PDL Financial Consulting & Valuations Inc.

YEARS 2019/2020

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TAX PLANNING

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2020 Tax Highlights

- RRSP contribution limit increases to $27,230
- Employment Insurance Rates reduced to 1.58%
- Lowest tax bracket remains at 15%
- Corporate tax rate decreases to 12.2% for Ontario SBC's
- Top Tax bracket starts at income over $214,368
- No Tax on personal income up to $13,229
- CPP Rates rise to 5.25%
- OAS repayment threshold increases to $79,054
- TFSA annual limit is $6,000
- First time home buyers amount $5,000
- RRSP Homebuyers $35,000

Should you use a holding company?

If you own a business or hold investments personally you might wonder if they should be held using a holding company. Several factors must be considered. For starters, a holding company can be a company that doesn't produce goods or services but holds shares of an operating company. The holding company is simply interposed between the business owner and the active business. This allows profits to be flowed up and retained in the holding company. Alternatively, a holding company could hold marketable securities or rental property instead of the client holding those investments personally.

Using a holding company-–operating company structure

One reason for a business owner to use a holding company is for asset protection. If a creditor of the operating company decides to sue that opco, [the creditor] could have access, theoretically, to all of its assets. Assets can be protected by removing excess cash or investments not needed for business operations to a holding company. Another reason to use an opco-holdco structure is for tax planning. The opco may be able to pay tax-free intercorporate dividends to the holdco, which the holdco can retain. This income can be held inside that holdco until, a later year when you, the business owner, actually need the money. You have more control over the timing of receiving that income personally when using the holdco. This flexibility is also beneficial where multiple shareholders hold shares in the opco through their individual holdcos. Where tax-free intercorporate dividends can be paid to each holdco, the shareholders can each decide when to extract funds from their personal holdcos, at which time they'll pay personal tax on the amounts withdrawn.

In contrast, there is no way to prevent current income taxation when dividends are paid directly out of an operating company to an individual. Note: new anti-avoidance rules may treat inter-corporate dividends paid in excess of retained earnings as a capital gain. Tax advice may be required to ascertain the amount of dividends that may be safely paid. Other reasons to use a holdco include protecting U.S. investments from U.S. estate tax, acquiring a corporation in a tax-advantaged way, or implementing an estate freeze.

Transferring an investment portfolio to a holding company

Should you transfer investments already owned personally into a holding company for tax purposes? The answer is generally no, because of negative tax integration. In all provinces in Canada, there's actually a tax cost from earning investment income inside a private company compared to earning that same investment income personally. It generally makes no sense for tax purposes to incorporate an existing investment portfolio when after-tax funds from the holdco will be retained and reinvested, because there's generally no tax-deferral benefit versus earning the investment income personally.

If, on the other hand, you already have investments or cash in a holding company, you might want to keep them there to avoid the tax on split income. Specifically, where a holdco received dividends from an opco, the cost of taking that money out could be substantial, whether it's paid out as an eligible or non-eligible dividend. It may make sense to keep the money inside of the holdco, even though there is a negative cost of integration, because there is a tax cost of taking the money out.

MY TAX ACCOUNT - HOW TO SET UP WITH THE CCRA

My Account is a secure portal that lets you view your personal income tax and benefit information and manage your tax affairs online.

My Account is:

- **Convenient** – It is available 21 hours a day, 7 days a week.
- **Easy to use** – After registering, simply log in with your CRA user ID and password.
- **Fast** – Information is up-to-the-minute and transactions are processed immediately.
- **Secure** – The CRA user ID and password are just part of the security.

You can also log in with a **Sign-in Partner**. This option lets you log in with a user ID and password that you may already have, such as for online banking. Individuals can use My Account. Authorized representatives (including accountants and employees) can access the same services through Represent a

How To Change Your Tax Return

If you have filed your return and then determine that you need to make a change, either because you have received another T-slip, or because you didn't claim an expense and later learned it was deductible, you can request an adjustment to your tax return. The time limit for filing adjustments to your tax returns by mail is **ten (10) years**. An adjustment request may be made in 2020 for the 2010 or subsequent taxation years.

