Raymond Chabot Grant Thornton

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Year-end Tax Planning Guide for 2017

November 2017

Would you like to reduce your income taxes? Although tax planning should be a year-long activity, there is still some time left to implement a few tax strategies that will help reduce your tax bill. Furthermore, there are certain new measures coming into effect beginning in 2018 that should be taken into consideration.[1]

The following are a few simple, effective strategies that can be implemented before the end of 2017 or early in 2018. A few major changes that will soon come into effect are also highlighted. Don't hesitate to contact your Raymond Chabot Grant Thornton advisor who can help you determine the measures that apply to your situation.

Advice on proposed measures to counter certain tax planning using private corporations

Prepare for changes on income splitting

Canada's Finance Minister has announced that he will limit family income splitting possibilities with spouses, children and other family members, to the extent that they are not clearly and trulyactive within the business. More specifically, the tax on split income will be extended to some income earned by individuals aged 18 and over. Such income will be taxed at the maximum marginal tax rate in the hands of the recipient if it is not reasonable in the circumstances.

Reasonableness will be determined on the basis of the individual's contribution according to the following factors:

- Labour contribution;
- Capital or equity contribution to the business;
- Financial risks assumed in support of the business, such as co-signing a loan or debt;
- Previous labour, capital or risks contributions.

The final measures should be published during the fall of 2017 and will be applicable as of January 1, 2018. Based on available information at this time, 2017 would be the last year allowing to split income with adult family members who are not directly involved in the business. It may be appropriate, therefore, to maximize dividends distributions to your spouse and adult children in 2017.

In light of the upcoming new measures, it may be a good idea to contact your Raymond Chabot Grant Thornton advisor to see what measures should be taken in 2017 and in the coming years.

Prepare for changes in passive investment income earned in a corporation

In October 2017, the Finance Department published an information document indicating it planned to adopt measures to limit the tax deferral advantages from passive investments held by private corporations. It seems that the tax rate on such investment income will be increased. Details of the proposed measures will be provided in the 2018 federal budget. However, the following information has already been provided:

- Current investments held by private corporations' owners, and future income thereon would be protected - the measures would only apply in the future, once they are adopted;

[1] This document includes the measures proposed and announced as of November 15, 2017.

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- The measures would protect a corporation's ability to save for emergencies or future investments, such as buying equipment, hiring and training staff or expanding activities;
- An annual $50,000 passive income threshold[2] would apply under the new measures, such that the tax increase would only apply to investment income above this threshold.

If your corporation has surpluses that it does not plan to invest in current activities in the near future, you may want to consider tax planning options. Don't hesitate to contact your Raymond Chabot Grant Thornton advisor for assistance.

Advice for Businesses and Their Managers

As a shareholder-manager, properly structure your compensation

If you are the owner-manager of a closely-held Canadian controlled private corporation, it could be to your advantage to properly structure the mix of salary, bonus and dividends in your compensation package.

A bonus is often preferred over salary, since the payment can be deferred until after the company's year-end and, in some cases, can defer the individual's tax. Accordingly, owner-managers of private corporations often declare a bonus at year-end to reduce the corporation's income to the amount that qualifies for the small business deduction (SBD).

Moreover, based on the nature of its income, a corporation can pay two types of dividends to its shareholders, Eligible dividends, being subject to a lower rate than other (regular) dividends. However, the company must have a positive balance in its general rate income pool (GRIP) to be able to declare such dividends.

A bonus, like salary, may allow to contribute to your registered retirement savings plan (RRSP) since it is considered earned income for purposes of RRSP contribution limit.

Your earned income must be at least $145,722 in 2017 to be able to make the maximum RRSP contribution of $26,230 in taxation year 2018.

The federal,[3] Quebec,[4] Ontario,[5] and New Brunswick[6] governments have announced corporate tax reductions. Concurrently, the taxation parameters for ordinary (non-eligible) dividends will also be changed, which will generally result in an increase in the applicable tax rate.[7] Moreover, since January 1, 2017, eligibility for the SBD maximum rate for Quebec tax purposes is determined on the basis of the total number of hours paid by the corporation during the year.[8] These changes could impact the development of a long-term strategy to maximize compensation.

