The Allied Advantage

Allied ASSOCIATES LLP

Winter 2015

Inside this Issue

Best Business Practice Checklist for Farm & Small Business Owners

- ✓ Prepare financial information on a timely basis.
- ✓ Have a plan for the future.
- ✓ Systemize work routines as much as possible.
- ✓ Keep up-to-date with regulatory requirements.
- ✓ Ensure personal affairs and related documentation are in order (Wills, Business Agreements, etc.).

Tax Change Highlights

"Income Splitting"

For 2014, the family tax cut will effectively allow one spouse to transfer as much as $50,000 in income to the other spouse, for a maximum savings of $2,000 in federal income taxes.

"Universal Child Care Benefit"

The $100 monthly payment per child to the parents of all children under 6 years old is being increased to $160 per child for 2015 onwards. Additionally, there will be a new monthly payment of $60 to parents of children aged 6 through 17, starting in 2015.

In order to compensate for the lost tax collected by the above changes, the government is eliminating the Child Tax Credit of $2,234 claimable by parents with children under the age of 18 living with them. This will reduce tax savings by as much as $335 per child.

"Children's Fitness Tax Credit"

Previously, this was limited to $500 annually per child, but the limit will now be increased to $1,000 annually.

"Taxation of Trusts and Estates"

New limits to progressive tax rates paid by estates will be introduced in 2016. These changes may have significant impact to the effectiveness of your Will from an income tax perspective.

"The Community Food Program Donation Tax Credit"

Farmers who donate agricultural products to eligible community food programs in Ontario including food banks will receive a credit worth 25% of the fair market value of the agricultural products donated and can be claimed for donations made on or after January 1, 2014.

"Canadian Snowbirds – Counting the Days"

Effective June 30, 2014, Canadian and US border authorities are now able to calculate the number of days you spend in the US and both countries will track and share this information.

Under US immigration rules, Canadians entering the US can stay a maximum of 183 days in any 12 month period otherwise US tax rules could apply.

Canadians exceeding the 183 threshold in any particular year should file IRS Form 1040NR to claim some protection under the Canada/US tax treaty.◄

CAFA - Canadian Association of Farm Advisors

Allied is a provincial sponsor of the Canadian Association of Farm Advisors (CAFA). This organization is dedicated to assisting farm businesses by increasing the skills and knowledge of farm advisors.

Currently, we have 17 professionals at Allied who are members. There are 11 Chapters of the Association in Ontario who meet approximately once a month to improve their knowledge on a wide range of farm topics. ◀

Profile – Matt Montague

Matt re-joined Allied in October 2014 as an Area Manager for Lambton County and the Municipality of Chatham-Kent. He previously worked for a CPA firm in the Wallaceburg area for 7 years as a farm and business advisor and was a Staff Accountant with Allied from 2005 to 2007. ◀

Farm Programs

"Risk Management"

OMAFRA has removed the requirement for mandatory AgriStability participation as part of the enrollment criteria for the provincial RMP program.

"Growing Forward 2"

Growing Forward 2 is continuing to receive applications to provide funding assistance for producers in any of six focus areas:

- Environment and climate change.
- Food safety, traceability and animal welfare.
- Market development.
- Animal and plant health.
- Labour productivity enhancements.
- Business and leadership development.

Cost sharing can be up to 50%.

Allied is available to partner with producers to assist in the completion of some of the projects that are available under capacity building, especially in respect to the preparation of financial assessments of the farm, the preparation of written succession, estate and business expansion plans, and training for farm accounting systems and record keeping.

In order to enroll, producers must sign up for Growing Forward 2. Forms are available online at www.ontariosoilcrop.org or contact Allied for assistance.

Enrollment provides the producer access to all Growing Forward 2 program offerings. An application can then be prepared to apply for funding under the particular program that the producer is interested in. ◀

FAQ's

When Can We Pay Wages to Our Children?

For many small business owners, putting children to work in the business is a great tax saving strategy as it lowers taxes by re-distributing income to other family members who may be in a non-taxable or lower tax bracket. It teaches children the value of a good work ethic and can assist in paying the costs of higher education.

