

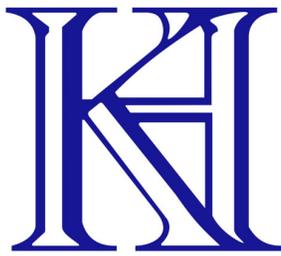
KEMP HARVEY GROUP

CHARTERED PROFESSIONAL ACCOUNTANTS

AUTUMN 2016  NEWSLETTER

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STRENGTH IN NUMBERS

CPP PREMIUMS AND BENEFITS TO INCREASE

There will be significant changes to Canada Pension Plan (CPP) premiums and benefits, starting in January 2019.

Changes will be introduced in two phases. In the first phase, premiums paid by employees and employers will be gradually increased, by approximately .20% of earnings per year, from 2019 to 2023.

Currently, premiums paid by an employee, and matched by their employer, are equal to 4.95% of their earnings, up to an annual maximum known as their Yearly Maximum Pensionable Earnings (YMPE). By 2023, their premiums will have in-

creased to 5.95% of their earnings.

The second phase will focus on more substantial increases to YMPE. In 2017, YMPE will be \$55,300. By 2025, YMPE will be increased to approximately \$82,700.

If YMPE has increased to \$82,700, the maximum premium payable will be \$4,514 per year. This amount will be matched by the employer.

Self-employed individuals could pay premiums of \$9,028 per year by the time the program changes are fully implemented, as they have to pay both the employee and employer portions of the premium.



Canada Pension Plan premiums will increase starting in 2019.

Eventually, pensioners will receive increased benefit cheques. Currently, pensioners receive 25% of their average earnings. This will increase to 33%.

However, because the average is calculated based on 39 years of earnings, it will be decades before recipients receive the full benefits of these changes.

HOME RENOVATION TAX CREDITS EXPANDED

The provincial government has extended the Home Renovation Tax credit for seniors to include taxpayers with disabilities.

This is effective for any renovations undertaken after February 17, 2016.

This extension ensures the same taxpayers will qualify for both the federal credit, which has been introduced for 2016, and the provincial credit, which has been available to seniors in BC since 2012.

The main difference be-

tween the two is that the federal credit is non-refundable, whereas the provincial credit is refundable.

Refundable credits tend to benefit greater numbers of taxpayers than non-refundable credits.

CORPORATE TAX RATES TO REMAIN SAME

Planned reductions in corporate tax rates for the years 2016 to 2019 have been cancelled by the federal government.

A measure had been introduced in 2014 to gradually reduce federal income tax rates for small business corporations from 11% to 9%. When combined with provincial income taxes for small business corporations, the total tax rate in BC for these companies would have been reduced from 13.5% to 11.5%.



The first of these planned tax cuts was implemented by the pre-

Planned corporate tax cuts for small businesses in 2016 have been cancelled

vious federal government in 2015, bringing the small business corporate tax rate down to 13%.

In 2016, the new Liberal government stopped any further reductions, leaving the rate at 13%.

Corporate tax rates on other forms of income will remain the same in BC as they have in the past. The general corporate tax rate on income that does not qualify for the small business corporate tax rate is 26%. Investment income earned within a company is taxed at 49.5%. These rates are lower in BC than in any other province in Canada.

EI PREMIUMS REDUCED IN 2017

There will be a significant drop in EI premiums in 2017.

Currently, EI premiums are calculated at \$1.88 for every \$100 of earnings. In 2017, this rate will drop to \$1.63 for every \$100 of earnings.

At the same time, Maximum Insurable Earnings will be increased to \$51,300, meaning that employees will have to pay EI premiums on wages up to \$51,300.

As a result of these two adjustments, the maximum employee premium will be reduced from

\$955.04 in 2016 to \$836.19 in 2017.

The amount the employer contributes will continue to be 1.4 times the amount of the employee premium.

In conjunction with this, the federal government is eliminating the Small Business Job Credit.

Businesses who pay less than \$15,000 of employer premiums in 2015 or 2016 are entitled to a refund of 39 cents for every \$100 of insurable earnings paid in that year.

Eligible businesses receive a cheque from the federal government for this amount, after filing their T4 summary



The CRA has announced a 13% reduction in EI premiums starting next year.

and slips for the year. Cheques received after filing the 2016 T4 slips will be the last cheques received under this program.



DID YOU KNOW...

A company is considered to be a small business corporation in British Columbia if it has less than \$10 million of taxable capital. Taxable capital is essentially the retained earnings of a company, less small adjustments for certain items.

If a company is below this threshold, it can qualify to have the first \$500,000 of active business income taxed at the small business corporate tax rate of 13%. Active income above this threshold will be taxed at 26%.

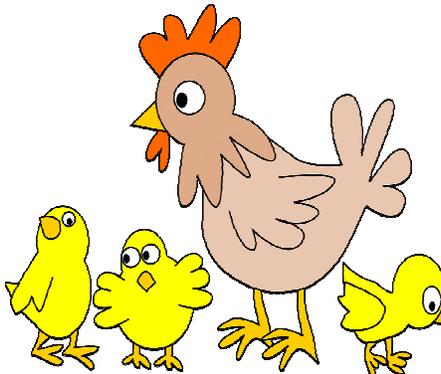
BC FARMERS' FOOD DONATION TAX CREDIT

A new tax credit is being introduced in 2016 for farmers in British Columbia.

