CORPORATE TAX UPDATE

CORPORATE TAX PRACTITIONERS

COMBINED CORPORATE TAX RATES – 2019

		Federal	Ontario	Combined
Business				
	First $500,000	9.00%	3.50%	12.50%
	Manufacturing	15.00%	10.00%	25.00%
	General	15.00%	11.50%	26.50%
	Personal service business	33.00%	11.50%	44.50%
Investment				
	CCPC - investment	38.67%	11.50%	50.17%
	Part IV	38.33%		38.33%

Federal small business rate has decreased from 10% to 9%

CANADA PENSION PLAN – CPP FOR 2019 & 2020

Year	Maximum Annual Pensionable Earnings $	Basic Exemption $	Maximum Contributory Earnings $	Employee and Employer Contribution Rate %	Maximum Annual Employee/Employer Contributions $	Maximum Annual Self-Employed Contribution $
2016	54,900	3,500	51,400	4.95	2,544	5,089
2017	55,300	3,500	51,800	4.95	2,564	5,128
2018	55,900	3,500	52,400	4.95	2,594	5,188
2019	57,400	3,500	53,900	5.10	2,749	5,498
2020	58,700	3,500	55,200	5.25	2,898	5,796

Note:

The CPP Enhancements will be gradually phased in, commencing in 2019 and fully implemented in 2025.
These changes will provide greater benefits, but also result in greater costs to employers and employees.

EMPLOYMENT INSURANCE – EI FOR 2019 & 2020

Year	Maximum Annual Insurable Earnings $	Employee's Premium Rate %	Employer's Premium Rate %	Maximum Annual Employee Premiums $	Maximum Annual Employer Premiums $	Total $
2016	50,800	1.88	2.63	955	1,337	2,292
2017	51,300	1.63	2.28	836	1,171	2,007
2018	51,700	1.66	2.32	858	1,202	2,060
2019	53,100	1.62	2.27	860	1,204	2,064
2020	54,200	1.58	2.21	856	1,198	2,054

Note: The province of **Quebec** has its **own rates.**

CHANGES & ITEMS OF NOTE

Scientific Research & Experiment Deduction (SBD) – CRA is a little bit tougher on paying it out – review threshold amount gone down and documentation is key (i.e. time sheets for time spent on R&D)

- More beneficial – eliminate the use of taxable income to reduce expenditure limit
- Only reduction is the taxable capital requirement (between $10 and $15 million)
- Applies to taxation years that end on or after March 19, 2019

Zero Emission Vehicles (Class 54) – vehicle that is a plug-in hybrid, fully electric or powered by hydrogen; acquired and becomes available for use after March 19, 2019

- has to be a new vehicle and actual purchase by the business (i.e. no transfers and does not apply to used vehicles)

CHANGES & ITEMS OF NOTE

Zero Emission Vehicles (Class 54) – Prescribed cost is $55,000 plus taxes

- would otherwise be in Class 10 or 10.1
- No separate class (Use Class 54)
- 100% CCA on the prescribed limit (beneficial: compare Class 10.1 with $30,000 limits)
- No half year rule
- If vehicle costs more than $55,000 can take CCA on the rest, but not at 100%
- Be careful with taxable benefits. Will still be at the capital cost, not prescribed amount

Class 55 – zero emission vehicles that would otherwise be in Class 16

- Taxis
- Short term rental and leasing vehicles
- Heavy trucks and tractors for hauling freight
- <u>No prescribed limit –full purchase at 100%’</u>
- No half year rule

AUTOMOBILE LIMITS – 2019 & PAST YEARS

	2016	2017	2018	2019
Maximum capital cost (Plus GST/HST and PST)	30,000	30,000	30,000	30,000
Maximum lease payment (Plus GST/HST and PST)	800	800	800	800
Interest expense (per 30-day period)	300	300	300	300

AUTOMOBILE DEDUCTION LIMITS AND EXPENSE BENEFIT RATES FOR BUSINESSES – cont'd

	2016	2017	2018	2019
Max. tax-exempt allowance				
(i.e. employee use their own car to earn income)				
First 5,000 km	54¢/km	54¢/km	55¢/km	58¢/km
Over 5,000 km	48¢/km	48¢/km	49¢/km	52¢/km
Taxable benefit re operating expenses (i.e. employee use of employer's car for personal)				
Operating benefit - regular employee	26¢/km	25¢/km	26¢/km	28¢/km

PRACTITIONER SURVEY – FALL 2019

Have your clients been asked about their corporate vehicle expenses in the last year?

Synopsis – Most practitioners have
(over 80% have received requests)

24%	Yes - A huge number
34%	Yes - Several
20%	Yes - One or Two
16%	No
6%	N/A

PRACTITIONER SURVEY – FALL 2019

What were the results?