In order to be tax deductible:

- The children must actually perform the work.
- The jobs must be legitimate. In other words, if the children were not doing the work, you would hire someone else to do the job.
- The salary or wages must be reasonable relative to the duties performed.

In a recent case, the parents had paid their 7 and 9 year old sons a total of $4,600. They did not keep time records of the hours the children worked and the kids did not cash the cheques that were issued to them. The expense was disallowed.

What is an Estate Freeze?

An estate freeze refers to the transfer of the future growth and value of a business and its assets into the hands of subsequent generations. An estate freeze typically limits the value of the parents' estate to the value at the date the freeze is implemented. Accordingly, capital gains and other tax exposure on the future growth that would otherwise arise when the assets pass from parents to children is avoided. One particularly tax efficient estate freeze strategy is to transfer the assets to a corporation on a tax deferred basis under Subsection 85 of the Income Tax Act.

In exchange:

- The parents receive a combination of fixed value shares and a promissory note in return for the assets, freezing their value in the company.
- Payments made by the company on the promissory note are not taxable to the parents.

- The fixed value shares can be redeemed over several years with the income taxed as a dividend eligible for the dividend tax credit, thereby providing a steady stream of retirement income with minimal tax.
- Non-voting nominal value common shares are issued to the next generation and future gains in the value of assets accrue to the holder(s) of these shares.

In situations where a company already exists, an estate freeze can still be effective by exchanging the parents' current shares for fixed value shares, which again, can be redeemed over several years. A new class of common shares would then be issued to the next generation upon which all future growth and value of the business would accrue.

It is also possible to do partial freezes so that only some of the parents' estate is frozen allowing them to continue to participate in some of the growth and value of the business with the next generation.

What are the Foreign Income Reporting Requirements?

Form T1135 must be filed annually with your income tax return where the total cost of all foreign investments, including foreign stocks held in non-registered Canadian Brokerage accounts, is over $100,000. On the form, it is necessary to state the types of foreign investments owned and the cost of those investments, along with geographical locations. It then asks to identify the total income reported on the tax return from the identified foreign investments. The penalty for failing to file this form is $25 per day, to a maximum of $2,500.

In the past few years, CRA has changed its administrative policy and has been assessing penalties for gross negligence when failing to file the form. In these situations, the penalty jumps to $500 for each month to a maximum of 24 months.

If you exceed this $100,000 threshold, it would be important to have available all details related to your foreign investments as these will be required at the time your tax return is completed.

What are a Farmer's Responsibilities under the Ontario Health and Safety Act?

The main responsibilities of any employer under the Ontario Health and Safety Act are to:

- Provide information, instruction and supervision to workers.
- Advise workers and supervisors about hazards in the workplace.
- Notify the Ministry of Labour of workplace fatalities and critical injuries.
- Cooperate with the workplace joint health and safety committee or the worker health and safety representative.
- Take every precaution responsible in the circumstances to protect workers.

Does the Occupational Health and Safety Act Apply to All Farms?

No. The occupational health and safety act only applies to farms with paid workers and does not apply to the self employed farmer who does not have paid workers. The legislation will apply in situations where the farm owner hires one person to help out once or twice a year for a few weeks at a time or if children are paid a salary or wage for their work on the farm.

Will the Ministry of Labour Inspectors be Routinely Inspecting Farming Operations?

The Ministry of Labour will develop an inspection plan for farming operations, but will generally focus its attention on high risk employers or when called in to investigate an accident or complaint.

Is There any Specific Training or Information Required?