The BC Farmers' Food Donation Tax Credit is a credit to encourage farmers to donate agricultural products to eligible charities that are involved in the distribution of food to people in need. Eligible charities would include food banks or school meal programs.

This non-refundable credit will be equal to 25% of the fair market value of the food donated. This credit is in addition to the donation credit that the taxpayer would have received on the donation of the agricultural product.

Eligible agricultural products include items such as fruits and vegetables, meat products, eggs or dairy products, fish, seafood, or other commodities that have been grown and harvested on a farm in BC.



Farmers can receive additional tax credits by donating their products to food banks

An eligible agricultural product does not include commodities in which there has been additional processing done to bring the item to market, such as apple pies, pickles, beef jerky, or preserves. It will also not include live animals.

The value of the credit will be equal to the highest dollar value a farmer could receive for that product in an unrestricted wholesale or retail market.

The tax credit will be available to taxpayers who make an eligible gift of agricultural products after February 16, 2016. The credit will also be available for the tax years 2017 and 2018.

MEDICAL SERVICE PREMIUMS ADJUSTED

There will be changes to Medical Services Premiums in 2017.

Although the government has announced that there will be no premium increases in 2017, many taxpayers' premiums will increase due to structural changes in the program.

Children under 19 will no longer be charged premiums. However, premium rates for two adult households have now increased to twice the amount of the single adult rate. Previously, the spouse's rate was less than the account holder.



As a result, a two adult family with no children will now pay \$150 per month, compared to \$136 using the previous formula.

Full premium assistance will now be available for families with net income of less than \$24,000, which is up from \$22,000. If a senior couple has less than \$30,000 of net income, they will also qualify for full premium assistance.

As long as a family has net income of less than \$42,000, they will qualify for some premium assistance.

DID YOU KNOW...

Fair Pharmacare is a program which subsidizes prescription costs in BC. The amount that each family pays is based on the net income that is reported on their personal tax returns from two years prior. For a family with no eligible seniors, the maximum that they would

pay for eligible prescriptions in a year is approximately 4% of their net income, if their net income is over \$30,000. For a family with an eligible senior, the most they would pay would be approximately 3% of their net income, if their net income is over \$50,000.



STRENGTH IN NUMBERS

KEMP HARVEY GROUP

Kemp Harvey Burch Kientz Inc.
Box 2020, 619 Central Avenue
Grand Forks, BC V0H 1H0
Phone 250.442.2121 Fax 250.442.5825
grandforks@kempharvey.com

Kemp Harvey Hamilton Inc.
153-4664 Lougheed Highway
Burnaby, BC V5C 5T5
Phone 604.291.1470 Fax 604.291.0264
burnaby@kempharvey.com

Kemp Harvey Kemp Inc.
445 Ellis Street
Penticton, BC V2A 4M1
Phone 250.492.8800 Fax 250.492.6921
penticton@kempharvey.com

Kemp Harvey Craig Inc.
Box 1039, 8901 Main Street
Osoyoos, BC V0H 1V0
Phone 250.495.3223 Fax 250.495.3559
osoyoos@kempharvey.com

Kemp Harvey Hunt Ward Inc.
203-1740 Gordon Drive
Kelowna, BC V1Y 3H2
Phone 250.763.8029 Fax 250.763.5155
kelowna@kempharvey.com

Kemp Harvey Laidman-Betts Inc.
206-3334 30th Avenue
Vernon, BC V1T 2C8
Phone 250.545.1544 Fax 250.260.3641
khvernon@kempharvey.com

Kemp Harvey Kok de Roca-Chan Inc.
210-1140 Austin Avenue
Coquitlam, BC V3K 3P5
Phone 604.937.3444 Fax 604.937.3422
coquitlam@kempharvey.com

Kemp Harvey Demers Inc.
4734 Park Avenue
Terrace, BC V8G 1W1
Phone 250.638.8705 Fax 250.638.0600
terrace@kempharvey.com

VISIT US AT
WWW.KEMPHARVEY.COM
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TWITTER AND FACEBOOK

TAXABLE BENEFIT GUIDANCE

The CRA recently provided additional guidance on the taxability of certain employment benefits that are provided by employers to their employees.

One issue that was discussed was related to happy hours and team lunches that are offered to all employees.

They advised that their policy regarding these types of social events is that as long as the cost per employee is less than \$100, it would not be considered to be a taxable benefit. They did caution that the frequency of these events would have to be reasonable, although they did not provide any guidance as to what is considered reasonable.



For employers, these expenses may be deductible at 100% of the cost of the function, if the function is offered to all employees. Six functions per year would qualify for full deductibility. Only 50% of the costs of additional functions would be deductible to employers.

CERTAIN CAPITAL GAINS TO REMAIN TAXABLE

In our summer 2015 newsletter, we advised that the federal government was going to expand the types of transactions in which capital gains would be considered to be tax exempt.

Currently, if a taxpayer donates a public security or mutual fund, any gains that have accrued on the investment at the time of the dona-

tion are not taxable to the donor.

The plan at the time was to extend this policy to the donation of private company shares, as well as land, beginning in 2017.

However, in their 2016 budget, the Liberal government indicated that they will not be introducing this measure.

NEW PARTNER IN BURNABY

The Kemp Harvey Group is excited to welcome Melanie Schroeder as a partner in the Burnaby office. Melanie brings over 20 years of experience and a unique combination of training to the Kemp Harvey

Group. She has experience in the areas of audit, tax, business planning, business systems, business coaching and controllership. We encourage you to stop by the office to welcome Melanie to the team.

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