



# Newsletter

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## Employment Insurance: Special benefits for the self-employed

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Self-employed individuals who have long been left out of the employment insurance (“EI”) regime now have the ability to opt into the EI program.

### Benefit Types

- ◆ For women who give birth, **maternity benefits** cover a period of up to 15 weeks surrounding their child’s birth.
- ◆ **Parental benefits** are for individuals caring for newborn or newly-adopted children. Both parents can receive this benefit up to a combined maximum of 35 weeks.
- ◆ Individuals who cannot work due to injury, illness or quarantine may be eligible for up to 15 weeks of **sickness benefits**.
- ◆ **Compassionate care benefits** may apply to individuals away from work providing temporary care to a family member who is seriously ill with a significant risk of death. Up to six weeks of benefits can be shared between eligible family members.

### Advantages vs. Disadvantages

The advantage of eligibility is that it offers potential income in a time of need as self-employed income would likely drop when eligible for benefits. Being eligible for benefits needs to be weighed against the significant disadvantage of having to pay EI premiums, while self-employed, since you cannot opt out once benefits have been received. This requirement to continue paying premiums could potentially result in a greater cash outlay in premiums than any benefits received over a lifetime.

When considering if this program is worthwhile for your situation, you should factor in the likelihood of receiving EI benefits and whether you would continue to earn self-employed income during the

time of eligibility, as this can limit the benefits received.

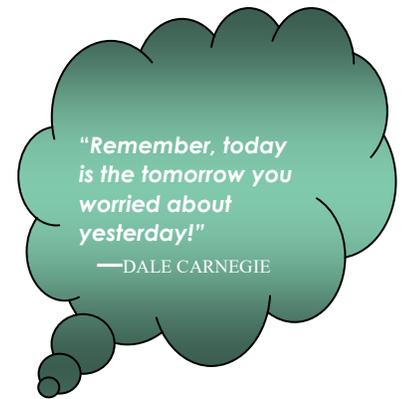
### The Fine Print

- ◆ Eligibility only begins 12 months after opting into the program.
- ◆ Premiums are paid upon filing your personal tax return. They are factored into your personal tax installment requirements for the subsequent year as EI premiums will continue annually.
- ◆ EI premiums consist of the employee portion only. For 2011, the base premium is \$1.78 per \$100 of self-employment income to a maximum premium of \$786.76 at \$44,200 of income.
- ◆ For 2011, available benefits are based on 55% of average weekly earnings to a maximum of \$468 weekly. Similar to the regular EI program, benefits are reduced if weekly earnings are received while EI benefits are being collected. Annual income can also lessen the amount of benefits received for subsequent claims. EI benefits are reduced once annual earnings exceed the predetermined limit of \$54,000.
- ◆ One must earn a minimum of \$6,000 in self-employed earnings during the prior calendar year before being eligible to submit an EI claim.

Further detailed information can be found online by visiting Service Canada’s website at [www.servicecanada.gc.ca](http://www.servicecanada.gc.ca).

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### Special points of interest:

- Ever wonder what government initiatives are available to help your business? Did you know you can search by industry and region across Canada for government grants, loans and financing? Check [canadabusiness.ca](http://canadabusiness.ca) for available government services.
- Personal tax instalments:
  - December 15, 2011
  - March 15, 2012
  - June 15, 2012
  - September 15, 2012

## Employment Insurance Issues: Hiring credit for small businesses

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In 2011, the Canadian government introduced what is known as a Hiring Credit for Small Businesses (HCSB). This credit is intended to reduce Employment Insurance (EI) costs for the 2011 year for small businesses that have experienced an increase in payroll costs over the 2010 calendar year. The HCSB is calculated as an increase in the employer's portion of 2011 EI premiums over 2010, up to a maximum of \$1,000. The credit is available only to small businesses that



have paid EI premiums amounting to no more than \$10,000 in the 2010 calendar year.

As the Canada Revenue Agency (CRA) will automatically calculate the HCSB after 2011 T4s are filed, there are no application forms for small businesses to fill out. After comparing the total EI premiums on 2010 and 2011 T4 information returns, CRA will determine the credit to which each employer is entitled. It should be noted that employers who determine they may be eligible for the HCSB in 2011 are not permitted to reduce their payroll remittances by the HCSB amount to which they believe they are entitled. After the T4s are filed and the HCSB is calculated, the credit will be applied to any balance due on the employer's payroll account. Any remaining credits are transferred to the current year.

New businesses in 2011 will be entitled to the credit even though no EI premiums were paid in 2010. The HCSB will be considered business income for tax purposes in the year in which it is received.