There is no specific course and no set amount of training. Workers must instead have sufficient information so that they are aware of any hazards in the workplace. ◄

Profile – Cathie Hunt, H.B. Com., CPA, CGA

Cathie grew up in Grey County in the Blue Mountains and serves as Area Manager for Grey, Dufferin and Simcoe Counties. She has 13 years experience in public accounting working with farms and small business clients in the South Georgian Bay region. ◄

Profile – Michelle McCutcheon

Michelle grew up on her family's farm in Thorndale. She is a graduate of the University of Guelph with a diploma in Agriculture and also obtained a diploma in Business Accounting from Fanshawe College. Michelle is part of our team in Huron County as an Area Manager. She is a member of the Canadian Association of Farm Advisors (CAFA).◄

CRA Review Program

Now that electronically filed returns are standard, Canada Revenue Agency (CRA) has developed a review program to verify various claims and information. It focuses on supporting documentation for items such as medical expenses, charitable donations, tuition deductions and fitness tax credit claims. On the business side, it includes Class 10 (automotive) asset additions. These reviews can occur on either a pre or post assessment basis. Please contact us if you require assistance corresponding with CRA on these matters.◄

Profile – Chris Annis

Chris joined Allied in 1999 as a Staff Accountant and Assumed the position of Area Manager for Middlesex County in 2002. He grew up in the Mitchell area and is a graduate of the Business Accounting Program at Fanshawe College. Chris is an approved advisor for the Growing Forward program and is a member of the Canadian Association of Farm Advisors (CAFA).◄

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.

Dane Anderson (Tillsonburg)	519-615-8957
Joni Anderson, CPA, CGA, CFP (Kerwood)	519-247-3067
Chris Annis (London)	519-642-4722
Blake Connelly (LaSalle)	519-868-9480
Leonard Dick, CPA, CGA, CFP (Whitby)	905-556-0370
Jordan Domm, CPA, CGA (Stratford)	519-274-0891
Vern Doupe (Oakville)	519-525-2454
Chris Hart, CPA, CMA (Ottawa)	613-868-4967
John Hrick, BA (St. Catharines)	905-685-6056
Cathie Hunt, H.B., Com., CPA, CGA (Wasaga Beach)	705-828-0891
Dennis Jubenville (Sarnia)	519-542-0162
Nicole Leach, CPA, CGA (Colborne)	289-251-6044
Michelle McCutcheon (Thorndale)	519-318-5139
Matt Montague (Wallaceburg)	519-350-6155
Steve Palmer (Listowel)	519-492-1078
Jim Radler, CPA, CA (St. Jacobs)	519-574-6698
Kurt Sawyer, B.Comm. (Thamesford)	519-285-1127
Brian Thorne, BBS (Alvinston)	519-847-5800
Kim Vandevrie (Mount Brydges)	519-264-9948

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.

Wayne Ryan, CPA, CA	Chief Executive Officer
Brad Ostrom	Senior Manager, Special Services
Martin Benson	Senior Manager, Special Services
Lisa Benson	Manager
Debbie Loiselle, CFP	Manager
Ruth Ann Harvey, CPA, CGA	Manager
Les MacAlpine (Peterborough)	Assistant Manager
Lynn Breckenreid	Assistant Manager
John Wilkin	Director of Business Development
Liz Barrie	Controller
Jim Kalman	Computer Systems
Bryan Smith, CPA, CA (Peterborough)	Partner
Cheryl Oliver	Senior Accountant
Connie Iro	Senior Accountant
Laura Thompson	Staff Accountant
Sarah Radnor (Peterborough)	Staff Accountant
Joanna Knip	Staff Accountant
Karen Vander Vloet	Staff Accountant
Eric Love	Staff Accountant
Janine Tomaszewski	Staff Accountant
Hilary Hodder	Staff Accountant
Chris Alexander	Staff Accountant

Allied Associates LLP, Chartered Professional Accountants

TRUST – KNOWLEDGE – SERVICE – SINCE 1956

Head Office: 1490 Richmond Street, Suite 200, London, ON N6G 0J4 Tel: 519-673-1940 1-800-661-1956 Fax: 519-673-5906 E-mail: info@alliedassociates.ca
Peterborough Office: 133 Hunter Street E., Peterborough, ON K9H 1G7 Tel: 705-760-9900 1-866-883-0006 Fax: 705-760-9926 www.alliedassociates.ca