



Neel Roberts
President
& Founder



THE

Tax Tipper

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We take your taxes personally!

Volume 3

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Dear Clients and Friends

Can you tell that fall is here? With temperatures dipping below freezing (my Calgary friends have actually had snow!) and Christmas advertising already upon us, we know the season is changing.

Yet, how prepared is the average Canadian? Many still have fond memories of summer and little expectation of the cold and snow ahead. Most of us will have to pull out those heavy clothes from the closet, prep our vehicles for cold starts and stock up on Neo Citron, yet that's only the beginning of the fall and winter to-do list.

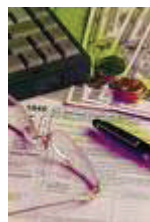
Preparation is essential not only for changing weather, but also for tax planning. The affluent are often asked how they stay on top of the heap, and one of the leading answers is strategic tax planning. That's why **The Tax Tipper** is here—to help you gain that edge, which is accessible to all who desire it.

In this issue, you will find the latest updates, news, guest writers, interesting facts and more. Oh yes, we make it not only easy to read, but fun too, with our photo features, recipes, client feedback and trivia. It's not the typical dry lecture-style you may have expected.

Enjoy the third issue of **The Tax Tipper**. And thanks for your comments—we've made some improvements, and your continued feedback will only make it better!

Neel Roberts
President and Editor

What's Happening?



Responding to 2005 Tax Review Notices

All taxpayers who filed their 2005 tax return and were selected to receive a post-assessment letter should have received it by now. If your *return is selected*, you will receive a letter requesting the information they require. If you're not sure about the information they are asking for, call the number on the letter—they will clarify it for you.

It is very important to respond to these requests even if you need time to track down receipts, etc. CRA will usually grant time extensions if the request is reasonable. If you don't respond to their letter, they will normally reassess you within 30 days, and you will be responsible for balances owing plus interest. After that, you will have to use the *appeals process* to dispute the balance, and this can be more complicated than responding in the first place.



Canada Employment Tax Credit

Remember the good old days of the 1980's (am I showing my age?) when employees got a slight break? It disappeared in the 1990's, but here's good news!

One of the commitments of the Harper government's first budget was to bring this back, somewhat as it once was. As of July 1st, 2006, you get a tax credit on employment income up to \$500. That eligible amount will double to \$1,000 as of January 1st, 2007.

For more information, see **Just Asking ... Just Answering** on page 5. You can also check the [CRA Website](#) or contact the call center at 1-800-959-8281.



Students Get a Text Book Tax Break!

Now here's a tax break that has been on the board for who knows how long. Finally, it was addressed in 2006.

A new tax credit for the cost of textbooks, which will provide a tax reduction of about \$80 per year for a typical full-time post-secondary student. Granted you can't get rich off it, but it sure is better than nothing, so save those receipts.

There were additional breaks for students. You can look them up in the [2006 budget!](#)



Alberta Prosperity Bonus Update

All qualified Alberta residents who filed a 2004 tax return should have received their \$400 [Alberta Energy Rebates](#) by now.

If you have not filed your 2004 return, you have until the end of this year before the rebate expires. If you need a hand with this, please contact me.

Regarding future bonuses, Ralph Klein recently announced that he will not authorize one under his tenure, which expires at the end of this year. However, this doesn't mean the newly appointment premier can't authorize one for 2007.

While record surpluses continue to come in, and energy prices seem optimistic, many have expressed the need for cash in infrastructure, schools, etc. So, it's a 50/50 chance we'll see another one. I'll keep you posted!



E-File Shut Down for 2005 Personal Returns

September 30th of each calendar year is the last day that a tax pro like me can E-File personal returns. Any 2005 (and previous) returns will be printed after that and sent in manually.

E-File returns normally take 5-10 days to process, whereas paper-filed returns range from 1-3 months. Corporate returns, on the other hand, can be E-Filed as far back as four fiscal years, so technically we can do those back to 2002!

