

January 2007

Dear Client:

Both Canada and Québec were quite active this past year in tinkering with their respective tax systems. Although many adjustments were routine in nature, the following highlights are of some significance.

- Universal Childcare Benefit: since July 2006, if you are an eligible individual responsible for the care of a child under six years of age, you are eligible to receive \$100 per month (which is taxable) for each qualified dependant.
- Two types of Dividends: starting in 2006, there are now Eligible and Other than Eligible dividends that can be received from Canadian corporations. Eligible dividends are grossed up by 145% (as compared to 125%), but also attract a higher dividend tax credit.
- Scholarships, fellowships, bursaries: the full amount of these payments, if they are received as a student enrolled in a program entitling you to the Education Amount, are not taxable and no longer reported as income.
- Québec: Deduction for Workers: a new deduction of 6% of eligible earned income up to a maximum of \$500 is available to all taxpayers receiving any employment income, self-employment income, or research grants.
- Québec: Complementary Tax Credit: a flat \$3,035 amount will now replace the tax credit amounts previously allowed for Québec/Canada Pension Plan contributions, Employment Insurance premiums, Health Services Fund contributions, and premiums to the new Québec Parental Insurance Plan.
- Québec Parental Insurance Plan: you may have to contribute to this Plan if you resided in Québec on 2006-12-31 and had net self-employment business income or worked outside of Québec.

Other noteworthy items:

- The average exchange rate for 2006 was 88.18¢ (or \$1.1340 Cdn/\$1.00 US).
- Non-residents can no longer take a deduction on their Québec tax return for alimony payments, nor 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.
- 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