

# The Learning Kurve

Questions or comments? Email us at [office@logankatz.com](mailto:office@logankatz.com) or call 613-228-8282 ext 0

## Recent Tax Changes

On October 31, 2006, Minister of Finance Jim Flaherty announced the **Tax Fairness Plan** for Canadians. The most significant changes brought upon by this Plan are as follows:

- A new distribution tax will apply to distributions made by certain publicly traded flow-through entities (FTE), which are commonly referred to as *Income Trusts*.
- Taxpayers will be allowed to “split” pension income with a spouse or common-law partner.
- The age credit available to Canadians aged 65 and older will be enhanced.

## CHANGES TO INCOME TRUSTS TAXATION

### **Background**

Under the existing laws, a trust can generally deduct amounts it pays to a beneficiary. The entity is therefore able to greatly reduce or eliminate the tax that it would normally pay by deducting its distributions. The tax benefits are then passed on to the investors through the distributions.

### **What’s changed?**

A trust that simply serves as an income flow-through entity (SIFT) will no longer be entitled to deduct distributions of “non-portfolio earnings” to unitholders. Consequently, the SIFT will now pay tax on such non-deductible distributions, while the amounts distributed by a SIFT will now be treated as taxable dividends from a taxable Canadian corporation to the investor recipient.

### **The impacts**

Income trusts had become increasingly attractive since the goal of the SIFT was to provide the investors with maximum cash flow. The unitholders of trust funds had been able to enjoy regular, high-yield investment returns and take home more money than they would have with other investments such as GICs which generate interest income, and shares of a tax paying corporation which generate dividends. The changes to *income trust* taxation will eliminate the tax saving advantages that a SIFT previously

enjoyed and accordingly will reduce returns from *income trust* to investors.

As a result, investors would expect to see a reorientation to their investment portfolios by their investment advisors. In particular, seniors may be more affected as they have been relying on income trusts funds to maximize their pension income.

The negative impact of the new taxation rule will be somewhat mitigated by the fact that the distribution from the SIFT will be treated as taxable dividends from a taxable Canadian corporation. A corporate recipient would generally be entitled to deduct the dividend received from its taxable income, while an individual recipient will be entitled to a dividend tax credit, including the recently enhanced dividend tax credit. As well, a four-year transition period will be allowed for FTEs already publicly traded, meaning the changes will only apply in 2011. For new publicly-traded trusts, the changes will take effect in 2007.

### PENSION INCOME SPLITTING

Taxpayers will be allowed to “split” pension income, which qualifies for the pension income tax credit with a spouse or common-law partner as of the 2007 taxation year. The amount that can be split will be up to one half of the pension income, which will be deducted from the income of the person receiving the pension income and will be added to the income of the other spouse/common-law partner. This may represent a significant reduction to the overall taxation of the couple, including low and moderate income seniors.

### ENHANCED AGE CREDIT

The age credit available to Canadians aged 65 and older will be enhanced. The Plan increases the age credit amount by \$1,000 to \$5,066, effective for the 2006 taxation year. The change will benefit low and moderate income seniors. The age credit is subject to an income test and is phased out at the rate of 15% starting at net income of \$30,270 and is fully phased out when net income reaches \$64,043.

## LOGAN KATZ LLP BREAKFAST SEMINAR SERIES—SNEAK PREVIEW!

### Timeless Leadership Principles—Captain Bob Garrow

Take a moment to think of someone who holds, or has held, a Leadership role whom you feel exemplifies the title of “Leader”. What qualities do they possess that sets them apart from the rest of society? An effective Leader requires the ability to motivate, encourage and assist their peers to set and achieve their goals, as well as demonstrating and practicing all the qualities that he/she wants his/her peers to exhibit. Leadership is widely recognized as a key factor in personal, team, and organization success, and as a result, a huge “leadership industry” has developed featuring a multitude of theories and models. Captain Bob Garrow has developed an innovative and unique approach to teaching Leadership Principles.

Captain Bob is able to uniquely demonstrate how pirate tactics can be turned into successful leadership principles for today’s business practices. Captain Bob defines leadership as focusing and energizing people. He feels the lack of leadership, not money or market place needs, is what restricts the growth of many organizations. In February 2006, Captain Bob Garrow charmed our breakfast seminar audience resulting in exceptionally rave reviews. We couldn’t resist but to bring him back to once again provide our clients and friends with his unique outlook on leadership principles. Be sure to join us for our upcoming breakfast seminar on January 11, 2007.

## **This ‘n That at Logan Katz ...**

### University of Ottawa Student Day

**LK** hosted a *Meet & Greet* with first and second year accounting students from the University of Ottawa on November 24<sup>th</sup>, when more than 20 students had an opportunity to meet with the partners and staff of **LK** for a half-day. Our goal was to provide these students - perhaps a few future colleagues - with an opportunity to learn what it is like to work in a small public accounting firm. The feedback from the students in attendance was glowing. We thank all of the U of O students for accepting our invitation.

### Farewell to Sherry Legislator

Sherry Legislator will be leaving **LK** later in December to resume her accounting career in Vancouver. Sherry only joined **LK** earlier this year, however she has left her mark and will be missed by colleagues and staff alike.

### December Breakfast Seminar

More than 20 friends and clients attended our most recent breakfast seminar on Director Liability presented by David Law of Emond Harnden. Once again, the participants expressed overwhelmingly positive comments on the session. Our Breakfast Seminar Series resumes in January – see below.

### Going Global !

**LK** is actively involved through our membership in AGN International in a *Going Global* initiative. Our common mission is to position our firm where we can effectively assist foreign entities in setting up businesses in Canada, as well as guide our Canadian clients in exploring foreign markets. Please let us know if you have any comments or information to contribute.

### Tax Planner Guides

Our **2006-2007 Personal Tax Planner Guides** are now available. Please give us a call now for your complimentary copy.

### Upcoming Breakfast Seminars

January 11, 2007

Captain Bob Garrow, Pirate Leadership “Timeless Leadership Principles”

February 22, 2007

Charles Rotenberg, Drache LLP “Succession Planning”