The Mayo Clinic's Top 10 Healthy Foods List

© The Canadian Press, August 3rd, 2006

TOP 10

We at **The Tipper** have a new feature for you called **The Top Ten**. While we are all used to the top ten on the radio music scene, our **Top Ten** is designed to help our clients while keeping things interesting. I trust you will find it useful!

The famed Mayo Clinic has released its top 10 list of healthy foods. Here, in alphabetical order, are the Mayo's picks, drawn up at the home office in Rochester, Minnesota.

Apples: Apples are a good source of pectin, a fiber that lowers cholesterol and glucose levels. Apples are also a good source of vitamin C, an important antioxidant that helps the body absorb iron and folate.

Almonds: Full of fibre, riboflavin, magnesium, iron, calcium and vitamin E, these nuts are good for the heart. And most of the fat in almonds is monounsaturated, which can help lower bad cholesterol levels when substituted for other fats.

Broccoli: While not appreciated by the first President Bush, this vegetable contains calcium, potassium, folate, fiber and phytonutrients—compounds that may help prevent diabetes, heart disease and some cancers. It also contains the antioxidant beta-carotene, and is an excellent source of vitamin C.

Blueberries: These berries are a low-calorie source of fiber, antioxidants and phytonutrients; they may improve short-term memory and reduce cell damage linked to aging.

Red beans: Small red, pinto and kidney—red beans are an excellent low-fat source of antioxidants, protein, dietary fiber, copper, iron, magnesium, phosphorus, potassium and thiamine.

Salmon: This popular fish is a terrific source of omega-3 fatty acids, which are believed to provide heart benefits. It's low in saturated fat and cholesterol, and is a good source of protein. The Mayo suggests choosing wild salmon, if possible, as it is less likely to contain unwanted chemicals such as mercury.

Spinach: Popeye's favourite is high in vitamin A and is a solid source of calcium, folate, iron, magnesium, riboflavin and vitamins B-6 and C. The plant compounds spinach contains may boost the immune system and help prevent certain types of cancer.

Sweet potatoes: High in beta-carotene and vitamin C, sweet potatoes are also a good source of fibre, vitamin B-6 and potassium and are fat-free and relatively low in calories.

Vegetable juice: An easy way to inject vegetables into a diet, vegetable juices contain most of the same vitamins, minerals and other nutrients the source vegetables do. Tomato juice and vegetable juices that include tomatoes are good sources of lycopene—an antioxidant that may lower the risk of heart attack and certain cancers. Low-sodium varieties are best.

Wheat germ: A concentrated source of nutrients, two tablespoons provide thiamine, folate, magnesium, phosphorus, iron and zinc. Can be worked into a diet as a topping for cereals, yogurt and salads, or an ingredient baked into muffins, cookies and pancakes.

Send us your interesting Top 10 list.

Employment Expenses and Taxes

Last time, we featured Brian Barnett, mortgage professional from *Bricks and Mortgages* in Calgary, as our guest expert. This time, we explore the world of leasing, featuring Ken Sands of Equipco Leasing in Calgary.

All of us have had to ask a professional for help. Why? Because professionals understand some things much better than we do. I rely on experts to help me get my job (and other things) done so that I can give you the service you deserve.

Eye of the Expert features professionals to help you get the most on a particular subject. While it is usually tax-related, it will be focused outside the realm of taxes because that's what these experts are good at.

I have been Ken's client for over six years and, having leased much of my equipment since 1998, I am in love with the concept of leasing. Not only is it tax-friendly, but it also provides incredible flexibility when it comes to financing and operational planning for business owners, landlords and those who have authorized employment expenses.

Ken has vast experience in the business world (40 years+!), plus the natural ability to customize a lease plan in a short time. Through his personal approach and genuine desire to help others do well, he has helped many of my clients expand their expertise and pursue their passions. Ken's stories of managing both multi-million dollar corporations and small one-man operations always enlighten me. So read on!