Unfortunately, there is no "rule of thumb" that owner-managers of private corporations can use in order to determine the best overall compensation method. Tailored planning is required and the analysis should take into account several factors, such as your personal tax rate and that of the company, payroll taxes, QPP/CPP contributions and access to various tax deductions or credits based on income at both a personal and corporate level. Don't hesitate to contact your Raymond Chabot Grant Thornton advisor to discuss these matters.

Pay a reasonable salary to your wife or children

If your spouse or children work for the family business, consider paying a reasonable salary for the *bona fide* services they provide. This strategy will be worthwhile if their marginal tax rate is less than yours, while providing them with earned income for QPP/CPP and RRSP purposes. Such a strategy allows to split income without triggering the extended rules regarding tax on split income expected to come into application in 2018.

Repay amounts due to your corporation within the prescribed period

If your corporation granted you a loan or advance during the year, you would normally have to repay these amounts within one year following the end of the fiscal year during which the loan or advance was made to you. Otherwise, you might have to include the amount of the loan or advance in your income as a taxable benefit. However, there are certain exceptions to this rule.

***Example*:** If your corporation's financial year-end is June 30, an advance made on July 3, 2015 and unpaid on June 30, 2017 will be included in your income for the 2015 taxation year, that is, the calendar year during which you received the unpaid loan. If you repay the loan in 2018, you will be entitled to a deduction equal to the repaid amount in your 2018 tax return.

A taxpayer who received a loan from his company may also be required to include a taxable benefit in his income as interest, to the extent the interest rate on the loan is lower than the quarterly rate prescribed by the tax authorities.[9] If you have borrowed an amount from your corporation, we suggest you to review the tax consequences with your tax advisor.

Maximize your capital gains deduction[10]

As a reminder, the cumulative capital gains deduction limit for qualified small business corporation shares is $835,716 since

[2] The threshold was set to correspond to $1M in savings with a nominal 5% rate of return.

[3] The federal tax rate applicable to income eligible for the SBDs will be decreased from 10.5% in 2017 to 10% as of January 1, 2018 and 9% as of January 1, 2019.

[4] The Quebec general corporate tax rate is reduced by 0.1% per year since 2017, and will therefore be reduced from 11.8% in 2017 to 11.5% as of 2020.

[5] The provincial tax rate applicable to income eligible for the SBDs will be decreased from 4.5% to 3.5% as of January 1, 2018.

[6] The provincial tax rate applicable to income eligible for the SBDs will be decreased from 3% to 2.5% as of April 1, 2018.

[7] Changes to the taxation parameters of these dividends (tax credit rate and gross up rate) will be phased in as of 2018. As of publication date, Quebec had not yet announced changes to its dividend tax credit.

[8] To summarize, to be entitled to the maximum rate of SBD, the paid hours to the corporation's employees must total at least 5,500 hours for the year. If not, the corporation could still benefit from the full rate of SBD if it proportion of activities in the primary and manufacturing sector is 50% or more.

[9] The rate is 1% throughout 2017.

[10] On July 18, 2017, Canada's Minister of Finance proposed measures to restrict eligibility for the life time capital gains exemption. However, in

January 1, 2017 and will increase every year due to indexing. Furthermore, this limit is set at $1M for farm or fishing property.[11]

If you're planning to sell property that is eligible for this deduction, consider structuring the transaction to benefit from the maximum amount.

Furthermore, if you've already crystallized your capital gains deduction for such property, consider checking to see if you would be able to claim the maximum deduction available at the time of disposition, taking into account the increased limits. It might be necessary to undertake a reorganization of the property ownership, in particular the corporate structure. Your Raymond Chabot Grant Thornton advisor can suggest solutions that are tailored to your needs.

