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YEAR-END TAX PLANNING

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This publication is a high-level summary of the most recent tax developments applicable to business owners, investors, and high net worth individuals. Enjoy!

YEAR-END TAX PLANNING

December 31, 2019 is fast approaching... see below for a list of tax planning considerations. Please contact us for further details or to discuss whether these may apply to your tax situation.

SOME 2019 YEAR-END TAX PLANNING TIPS INCLUDE:

- 1) Certain expenditures made by individuals by December 31, 2019 will be eligible for 2019 tax deductions or credits including: moving expenses, child care expenses, charitable donations, political contributions, medical expenses, alimony, eligible employment expenses, union, professional, or like dues, carrying charges and interest expense. Ensure you keep all receipts that may relate to these expenses.
- 2) If you own a business or rental property, consider paying a reasonable salary to family members for services rendered. Examples of services include website maintenance, administrative support, and janitorial services. Salary payments require source deductions (such as CPP, EI and payroll taxes) to be remitted to CRA on a timely basis, in addition to T4 filings.
- 3) If you own a business or rental property, also consider making a capital asset purchase by the end of the year. Most capital assets purchased in 2019 will be eligible for accelerated depreciation (generally three times the deduction to which they would normally be entitled in the first year). For example, a piece of equipment normally eligible for a 10% deduction in the first year (Class 8), would be entitled to a 30% deduction. This benefit is available even if purchased and made available for use just before year-end.



Further, purchases of machinery and equipment used for the manufacturing or processing of goods for sale or lease (such as an oven in a restaurant) may be eligible for a 100% write-off. Likewise, some zero-emission electric vehicles may be eligible for a 100% write-off (limited in some cases to the first \$55,000). Alternatively, zero-emission vehicles purchased on or after May 1, 2019 may be eligible for a federal incentive rebate of up to \$5,000.

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- 4) A senior whose 2019 net income exceeds \$77,580 will lose all, or part, of their Old Age Security pension. Senior citizens will also begin to lose their age credit if their net income exceeds \$37,790. Consider limiting income in excess of these amounts if possible. Another option would be to defer receiving Old Age Security receipts (for up to 60 months) if it would otherwise be eroded due to high income levels.
- 5) You have until Monday, March 2, 2020 to make tax deductible Registered Retirement Savings Plan (RRSP) contributions for the 2019 year. Consider the higher income earning individual contributing to their spouse's RRSP via a "spousal RRSP" for greater tax savings.
- 6) Individuals 18 years of age and older may deposit up to \$6,000 into a Tax-Free Savings Account in 2019. Consider a catch-up contribution if you have not contributed the maximum amounts for prior years. An individual's contribution room can be found online on CRA's My Account.
- 7) A Canada Education Savings Grant for Registered Education Savings Plan (RESP) contributions equal to 20% of annual contributions for children (maximum \$500 per child per year) is available. In addition, lower income families may be eligible to receive a Canada Learning Bond.
- 8) A Registered Disability Savings Plan (RDSP) may be established for a person who is under the age of 60 and eligible for the Disability Tax Credit. Non-deductible contributions to a lifetime maximum of \$200,000 are permitted. Grants, Bonds and investment income earned in the plan are included in the beneficiary's income when paid out of the RDSP.
- 9) Consideration may be given to selling non-registered securities, such as a stock, mutual fund, or exchange traded fund, that has declined in value since it was bought to trigger a capital loss which can be used to offset capital gains in the year. Anti-avoidance rules may apply when selling and buying the same security.
- 10) Consider restructuring your investment portfolio to convert non-deductible interest into deductible interest. It may also be possible to convert personal interest expense, such as interest on a house mortgage or personal vehicle, into deductible interest.
- 11) Canada Pension Plan (CPP) receipts may be split between spouses aged 65 or over (application to CRA is required). Also, it may be advantageous to apply to receive CPP early (age 60-65) or late (age 65-70).
- 12) Teacher and early childhood educators – A federal refundable tax credit of 15% on purchases of up to \$1,000 of eligible school supplies by a teacher or early childhood educator used in the performance of their employment duties may be available. Receipts for school supplies as well as certification from employer will be required.
- 13) Home accessibility tax credit – A federal non-refundable tax credit of 15% on up to \$10,000 of eligible expenditures (renovations to a qualified dwelling to enhance mobility or reduce the risk of harm) may be available each calendar year, if a person 65 years or older, or a person eligible for the disability tax credit, resides in the home.
- 14) Did you incur costs to access medical intervention required in order to conceive a child which was not previously allowed as a medical expense? Certain expenses for the previous 10 years may now be eligible (amounts incurred in 2009 must be claimed by the end of 2019).
- 15) If EI premiums were paid in error in respect of certain non-arm's length employees, a refund may be available upon application to CRA.
- 16) The new Canada Training Credit provides another reason to file a tax return. Canadian residents that are at least 25 years of age and less than 65 years at the end of the year that have earnings (primarily income from employment or self-employment) of \$10,000 or more without exceeding \$147,667 in 2019 will accumulate \$250 in a notional account that can be refunded when the individual enrolls in an eligible educational institution. The amount will be refunded when the individual files their personal tax return. The amount will first start to accumulate in 2019, and be available for expenses in the 2020 year.
- 17) Employers of eligible apprentices are entitled to an investment tax credit. Also, a \$1,000 Incentive Grant per year is available for the first and second year as apprentices. A \$2,000 Apprenticeship Completion Grant may also be available.
- 18) If income, forms, or elections have been missed in the past, a Voluntary Disclosure to CRA may be available to avoid penalties.
- 19) Are you a U.S. Resident, Citizen or Green Card Holder? Consider U.S. filing obligations with regards to income and financial asset holdings. Filing obligations may also apply if you were born in the U.S.