Will That be Cash, Charge—or Lease?

By Ken Sands, Lease Consultant



One of the questions I get asked frequently is, "Who uses a lease broker?" Specifically, why do people lease instead of borrow or buy? There are a variety of reasons, but I will only cover two for now.

First, all businesses and certain employees (like commission sales) have to invest in hard assets to build

their sales. That can get expensive, especially if the business is very capital intensive like a manufacturing facility. You also have expenses like product distribution, inventory, payroll and marketing. Then, at the end of the day, it's a good idea to pay yourself, considering you have to eat and the bank doesn't give holidays on mortgages. Therefore, the first advantage is that leasing reduces a monster investment into easy monthly payments tailored to your budget.

Second, as Neel mentioned, the tax advantages of leasing are significantly higher compared to buying and loan financing. Suppose you purchase a \$10,000 computer system and plan to keep it for three years, at the end of which it will have a value of \$2,500. There are three ways to do it. First, you can purchase it outright with cash. Second, you can get a bank loan

(say, 10% annual rate with monthly payments of \$322.67); we'll assume 100% financing (which is rare). Last, you can lease it 100% (which the banks usually do) at \$390 per month.

Here is how it would pan out, assuming a 25% tax bracket. With the cash method, you'd get a tax break of \$7,655.63; with the loan, it would be \$9,271.75; and with the lease, \$14,040.00. Not bad, considering there was no initial cash outlay.

One last advantage of leasing is that it is much easier to qualify for financing than for a loan. If you have credit issues, or you're a new business, banks get concerned and will likely turn you down. With leasing, they are more motivated to earn your business and, as long as they are satisfied that you can make your monthly payments, you'll likely qualify. Let leasing get you the newest equipment so you will have that edge over the competition.

Here is my recommendation to clients when they are considering a lease:

If it appreciates, BUY IT!

If it depreciates, LEASE IT!

More on Ken Sands

Client Testimony

My husband Grant and I started our garage in Nanton a few years ago and were looking for a better way to finance new equipment purchases. Neel recommended the tax advantages of leasing and put us on to Equipco Leasing in Calgary. We were approved for our new hoist shortly after our first call to Mr. Sands. Ken even made the trip down to personally meet us. We are delighted to have discovered this new financial tool to lower our taxes while giving flexibility in our operations and finances. Looking back at our old purchasing options, we are now moving forward with more ease, building a growing business. We recommend the knowledge of Ken Sands for an expert opinion!

Carrie and Grant Gataiant, GCS Automotive Repairs, Nanton, Alberta

Ken welcomes your comments and can be contacted in Calgary at 403-253-0600.

Just Asking? ... Just Answering!

Real People with Real Questions About Real Situations



Employment Versus Self-Employment

Dear Neel

I have been working as a base salaried and commission employee for a few years. Recently my employer approached me about becoming self-employed. Can you tell me the pros and cons of this? I understand the tax rules change, amongst other things.

Lyle R.

Dear Lyle

Yes, the tax rules do change from employment to self-employment. In your situation, you have to be careful that you don't fall into a pseudo self-employment trap for tax purposes.

Specifically, an employer and employee may agree to turn a job into a sub-contract position to save the employer money and paperwork and to allow the employee to deduct items such as in-home expenses, car, meals, etc. CRA may review it and deem the work to be employment, not self-employment, thus disallowing deductions and fining the employer for missed source deductions. On the other hand, if the company decides to subcontract a particular function like cleaning the office and you successfully win the contract, that's more like a true business.

Have a look at a CRA publication called [Employee or Self-employed?](#) for details. One of the main criteria

they look at is who is exercising control over the duties performed. Our feature guest article this month by Evelyn Jacks, on page 7, looks at a case study to explain it better. I hope this sheds light on your situation!



