An Independent Member Firm of
DFK Canada Inc. and DFK International

Newsletter

Summer 2010

New Simplified Logbook Requirements for Claiming Motor Vehicle Expenses

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An employee or business owner who is ordinarily required to work away from their normal place of business is allowed to claim the costs of operations of their motor vehicle. The costs can be claimed even if the employee receives an allowance or a reimbursement on a per-kilometer basis. There is a statutory provision that the employer must provide the employee a completed Declaration of Conditions of Employment (Form T2200) that indicates that the employee is required to incur automobile expenses to carry out the duties of their employment.

Of course, in order for the costs to be claimed, all business use must be tracked, and this is something that many employees and business owners find onerous.

In a news release on June 28, 2010, the Minister of National Revenue introduced a new simplified logbook.

The taxpayer can now choose to keep a full logbook for one complete year to establish a base year. After one complete year, the employee can keep a sample logbook for any three consecutive months in the taxation year to be used to project their business use for the entire year. The base-year calculation must be calculated based on 2009 costs, or any subsequent year thereafter. The taxpayer must demonstrate that the employment use of the vehicle in the base year remains representative of the ongoing use. The usage in the calculated sample period cannot vary from the overall base-year calculation by more than plus or minus 10%.

A sample of the calculation included in the June 28th news release is as follows:

- An individual has a full logbook that indicated business-use percentage on a quarterly basis of 52/46/39/67 and an annual business use of 49%.
- In a subsequent year, in the three-month sample period of April/May/June, the actual business use was 51%. For those same three months in the prior year, business use was 46%.
- Business use for the year would now be calculated as (51% ÷ 46%) x 49% = 54%.

The taxpayer would be allowed to claim 54% business use for the year. Note that the variance is within the acceptable 10 percentage point range from the base year of 39% - 59%.

While on the surface it would appear that the record keeping is substantially reduced, often employees and business owners have grown accustomed to tracking their mileage in logbooks. The benefit will be most utilized by business owners who do not claim reimbursement from their companies and who also drive consistent amounts each year. Significant changes in business use will require the establishment of a new base year, which means the maintenance of the detailed logbook for a full year again.

Inside this issue:

"Don't ever promise more than you can deliver, but always deliver more than you promise."
- Lou Holtz
Football Coach

Special points of interest:

- *Computers purchased after January 27, 2009 and before February 2011 qualify for 100% CCA rate (with no half-year rule). iPhones qualify.*
- *Automobile Mileage Rates:*
  - *52¢/km on first 5,000 km*
  - *46¢/km thereafter*
- *Personal tax instalments:*
  - *September 15, 2010*
  - *December 15, 2010*
  - *March 15, 2011*

Are You Ready for GAAP for Private Enterprises?

Michael Anderson, CA, Senior Assurance Manager, KNV Chartered Accountants LLP, Surrey, BC, DFK Affiliate Firm

GAAP PE will retain most of the current accounting standards and will simplify others.

Over the next two years, all Canadian non-publically accountable businesses that require audits or review engagements and that do not adopt International Financial Reporting Standards (IFRS) will be required to transition to Canadian generally accepted accounting principles for private enterprises (GAAP PE).

Generally speaking, GAAP PE will retain most of the current accounting standards and will simplify others. However, there is one new provision that we believe would be of most interest to our clients: the one-time ability to increase the value of their capital assets (e.g., land, buildings, equipment, etc.) to fair market value, with an offsetting increase in equity.

The ability to restate the value of capital assets may have a positive impact on your entity's financial statement covenants and/or your ability to use these assets as security to obtain financing. However, it is important to note that there is a cost to revaluing your capital assets as a valuation to support the increase in value (i.e., evidence of the sale of similar assets or professional appraisal) is required. Further, increasing the value of depreciable capital assets (building, equipment, etc.) would result in an increased amortization expense and reduced earnings in future periods, which may impact your financial covenants.

In order to qualify for the "bump" in value, your business must ascertain the fair market value of the assets it chooses to bump. The timing of obtaining this valuation is important, as it must be calculated as at the date your business transitions to these new standards. For most businesses, this date will be the first day of its new fiscal year that starts in 2010 (e.g., for a business with a December 31 year-end, the transition date will be January 1, 2010; a January 31 year-end's transition date will be February 1, 2010; and so on).

As the date of transition for many businesses has already passed, it is important that you speak with your advisor, as soon as possible, to discuss your options under these new accounting standards. We would be pleased to discuss with you how this bump in value may help your business and/or how these new accounting standards will impact your financial reporting.