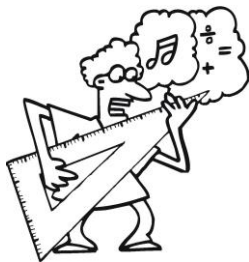
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Information exchange agreements have increased the flow of information between CRA and the IRS. Collection agreements enable CRA to collect amounts on behalf of the IRS.

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Higher levels of personal income are taxed at higher personal rates, while lower levels are taxed at lower rates. Therefore, individuals may want to, where possible, adjust income out of high income years and into low income years. This is particularly useful if the taxpayer is expecting a large fluctuation in income, due to, for example, an impending

- maternity/paternity leave;
- large bonus/dividend; or
- sale of a company or investment assets.



In addition to increases in marginal tax rates, individuals should consider other costs of additional income. For example, an individual with a child may receive reduced Canada Child Benefit (CCB) payments. Likewise, excessive personal income may reduce receipts of OAS, GIS, GST/HST credit and other provincial/territorial programs.

There are a variety of different ways to smooth income over a number of years to ensure an individual is maximizing access to the lowest marginal tax rates. For example,

- Taking more, or less, earnings out of the company (in respect of owner-managed companies).
- Realizing investments with a capital gain/loss.
- Deciding whether to claim RRSP contributions made in the current year, or carry-forward the contributions.
- Withdrawing funds from an RRSP to increase income. Care should be given, however, to the loss in RRSP room based on the withdrawal.
- Deciding on whether or not to claim CCA on assets used to earn rental/business income.

Note that for the 2019 year, the tax cost of dividends paid out to shareholders of a corporation that do not “meaningfully contribute” to the business may increase.

Year-end planning considerations not specifically related to changes in income levels and marginal tax rates include:

- 1) Corporate earnings in excess of personal requirements could be left in the company to obtain a tax deferral (the personal tax is paid when cash is withdrawn from the company).

The effect on the “Qualified Small Business Corporation” status should be reviewed before selling the shares where large amounts of capital have accumulated. In addition, changes which may limit access to the small business deduction where significant corporate passive investment income is earned should be reviewed.

- 2) Consider paying taxable dividends to obtain a refund from the “Refundable Dividend Tax on Hand” account in the corporation. Recent changes may restrict the amount of refund received if “eligible” dividends are paid. Eligible dividends are subject to lower personal tax rates.
- 3) Individuals that wish to contribute to the CPP or a RRSP may require a salary to generate “earned income”. RRSP contribution room increases by 18% of the previous years’ “earned income” up to a yearly prescribed maximum (\$26,500 for 2019; \$27,230 for 2020).
- 4) Dividend income, as opposed to a salary, will reduce an individual’s cumulative net investment loss balance thereby potentially providing greater access to the capital gain exemption.
- 5) Recent tax changes may make it costlier to earn income in a corporation from sales to other private corporations in which the seller or a non-arm’s length person has an interest. As such, consideration may be given to paying a bonus to the shareholder and specifically tracking it to those higher taxed sales. Such a payment may reduce the total income taxed at higher rates.
- 6) Recent changes to the tax regime will likely require more careful tracking of an individual shareholder’s labour and capital contribution to the business, as well as risk assumed in respect of the business. Inputs should be tracked in a permanent file. Dividends paid that are not reasonable in respect of those contributions may be considered “split income”, and taxed at the highest tax rate. Several other exceptions may also apply.
- 7) Recent changes will restrict access to the corporate small business deduction where more than \$50,000 of passive income is earned in the corporation. Consider whether it is appropriate to remove passive income generating assets from the corporation and whether a shift in the types of passive assets held is appropriate. In some provinces it may actually be beneficial to have access to the small business deduction restricted. As many variables affect these decisions, consultation with a professional advisor is suggested.

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8) If you are providing services to a small number of clients through a corporation (which would otherwise be considered your employer), CRA could classify the corporation as a Personal Services Business. There are significant negative tax implications of such a

classification. In such scenarios, consider discussing risk and exposure minimization strategies (such as paying a salary to the incorporated employee) with your professional advisor.

The preceding information is for educational purposes only. As it is impossible to include all situations, circumstances and exceptions in a newsletter such as this, a further review should be done by a qualified professional.

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For any questions... give us a call.

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