You can request the change online for your most recent return, or your returns for the previous two tax years, or by mail, for tax returns for the past ten years.

Requesting a change online
Requesting a change online is very simple, and is done by logging into your account at the CRA My Account page. A separate request has to be filed for each tax year.
You can also use the online request if you forgot to apply for the GST/HST tax credit when you filed your tax return.

Requesting a change by mail
You can obtain a form T1ADJ from the CRA web site, complete it and mail it in, along with documents supporting your change request.

TAX REPORTING FOR REAL ESTATE SALES

When you sell real estate property, the transaction must be correctly defined and reported for tax purposes. Failure to do so may result in unwanted audits, potential back taxes, and related interest and penalties.

Tax on the sale of real estate
From a tax perspective, much of the discussion about real estate transactions focuses on two things. When appreciated property is sold:
1.Is the transaction taxable?
2.If yes, is the net profit taxed as business income or a capital gain?
The answers depend on circumstances. How a sale should be reported for tax purposes depends on a number of factors (see "Factors the CRA considers in an audit" below).
Since 2016, all property sales must be reported to the CRA, including that of a principal residence. The tax characteristics of the sale normally depend on whether the property was bought primarily to:

- live in as a principal residence,
- build or renovate, and sell (often referred to as a "flip")
- create rental income.

In the first scenario, you buy a property to live in as the principal residence (or for a spouse, common-law partner or child to live in). When the property is sold, although the sale must be reported to the CRA on the tax return for the year of sale, any resulting capital gain is often fully sheltered from tax because the conditions for claiming the principal residence exemption are satisfied, and the property was designated as such for each year of ownership.
Next, consider the case where you buy a property (or buy vacant land and build a property), take possession and do some renovating. After the home is improved, you sell the property, and the gains (or losses) form part of your income. You may have lived in the property while making improvements; however, this doesn't entitle you to the principal residence exemption if the intention was always to buy, improve and sell for profit. In this case, profits realized on the sale would normally be considered fully taxable business income.
Lastly, consider the case where you buy a property primarily to earn rental income, which you pay tax on as it's earned. When the property is sold, the profit would normally be taxed as a capital gain, subject to a 50% capital gains inclusion rate. If a property is used primarily as a principal residence but a portion is used to earn rental income, the property can be fully sheltered from tax using the principal residence exemption, provided that:

- the income-producing use is ancillary to the main use as a principal residence,
- there is no structural change to the property,
- no capital cost allowance is claimed on the property.

Factors the CRA considers in an audit
During an audit, the CRA considers a number of factors to determine whether a property sale was reported correctly. These include:

- the type of property sold,
- how long the property was owned by the seller,
- the seller's history of selling similar properties,
- whether the seller did any work on the property,
- why the property was sold,
- the seller's original intention in buying the property.

Understanding these factors can help you appropriately define the nature of your property sales.

CRA's ongoing strategy for tax non-compliance
Through experience and the use of third-party data, the CRA has aimed to gain a better understanding of non-compliant behaviour, leading to more audits and compliance actions. To support these efforts, the 2019 federal budget proposed providing the CRA with $50 million over five years and $10 million ongoing to create a Real Estate Task Force focused initially on the Toronto and Vancouver areas. The task force will focus on ensuring that:

- taxpayers report all sales of their principal residences on their tax returns;
- any capital gain derived from a real estate sale, where the principal residence tax exemption doesn't apply, is identified as taxable;
- money made on real estate flipping is reported as income;
- commissions earned are reported as taxable income;
- for Goods and Services Tax/Harmonized Sales Tax purposes, builders of new residential properties remit the appropriate amount of tax to the CRA.

SPLITTING PENSIONS WITH DECEASED SPOUSE

Up to 50% of eligible pension income received by the deceased can be split with a surviving spouse or common-law partner in the year of death. Likewise, in the year of death the surviving spouse can split income with deceased spouse based on a formula related to the date of death.

