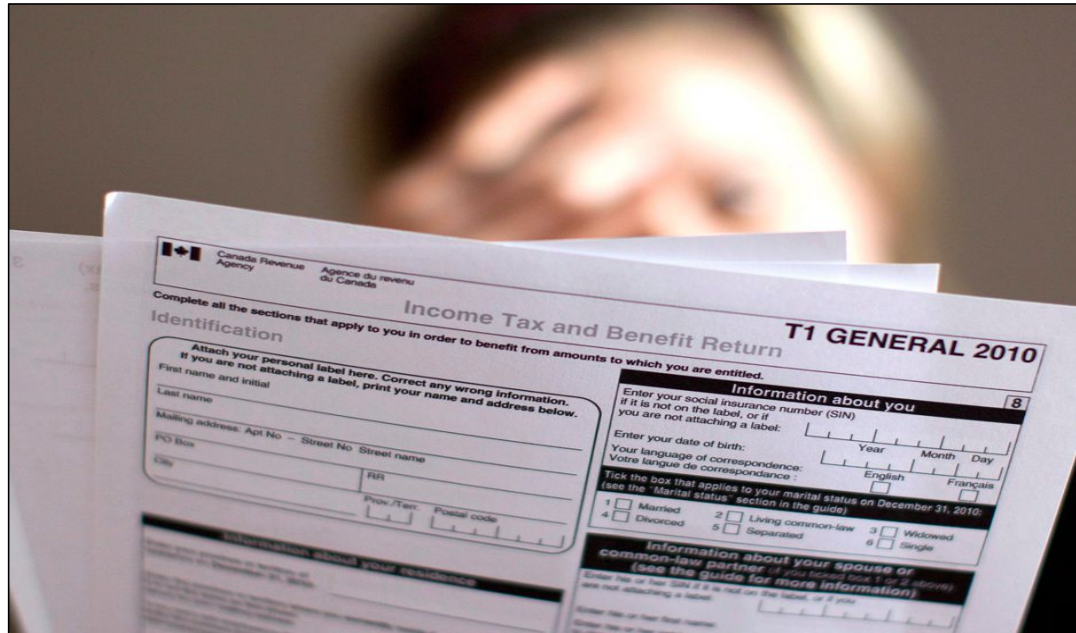




PERSONAL TAX UPDATE
T1 TAX PRACTITIONERS



Personal Tax Returns – 2019 & 2020 Round-Up – What to expect

FEDERAL & ONTARIO – 2019 PERSONAL TAX RATES

Federal rates	<u>From</u>	<u>To</u>	<u>Rate</u>	<u>Tax at the upper range</u>
	-	47,630	15.0%	7,145
	47,631	95,259	20.5%	16,908
	95,260	147,667	26.0%	30,534
	147,668	210,371	29.0%	48,718
	Over \$210,371		33.0%	Over \$48,718
Ontario rates	<u>From</u>	<u>To</u>	<u>Rate</u>	<u>Tax at the upper range</u>
		43,906	5.05%	2,217
	43,907	87,813	9.15%	6,235
	87,814	150,000	11.16%	13,175
	150,001	220,000	12.16%	21,686
Ontario surtax	Over \$220,000		13.16%	Over \$21,686
	On Ontario tax over 4,740	20%		
	Plus on Ontario tax over \$6,067	<u>36%</u>		
	Combined on Ontario tax over \$6,067	<u>56%</u>		

Federal brackets have increased due to indexing. Last year, tax bracket was at 205,842 Federally.

COMBINED PERSONAL TAX RATES – 2019

<u>From</u>	<u>To</u>	Tax at the upper Range on regular <u>income</u>	Marginal Rate			
			<u>Regular Income</u>	<u>Capital Gain</u>	<u>Eligible Dividend</u>	<u>Non- Eligible</u>
-	43,906	6,458	20.05%	10.03%	0.00%	8.89%
43,907	47,630	7,358	24.15%	12.08%	0.00%	13.61%
47,631	77,313	16,158	29.65%	14.83%	6.39%	19.93%
77,314	87,813	19,463	31.48%	15.74%	8.92%	22.04%
87,814	91,101	20,577	33.89%	16.95%	12.24%	24.81%

After deduction of federal basic personal credit of \$12,069 and Ontario basic personal credit of \$10,582. Ignores Ontario Health Premium.

