



2020 Year End Tax Planning

Welcome! Dear Clients & Friends

As we approach the end of 2020, we are reminded that this is no ordinary year. We hope our tax planning measures help to reduce your 2020 tax obligations amidst the global pandemic. The following are some ideas you may want to consider while you navigate through the ever-changing tax landscape. As always, we are ready to assist you.

What's New Canada Emergency Wage Subsidy (CEWS)

The following changes were made to the CEWS program upon the passage of Bill C-9 on November 19, 2020:

- The subsidy has been extended to June 2021.
- The maximum subsidy rate for Periods 8 to 10 will remain at 65% (40% base rate + 25% top-up).
- Beginning in Period 8, the top-up rate and base rate will be calculated using the same revenue decline.
- For Periods 8 to 10, there is a safe harbour rule that allows an entity to use the new top-up calculation or the previous three month average revenue decline, whichever results in the higher top-up subsidy
- The deadline to apply for CEWS is the later of January 31, 2021 or 180 days after the end of the claim period.

- Starting in Period 9, the calculation for employees on leave with pay aligns better with EI benefits.

Canada Emergency Rent Subsidy (CERS)

The CERS provides direct relief to businesses, non-profits, and charities that continue to be economically impacted by the COVID-19 pandemic. The CERS is a replacement of the Canada Emergency Commercial Rent Assistance Program (CECRA), which ended in September 2020. The CERS will provide benefits directly to qualifying renters and property owners, without requiring the participation of landlords. The CERS is available retroactive to September 27, 2020 until June 2021. Expenses for each qualifying period would be capped at \$75,000 per location and be subject to an overall cap of \$300,000 that would be shared among affiliated entities. Eligible expenses for a location for a qualifying period will include commercial rent, property taxes, property insurance and interest on commercial mortgages (subject to limits). Expenses that relate to residential property used by the taxpayer (e.g., their house or cottage) are not eligible.

Payments made between non-arm's length entities are not eligible expenses. To claim the CERS, eligible organizations will be required to calculate their revenue, and compare this amount to a reference period to determine their revenue drop, in the same manner as under the CEWS program. Similar to CEWS, the maximum subsidy rate for Periods 8 to 10 is 65%. Organizations with locations that are temporarily forced to close, or temporarily have their business activities significantly reduced due to COVID-19 may also be eligible to receive a 25% Lockdown Support Subsidy on eligible expenses. The CERS is deemed to be government assistance received by the eligible entity immediately before the end of the relevant qualifying period the claim relates to, regardless of when the eligible entity applies for or receives the subsidy. It will be included in income for tax purposes at that time.

Canada Emergency Business Account (CEBA)

The following changes to the CEBA program were announced recently:

- As of October 26, 2020, eligible Canadian businesses currently operating through a personal bank account will be able to apply for CEBA.
- All applicants now have until March 31, 2021, to apply for CEBA.
- CEBA support is being expanded from \$40,000 to \$60,000. This expansion will be available to all previously eligible and new CEBA applicants. Half of this additional financing of \$20,000 will be forgivable if repaid by December 31, 2022. For income tax purposes, the forgivable loan portion (i.e. \$10,000 from the original \$40,000 CEBA loan and \$10,000 from the new \$20,000 CEBA loan) must be included in income in the year the loan is received. For most businesses, this will require an income inclusion in 2020. If the business does not qualify for the forgiven amount, a tax deduction of the forgiven amount is available in the year the loan is repaid. *An election under subsection 12(2.2) can be made to defer the income inclusion until the subsequent year.*

Tax Free Employee Reimbursements – \$500

CRA recently expanded the types of expenses that could be reimbursed tax free due to the pandemic. CRA clarified that an employee could be reimbursed for computer equipment and home office furniture up to \$500 (including HST) and the amount would not be taxable to the employee. This amount is per employee and not per each purchase of equipment. If an employee were reimbursed \$650, \$150 would be taxable to the employee. In order to be tax-free, the payment to the employee must be a reimbursement for actual expenses and not an allowance to be used at the discretion of the employee.

Home Office Expenses Generally, an employee can claim home office expenses when they have a signed form T2200 and they use their home office as the principal place of business or is used exclusively to meet customers on a regular and continuous basis. Given the recent pandemic, many employees have worked principally at home. Employees that meet the general conditions will be able to deduct their home office expenses provided a form T2200 is signed by their employer. In order to take this deduction, a calculation of home office expenses will have to be made. The expenses to be considered will include utilities and maintenance. Employees cannot deduct interest, property taxes, insurance or capital expenses. If the employee rents, the deduction would be rent plus utilities.

In the recent Financial Update, the government proposed a \$400 deduction that would be available to all employees working from home. This deduction would not be based on actual expenses. The details and conditions of this deduction have not yet been clarified.

