

Canadian Tax Planners Newsletter

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In this edition of the Canadian Tax Planners Newsletter, we shall examine the pension splitting provisions that were introduced in the last federal budget, plus review various tax issues related to an individual's use of an automobile.

Pension Splitting

Effective for 2007, individuals have the option of splitting pension income with their spouse. This provides two potential benefits to the recipients of pension income:

- income may be transferred to a spouse in a lower tax bracket
- it allows both spouses to utilize the \$2000 pension credit

Individuals can split payments from an employer pension plan, regardless of the age of the recipient. Once an individual reaches the age of 65, payments from Registered Retirement Income Funds (RRIF's) and RRSP annuity payments will also qualify. Payments from Canada or Quebec Pension Plan and Old Age Security do not qualify for pension splitting.

Both married and common law partners can elect to split pension income. Individuals must file a joint election on their tax return using *form T1032 – Joint Election to Split Pension Income*. This form must be filed when the tax return is due. Pensioners should also consider the following issues related to pension splitting:

- the pension splitting election impacts the tax returns of the individuals, but not the pension plan that pays the benefits. The pension plan continues to send monthly payments to the individual that earned the pension benefits, regardless of whether or not the spouses elect to split the pension income
- in addition to allocating pension income, spouses must also split the tax withheld at source from the pension payments. These withholdings must be allocated in the same proportion as the pension income

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- if a couple elects to split their pension income, their joint income will remain unchanged. Thus, benefits that are dependent upon family income, such as the GST credit and the Canadian Child Tax Benefit will not be impacted. However, since each individual's income will change, pension splitting may impact items such as the age amount credit or the repayment of Old Age Security benefits.

Taxation of Automobiles

There are numerous circumstances where an individual's use of a vehicle will result in tax issues. We shall review the following topics as they relate to an individual's use of an automobile:

- personal vs. business driving
- tax implications for individuals using their personal vehicles in the performance of their duties of employment
- self-employed individuals
- taxable benefits for the use of a company vehicle
- Quebec reporting requirements
- travel that qualifies as a medical expense
- use of a vehicle to earn rental income

In the next edition of our newsletter, we shall review tax issues related to automobiles from the perspective of the employer. Topics will include executive car plans, lease vs. buy decisions, compliance issues and designing a tax effective company car plan.

Employee's Use of Personal Vehicles

In December of each year, CRA issues an update on vehicle expenses and allowances for the upcoming year. One of the items updated is the level of tax free reimbursement an employer can pay to an employee for business driving. For 2007, the reimbursement is 50 cents for the first 5,000 km. and 44 cents for each additional kilometre driven. The rate is slightly higher for driving in the Yukon, North West Territories and Nunavut. The reimbursement is designed to cover both capital and operating expenses, i.e., depreciation, financing, insurance, repairs and gas. Employer's can maximize the individual's reimbursement by paying the highest amount allowed by CRA.

Note – The remainder of this article is only available to subscribers of the Canadian Tax Planners Newsletter. If you elect to subscribe and wish to receive a copy of this newsletter, advise us accordingly and the complete article will be forwarded by return mail.