Commissions versus Bonuses Earned on the Job

Dear Neel

I have worked for an investment company for years. At the end of the year, our boss gives the assistants a Christmas bonus (usually around 10%) based on our and the department's performance. On our T4's, this amount shows up in Box 42 as commissions. I understand you can claim expenses against this. I work in an office where everything is provided. Once in a while, I work at home, but I don't have any hard expenses like our full-time commission staff.

Sue M.

Dear Sue

Sometimes the payroll department may accidentally record regular income bonuses as commissions, causing an employee to think they can deduct

Continued on page 6

expenses. According to the *Employment Expense Guide*, you have to *directly* sell goods or negotiate contracts to be eligible for expense deductions, and yours seem a bit too indirect to qualify. On the other hand, if you are working out of your home, ask your employer if they will sign a *Declaration of Conditions of Employment* to that effect. Then you can use our *Employment and Commission Expense Tax Booklet* to find out what all is deductible with tax tips, etc.



Working People Need More Tax Breaks!

Dear Neel

I was self-employed for quite some time, but a couple of years ago I went back to a salaried job, no commissions, and seem to

be paying more tax due to lack of deductions. My returns are fairly simple now. I have heard that the new Employment Tax Credit promised in the latest budget may be available to most employees. Will this reduce my overall taxes, all else being equal?

Alex P.

Dear Alex

Yes, this seems to be the case, and I made a comment about this at the beginning of this newsletter.

As the draft of the 2006 tax software is not out until a little later in the year, a tax pro may not be able to give you an actual dollar amount right now. Off hand, it looks like most employees will net up to a few hundred dollars with no strings attached, so that is welcome news. When you go from self-employed to straight salary, one of the things the taxpayer notices is more tax paid right off the top. Keep in mind that the theory behind employment is that the employer covers all work-related expenses unless otherwise specified in the employment contract, causing a higher tax liability. If you do incur expenses, discuss with your employer whether they will reimburse you or make the expenses deductible.

**Are You *Just Asking* tax questions?
Neel can *Just Answer* them.**



Just the Facts, Ma'am (or is it Man?) Did you know that?

1. A newborn kangaroo is about one inch in length.
2. Hawaii is the only US state that grows coffee.
3. The Atlantic Ocean is saltier than the Pacific Ocean.
4. It takes 17 muscles to smile—43 to frown.
5. The largest gold nugget ever found weighed 172 lbs., 13 oz.
6. The largest hailstone ever recorded was 17.5 inches in diameter—bigger than a basketball.
7. The world's smallest independent state is the Vatican City, with a population of about 1,000—and a zero birthrate.
8. Dueling is legal in Paraguay as long as both parties are registered blood donors.
9. Every person has a unique tongue print.
10. A rat can last longer without water than a camel can.

**Got an interesting fact?
*Email it to us!***



Employed or Self-Employed? That is the Question

By Evelyn Jacks, President, The Knowledge Bureau, Canada's leading educator in tax and financial services



The question of whether you are hiring an employee or independent contractor is often at issue, in particular in family businesses. While there are many grey areas, it helps to look to recent jurisprudence for guidance in four key areas.

In a recent case before the Tax Court of Canada, a disagreement about the status of the service provider was reviewed to determine whether that person was employed—and subject to the normal statutory source deductions—or self-employed as an independent contractor.

The “employer” submitted the following as evidence that an employer-employee relationship existed:

- The Appellant (the “employer”) reserved the right to add extra duties as it saw fit.
- The Worker was required to work on site 40 hours a week, 8 hours a day, including weekend shifts.
- The Worker had to submit time sheets to the Appellant.
- The Worker had to perform the services personally.
- The Worker was supervised in the performance of his duties and had to report to the Appellant on a regular basis.
- Any decisions made by the Worker were subject to the Appellant’s approval.
- The Appellant would bear the cost of redoing any incorrect or incomplete work performed by the Worker.
- All the tools and equipment required were provided by the Appellant, including an on-site vehicle.
- The Appellant retained the right to terminate the Worker’s employment.
- The services performed by the Worker were a necessary and integral part of the Appellant’s operation.

