations where Canadian's genuinely cannot fill those jobs and that they will increase the recruitment efforts that employers must make to hire Canadians before they can apply for temporary foreign workers.



**Dividend Tax Credit**

The credit on dividends paid by Canadian Controlled Private Corporations (CCPC's) after 2013 will drop to 11% from 13.3%. The credit will decline to 13/18's of an 18% dividend gross up from the current two thirds of a 25% dividend gross up.

**Closing Two Life Insurance Tax Loopholes:**

The budget proposes to eliminate specific tax benefits realized by those investing in policies under the following strategies.

**"Leverage Insured Annuity Strategies"**

Under leverage insured annuity arrangements, investors use a life insurance policy and annuity as collateral for a loan. The policy provides coverage for the life of the individual, the death benefit equals the amount invested in the annuity, and both the policy and the annuity are assigned to the lender.

**"10/8 Strategies"**

Under 10/8 arrangements, individuals purchase a life insurance policy for the purpose of borrowing against that policy and investing the proceeds. The taxpayers pay tax deductible interest of 10% on the loan and are guaranteed an 8% return in tax sheltered investments. ◀

**Canadian Federation of Independent Business (CFIB)**

Allied Associates LLP, Chartered Accountants is a member of the Canadian Federation of Independent Business. Allied actively participates in the initiatives put forth by CFIB.

Currently, the CFIB is putting a spotlight on the negative impact red tape has on farmers. Recent data puts red tape at the top of the list of farmer's concerns (79%). Farmers are also most likely to say that the burden of red tape has grown, with 72% reporting the burden has increased over the last three years compared to 55% among all other business sectors in Canada.

In addition to focusing on the reduction of red tape, other initiatives of the CFIB include reducing the total tax burden (the CFIB was a major leader in calling on the current government to adjust the lifetime capital gains exemption and index it to inflation). Its next initiative will be to increase the capital cost allowance rate on Class 8 and Class 10 agricultural equipment to more closely resemble depreciation rates in other countries.

The CFIB has also highlighted some concerns with AgriStability and other business risk management programs. ◀



**Canada Pension Plan Administrative Concession for 2012**

Prior to 2012, persons turning 65 were no longer able to contribute to CPP, even though they were working. Starting in 2012, persons aged 65 to 70 could continue to make contributions to CPP, if they were still working.

What seniors or their employers may not have realized is that unless they completed form CPT30 Election to Stop Contributing to the Canada Pension Plan, or Revocation of a Prior Election (CPT30) to elect out of paying CPP premiums for 2012, premium payments must be made. In this case, seniors and their employers would be subject to an assessment for the premiums if not paid.

CRA has advised that for the 2012 year only, an administrative concession has been adopted to deal with those who may not have been aware of this change. This administrative concession will be applicable only for the transition year 2012. For years 2013 and subsequently, the election must be filed. ◀

**Profile – Leonard Dick, CGA, CMA**

Leonard is the Area Manager in Durham Region for Allied. He was raised on the family farm in Leamington. Leonard worked in public Accounting for 10 years before joining Allied in 1998.



Leonard received his Certified General Accountant (CGA) designation in 1995 and his Certified Financial Planner (CFP) designation in 1998.

He is registered to deliver farm business planning services on behalf of the Growing Forward program and is a member of the Canadian Association of Farm Advisors (CAFA). ◀

## Ontario Corn Fed Beef Risk Management Fund

The Ontario Corn Fed Beef Risk Management fund is a new business risk management program that will be developed and operated by the industry. The Ontario Cattle Feeders Association will administer the fund. This program will work like insurance to provide support to farmers when input prices are high and market prices are low. The Province will be providing the Ontario Cattle Feeders Association with a one-time investment of \$10 million to create this fund. ◀

## Profile – Chris Hart

Chris joined Allied in 1997 as a Staff Accountant in the London Office and assumed the position of Area Manager in 1999.



He grew up in the Chesterville area and is a graduate of the University of Western Ontario. Chris achieved his Certified Management Accountant (CMA) designation in 2009.

He is registered to deliver farm business planning services on behalf of the Growing Forward program and is a member of the Canadian Association of Farm Advisors (CAFA). ◀

## Computer Scams

With the increased use of technology in our day to day lives, it follows that there is now an increasing number of scams developed by fraudsters that we need to be aware of in order to better protect our personal information.

1. You receive a telephone call with a warning that your computer has been infected with a virus. The caller then makes an offer to clean your computer for a fee. They may also ask for your credit card information for payment of the fee.

The result is that the scammer then has access to your computer, and possibly your credit card information.



2. There are online purchase scams where the consumer can purchase items over the internet (example, Kijiji) and then be directed to other internet sites for payment.

The individual may list a truck or other item for sale online and the scammer responds to the ad offering to pay much more than your asking price. In return, you are to send him the item and the cash for the difference. The original payment from the scammer turns out to be fraudulent.

3. Phishing emails are sent out from legitimate looking financial institution or government websites requesting that you confirm credit card, PIN, or other personal information.

These are only some of the prevalent scams, however, the list is as long as one's imagination. ◀

## Growing Forward 2

April 1<sup>st</sup> marks the official launch of the Growing Forward 2 policy framework for Canada's agriculture and agri-food sector. Growing Forward 2 is a \$3 billion investment by federal, provincial and territorial governments in agricultural programs and services over the next five years.

Allied Associates LLP, Chartered Accountants will be participating in sessions hosted by the Ontario Soil and Crop Improvement Association and the Ontario Ministry of Agriculture and Food/Ministry of Rural Affairs in regard to the introduction of the Growing Forward 2 program.

Many of our family farm clients took advantage of the Growing Forward 1 phase of this program to complete

farm financial assessments and advanced business plans to assist with expansion, succession, business changes and overall improvements to their family farm operations. ◀



## FAQ's

### Will My Estate Have to Pay Taxes on my Assets Upon My Death?

- All assets of an individual are deemed to have been disposed of at fair market value upon death, triggering income and capital gains.
- There are a number of exceptions including:
  - Any assets left to a spouse or spousal trust.
  - Farm assets transferred to a child.

- Child includes natural or adopted children, son and daughters-in-law, grandchildren and great grandchildren.
- Farm assets must be used principally in a farm in Canada on a regular and ongoing basis before the deceased's death.
- Must be a resident of Canada.



### Am I Eligible for the Lifetime Capital Gains Exemption?

- Assets must be qualified farm property, or shares of a Canadian Controlled Small Business Corporation.
- Qualified farm property includes real estate or shares in a family farm corporation.
- Qualifying farm property must be used principally in the business of farming in Canada.
- Must meet ownership period and gross revenue tests. ◀

## Allied Can Help

We recommend you discuss any tax planning strategies before undertaking any action on the basis of this or any other general advice. Your Allied advisor can help you assess the effect of any tax changes on your personal finances or business affairs and point out ways to ease any adverse changes.

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Our experienced Office Tax Staff provides knowledgeable support to our area managers. If you require clarification of any of the foregoing or wish to discuss your tax or financial affairs with one of our senior staff, please feel free to contact our office.

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Brad Ostrom.....	Senior Manager	Liz Barrie .....	Controller
Martin Benson.....	Senior Manager	Ruth Ann Harvey, CGA .....	Manager
Lisa Benson .....	Manager	Jim Kalman .....	Computer Systems
Debbie Loiselle, CFP .....	Manager	Cheryl Oliver .....	Senior Accountant
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Heather Roelands.....	Staff Accountant	Michelle McCutcheon .....	Staff Accountant
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