



BUSINESS QUARTERLY

2006-Volume 1
(VETERINARY EDITION)

WARNING FROM ONTARIO SECURITIES COMMISSION (OSC) REGARDING "TAX SAVING SEMINARS"

A recent article appearing on "Advisor.ca", warned financial advisors to steer away from trying to lure clients to attend seminars with headlines such as "Pay Less Tax" or "Maximize Your Tax Flow".



The issue is it is illegal for presenters to sell securities and offer advice without being registered with the securities commission. Further, many presenters receive an

"appearance fee" and one needs to consider the motivation for being there.

Often the tax strategies are linked to the products being marketed at the seminar. The OSC strongly recommends a background check is done on the presenter and encourages all potential attendees to contact them (877-785-1555) to check the registration status of the speakers and the people putting on the seminar.

The article described how many of the seminars can lead to additional taxes being assessed, as well as penalties and interest. As proof, the Canada Revenue Agency recently issued its own warning as it pertained to "leveraged cash donations" and "buy low, donate high" arrangements. The CRA warning also advised a tax shelter number is only used for identification and does not guarantee tax payers will receive the proposed tax benefits associated with said tax shelter.

If it sounds too good to be true...it probably is and it would be prudent for you to investigate further. Unfortunately, many of these presentations are extremely well-packaged.

For instance, over the years we have seen many "flip" schemes involving art, computers, literature (such as comic books) and even kid's sports organizations. Most of the schemes involve making a contribution to a particular cause and receiving a contribution receipt for well in excess for what was actually contributed.

Many of these "flips", as well as other tax schemes, provide "letters of opinions" from tax lawyers stating the scheme looks legitimate. However, what the presenters don't tell you is that the law firm is paid to write such a letter and the letter is only an opinion, but is used as a selling tool nevertheless.

In almost all cases where a tax scheme was involved we have seen tax payers take advantage of the deductions or tax credits only to have them reversed years later (including interest and penalties).



We recommend all clients contact us if they are considering engaging in such a plan so that we may provide some feedback with respect to the validity of the scheme.

HIGHLIGHTS FROM FEDERAL 2006 BUDGET

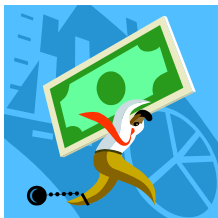
As you may or may not know the Federal government presented their budget for 2006 on May 2, 2006. Though budget presentations don't exactly make for the most exhilarating drama, this year's budget does contain some changes that will affect many healthcare professionals. Here is a sample of the most relevant changes to our tax system:

Business Tax

- Professional and Technical Services corporations who have historically been able to make use of the federal small business corporate tax rate of 12% on the first \$300,000 of corporate net income, will be able to make use of this rate for the first \$400,000 of corporate net income as of January 1, 2007.
- The federal small business corporate tax rate is being cut from 12% to 11.5% in 2008 and 11% in 2009

Personal Tax

- The lowest federal personal tax rate, which is applied to the first \$36,378 that every tax payer earns, is increasing to 15.5% as of July 1, 2006. It was 15%. This means the lowest federal personal tax rate will average out to 15.25% in 2006 and will be 15.5% for 2007.
- The Basic Personal Amount, which is the income for which all tax payers



pay no tax, has increased for 2006 to \$8,839. It was \$8,648. This means every tax payer pays no income tax on his/her first \$8,839 of earnings in 2006. The Basic Personal Amount increases by \$100 plus inflation for 2007.

Tax Credits and Benefits

- Beginning July 1, 2006, families with children under the age of six will receive \$100 per month through the Universal Child Care Benefit for each child under the age of six. This amount will be taxed in the hands of the lower income spouse.
- The Canada Employment Credit has been introduced to provide a tax credit on \$250 of income in 2006 and \$1000 of income in 2007 for all employees. Tax credits reduce a tax payer's tax payable in a given year and are calculated by multiplying the eligible amount by the lowest federal personal tax rate. For instance the Canada Employment tax credit would reduce a tax payer's tax payable by \$155 in 2007 ($\$1000 \times 15.5\%$).
- The Fitness tax credit has been introduced for 2007. This tax credit is based on an eligible amount of \$500 (therefore, actual credit is $\$500 \times 15.5\%$) for all children under the age of 16 enrolled in an eligible program of physical activity.



Capital Gains

- It used to be when a tax payer donated securities (shares of

publicly listed corporations) to registered charitable organizations and public foundations, before the donation tax credit was applied, a calculation on Capital Gains Income using the 25% inclusion rule was executed because it was deemed the tax payer disposed of his/her securities. As of May 2, 2006, any donations of publicly listed securities will have the inclusion rate for the calculation of Capital Gains reduced to zero. This increases the tax benefits for this kind of donation.

GST

- The GST rate is to be reduced to 6% as of July 1, 2006. The budget did not outline a firm timetable for a further reduction in the GST rate.
 - Any GST payable prior to July 1, 2006 is still payable at 7%

For more information regarding the 2006 Federal budget, please visit the Department of Finance Canada web site at (www.fin.gc.ca). Please contact us for greater details of how the changes in the recent budget affect your personal situation.

PST NEWS

We have observed many PST audits over the last 18 months. For the most part all is in order in that the majority of the Veterinary practices were all reporting and handling PST properly.

However (you knew there was going to be a however), we did learn there are a few instances in which practices were purchasing equipment and "not for resale" supplies from suppliers outside of Ontario

and were not paying PST on their purchases.

Please note, just because a practice is not charged PST does not mean the practice should not pay PST. For instance, there



may be suppliers outside of Ontario who do not charge PST to Ontario clients. It is up to the practice to self-assess in this situation and claim

the PST as a "tax on own use". If not the practice would most likely incur interest and penalties on the PST not paid.

If you are uncertain whether you are in a situation in which PST is not charged, but should be, please contact either Carolina or Norma Jean from our offices. They will most likely need to know what you are buying and from whom.

RRSP LIMIT

Please note, if you regularly make the maximum contributions allowable to your RRSP and if you earned \$100,000 or more last year (2005) as a sole proprietor or an employee, the maximum contribution for the 2006 tax year is \$18,000. If you are unsure how this impacts you, please contact us.

TAX TIPS AND TRAPS

We have included a Tax, Tips and Traps newsletter for your reading enjoyment.