The “employee” disagreed with many of these provisions, claiming he regarded himself as an independent contractor and was designated as such when the contract was signed. He also claimed he did not submit time sheets, and had greater work

flexibility and the same power with regard to termination, among other rebuttals.

Here’s what the Tax Court of Canada said, citing four key factors distinguishing an employment status from that of an independent contractor and explaining how they applied in this case:

Supervision or control

- The Worker had great flexibility in his work schedule and work procedures.
- No time sheets were submitted.
- When a superior advised, the Worker simply ignored him.
- On answering phone calls, there was no mention of the company’s name.

Ownership of tools

- Negligible factor in this case—smaller tools were shared among crew members, larger tools were stationary on-site.

Amount of risk

- Extreme exposure to risk, but the Worker was not provided with comprehensive benefit packages nor job security outside the limits of the contract.

Integration of work

- The plant at which the Worker had worked was an accessory to the mill, as it served as a preventative measure for environmental hazards.
- The contract was also re-negotiable, or the Worker had the option of working elsewhere.

In this case, the Court dismissed the appeal and sided with the employee in his claim that he was an independent contractor. Employers should be careful to note these four key factors in their employment contracts to ensure they do not miss or overpay expensive source deductions in error, when the status of workers is not clarified in advance.

Source: (Nenah Paper Company of Canada, formerly known as Kimberly-Clark Nova Scotia Limited v. M.N.R., 2005)

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Be a Hit with Deep Fried Turkey

Deep Frying your foods is a fantastic way to make the ordinary extraordinary!
Injecting and Brining also add spectacular flavor.



Step 1

Prepare your bird, ensuring it is dry, very dry, inside and out. Hot oil and water do not mix. Allow it to come to room temperature right before cooking.



Step 2

To determine oil quantity, place the turkey and the basket in the pot. Fill with enough water to cover. Remove turkey and basket and make a mark at the water line. Dry everything really well, and fill with oil to the mark.



Step 3

Preheat the oil to desired temperature, following manufacturer's instructions.

Do not leave unattended once lit.

Cooking in colder climates or windy conditions may take longer to preheat. Windbreaks are a good idea.



Step 4

When the oil is at the correct temperature, slowly lower the bird. A dipping technique is a good idea.

Larger turkeys may make a volcano effect where the hot oil comes up through the cavity. Proceed slowly.

This is where you find out how well you dried the bird! Set your timer, based on bird weight.



Step 5

The temperature will drop once the bird is in. Keep an eye on it and try to get it back up to cooking temperature. Do not overheat the oil.

Not a bad idea to float a few fries in the oil to nibble on as you wait.



Step 6

When time is up, hook the basket in the pot and allow excess oil to drain back. Let the bird rest 10-20 minutes before carving to allow juices to settle.

This turkey is so good—it's extreme!
Courtesy of the folks at *Barbeques Galore*
Send us your scrumptious recipe!



Yes, This Really Happened!

Quite often I get asked if I run into any extraordinary cases. Like most professionals, my answer is an unqualified “Yes!”.

Now, you maybe thinking I’m going to spill the beans in this new column called *Yes, This Really Happened?* and tell you the goods. Sorry, can’t do that for confidentiality reasons (I can just see you saying, Dah!). All I can say is, my comments range from “That’s incredible!” (like that TV show years ago) to “Am I seeing straight?” And, believe me, even Simon and Schuster couldn’t print some of the stuff I come across!

Now that I’ve brought up the subject, I’m going to do the next best thing and share some stories I run across from time to time. So, hope these make your day, and let’s never forget—it takes more than one person to populate this planet!

