PDL Financial Consulting & Valuations Inc.

YEARS 2020/2021

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TAX PLANNING

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2021 Tax Highlights

- RRSP contribution limit increases to $28,830
- Employment Insurance Rates continue at 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 $216,511
- No Tax on personal income up to $13,808
- CPP Rates rise to 5.45%
- OAS repayment threshold increases to $79,845
- TFSA annual limit is $6,000
- First time home buyers amount $5,000
- RRSP Homebuyers $35,000

CRA - NEW RULES FOR CLAIMING HOME OFFICE

There's a temporary flat-rate method for up to $400, and a simplified "detailed" method with a new Form T2200S. The Canada Revenue Agency (CRA) released details on its new home office expense rules, introducing a temporary flat-rate method for employees with modest expenses to claim up to $400, and a shortened Form T2200 declaration for those claiming expenses through the traditional method. The agency also provided a new calculator on its website to help employees claiming home office expenses.

Employees who worked from home more than 50% of the time over a period of a least four consecutive weeks in 2020 due to the pandemic will be eligible to claim the home office expenses deduction for 2020. Prior CRA eligibility guidance indicated that employees needed to be principally working from home — meaning more than half the time — for the year. The CRA said in the release that the shorter qualifying period will ensure more employees can claim the deduction. The temporary flat-rate method, will allow eligible employees to claim a deduction of $2 for each day they worked from home in 2020 due to Covid-19, up to a maximum of $400.

Under this method, employees will not have to get Form T2200 or a Form T2200S completed and signed by their employer. The new method also eliminates the need for employees to determine their expenses to calculate their claim. However, employees who use the temporary flat-rate method can't claim any other employment expenses (for example, motor vehicle expenses).

Under the detailed method, eligible employees working from home in 2020 due to Covid-19, or employees who were otherwise required to work from home, can claim the amount paid for eligible expenses, supported by documents.

For employees choosing to file under this method, the CRA also launched simplified versions of the Form T2200S, Declaration of Conditions of Employment for Working at Home Due to Covid-19 and Form T777S, Statement of Employment Expense for Working at Home Due to Covid-19. For employees using the detailed method, the CRA expanded the list of eligible expenses to include home internet access fees. The CRA provided a comprehensive list of all eligible expenses on its website.

METHODS OF REAL ESTATE OWNERSHIP

When purchasing real estate, one of the key decisions you must make is how to own the property: personally, through a trust or through a corporation?

Principal residence - Under the Canadian tax rules, capital gains realized on the sale of a principal residence are generally exempt from tax if the taxpayer qualifies for the principal residence exemption (PRE). The PRE can only be claimed by individuals and certain trusts (such as alter-ego, joint spousal, and qualified disability trusts) under certain conditions.

Given the costs involved in setting up and maintaining a trust, you may prefer personal ownership. However, in some cases, the costs are warranted due to the estate planning benefits of using a trust. For example, if you want to leave the property to a disabled child, a trust can be beneficial to ensure that the property is transferred to specific family members when the disabled child dies. Similarly, a trust can be useful in a blended family situation to control how, when and to whom the property is distributed after the surviving spouse dies.

A corporation can't access the PRE, so any capital gains realized on the sale of the principal residence would be taxable to the corporation at high investment income tax rates. In addition, personal use of a corporately owned property by the shareholder would be considered a taxable benefit to the shareholder. This could result in double taxation, as the taxable benefit included on the shareholder's personal tax return is not deductible to the corporation and there is no step-up to the cost base of the property owned by the corporation. For these reasons, owning a principal residence through a corporation is usually the least tax-efficient approach.

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 2021 for the 2011 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 Tax 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 WHEN YOU LEAVE CANADA

Whether you are a retiree seeking a warmer climate or a professional moving for work, there are tax consequences if you decide to leave Canada permanently.
Under the Income Tax Act (ITA), Canadian residents pay taxes on their worldwide income. A non-resident of Canada is taxed only on certain Canadian-sourced income.
Generally, you become a non-resident if you meet the conditions of leaving Canada to live in another country and severing residential ties with Canada by:

- disposing of or renting their home in Canada and establishing a permanent home in another country,
- having their spouse or common-law partner and dependants leave Canada, and disposing of personal property in Canada and breaking social ties, such as church or recreational memberships.

If you leave Canada but don't sever residential ties, you are usually considered a factual resident. This typically applies to people who leave for temporary work, an extended vacation or to attend school in another country, as well as those who commute from Canada to work in the U.S.
If you established ties in a country with which Canada has a tax treaty, you may be considered a resident of that country and a deemed non-resident of Canada for Canadian tax purposes despite failing to sever ties in Canada.
If you don't have significant residential ties with Canada but spend more than 183 days in Canada annually, you will be considered a deemed resident of Canada.
Factual and deemed residents must file Canadian tax returns reporting worldwide income. Factual residents access both federal and provincial tax credits; however, deemed residents may claim only federal tax credits. Factual and deemed residents alike may continue to accrue RRSP and TFSA room annually and contribute to these plans.
To obtain the Canada Revenue Agency's (CRA) opinion about your residency status, you may complete form NR73 Determination of Residency Status when you leave Canada (and you should obtain tax advice prior to doing so).