### *Employment Not Subject to EI Premiums*

EI premiums must be deducted and remitted on most salaries and wages paid to employees by Canadian businesses. Some of the more common

exceptions are:

- ◆ *Salaries paid to individuals not "at arm's length".* This typically refers to individuals connected to their employer through blood, marriage, common-law relationship or adoption. Similarly, if an employee is related to the person in control of a corporation, his/her employment may not be considered insurable. In those specific cases, an EI ruling should be obtained to determine if a similar employment contract would have been negotiated for an individual who is "at arm's length" from the employer.
- ◆ *Salaries paid to an individual who controls more than 40% of the corporation's voting shares.*
- ◆ *Salaries paid to an individual holding a non-union office in the private sector.* This exception refers to offices to which the individual is elected or appointed; for instance, mayors, municipal councillors, school commissioners, chiefs of aboriginal bands, etc.
- ◆ *Salaries paid to non-Canadian residents if the unemployment laws of their respective countries of origin require someone to pay premiums for that employment.*

In cases of uncertainty as to whether or not an individual's employment is insurable for EI purposes, a ruling can be obtained from CRA. If it is determined that an individual's employment is not insurable, any EI premiums previously paid for that individual can be refunded for a period of up to three years.

## Succession Planning

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When athletes retire, they “hang up their skates” and remove their well-trusted uniform for a final time before heading home to plan their next move in life. Those who work for a company retire once they’ve saved enough money or have earned their full pensions. For business owners like you, the decision to retire is more complex. What will become of your company? Who will take over?

### *What is a Succession Plan?*

A succession plan is a vision that deals with the transfer of ownership and management responsibilities for your company. It provides an opportunity to involve your successor in the day-to-day workings of the business so they can learn while under your supervision. Most plans also deal with retaining clients and staff during the transition as well as keeping the bank happy.

Effective succession planning goes a long way towards making your decision an easier one. After spending years building your business, you need to feel comfortable that you’re leaving it in capable hands. Does a family member want to take over? Are there any trusted employees who are interested in getting more involved? Will the company be sold to a third party?

### *Family Transfers*

Over 60 per cent of business succession occurs within the family. When considering how personal building a business can be, this makes sense. Sales to family members often take place gradually and are done as part of an estate freeze. Deals can be structured to provide flexibility for the parents as well as the business cash flow.

There are caveats to consider when contemplating this route. Conflict could arise within the family when trying to pick one potential successor over another. Involving the family in

developing the succession plan and communicating openly can help mitigate this.

### *Management Buyout*

A structured management buyout of the company’s shares is another possibility. You’re loyal to your employees and proud of your brand. A management buyout most likely results in both of those remaining secure. When considering this option, talk to your advisor about the different buyout structures including stock option plans, a financed purchase and a gradual buyout over time.

### *Sale to a Third Party*

This is the most complicated type of business transfer. It requires a detailed information gathering process before presenting to prospective buyers. An advisor can assist you with navigating through the four major phases of the sale process including preparing the sale, marketing the business, negotiating the deal and closing.

Take the time to consult an experienced advisor when starting this process. They will help you consider the structure of the transfer or sale of the company and the related tax issues; proper planning ahead of time can save a lot on tax. Planning for your retirement can be stressful enough. Having to worry about what will become of the business you spent your life building does not need to contribute to that stress if you start your succession planning early. The sooner the planning has begun, the more prepared you’ll feel when the time comes to hand over the keys to your successor, whomever they may be.

## Converting an RRSP to a RRIF early

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Canadian income tax rules dictate that a Registered Retirement Savings Plan (RRSP) must be converted into a Registered Retirement Income Fund (RRIF) by Dec. 31 of the year in which you turn 71. Failing to do so will result in the entire balance in a given RRSP becoming taxable on your tax return.

A RRIF requires that an individual withdraw a minimum annual amount, calculated by a formula based upon both your current age and the funds available in the RRIF. These annual withdrawals are considered eligible pension income for the purposes of determining an individual's eligibility for the \$2,000 pension credit.

For individuals between the ages of 65 and 71, consideration should be given to converting a portion of your RRSPs into a RRIF. This option becomes a viable one provided there is no other eligible pension income available during that period of time. Converting a portion of your RRSPs into a RRIF will allow you to begin to generate your eligible pension income earlier than the otherwise predetermined age of 71, and in doing so

qualifies you for the \$2,000 pension credit as early as the age of 65. In addition, if you have a spouse, the pension can be split between you and your spouse resulting in each of you being able to claim pension tax credits of \$2,000. Additionally, if your spouse is taxed at lower rates, pension splitting will also reduce income taxes by shifting up to half of the pension income to the lower income spouse.

It should be noted that no actual funds are transferred between individuals during the act of pension splitting between spouses. The pension income on your tax return is reduced through the act of allocating a portion of it to your spouse. Tax rules mandate that this type of transfer must be formally agreed to by both spouses. Agreement is shown by filling out and signing what is known as a Joint Election for Pension Splitting form. Completed forms are submitted to the Canada Revenue Agency each year that spouses split the pension income reported on their tax returns.