Tax deferral on the sale of a business when the proceeds are reinvested in other small businesses

If you realize a capital gain on the disposition of an interest in an eligible small business and use some or all of the proceeds received to invest in another eligible small business, you can defer some or all of the tax on the capital gain. The proceeds must be reinvested no later than 120 days following the end of the year of disposition. To be eligible, the investment must be in new common shares of a corporation carrying on a small business where the total carrying value of its assets and those of associated corporations does not exceed $50M immediately before and immediately after the investment.

Maximize your capital cost allowance

If you are planning to purchase a new asset, you should generally think about acquiring it before the end of your fiscal year. You will therefore be entitled to a capital cost allowance (CCA) for that year as long as the asset is "available for use". In Quebec, eligible property[12] acquired after March 28, 2017 and before April 1, 2019, gives entitlement to an additional CCA corresponding to 35% of the regular CCA claimed for the year the property is put in use and for the following year. From a tax perspective, acquiring such property is thus particularly attractive.

Furthermore, the disposition of assets that have appreciated in value can create significant income tax liabilities whereas a terminal loss can result from the disposition of assets that depreciated more quickly. Also, planning when to dispose of the assets can help to defer or reduce the potential tax liability on the sale of a significant capital asset.

Take advantage of incentives offered to manufacturing corporations

Manufacturing SMEs in Quebec and Ontario can benefit from a reduction in their tax rates if they meet certain conditions. Various tax incentives are also available to manufacturers, including tax credits and an accelerated CCA treatment for assets used during manufacturing.

Restructuring your company's operations may be required to fully benefit from the incentives. Speak to your Raymond Chabot Grant Thornton advisor for more information.

Make your employees twice as happy by offering them a non-taxable gift

As an employer, you can offer your employees certain tax-free non-cash gifts and rewards to mark a special occasion or recognize an outstanding achievement. The total value of all gifts and rewards offered must not exceed $500 per year. In Quebec, the $500 limit applies to both gifts and rewards such that an employer may offer a total value of $1,000 per year to each employee, without any tax impact.

For federal purposes, in addition to gifts and rewards, a tax-free, non-monetary gift of a maximum $500 value may also be offered to an employee once every five years to recognize the years of service or mark an anniversary.

Although such gifts/rewards will not be taxable to your employees, the amount paid can still be deducted as a business expense.

Caution should be exercised in terms of what constitutes a non-cash gift. For example, the Canada Revenue Agency considers that a gift certificate does not qualify as a non-cash gift. In Quebec however, gift certificates or gift coupons, including smart cards that are used to purchase a good or service from one or more retailers, are considered as non-cash gifts and rewards, unlike prepaid credit cards.

There are administrative guidelines for employee gifts and rewards. Your Raymond Chabot Grant Thornton advisor can help you navigate this information.

Finance your employees' public transit costs

In Quebec, you can deduct twice the amount incurred for paid or reimbursed public transit passes used by employees to come to work. The same goes for expenses incurred by employers who offer an inter-municipal transit service to their employees, provided that certain conditions are respected. These measures do not trigger taxable benefits for employees and are appealing from both an ecological and economic point of view.

Advice for Employees

Minimize the taxable benefit relating to your employer-provided automobile

If your employer provides you with an automobile, you will have a taxable benefit included in your income related to the personal use of the vehicle. You should keep accurate mileage records to track the amount of business and personal use of the vehicle.

The taxable benefit consists of two components: a "standby charge" and an "operating cost benefit."

October 2017, a release confirmed that the federal government will not be implementing the measures initially announced. Legislative proposals that should be published during the fall of 2017 should confirm the government's intention to maintain the current rules.

[11] This limit is not indexed annually.

[12] That is, computer equipment and manufacturing or processing equipment that is new at the time of acquisition and is used primarily in Quebec throughout a 730 day-period following its acquisition.

The standby charge benefit can be reduced if the vehicle is used more than 50% of the time for business purposes and annual personal driving is 20,000 kilometres or less. Any amount paid to your employer no later than December 31 for personal use of the vehicle during the year will decrease the value of your taxable benefit for the vehicle. Moreover, you will decrease or eliminate the operating cost benefit for 2017 by refunding your employer for part or all the operating expenses before February 14, 2018. You should check before if this option is to your advantage.

