

January 2006

Dear Client:

Although it was a relatively quiet year as far as tax legislation is concerned, the continued lowering of the tax rates and increasing of the tax brackets is making the tax environment in Canada more comfortable. The value of the Canadian dollar has also continued to rise.

- The average exchange rate for 2005 was 82.54¢ (or \$1.2115 Cdn/\$1.00 US).
- Non-residents can no longer take a deduction on their Québec tax return for contributions to an RRSP account, even if you are employed or self-employed in the Province. A federal deduction remains, but the overall tax benefit has been reduced.
- Certain US tax rules continue to have an impact on some Canadians. As a result of Homeland Security, foreigners overstaying their visitor status are more likely than ever to be identified – with the unexpected consequence that they could be considered residents of the US for tax purposes. Canadian Snowbirds who spend more than four months each winter in the southern US could fall into this trap – not necessarily resulting in US taxes, but usually involving filing US disclosure reports.
- The federal government now provides online access for individuals to their tax account. The service is called “My account” and is accessible at <http://www.cra-arc.gc.ca/myaccount>. To use the service, you will need to enter your date of birth, your Social Insurance number, and your Web access code (an eight digit code printed on any Notice of Assessment issued after February 2002). The site provides information about tax refunds, installments, and RRSP limits, to name a few.
- Taxpayers with foreign property with a cost greater than \$100,000 (excluding foreign residences which are non-income generating) are required to file a form with their personal tax returns disclosing their foreign holdings. Failure to do so can result in significant penalties, so please be sure we have been given the needed information.
- U.S. banks are required to report to the Internal Revenue Service (IRS) the names, addresses, and amount of interest paid to all Canadian residents. This will be required even if a taxpayer uses a U.S. address on the account. Both the IRS and Inland Revenue (United Kingdom) tax departments regularly exchange information with the Canada Revenue Agency.
- If you are an employee paid at least partially by commissions, it could be more advantageous leasing rather than buying your computer, fax machine, and/or cellular phone. The leasing costs are fully deductible while taking capital cost allowance on these items is not allowed.

Our standard Canadian engagement letter is enclosed along with our checklist. Please answer the questions on page 2 of the blue letter, sign the letter, and return it to us.

We encourage you to meet with us or send in your tax data as early as is reasonable, but please do your best to have complete information. We try to prepare returns on a first-come, first-served basis once we have all the data needed. You can also visit us at our website: www.herrickltd.com.

Sincerely,

Herrick, Ltd. CPAs