

INCOME TAX UPDATE - 2014

Personal Income Tax Rates

New BC Temporary Top Tax Rate

Personal tax rates remained unchanged from 2013 levels for taxable income under \$150,000. For 2014 taxable income in excess of \$150,000 a new 2.1% surtax has been implemented by British Columbia. This surtax is a temporary tax for the 2014 and 2015 tax years and will expire on December 31, 2015.

Dividend Tax Rates

The most significant change in tax rates in 2014 was ineligible dividend tax rates. Ineligible dividends are those that are paid from profits earned on active business income less than the small business limit of \$500,000. The ineligible dividend gross-up factor and dividend tax credits were both adjusted in order to integrate corporate and personal rates across Canada. This resulted in an increase in the tax rate on ineligible dividends paid in 2014 for British Columbians.

Eligible dividend tax rates have remained unchanged from 2013 levels for taxable income under \$150,000. The British Columbia surtax on income over \$150,000 resulted in a 2.9% increase in the tax rate for eligible dividends.

Many shareholders may want to declare a dividend on December 31, 2013 to take advantage of the lower dividend tax rates as opposed to waiting until 2014 to withdrawal funds. The advantage of doing so would be greater if there is refundable dividend tax on hand in the corporation.

Taxable Income	Employment Income & Interest			Ineligible Dividends			Eligible Dividends		
	2014	2013	Change	2014	2013	Change	2013	2014	Change
0 to 37,569	20.06%	20.06%	0%	7.61%	4.16%	3.45%	-6.84%	-6.84%	0%
37,569 to 43,562	22.70%	22.70%	0%	10.73%	7.46%	3.27%	-3.20%	-3.20%	0%
43,562 to 75,139	29.70%	29.70%	0%	18.99%	16.21%	2.78%	6.46%	6.46%	0%
75,139 to 86,269	32.50%	32.50%	0%	22.29%	19.71%	2.58%	10.32%	10.32%	0%
86,269 to 87,124	34.29%	34.29%	0%	24.40%	21.95%	2.45%	12.79%	12.79%	0%
87,124 to 104,755	38.29%	38.29%	0%	29.12%	26.95%	2.17%	18.31%	18.31%	0%
104,755 to 135,055	40.70%	40.70%	0%	31.97%	29.96%	2.01%	21.64%	21.64%	0%
135,055 to 150,000	43.70%	43.70%	0%	35.51%	33.71%	1.80%	25.78%	25.78%	0%
Greater than 150,000	45.80%	43.70%	2.1%	37.98%	33.71%	4.27%	28.68%	25.78%	2.90%

Personal Tax

Lifetime Capital Gains Exemption (LCGE)

Each individual is entitled to the LCGE which is an exemption on capital gains of certain qualified property including Qualified Small Business Corporations (QSBC). Effective for 2014, the LCGE increased from \$750,000 to \$800,000 and will be indexed for inflation after December 31, 2014. Utilizing the LCGE on an \$800,000 gain on qualified property could result in tax savings of up to \$183,200.

For gains in excess of \$750,000 that qualify for the LCGE, the \$50,000 increase to the exemption in 2014 could result in additional tax savings of up to \$11,450.

In order to utilize the LCGE on the sale of a business, the business must be a QSBC. Therefore, proper tax planning should be performed to ensure that the company continually qualifies as a QSBC.

Tax Free Savings Account (TSFA)

The following table shows the annual contribution limits to TSFA. The contribution limits are indexed for inflation and rounded to the nearest \$500.

	2014	2013	2012
Annual Contribution Limit	\$5,500	\$5,500	\$5,000

Registered Retirement Savings Plan (RRSP)

The maximum RRSP contribution is 18% of the prior year's earned income for RRSP purposes to a maximum annual contribution limit shown in the following table. If you do not contribute your maximum in a year, any unused RRSP contribution room can be carried forward indefinitely.

	2014	2013	2012
Annual Contribution Limit	\$24,270	\$23,820	\$22,970

Corporate Income Tax Rates

The federal general corporate tax rate remained unchanged in 2014 at 15% and 11% for small businesses. The British Columbia corporate tax rate increased to 11% from 10.75% and remained unchanged for small businesses. The small business limit remained unchanged at \$500,000. The corporate tax rates for 2014 are as follows:

	2014			2013		
	Federal	B.C.	Combined	Federal	B.C.	Combined
General rate	15.00%	11.00%	26.00%	15.00%	10.75%	25.75%
Small business rate	11.00%	2.50%	13.50%	11.00%	2.50%	13.50%
Investment income	34.67%	11.00%	45.67%	34.67%	11.00%	45.67%

This discussion of the changes in tax rates is intended only as an introduction to the matter and is not exhaustive. Should you have any questions relating to how these changes affect you and what can be done to take advantage of these changes, or any other aspect of personal or corporate income taxation please contact one of the members of our tax group at info@ddwca.com or (250) 220-7311.

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