Finally, since the standby charge is calculated on the original cost of the vehicle, consider purchasing an older vehicle from your employer at its fair market value after a few years.

Acquire new tools to carry out your trade

If you are an employed tradesperson, you may be entitled to a tax deduction of up to $500 for the cost of new tools that you are required to purchase yourself as provided in the conditions of your employment. This measure applies to new tools other than electronic communication devices and electronic data-processing equipment.

For 2017, the amount that may be deducted (up to the $500 limit) is the amount by which the cost of the eligible tools acquired in the year exceeds $1,178 ($1,150 in Quebec). If you are an employed tradesperson and have not yet purchased new tools costing at least $1,678 in the year, plan to do so before the end of the year.

Benefit from non-taxable benefits

A number of non-taxable benefits for employees are provided in the Act, including, for example, repayment of moving expenses when certain criteria are met. Instead of negotiating a salary increase, consider asking your employer to grant non-taxable benefits.

Advice for Investors

Plan the realization of your capital gains and losses

If you have realized a capital gain in 2017 or in any of the last three years, consider selling investments with unrealized losses before the end of the year. You may be able to reduce your 2017 taxes and possibly even recover taxes paid in the three prior tax years or reduce the tax payable on future capital gains. However, you should always consider obtaining investment advice prior to making this type of a decision.

There are rules that will deny the loss if you sell the property to certain related parties. In general, the loss will be denied if you sell the property to your spouse, to a corporation controlled by either you or your spouse, to your RRSP or your Tax-Free Savings Account (TFSA), or if one of these persons or entities owns or repurchases the same or identical property within 30 days following its disposition. However, you can generally sell or gift the loss property to a child or other family member without being caught by these rules.

If your spouse or common-law partner has realized a capital gain and you own investments with an unrealized loss (or vice-versa), there are ways to transfer the loss to the spouse with the gain. Your tax advisor can assist you in implementing this planning strategy.

When disposing of listed shares, remember that the disposition is deemed to take place at the settlement date, which can sometimes be two business days after the trading date. If you want a sale to close in 2017, you should contact your broker to ensure that the transaction settles before the end of the year. Different dates may apply for foreign exchanges.

Plan the purchase or sale of your investments

In general, individuals must report interest earned on investments on an annual basis based on the anniversary date of the acquisition, regardless of when the interest is actually paid. Consider buying investments that pay interest annually to avoid paying tax when no income has been received.

If you will soon acquire or roll over a short-term investment such as a GIC or a T-Bill, consider arranging for a maturity date early in 2018 rather than in 2017. This will allow you to defer paying tax on the interest income until April 30, 2019.

The timing of the purchase or sale of a non-registered mutual fund investment can have important tax consequences. Since most mutual fund trusts distribute income and capital gains once a year around mid-December, deferring the purchase until January 2018 could mean that you won't have to report any income for 2017. Alternatively, if you're planning to sell such an investment, it's generally a good idea to sell it before the distribution date. Instead of reporting an income allocation, you will realize a capital gain or loss.

Lastly, remember that each type of investment income is taxable at different effective rates. For example, dividend income is taxed at a lower rate than interest income. When comparing different investments on the market, remember to take taxation into consideration. Contact your Raymond Chabot Grant Thornton advisor for more information.

Structure your loans to maximize your interest deduction

Non-deductible interest (mortgage, personal loans, credit card balances) is paid with after-tax dollars. Consequently, you have to earn $200 in pre-tax dollars to repay $100 in non-deductible interest.[13]

If you are going to borrow, you should borrow the maximum amount for business and investment[14] purposes and as little as possible for personal reasons. Conversely, when repaying debt, pay off loans on which interest is non-deductible before you repay those on which interest is deductible as far as possible.

If you are currently incurring significant interest fees that are not deductible in the calculation of your taxable income, feel free to contact a Raymond Chabot Grant Thornton tax advisor who can help you take certain steps to restructure your loans and make your interest fees deductible.