COMBINED PERSONAL TAX RATES – 2019

<u>From</u>	<u>To</u>	Tax at the upper Range on regular <u>income</u>	Marginal Rate			
			<u>Regular Income</u>	<u>Capital Gain</u>	<u>Eligible Dividend</u>	<u>Non- Eligible</u>
91,102	95,259	22,153	37.91%	18.96%	17.79%	29.43%
95,260	147,667	44,903	43.41%	21.71%	25.38%	35.76%
147,668	150,000	45,985	46.41%	23.21%	29.52%	39.21%
150,001	210,371	74,945	47.97%	23.99%	31.67%	41.00%
210,372	220,000	79,949	51.97%	25.99%	37.19%	45.60%
Over 220,000		Over \$80,691	53.53%	26.77%	39.34%	47.40%

After deduction of federal basic personal credit of \$12,069 and Ontario basic personal credit of \$10,582. Ignores Ontario Health Premium.

Only change in maximum tax rates from 2018 is non-eligible dividends (46.84 → 47.40)

BENEFITS OF **INCOME SPLITTING**

Amount of income transferred	Tax savings on the marginal income transferred
47,631	18,139
95,260	10,700
147,668	5,304
220,000	<u>3,674</u>
	<u>37,817</u>

With practitioners moving toward salary as compensation, becoming **more relevant** in today's owner-manager compensation landscape

Salary of **around \$47,000** seems to be the best option – Easy to justify this type of salary if CRA looks into the reasonableness of the compensation

REGISTERED RETIREMENT SAVINGS PLANS - RRSP

<u>Year</u>	<u>RRSP Contribution Limits</u>	<u>Earned Income Required in Prior Year</u>
2016	25,370	140,944
2017	26,010	144,500
2018	26,230	145,722
2019	26,500	147,222
2020	27,230	151,278

Compensation Planning – there may be no need to maximize salary to above levels unless you make the maximum contribution every year (Keep EHT in mind)

TAX FREE SAVINGS ACCOUNT – TFSA

<u>Year</u>	<u>TFSA Contribution Limits</u>
2009	5,000
2010	5,000
2011	5,000
2012	5,000
2013	5,500
2014	5,500
2015	10,000
2016	5,500
2017	5,500
2018	5,500
2019	6,000
2020	6,000
Cumulative	<u>69,500</u>

Couple (\$139,000 combined TFSA) – Dividend/interest portfolio @ 4% = \$5,560/year tax-free income

CHANGES & ITEMS OF NOTE – **ROUND UP**

Enhanced Basic Personal Amount (2020) – Legislation released with amount to be increased to \$15,000. Phased out between approximately \$150,000 and \$215,000.

Home Buyers Plan (HBP) – Increased from \$25,000 to \$35,000 (after March 19, 2019) – no change to repayment period or terms
– New rules for access by separated spouses

Canada Workers Benefit (CWB) – replaces the Working Income Tax Benefit for 2019 and future years with some minor changes – CRA will now calculate it automatically for those who did not apply

Extending Re-assessment Periods – for additional time needed to obtain information from third parties – should be limited only to the income being reviewed/audited

CHANGES & ITEMS OF NOTE

ONTARIO BUDGET 2019

Low Income Individuals & Families Tax Credit (LIFT) – To a maximum of \$850 and \$1,700, non-refundable tax credit – reduced for individual income over \$30,000 and family income above \$60,000

What it means – Individual with up to approximately \$30,000 of employment income will not pay Ontario provincial tax – then clawed back 10% where completely eliminated at approximately \$ 38,550

Notes – Cannot be used to lower Health Tax Levy (begins over \$20,000) – Above amounts only applicable if there is no other source of income (**employment** income only).

CHANGES & ITEMS OF NOTE

ONTARIO BUDGET 2019

Ontario Childcare Access and Relief from Expenses (CARE) – based on family income and eligible child care expenses -supposed to help 300,000 families with up to 75% of their eligible child care expenses

Ontario Employer Health Tax – Corporations – Not applicable to payroll under \$490,000 – up from \$400,000 (effective January 1, 2019)



Employment Income

Owner Manager Employment Expenses

COMING SOON TO A CLIENT NEAR YOU!

OWNER-MANAGER EMPLOYMENT EXPENSE AUDITS 2.0

CRA EMAIL TO E-FILERS – December 19, 2019

1. The expenses were incurred as part of your employment duties, and not as a shareholder.

If you are a shareholder, you must establish that the expenses were incurred in your **capacity as an employee** and not a shareholder.

To do this, you must be able to establish that the expenses are **comparable** to expenses incurred by employees (who are not shareholders or related to a shareholder) **with similar duties at your company**, or at other businesses similar to your company in size, industry and services provided.