Consider the following example: *Jim, 80, died in August. Prior to death, he didn't receive any eligible pension income; however, his spouse, Mary (78), did. For the year of Jim's death, Mary received $3,500 each month from a registered pension plan and $1,000 monthly from a RRIF. In preparing her tax return for the year, Mary wonders what portion of her eligible pension income could be split with Jim for the year.*
The following formula is used to calculate the amount eligible to be split with a spouse or

MY TAX ACCOUNT (CONTNUED FROM PAGE 1)

Client.

My Account allows you to track your refund, view or change your return, check your benefit and credit payments, view your RRSP limit, set up direct deposit, receive email notifications, and so much more.
On your mobile device? Try the MyCRA mobile app - you can securely access key parts of your tax information and manage personal details, wherever you are.

Note: It is possible to see information in My Account before you receive the official document from the CRA. For example, if the CRA reassessed your return, you will see details of the reassessment in My Account before you receive your notice of reassessment in the mail. This is because the most up-to-date information is displayed immediately in My Account, while the notice goes through several manual processes before you receive it by mail.

Accessing the My Account services

To get access, you will need:

- your social insurance number;
- your date of birth;
- your current postal code or ZIP code and; an amount you entered on your income tax and benefit return, so have your return on hand (the line requested will vary and it could be from the current tax year or the previous one).

For step-by-step instructions on setting up your CRA user ID and password, go to Registration process to access the CRA login services.

My Account Services:

- Return status
- Other personal info
- See Notice of Assessment
- See Home Buyers Plan
- RRSP/TFSA balances
- Direct deposit
- View all Tax slips
- Disability credit
- Carryover amounts
- Account balances
- Change returns
- Child benefits
- Tax credits
- Dependents
- Submit documents
- View instalments
- Change marital status
- Change address
- Authorize representative
- Register disputeRequest voucher(s)

To register for the CCRA "My Account" go to the weblink at: www.canada.ca/en/services/taxes

GETTING A CRA CLEARANCE CERTIFICATE

One of an executor's most important jobs is to obtain the clearance certificate: written confirmation from the Canada Revenue Agency that the deceased (and the deceased's estate) has paid all taxes and associated interest and penalties up to the date the certificate is issued. How does the executor obtain one, and why is it so important?

Closing the Tax payers CRA file

A clearance certificate isn't a legal requirement. But the decision not to obtain one could lead to personal liability for the executor, who could be responsible for unpaid taxes if the estate has already been distributed to beneficiaries.
To obtain a clearance certificate, an executor needs to fill out Form TX19 and file it with appropriate documents, including a copy of the will, a statement of estate assets with adjusted cost base and proof that the executor is the legal representative.
Executors should plan on a six-month wait while the CRA processes the document. If the CRA hasn't responded after that time, executors should contact the CRA to see if the application has been lost or misfiled, or if additional information is needed.
Another reason to touch base with the agency is to give comfort to impatient beneficiaries.
If the executor calls CRA, makes a note of whom they spoke to on what day and what they said, then relays that information to the beneficiaries, then the beneficiaries can't say that the executor sat on their hands for two years.
A clearance certificate is not necessarily required when a spouse is both the executor and the estate's sole beneficiary but is usually advisable to get. It provides an official closure of the taxpayers file with the CRA.
Depending on the estate's circumstances, it is often recommended to obtain the clearance certificate in two stages: first, when the deceased's terminal return is filed; and second, when the executor files the final return for the estate itself if applicable.
The two clearance certificates can act as an indicator to continue for both the executor and beneficiaries. The CRA is usually the top creditor with the top priority in terms of

PENSIONS CONT..

partner under pension income-splitting rules for the year:
Amount eligible to be split = *(number of months married or living common-law in the year ÷ number of months in the tax year* [1]*) × eligible pension income × 50%*
Note, the tax rules don't consider you to be in a married or common-law relationship after death. Jim had no eligible pension income for the year, so the above formula wouldn't apply to his income. Mary had $54,000 of eligible pension income: $42,000 of periodic pension payments, which can be split at any age;[2] and $12,000 of RRIF income, which can be split beginning at 65.