Corporate and Business Tax Changes - Reduced Small Business Tax Rate In 2019

Canadian-controlled private corporations benefited from the federal and Ontario small business tax rate of 9% and 3.5% respectively. The Ontario rate was reduced to 3.2% in 2020. As a result, the combined federal and Ontario small business tax rate of 12.5% was reduced to 12.2% in 2020. The reduction will be prorated for companies with off-calendar yearends.

Individuals Registered Retirement Savings Plan

- The maximum RRSP contribution room for 2020 is limited to the lesser of \$27,230 or 18% of your 2019 earned income less your pension adjustment. Your available contribution room should also be printed on the 2019 Notice of Assessment from the CRA.
- The deadline for your 2020 contribution is March 1, 2021. If you have excess cash available, consider making your 2021 contribution early, any time after January 1, 2021.
- A salary of \$154,611 is required in 2020 to earn the maximum RRSP contribution room of \$27,830 for the 2021 taxation year
- If you turn 71 years old in 2020, you must terminate your RRSP this year. You can convert the RRSP into a Registered Retirement Income Fund (RRIF), into an annuity, or it can be withdrawn in a lump sum. You must make your 2020 RRSP contribution by December 31, 2020. If you withdraw the RRSP as a lump sum, the amount will be subject to tax as regular income.
- If you are terminating your RRSP in 2020 and you have earned income, consider making an over-contribution to your RRSP. This will result in a tax deduction for 2021 even though you can no longer

contribute to your RRSP in that year. Since the over contribution will be subject to a 1% penalty per month, it is advisable that the contribution be made in December to minimize the penalty.

- Consider making a contribution to a spousal RRSP to achieve income splitting in the future. The contributions will grow tax deferred until withdrawn and will be taxed in the spouse's hand at that time. The contributor is entitled to the deduction at the time the contribution is made.
- A spousal RRSP is particularly useful if you are over 71 but your spouse is younger than you. Although you may not be permitted to contribute to your own plan, you are permitted to make contributions to a spousal plan until the end of the year in which the spouse turns 71 years of age.
- Even if your children have no tax to pay, you may wish to file tax returns on their behalf. If they have earned income, they will generate RRSP contribution room which can be carried forward indefinitely.

Registered Education Savings Plans

- Transfers between individual RESPs for siblings are allowed, subject to certain restrictions. This is intended to permit the same flexibility regarding the allocation of RESP assets among siblings as it exists for RESP family plans.

Make a Charitable Donation If your contributions are in excess of \$200, you will benefit from a greater level of tax savings. Since the CRA permits either spouse to claim a donation, one spouse should claim all donations made by both spouses.

- If you have little or no tax owing this year, you may choose not to claim the charitable donation tax credit. Unclaimed charitable donations can be carried forward 5 years. Consider saving your unclaimed donations for a future year.
- One advantage of having the lower-income spouse claim all of the donations is that the lower-income spouse may receive a tax refund that can be reinvested without the attribution rules applying that would otherwise tax the investment income in the hands of the higher income spouse.
- Donations to US charities can only be claimed on your Canadian tax return if they were made to a prescribed university or to the extent that you have US source income.
- Instead of cash, donate stocks or mutual fund units that have unrealized capital gains. Capital gains taxes are eliminated on gains that are generated when publicly traded securities are donated directly to a charity, or to a private foundation.

Income-Splitting

- Consider making an investment loan to your lower-income spouse to split income earned on non-registered assets and reduce taxes on the income. The CRA allows these loans as long as you charge at least the CRA prescribed interest rate on the loan and document the interest payments. Currently the prescribed rate is 1%. The set interest rate will apply for the duration of the loan. Payment of the interest is due at the end of the calendar year and must be paid no later than January 30th of the following year. Tax Loss Selling

- Consider triggering capital losses before the end of the year to offset any capital gains that were realized in 2020 or in one or more of the last three years.
- Be aware that specific rules prohibit you or an affiliated person from buying an identical asset within 30 days of the sale.
- Normally, stock transactions are settled within two business days. Due to weekends and holidays, consider completing all trades by December 29, 2020. Adjust Your December Instalments If your income has decreased since last year, you may be able to decrease your December instalment payment. Use caution since any under-payment will result in penalties and nondeductible interest charges.

Adoption Expense Tax Credit

The maximum amount of eligible expenses for the Adoption Expense Tax Credit has increased to \$16,563 per child for the 2020 taxation year. Child Care Expense Deduction Currently, the maximum annual amount that can be claimed under the Child Care Expense Deduction is limited to the least of:

- The total amount spent on childcare expenses;
- Two-thirds of the lower income spouse's earned income; and
- The total of the maximum dollar limits for all children, or; \$8,000 per child under the age of seven, \$5,000 per child aged 7 to 16, and \$11,000 for children that are eligible for the Disability Tax Credit regardless of age. * Please ensure you keep all your receipts. Medical Expenses
- You are permitted to select any 12-month period ending in 2020 when claiming medical expenses.
- You can plan for the timing of certain medical expenses since they are claimable based on when they are paid. For example, you may wish to pay for orthodontic treatment in full before the end of the year, even if the treatment will span the next year. Tuition Tax Credits
- Individuals will still be able to claim the federal tuition tax credit. However, the Ontario tuition tax credit was eliminated in September 2017.
- Fees paid for an examination to obtain professional status recognized by federal and provincial statutes can be claimed as a tuition tax credit.
- Examination fees paid to an educational institution, professional association, or provincial ministry will qualify. Other Suggestions
- If income in an inter vivos trust is to be taxed in a beneficiary's return, the income must be paid or payable to the beneficiary by December 31, 2020.