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Be Wary of Your TFSA Contribution Room

Ron Klein, CA, MRSB Chartered Accountants, Charlottetown, PEI, DFK Affiliate Firm

Your Tax-Free Savings Account (TFSA) contribution room, at any point in time, is made up of:

1. your TFSA dollar limit ($5,000 per year plus indexation, if applicable);
2. any *unused TFSA contribution room* in the previous year; and
3. any **withdrawals made from the TFSA in the previous year**, excluding *qualifying transfers*.

The delay in increasing your contribution room related to withdrawals from your TFSA within this formula can create unintended tax consequences if additional re-contributions are made later in the same calendar year. These consequences will arise if, at any time in a calendar month, there is an excess TFSA amount in your account. At this point, you are liable to a 1% tax on your highest excess TFSA amount in that month. This tax will be applied to each month going forward until the excess amount is removed.

You have an *excess TFSA amount* if, at any time in a year, the total of all TFSA contributions you made in the year up to that time (other than a *qualifying transfer* or an *exempt contribution*) exceeds the total of your TFSA contribution room at the beginning of the year, plus any *qualifying portion of a withdrawal* made in the year up to that time. The qualifying portion of the withdrawal is the **lesser of the amount of the withdrawal or the previously determined excess TFSA amount**. Any portion of a withdrawal that does not reduce or eliminate a previously determined excess TFSA amount is not a qualifying portion of the withdrawal and cannot be used to reduce or eliminate any future excess TFSA amount that may be created.

For example:

- Gilles, a 36-year-old Canadian resident, opened his TFSA on February 6, 2009, and contributed $5,000 on that date. On March 3, 2010, he contributed an additional $7,000. Since Gilles' unused TFSA contribution room as of the beginning of 2010 was only $5,000 (the TFSA dollar limit for that year), his contribution of $7,000 on March 3 resulted, as of that date, in an excess TFSA amount of $2,000.
- On May 17, 2010, Gilles withdrew $3,200 from his TFSA. The qualifying portion of this withdrawal is $2,000, since this is the maximum amount that eliminated the previously determined excess TFSA amount in his account.
- No part of the $1,200 portion of his withdrawal (the full amount of $3,200 less the qualifying portion of $2,000) could be used to **reduce any future excess TFSA amount**. In other words, if Gilles were to make a new contribution of $1,000 on July 6, 2010, this would result in an excess TFSA amount, as of that date, of $1,000, again subject to the 1% tax. (The $1,200 portion of the May 17, 2010 withdrawal does not create contribution room until January 2011.)

As seen in this example, care must be taken in structuring withdrawals and subsequent contributions to a TSFA inside the same calendar year to avoid accidentally recreating excess TFSA amounts.

Changes to the Canada Pension Plan

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There are a number of changes being made to the Canada Pension Plan (CPP) beginning in 2011.

Removal of the Work Cessation Test

Currently, those wanting to receive CPP benefits prior to turning 65 must stop working for a period of two months in order to receive the benefits. As of 2012, you will no longer have to stop working to receive early CPP benefit payments.

Increase in the General Low Earnings Drop-out

In calculating the CPP benefit, and assuming a work period of 47 years, currently your lowest 7 years of income are removed from the calculation. This will increase to 7.5 years in 2012 and to 8 years in 2014, therefore, potentially increasing your CPP benefit amount.

Improved Pension Coverage

Beginning in 2012, those who receive early CPP benefit payments and continue to work must, along with their employer, continue to make CPP contributions. Those who are receiving CPP benefits and are at least 65 years of age can choose to make CPP contributions. These continued contributions may help increase the CPP benefit payment they receive.

Early and Late CPP Beneficiaries

CPP benefits will be reduced by 0.6% per month (7.2% annually) for each month that the pension is taken before age 65. The increase in the reduction % to 0.6% will be phased in over a five-year period, starting in 2012.

CPP benefits will increase by 0.7% per month (8.4% annually) for each month that the pension is taken after age 65. This increase to 0.7% per month will be phased in over a three-year period, starting in 2011.

Currently, the reduction and increase rates are both 0.5% per month.

Generally, those who are currently receiving CPP benefits, or will begin receiving CPP benefits prior to 2012, will not be affected by these changes.

Click here for more information on the CPP changes http://www.fin.gc.ca/n08/data/09-051_1-eng.asp.