You do not need to include this information on your tax return or the Form T2200, Declaration of Conditions of Employment; however, the Canada Revenue Agency (CRA) could ask you to provide this later.

COMING SOON TO A CLIENT NEAR YOU!

OWNER-MANAGER EMPLOYMENT EXPENSE AUDITS 2.0

2. You were required to pay for the expenses yourself as part of your employment duties.

Usually, a written contract of employment specifies the expenses a non-shareholder employee must pay. **Sometimes there is no written contract or the requirement to incur expenses is not clearly identified** in the contract, but there is an implied requirement for the employee to pay the expenses. For example, an employee can demonstrate an implied requirement by showing they face possible disciplinary action from their employer if they do not meet the requirement.

If you are a **shareholder-employee** however, an implied requirement may be more difficult to demonstrate and a **written contract may not be adequate** to establish that you were required to pay for the expenses as part of your employment duties.

To satisfy this condition, you must therefore be able to establish that the expenses are comparable to expenses incurred by employees (who are not shareholders or related to a shareholder) with similar duties at your company, or at other businesses similar to your company in size, industry and services provided. **This will support that you were required to pay the expenses to fulfill your obligations in your capacity as an employee.**

COMING SOON TO A CLIENT NEAR YOU!

OWNER-MANAGER EMPLOYMENT EXPENSE AUDITS 2.0

You **must satisfy both key conditions** to deduct the expense(s) on the T1 individual income tax return. If both conditions are met, you may, as a shareholder, have the authority to certify Form T2200, Declaration of Conditions of Employment, for yourself or a related employee.

Commentary

Sole owner-manager practitioners – How do we prove that they are similar to other businesses in our industry? Do we have to gather the evidence or proof to provide to CRA?

Will CRA be **reasonable** with explanations or require documentation?

Court cases – Practitioner can keep **copies of various T2200's** from other clients as a reference (personal tax clients – other similar clients)



Real Estate

Principal Residence Exemption & Elections

PRINCIPAL RESIDENCE EXEMPTION



Must report disposition on **Schedule 3** of the T1 & file the **T2091** - Designation of Property as A Principal Residence

Should always give some thought to whether there are **deemed dispositions** to report – i.e. deceased taxpayer

What happens if I forgot to claim the disposition on the tax return

The CRA can say that the PRE was not claimed and the full capital gain is taxed

Can file the form late with penalties (maximum of \$8,000)

Voluntary Disclosure Program

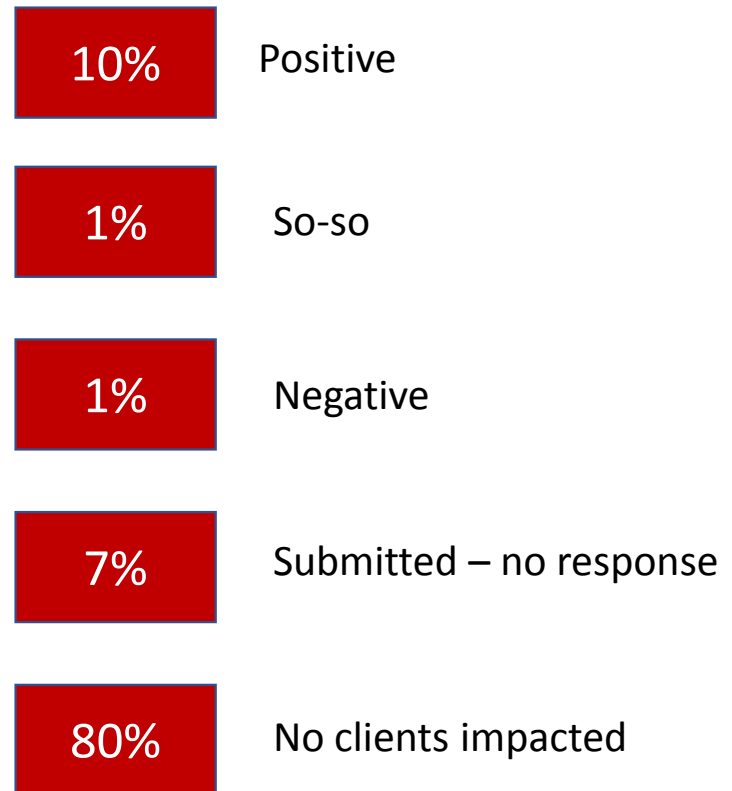
Planning for the Future – Tell clients to keep all invoices for major repairs and renovations even if they have one property/residence – They may come into play in the future if they purchase other properties (or more than one property and different appreciation in value)



PRACTITIONER SURVEY – FALL 2019



Experience with CRA – How has a **missed disclosure** of the PRE (no tax owing) going back to 2016 resulted?