[13] Based on an approximate marginal tax rate of 50%.

[14] Interest expenses incurred to invest in a registered account (e.g. an RRSP or TFSA) are not deductible.

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Other Advice for Individuals

Review the tax treatment of expenses incurred for infertility treatments

Since 2017, individuals who have to undergo surgery to conceive a child may claim the same expenses for purposes of the medical tax credit as individuals who are eligible because of medical infertility. Additionally, a taxpayer can make an election in his or her tax return to have the new measure apply to any of the ten prior taxation years. If you have incurred such expenses, you should contact your advisor.

Renovate your residence and benefit from a tax credit

If you have eco-friendly renovation work carried out on your principal residence or a year-round winterized cottage under the terms of a contract entered into after March 17, 2016 and before April 1, 2018, you can claim the RénoVert tax credit in Quebec. This credit corresponds to 20% of the portion of eligible expenses exceeding $2,500 up to a maximum credit of $10,000[15] for expenses paid by owners-occupants and their spouse before January 1, 2019.

In addition, if you have work carried out to upgrade residential waste water treatment systems under an agreement entered into after March 31, 2017 and before April 1, 2022, you could claim a tax credit in Quebec. The credit is equivalent to 20% of the portion of eligible expenses exceeding $2,500 up to a maximum of $30,000 (maximum total credit of $5,500), for expenses paid by the individual and his or her spouse before January 1, 2023.

Lastly, a refundable tax credit of up to $18,000 is available in respect of expenses incurred for the restoration of secondary residences (cottages) damaged by the severe flooding that hit a number of Quebec municipalities from April 5 to May 16, 2017.

Lend money to your spouse or common-law partner to split income

With current low interest rates, you might want to consider loaning funds to a spouse or common-law partner who is in a lower marginal tax bracket than yourself. Your spouse or common-law partner can invest the loan proceeds and include any income/capital gains in his/her income, provided you are paid interest on the loan at the prescribed rate in effect at the time the loan is made. For example, the prescribed rate in effect for the last quarter of 2017 is 1%. This rate will remain in effect for as long as the loan is outstanding – even if prescribed interest rates increase in the future.

However, under this tax planning option, your spouse or common-law partner must pay you the interest on the loan no later than January 30 of the following year for the entire loan term. Some specific conditions must be satisfied; your Raymond Chabot Grant Thornton advisor can guide you.

Contribute to a Registered Retirement Savings Plan (RRSP)

You must make your 2017 RRSP contribution by March 1, 2018. However, if you turned 71 in 2017, your contribution must be made by December 31, 2017. Your RRSP planning should consider your RRSP deduction limit[16] as well as the following, among others:

- you can contribute any amount up to your maximum to your own RRSP, an RRSP set up for your spouse or common-law partner or a combination of both. If you are 71 or over, but you have eligible earned income in 2017 and your spouse or common-law partner is under the age of 71 at the beginning of the year, you can still make a spousal contribution to his or her plan;
- you can over-contribute to your RRSP – within limits – without having to pay a penalty tax. In general, the cumulative amount you can over-contribute to your plan is $2,000;
- you can also make a $2,000 gift to your child or grandchild over the age of 18 so that he or she can make an RRSP contribution. The contribution would be deducted when that person has earned eligible income;
- you can defer your RRSP contribution deduction if you expect to be in a higher tax bracket in the near future. Alternatively, make the maximum contribution each year, but don't claim the amount as a deduction until a future year when your taxable income is higher;
- if you're required to collapse your plan this year because you've reached age 71 in 2017, consider making an over-contribution in December based on your 2017 earned income (if any). Although you'll be charged a penalty tax for one month, you'll be entitled to an RRSP deduction in 2018;
- if your income is particularly low in 2017, consider making a withdrawal from your registered retirement income fund (RRIF) before the end of the year to avoid losing some deductions or non-refundable tax credits. Similarly, if you are at least 65 years of age, you could claim a pension income credit by purchasing an annuity or RRIF.