Car-driving Canine in the Doghouse After Crashing into Another Motorist

BELJING (AP) - They say you can’t teach an old dog new tricks. In the case of a pooch in northern China, that includes driving a car.

Police said a woman in Hohhot, capital of north China’s Inner Mongolia region, crashed her car while giving her dog a driving lesson, the official Xinhua news agency reported Monday.

There were no injuries and both vehicles were only slightly damaged, Inhua said.

The woman, identified only by her surname, Li, said her dog “was fond of crouching on the steering wheel and often watched her drive,” the news agency reported.

“She thought she would let the dog ‘have a try’ while she operated the accelerator and brake,” the report said. “They did not make it far before crashing into an oncoming car.”

Xinhua did not say what kind of dog or vehicles were involved, but Li paid for repairs.



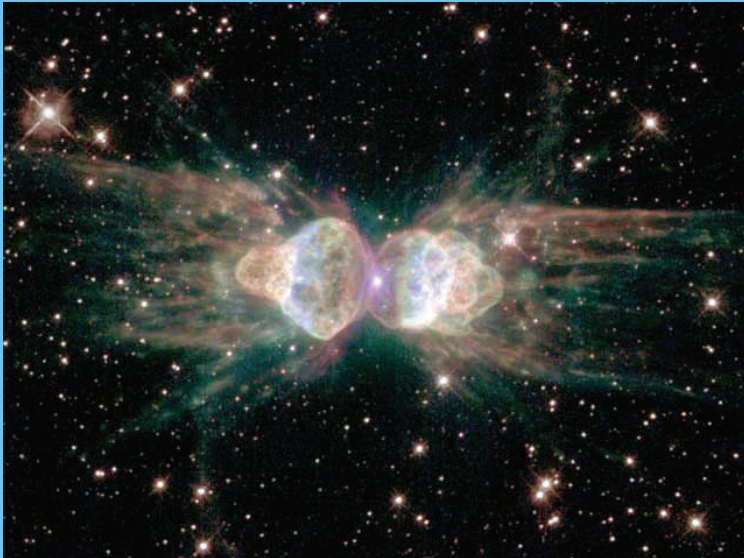
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Send us your exciting story!

It's a Photo Finish! Now that's a big BUG!

Planetary Nebula MZ3: The Ant Nebula



Why isn't this ant a big sphere?

Planetary nebula MZ3 is being cast off by a star similar to our *Sun* that is, surely, round. Why then would the gas that is streaming away create an *ant*-shaped nebula that is distinctly not round?

Clues might include the 1000-kilometer per second speed of the expelled gas, the *light-year* length of the structure, and the *magnetism* of the star *visible above* at the nebula's centre. One possible answer is that *MZ3* is hiding a second, dimmer star that *orbits close* in to the bright star. A competing hypothesis holds that the central star's own spin and *magnetic field* are channeling the gas.

Since the central star appears to be so similar to our own Sun, *astronomers* hope that increased understanding of the history of this giant space *ant* can provide useful insight into the likely future of our own *Sun* and *Earth*. Oh yeah, and it takes a lot of bug spray!

Thanks to *R. Sahai (JPL)* and the *Hubble Heritage Team* at *ESA* and *NASA*.

**Don't miss the *Leonid Meteor Shower*
on Sunday, November 19th, 2006!**

Send us your fascinating photo or story.

Client Corner

It's YOUR Say

Nine years ago, I was looking for a new tax consultant and that's when I met Neel Roberts. He was totally unlike any of the other "tax guys" I had met. He was personable, easy to understand, and he offered me some excellent tax advice. Over the several years I have known Neel, he has helped me through a legal separation, buying a revenue property and determining the best way to write off my income as I work 100% commission sales. PTC Canada has helped me create many solutions to my tax questions, allowing me to maximize my returns in a hassle free way. I wouldn't go anywhere else!

Jennifer Davies
New Home Sales
Heartland Homes
Calgary, Alberta.
Client since 1998



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