Synopsis – If you have good records and reasonable amounts, should have no issues
(about 80% with no or few adjustments)

4%	Most clients got their expenses <u>denied or reduced</u>
11%	About half the clients got them denied or reduced
26%	Only very few denials or reductions
33%	No adjustments
26%	N/A

ACCELERATED INVESTMENT INCENTIVE PROGRAM

Remember the new accelerated rules and rates for ALL asset classes

First year – triple the CCA that would normally be available before AIIP

CRA REVIEWS

Now beginning to review additions to Classes on Schedule 8 – Software + Invoices

Corporations – remember only applies to purchases made after November 20, 2018 – check closely on non-December year ends

Investment Income

Small Business Deduction Grind-Down

INVESTMENT INCOME – GRIND DOWN

Old Rules – SBD was ground down if taxable capital of the associated group was between $10 million and $15 million

New Rules – SBD is reduced for investment income of the associated group over $50,000 – Starts at $50k and eliminated once investment income is $150k

APPLICATION

- Apply to taxation years that start after 2018
- However, Adjusted Aggregate Investment Income (AAII) is from the prior year – therefore the 2018 AAII will affect the ability to claim SBD in 2019
- Annual test – could have some years where the SBD is available and other years where it is not, or at a lower amount. Will depend on the associated investment income of group

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INVESTMENT INCOME – GRIND DOWN

Doing the Math – $ 200,000 of ABI and $110,000 of investment income

- Result is that $1,000 of additional investment income <u>costs $1,251.70</u>

Business Limit Calculation:

SBD= $500,000- (5 x ($110,000- $50,000)) = $200,000

If Company earns $1,000 of additional investment income, the SBD decreases by $5,000

Additional Tax on $5,000 at higher rate- (26.5%-12.5%) > 14% x $5,000 = $700

Tax on $1,000 of investment income= 50.17% x $1,000 = $501.70

Therefore, the cost of earning $1,000 of additional investment income is $1,251.70

Ontario – Has decided not to go along with the grind down of it’s ABI

PRACTITIONER SURVEY – FALL 2019

For clients who are subject to the small business deduction grind due to excess passive income, what do they usually do?

21%	Pull the surplus assets out (bonus, dividends, intervivos pipeline
22%	Consider other investment assets and/or strategies
33%	Nothing – lose the SBD. i.e. the cost of doing business
24%	N/A

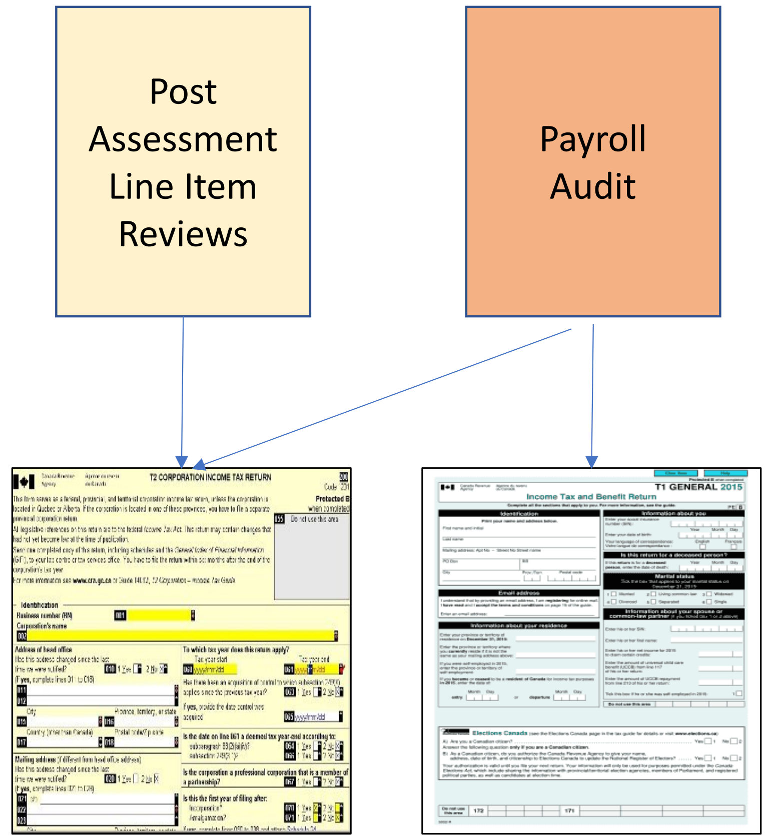
PAYROLL REVIEWS/AUDITS – CRA AUDITS 2.0

Why just focus on details of business expenses that are deductible at 12.5% when you can get more bang for the buck?