What happens when you leave Canada?
Once a decision to leave Canada is made, you should inform your financial institutions about your change in residency, as well as the CRA and, for Quebec residents, Revenu Quebec (you can also do so by filing a departure tax return).
You must file a departure tax return if you have property or goods in Canada even if you didn't earn income in the year of departure, and capital property, barring certain exceptions, will be deemed to be disposed at fair market value (FMV).
Exceptions to the deemed disposition rule include Canadian real or immovable property, Canadian resource property or timber resource property, Canadian business property, pension plans, annuities, and RRSPs, TFSAs and RESPs.
You must file Form T1243 Deemed Disposition of Property by an Emigrant of Canada to calculate the capital gain from the disposition. Also, if the FMV of all the property owned upon emigrating from Canada is more than $25,000, Form T1161 List of Properties by an Emigrant of Canada must be filed.

Do you pay taxes on the deemed disposition of assets?
You can defer the payment of tax on income relating to the deemed disposition of property, regardless of the amount. You would pay the tax without interest when you sell or otherwise dispose of the property.
To make this election, you can complete Form T1244 Election to Defer the Payment of Tax on Income Relating to the Deemed Disposition of Property, and file it with your tax return.
For the 2020 tax year, if the amount of federal tax owing on income from the deemed disposition of property is more than $16,500 ($13,777.50 for former residents of Quebec), a security deposit must be provided to the CRA to cover the amount. This means that no security is required for the first $100,000 of capital gains for a person in the top federal tax bracket. A security deposit may be required to cover any applicable provincial or territorial tax payable.

What if you sell your home after departure?
When selling a taxable Canadian property after becoming a non-resident, you must inform the CRA of the proposed disposition or of the completed disposition of the home within 10 days after the sale closes. Notification is made using Form T2062 Request by a Non-Resident of Canada for a Certificate of Compliance Related to the Disposition of Taxable Canadian Property (and T2062A, if the property is depreciable property such as rental property) to avoid a penalty of up to $2,500.
When completing the form, the estimated capital gain (or loss) on the sale along with any depreciation recapture/terminal loss (if selling rental property) is calculated. The CRA will require payment at time of sale, which is 25% of the estimated capital gain and federal taxes due on any recapture. The buyer of the property assists in this process by withholding the tax from the gross proceeds due. The CRA will issue a certificate of compliance to you once the buyer has remitted the correct amount of tax.
The withholding amount isn't your final Canadian tax liability. You will also need to file a Canadian non-resident income tax return to report the sale and calculate your actual income tax. This return is due by April 30 of the year following the year of the sale. You may get a refund or have a payment due if their final Canadian tax liability is more than the amount withheld.
A principal residence isn't subject to the deemed disposition rules at departure, nor is any other real estate property. You have two options at departure:
1. Trigger the deemed disposi-

WHEN YOU LEAVE CANADA - CONTINUED FROM PAGE 2

tion on the property and use the principal residence exemption in the year of emigration to exempt the accrued gain from inclusion in taxable income. The proceeds on the deemed disposition will be your new cost base against which any future gain on the ultimate disposition will be calculated for Canadian tax purposes.

2. Do nothing at the time of emigration as the property is exempt from the deemed disposition rules. When you sell the property in the future as a non-resident, the gain will be calculated from the purchase price, and you may use your principal residence exemption at that time. Note that the principal residence exemption is available to non-residents only for the years during which they owned the property as a resident of Canada.

Deciding which option is better depends on the accrued gain up to the point of emigration and expected future gains after emigration.

How is Canadian-sourced income taxed after departure?

Canadian-sourced income is normally subject to Canadian taxation. Non-residents are subject to Canadian income tax on income from employment in Canada, income from carrying on a business in Canada and capital gains from the disposition of taxable Canadian property. Depending on the type of income, different source deductions (e.g., payroll deduction for employment income) or some treaty-based waiver applications are necessary.

Generally, interest and dividends paid to non-residents are subject to Canadian withholding taxes. Also, payments from RRSPs and RRIFs, public pensions and OAS are subject to a 25% flat withholding tax unless a tax treaty reduces the rate.

In conclusion, the tax rules associated with emigration are complex, and penalties may apply if you don't comply with the rules. Keeping documents in order is important to prove non-residency, and careful planning is suggested, especially if you have assets when you leave Canada.

METHODS OF REAL ESTATE OWNERSHIP (CONTNUED FROM PAGE 1)

Rental property

Personal ownership- If you personally own a rental property, the net rental income would be added to your net income for the year and taxed at your marginal tax rates. In addition, net rental income is also considered "earned income" for the purposes of calculating RRSP contribution room. If you are not currently generating the maximum RRSP contribution room through other sources of "earned income," the added income could be a benefit of owning rental property personally.

