

January 2008

Dear Client:

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

- **Capital Gains Exemption:** The \$500,000 lifetime limit is increased to \$750,000 for disposition of qualifying property - farm property, fishing property, and shares of qualifying small business corporations – where the disposition occurs after March 18, 2007.
- **Elementary and Secondary School Scholarships:** The full amount of these payments related to attending elementary or secondary school programs are not taxable and are no longer reported as income.
- **Registered Education Saving Plan:** Starting in 2007, there is no limit on the annual contribution. The lifetime contribution limit is increased from \$42,000 to \$50,000. In addition, the maximum annual Canada Education Savings Grant amount has been increased to \$500 from \$400.
- **Child Tax Credit:** A new \$2,000 child tax credit will provide up to \$300 of tax relief for each child under 18 at the end of the year. Any unused credit amount may be transferred between spouses.
- **Children Fitness Tax Credit:** A new non-refundable tax credit lets parents claim up to \$500 in eligible fees for enrolling a child under age 16 in an eligible physical activity program.
- **New Income Splitting Opportunity for Pensioners:** Commencing in 2007, Canadian residents receiving pension income that qualifies for the pension credit can allocate up to half of this income to their spouse or common-law partner. Allocating pension income to the spouse or common-law partner who is in a lower marginal tax rate will reduce the total tax payable by the couple.
- **Age Limit for Maturing RRSPs and RPPs:** Beginning in 2007, Registered Retirement Saving Plans (RRSPs) must mature before the end of the year in which the annuitant turns 71 years of age (previously age 69). Individuals who turn age 70 or 71 in 2007 will now be able to re-establish an RRSP and make a deductible contribution, provided that they have contribution room. Similarly, Registered Pension Plans (RPPs) and Deferred Profit Sharing Plans (DPSPs) will generally be required to transfer into an income product by the end of the year in which the member turns 71 years of age.
- **QST Rebate for Hybrid Vehicles:** If you purchased a prescribed new hybrid vehicle, leased it, or brought it into Québec after March 23, 2006, and before February 21, 2007, the maximum rebate to which you are entitled is \$1,000. For vehicles purchased, leased, or brought into Québec after February 20, 2007, and before January 1, 2009, the maximum is \$2,000.

Other noteworthy items:

- **Average Exchange Rate:** It was 93.16 ¢ for 2007 (or \$1.0734 Cdn/\$1.00 US).
- **Non-residents:** You can no longer take a deduction on your 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.

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- **Canadian Snowbirds:** Certain U.S. tax rules continue to have an impact on some Canadians. As a result of increased U.S. Homeland Security efforts, 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 U.S. for tax purposes. Canadian Snowbirds who spend more than four months each winter in the southern U.S. could fall into this trap – not necessarily resulting in U.S. taxes, but usually involving filing U.S. financial disclosure reports.
- **Foreign Bank Accounts:** 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.
- **Leasing Versus Buying:** 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 cannot begin your tax return until we have received the signed engagement letter.

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](http://www.herrickltd.com).

Sincerely,

Herrick, Ltd. CPAs