Corporate Corporate Tax Rates

The combined federal and Ontario tax rate on active business income for a Canadian Controlled Private Corporation ("CCPC") is 12.2% for 2020 (26.5% if active business income exceeds \$500,000). For investment corporations, the tax rates remain unchanged from prior year at 50.17%.

- Consider purchasing assets eligible for capital cost allowance before year-end.

Capital Gains

- If you do not receive all of the proceeds of sale upon closing, you may be able to defer some of the tax for up to five years. This can be extended to 10 years for farm property.
- Capital gains on the sale of shares of a qualifying corporation may be sheltered by the capital gains exemption (“CGE”), with a lifetime limit of \$883,384 for 2020 and indexed for subsequent years.
- If you have previously claimed an allowable business investment loss (ABIL) or if you have a cumulative net investment loss (CNIL), your ability to claim the capital gains exemption in 2020 may be restricted. Steps should be taken to rectify this issue in order to claim the capital gains exemption.

Shareholder Loans Should Be Repaid

- If you or your family members have borrowed money from a corporation in fiscal 2020, the loan must be repaid by the end of fiscal 2021. If the loan is not repaid at that time, it will be treated as income for 2020.
- Also, remember to pay any interest owing to the corporation by January 30, 2021 in order to avoid receiving a taxable benefit.

Declare a Bonus

A CCPC can take advantage of lower corporate tax rates if their taxable income is below \$500,000. If a bonus is declared and accrued in order to bring taxable income down to this level, the bonus must be paid within 179 days after the fiscal period. Interest Expense Interest may be deductible if it is incurred for the purpose of earning income from a business or from property. Interest on money borrowed for personal purposes is not deductible.

Any excess cash should be applied first against paying off your non-deductible loans.

Consider restructuring your borrowings such that the interest incurred is tax deductible.

GST/HST Election for Closely Related Persons

Supplies of most property and services made between closely related parties (e.g. where 90% or more of the ownership is held by one corporation or another corporation) that are resident in Canada and exclusively engaged in commercial activities are not subject to GST/HST if an election is completed and filed with the CRA.

- A prescribed election form is required to be filed with the CRA by the first date on which any of the parties to the election is required to file a return. Parties to this election will be jointly and severally liable for any GST/HST owing on supplies. Partnerships Deferral opportunities for corporations with a significant interest in a partnership that has a different fiscal period from the corporation are limited. Corporations must accrue income for the portion of the partnership’s next fiscal period that falls within

the corporation's taxation year. Trusts & Estates Review your trust arrangement and make sure all documentation is up-to-date and ensure all transactions are completed and recorded on a timely basis.

- Graduated tax rates for graduated rate estates are available for first 36 months after the death of the testator. After that period, the estate is subject to tax at the highest marginal tax rate and will be required to adopt a December 31 year-end.
- Donations made pursuant to the Will will be treated as having been made by the estate at the time the property is transferred to a qualified donee. Where the transfer is made within 60 months following an individual's death, the estate may claim the donation tax credit either in the year the donation is made or in an earlier year of the estate. Alternatively, the estate may deem the deceased individual to have made the donation in the year of death or the previous year.
- With various court decisions affecting the trust's residency, it is important that you review the arrangement for family trusts set up abroad or in another province in determining where a trust is resident for Canadian tax purposes. New Reporting Requirements For taxation years ending on or after December 31, 2021, the new reporting rules will require "express trusts" (generally a trust created by a settlor during his or her lifetime or at death in a will) and non-resident trusts that are currently required to file a T3 return, to report, with its T3 return, the name, address, date of birth (in the case of an individual), jurisdiction of residence, and taxpayer identification number (TIN) for each:
 - settlor
 - trustee
 - beneficiary, and
 - person who has the ability to exert influence over trustee decisions regarding appointment of income or capital of the trust (e.g. a protector) in the year A TIN includes a social insurance number, a business number, an account number issued to a trust and, for a jurisdiction other than Canada, a TIN used in that jurisdiction to identify an individual or entity. This new schedule must be filed with the trust's T3 return — it cannot be filed on its own.

KOROLL & COMPANY
38 Prospect Street
Suite 100
Newmarket, ON L3Y 3S9

905.898.4231 or 416.969.8118
www.koroll.ca