Applying the above formula to Mary's case, the amount eligible to be split is $18,000, calculated as (8 ÷ 12) × $54,000 × 50%. Because Jim died in August, the amount Mary can split with him under pension income-splitting rules is pro-rated based on the month of Jim's death. Had Jim not died, up to $27,000 would have been eligible for splitting, assuming no breakdown in relationship in the year. This treatment is confirmed by CRA technical interpretation #2008-0275731E5.

CRA form T1032 Joint Election to Split Pension Income would be used to calculate the amount eligible for splitting. Provided it's included in Jim's taxable income for the year, any amount up to this amount can be deducted on Mary's tax return for the year. This treatment would benefit the family if Jim's tax rate for the year of death is less than Mary's or if income-sensitive benefits, such as Old Age Security, would be preserved as a result of the split. The splitting of eligible pension income can provide significant tax savings for families. While it depends on the circumstances (e.g., types of income, age of pensioner, tax rates, etc.), it's good to know that this option is available, even for the year of death.

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FILING DEADLINES

April 30th is the filing deadline for 2019 tax returns. The self-employed must file by June 15th, 2020. All taxpayers will incur interest charges on any unpaid balances after April 30th, 2020. Don't miss your deadline as there is an automatic 5% late penalty levied against unpaid balances.

APPEALS

Appeals of tax reassessments for prior years must be filed within 90 days of the mailing date of the reassessment. The deadline for objecting to an assessment of the 2019 filing is 90 days from the date of the assessment or 1 year from the filing deadline of April 30th, 2020, whichever is later.

INSTALLMENTS

If your tax balance owing is greater than $2,000 in current year and one of 2 preceding years, Revenue Canada will request that you make quarterly tax installment payments based on the balance owing in the upcoming year.

PDL Financial Consulting & Valuations Inc. specializes in the areas of Income tax planning and preparation, Real Estate appraisal, acquisition, management, Mortgage analysis, Financial Consulting & Investment Planning, Business start up, registration & planning.

CLEARANCE CERTIFICATE (CONTINUED)

distribution of assets, so the clearance certificate gives the executor and beneficiaries more confidence to say, 'OK, now we can do an interim distribution, or now we can do a final distribution.

If the executor wants to distribute assets before the certificate is obtained, it is recommended executors keep a "holdback" to pay any potential tax liability. 50% of the estate value would be a good starting point as far as holdbacks go. Always speak to your accountant first for their analysis.

Four common mistakes when dealing with clearance certificates

- **Making a distribution before obtaining a clearance certificate** If estate assets have been distributed before taxes are paid, executors may be personally liable for any amount owed to the CRA.
- **Not keeping an appropriate holdback** Experts typically suggest holding back two to three times the expected tax liability—enough to cover any taxes owed, reassessments, errors on prior returns and other potential issues.
- **Insufficient documentation** Failing to provide the CRA with proper or complete documentation could delay the process by several months.
- **Assuming the clearance certificate is a sign-off for the estate** The clearance certificate only confirms the deceased's tax liability—executors must also obtain approval from the beneficiaries before the estate can be considered closed.

2020 FEDERAL TAX RATES

- 15% **on the first** $48,535 of taxable income, **+**
- 20.5% **on the next** $48,534 of taxable income (on the portion of taxable income over $48,535 up to $97,069), **+**
- 26% **on the next** $53,404 of taxable income (on the portion of taxable income over $97,069 up to $150,473), **+**
- 29% **on the next** $63,895 of taxable income (on the portion of taxable income over $150,473 up to $214,368), +
- 33% on taxable income over $214,368

CANADA REVENUE AGENCY CONTACT NUMBERS:

T.I.P.S.	**1-800-267-6999**
INDIVIDUAL INCOME TAX	**1-800-959-8281**
TELEREFUND	**1-800-959-1956**
BUSINESSES AND SELF EMPLOYED	**1-800-959-5525**
UNIVERSAL CHILD CARE BENEFITS	**1-800-387-1193**
GST/HST CREDIT	**1-800—959-1953**
FORMS & PUBLICATIONS	**ORDER ONLINE**
PAYMENT ARRANGEMENTS	**1-888-863-8657**