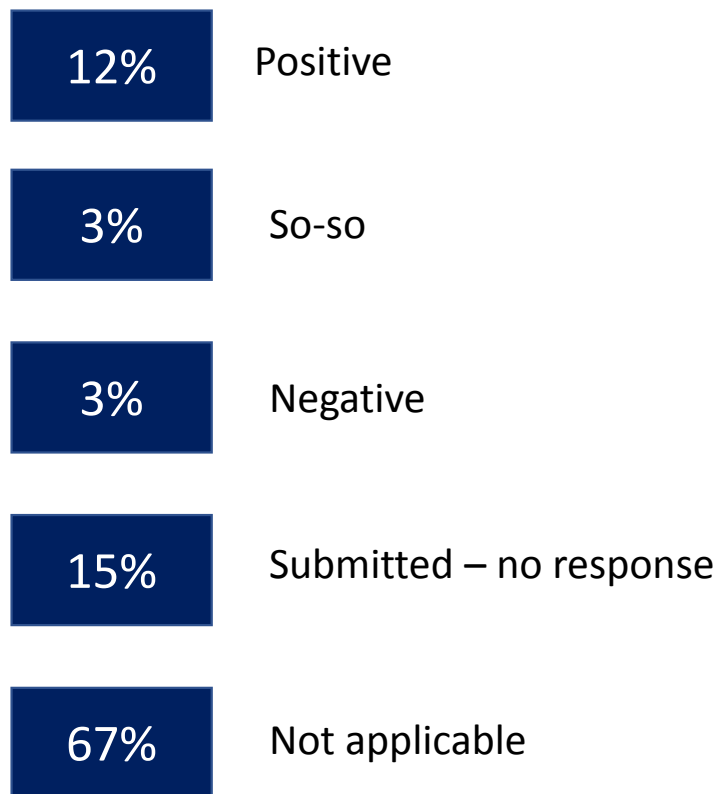




PRACTITIONER SURVEY – FALL 2019



For those filing a voluntary disclosure under the new program (March 1, 2018 onwards) how did it go?



CHANGE IN USE ELECTIONS



From Principal Residence to Income Producing
Section 45(2) Election – Must be filed with the tax return
– no prescribed form. Send letter to CRA

The home is considered a principal residence for up to four (4) subsequent tax years – as long as resident of Canada



From Rental Income to Principal Residence
Section 45(3) Election – No deemed disposition and reacquisition therefore no capital gain

Notify the CRA the earlier of **90 days** after the request by the Minister or **April 30 of the following year**
– Election by letter (no prescribed form) – can be filed late

Can get a little bit tricky, so have to look at these on a case by case basis



Tax On Split Income (TOSI)
Personal Tax Returns

TAX ON SPLIT INCOME (TOSI) - CHALLENGES

Onus is on the Personal Tax Preparer

Some practitioners choosing not to do T1 returns

Where do we look for potential TOSI issues?

T3 & T5 slips from personal corporations, family trusts

What do we do?

Difficult decision to make – research may be onerous

Do we just default to TOSI?



Too early to tell how CRA will be dealing with TOSI assessments



PRACTITIONER SURVEY – FALL 2019



What did you do when it came down to trying to determine if TOSI applied

48%

Did not find TOSI

6%

Had TOSI – Filed it that way

13%

Had TOSI – turned blind eye

5%

On edge – Made determination

28%

Not applicable

TAX ON SPLIT INCOME (TOSI) – WHAT DO WE DO?

“I TOSI YOU” – Assume TOSI applies unless the client gives us satisfactory evidence against it being TOSI

Put the ball in the client's court

Send an email along with a checklist, chart or flowchart asking them to review it and decide – tell them to discuss with the company's accountant

We just need to know what line to put it on





Business & Rental Income

CCA Recap – Shared Economy – Change in Use
Commercial Manner vs. Cost Sharing

RENTAL INCOME – GENERAL CONSIDERATIONS

Business Income vs. Property Income

Important for determining the deductible expenses
(i.e. T776 vs. the T2125)

Personal Use Property Rules

Starting to creep up with CRA reviews of real estate transactions (i.e. cottages – selling personal items)

Commercial Manner vs. Cost Sharing

Renting out in a non-commercial manner or to people who are not at arm's length (i.e. children, mom/dad)



Anticipating this to be an area of increased CRA reviews & audits