If you believe you can benefit from these measures, contact your Raymond Chabot Grant Thornton advisor.

Review your RRSP portfolio composition

A number of rules govern the types of investments which may be held in a registered plan and failure to comply with them could prove very costly. For example, you may be contravening these rules if your plan has shares or debt in a public or private company in which you own a significant interest.[17]

If you think you might be at risk, it is strongly recommended that you consult your Raymond Chabot Grant Thornton advisor to determine available options to reduce the negative consequences.

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[15] This credit can be claimed over three taxation years, from 2016 to 2018, depending on when the expenses are paid.

[16] This amount is indicated in your 2016 Federal Notice of Assessment.

[17] This would specifically be the case if you own 10% or more of a class of shares of a corporation or any related corporation, through your RRSP or otherwise, alone or with one or more persons with whom you do not deal at arm's length.

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Other registered plans are also available

Based on your personal situation, you may be able to make contributions to other registered plans such as the Registered Education Savings Plan (RESP), Registered Disability Savings Plan (RDSP) and the TFSA. Unlike an RRSP, the contributions to these plans are not deductible for tax purposes.

There is no tax on the income earned in an RESP or RDSP until the amounts are withdrawn. The plans may also be eligible for government grants. The amount of the grant is based on the amount contributed to the plan and the family income.

For the year 2017, any individual 18 years of age or older can invest up to $5,500 annually in a TFSA.[18] Income earned in a TFSA is never taxed, even when it's withdrawn. If you require funds for personal purposes, consider withdrawing the amount from your TFSA. The amount will not be taxed and you will be able to contribute the same amount to the plan as of January 1 of the year following the one in which the withdrawal was made.

Also think about making a donation to your child or grandchild over 18 years of age to invest in their TFSA.

Check your instalment requirements

If you are required to make quarterly tax instalments, you should review your expected 2017 tax liability before remitting your final instalment (which is due December 15, 2017). This will be especially important where your mix of salary/dividends has varied from year to year, or where you had unusual income inclusions last year or expect increased deductions this year. Be vigilant as the tax authorities charge interest on late or deficient instalment payments.

If you discover that you should have been making higher instalments during the year, it is possible to catch up because the tax authorities will generally calculate credit interest on overpayments and apply that against interest deficiencies.

Pay your expenses in 2017 and get your receipts

Before the end of the year, you should make certain payments and keep your receipts so that you can claim all of the credits and deductions to which you are entitled for 2017. In particular, consider:

- medical expenses for you, your spouse or common-law partner, minor children, as well as amounts paid by you or your spouse or common-law partner for another dependant (ask your pharmacist, dentist and specialist to give you your receipts for the year);
- childcare expenses;
- costs for physical, artistic, cultural or recreational activity costs paid for your children under 16 years of age (under 18 years for disabled children);[19]
- costs for physical, artistic, cultural, recreational or developmental activities for elders 70 years of age or older;
- public transit costs incurred by you, your spouse or your dependent children under 19 years of age;[20]
- investment costs (interest and brokerage fees);
- moving costs;
- tuition fees[21] and interest on student loans.

If one of your adult children or another family member with little or no income cared for your children during the year so that you can work, ask this individual to provide receipts for the amounts you paid to him/her. You can deduct these amounts as child care costs when the caregiver has little or no income tax.

Combine your political contributions

If you are planning to make significant political contributions, consider spreading them over two years to benefit from the higher rates allowed on the first dollars or the annual limit twice.[22]

Give to charities and maximize tax benefits

In general, charitable donations over $200 result in tax savings calculated at the highest marginal tax rate. Additionally, the federal government provides for a first-time donor's super credit in addition to the tax credit otherwise available. The credit is 25% of the amount of a monetary donation, to a maximum of $1,000 (maximum credit of $250). To be eligible, neither the individual nor the individual's spouse or common-law partner may have claimed the federal charitable donation credit in any taxation year after 2007. The additional credit will be available until 2017 inclusively; it may be claimed only once and can be shared between spouses.

The federal government's first-time donor super credit ends on December 31, 2017. This is, therefore, the last year you can use it!