Payroll audits lead to bigger assessments – CPP/EI, shareholder balances, travel expenses, vehicle expenses, taxable benefits to employees/shareholders, GST/HST

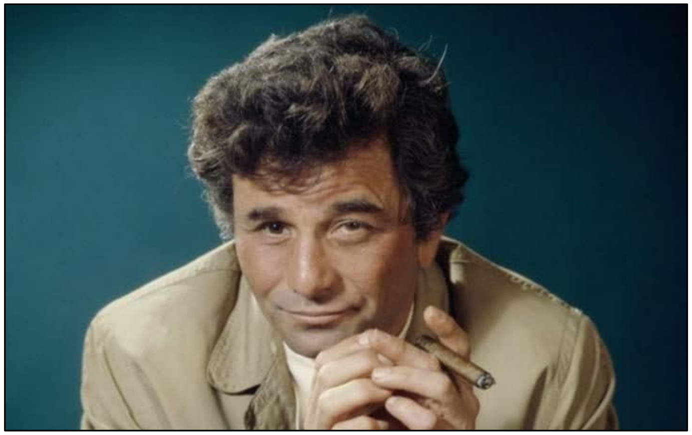
Most will involve personal tax assessments as well – not just owner, but all employees if taxable benefits assessed

PAYROLL REVIEWS/AUDITS – CRA AUDITS 2.0



Post assessment can also impact personal tax returns (Section 15) but have not seen any of these assessments

PAYROLL REVIEWS/AUDITS – CRA AUDITS 2.0



Be prepared to deal with these types of auditors

Apparently these are only "reviews"

There is no issue with respect to the responsibilities of Dan [redacted]. However, because he “took the responsibility of maintaining” the company-owned 2010 Volvo, it was his responsibility to track the business and personal kilometres driven, especially because the vehicle sign-out sheets did not track any details.

As mentioned in our proposal letter dated March 4th, 2019, included in the available records that we examined are Dan [redacted]’s expense reports. The following details from his 2016 expense reports are noteworthy:

> Gassing up: Dan [redacted] was reimbursed for expenses shown on all gas receipts in 2016. These expenses couldn’t have been for the use of his personal vehicle because employees who used personal vehicles were paid $0.55/km, and details are shown on their expense reports. Dan [redacted] gassed up 49 times, of which 18 times were during the weekend (i.e. either Saturday or Sunday, including seven weekends of the summer), and 31 times during a weekday (i.e. Monday through Friday). Of the 31 weekday gas ups, 15 times were during the start of the day (average time was 6:54 a.m.) of which 14 were made at gas stations 0.80kms to 7 kms from his home situated along a possible route from his home to the office; and 12 times were around 4p.m. and 5p.m. (average time was 4:58p.m.) of which four were made at gas stations 2.50kms to 3.60kms from his home and seven at gas situations 4.30kms to 7.10 kms from the office, all situated

along a possible route from office to home or home to office. Based on these information, it is clear that Dan drove the vehicle on weekends. It is also highly likely that he drove the vehicle from home to office and back. Otherwise, for the start of the day gas ups using approximate times, he would have had to drive from his home at 5:33a.m. to get to the office 19kms away at 6:08a.m., then park his car to pick up the Volvo and leave the office by 6:18a.m, to get to the gas station close to his home by 6:53am, and finish gassing up by 6:54a.m. then drive back to the office. This scenario is very unlikely, given that there are gas stations much closer to the office than his home.

Luckily for us, this was only a "review" – What would they do if it was an audit?

TIPS FOR VEHICLE EXPENSES

If company has vehicles in the company, draw up a company policy on how they are made available to employees (keep standby charge & operating cost benefits in mind to minimize impact of taxable benefits)

If you are not going to calculate taxable benefits because of business use, then have to have documentation to substantiate your claim – sign out sheets, km logs

Lighten the Impact – Buy used vehicles instead of new vehicles – cheaper for the company and the taxable benefits are lower because of capital cost in calculation

OTHER ITEMS TO WATCH OUT FOR - TIPS

Employee vs. Sub-contractor

Always an area of review by auditors (first thing they look at). Nothing out of the ordinary from past experiences (CPP, EI assessments, T4A’s)

Travel Allowances

If you are going to use the National Joint Council Travel and Allowances Directive per diem amounts, then must have documentation to show number of days and the calculated amounts.

If an estimated amount is paid, even if lower than the NJCTAD amounts, CRA will assess a taxable benefit. Need to have expense reports, or proof showing number of days.

DECLARING DIVIDENDS – AVOID IMPUTED INTEREST

Normal/Standard Practice

Determine what the owner withdrew and declare dividends to clear out the shareholder account at year end (i.e. December 31, 2020)

Consider

Declaring dividends at the beginning of the year and have the company pay them out throughout the year (i.e. Declare on January 1, 2020)

Good for clients who have consistent compensation year to year