If rental expenses are greater than the net rental income in a year due to rental vacancies, the net rental loss may also be deductible against your other sources of income. The deduction would provide tax savings and reduce the cost of maintaining a rental property during a poor rental market. This is generally allowed for real estate operations that are predominantly commercial in nature as opposed to personal or recreational. If the Canada Revenue Agency determines that you are not primarily carrying on the rental operations to make a profit, then rental expenses either may not be deductible or the deduction may be limited to the extent of rental income generated from the property.

In terms of broader non-tax considerations, personally owned rental property is subject to creditor and spousal claims against you. If this is a concern, personal ownership of the rental property may not be ideal.

Corporate ownership - If the corporation is not carrying on an active real estate business, any rental income earned inside a corporation is considered passive income and would generally be subject to high income tax rates. This flat tax rate applies to every dollar of rental income earned inside the corporation and may be much higher than the graduated tax rates you would have paid when earning the rental income personally. As such, you may have lower after-tax dollars to reinvest and grow your investments in the corporation.

Passive rental income earned inside a corporation may affect your access to the small business tax rate if the corporation is an active (non-real estate) business. In some situations, you may decide to own real estate property used in a business through a corporation separate from the active business corporation. This can allow you to use different ownership structures in each corporation to maximize income-splitting and tax-planning opportunities.

Unlike with personal ownership, net rental losses earned inside the corporation can't be used to offset other sources of income by the shareholders. As a corporation is a separate entity for tax purposes, these losses are locked inside the corporation and can only be used by the corporation.

Despite the unfavourable tax consequences, a corporation provides some non-tax advantages. For example, a corporation will generally protect your personal assets in the case of any lawsuits or creditor claims against the corporation. In Ontario and B.C., a corporation may allow you to avoid probate fees or estate administration taxes on the rental property through the use of a secondary will.

However, using a corporation involves annual accounting and tax filing costs which may be greater than the one-time probate fees on the rent-

TFSA LIMIT FOR 2021

The TFSA new contribution limit for 2021 has been officially released. That limit is $6,000, matching the amount set in 2019 and 2020. With this TFSA dollar limit announcement, the total contribution room available in 2021 for someone who has never contributed and has been eligible for the TFSA since its introduction in 2009 is $75,500. The annual TFSA dollar limit is indexed to inflation and rounded to the nearest $500. The Canada Revenue Agency's indexation increase for 2021 is 1.0%. For individuals who have withdrawn from TFSAs, their crystallized gains and losses from withdrawals are factored in to their TFSA room. The formula is:

Unused TFSA contribution room to date + total withdrawal made in this year + next year's TFSA dollar limit = TFSA contribution room at the beginning of next year.

Anyone 18 or older and who has a valid social insurance number is eligible to open a TFSA. Contribution room accumulates beginning in the year in which a person turns 18. You can find your unused TFSA contribution room on your last CRA notice of assessment form.

TFSAs can be an "ideal" savings and investment vehicle for younger Canadians who are starting their working lives and expect to be in higher income tax brackets in the years ahead. While contributions to a TFSA are not tax deductible, withdrawals are tax free. Money withdrawn from a TFSA in a future year can be used to make a down payment on a home or purchase a car, for example.

If [the TFSA holder's] tax rate is higher at that time, they realize a benefit accessing tax-free income from their account as opposed to having to pull out taxable income [as from an RRSP].

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FILING DEADLINES

April 30th is the filing deadline for 2020 tax returns. The self-employed must file by June 15th, 2021. All taxpayers will incur interest charges on any unpaid balances after April 30th, 2021. 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 2020 filing is 90 days from the date of the assessment or 1 year from the filing deadline of April 30th, 2021, 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.

METHODS OF REAL ESTATE OWNERSHIP– CONCLUDED

al property.

Trust ownership - You may consider owning rental property through a trust. There are various types of trusts available and each has unique requirements and tax implications.

Unless certain income attribution rules apply, rental income earned inside a trust would generally be subject to the highest marginal tax rate (e.g., 53.53% in Ontario for 2020), and rental losses realized in a trust can't be allocated to trust beneficiaries and must be used by the trust itself. In most situations, the rental income may be allocated and distributed to a trust beneficiary so that it is taxed at the beneficiary's marginal tax rates.

A trust is commonly used as an estate planning tool to minimize probate fees because the rental property owned by the trust would not fall into your estate when you die. A trust can also provide protection against creditors and spousal claims. Similar to the option of a corporate ownership, you should consider the costs involved in setting up and maintaining a trust to determine whether the potential benefits outweigh the costs.

Conclusion - There are various options available when deciding on the ownership of real estate property. It is important for you to understand the options available and obtain professional advice to determine which option works best for you.

2021 FEDERAL TAX RATES

- 15% **on the first** $49,020 of taxable income, **+**
- 20.5% **on the next** $49,020 of taxable income (on the portion of taxable income over $49,020 up to $98,040), **+**
- 26% **on the next** $53,938 of taxable income (on the portion of taxable income over $98,040 up to $151,978), **+**
- 29% **on the next** $64,533 of taxable income (on the portion of taxable income over $151,978 up to $216,511), +
- 33% on taxable income over $216,511

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**