Since donations made by a spouse can be claimed by the other spouse, think about combining your donations together if it makes it possible to benefit from a higher tax credit rate.

When capital property is donated to a charity, the amount that is claimed as a donation must also be reported as your proceeds of disposition of the property – which may result in a capital gain. However, there is no tax on the capital gain for publicly-traded securities (such as shares, bonds and mutual fund units, listed on certain stock exchanges) that are donated to a registered charity.[23] If you have charitable objectives, this is an attractive planning opportunity.

Similar rules exist where you exercise a stock option in order to donate the share to a registered charity. Keep in mind that to

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[18] Amount indexed annually since 2010 and rounded to the nearest $500. The contribution ceiling was $5,500 in 2016, $10,000 in 2015, $5,500 in 2013 and 2014 and $5,000 for 2009 to 2012.

[19] Since 2017, this credit is only available in Quebec; costs incurred for a child under five years of age are not eligible.

[20] Only expenses incurred before July 1, 2017 qualify. The credit was abolished after that date.

[21] Since 2017, costs for non-postsecondary level professional development courses also qualify.

[22] In Quebec, only municipal political financing contributions give entitlement to the tax credit.

[23] Specific measures apply to donations of flow-through shares.

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benefit from these rules you must donate the shares directly to the charity rather than sell the shares for cash and donate the cash.

Lastly, tax relief measures are also offered with respect to certain donations of cultural and eco-sensitive property. Get in touch with your Raymond Chabot Grant Thornton advisor today to plan your donations in a fiscally advantageous manner.

Consider finding employment in a remote region if you are a recent graduate

In Quebec, new graduates who begin employment in an eligible remote region[24] within 24 months following their graduation date are entitled to a non-refundable tax credit equal to 40% of the eligible salary. This credit is subject to a maximum annual amount of $3,000, with a lifetime limit of $10,000 for individuals with college and university diplomas and $8,000 for new graduates with professional training from a high school.

Avoid the old age pension security refund

The government imposes the refund of Old Age Security payments when the pensioner's net income for the year exceeds a certain annual threshold, that is, $74,788 in 2017. The full amount of the pension must be refunded when the net income reaches a little above $121,314. If you have the ability to manage the amount of income you receive in a year, keep these thresholds in mind.

Sales Tax Advice

Compliance elections: reporting, periods and methods

The end of the year is a good time to review and optimize your GST/HST and QST practices.

The following could help maximize refunds and increase cash resources:

- If you are engaged in a mix of commercial and exempt activities, take time at the end of the year to review the method used in order to claim your input tax credits (ITC) and input tax refunds (ITR) based on your activities for the year;
- If you are generally in a refund position, you can change your filing frequency to monthly or quarterly to get your refunds earlier. This election must be filed early in your fiscal year;
- Certain businesses with a threshold amount of $400,000 or less can elect to use the "quick method" to account for GST/HST and QST and lessen their tax burden. Generally, the threshold amount includes taxable supplies, other than supplies of capital real property and financial services, and applicable taxes. This election must be filed early in the year;
- Consider reviewing the filing periods for the businesses in the associated group to ensure they are all consistent with current rules and based on the combined Canadian sales volume;
- Verify if you qualify as a large business[25] for QST purposes so that you can make the necessary adjustments, since there are ITR claiming restrictions concerning some expenses such as, in general, meal and entertainment expenses and expenses related to energy, telecommunications and for road vehicles under 3,000 kg and their fuel.

These restrictive measures will be progressively phased out in the coming years. In fact, as of January 1, 2018, 25% of the QST payable on these expenses can be refunded. On January 1, 2019, the eligibility rate will increase to 50% and the restrictions will be completely abolished as of January 1, 2021.

Closely Related Group

To simplify tax accounting and increase cash flow, some businesses are eligible to make an election with a member of a closely related group to treat supplies of goods or services between the group members as if they were made for no consideration. At year end, review existing elections to ensure they are still valid, particularly if there has been any restructuring during the year.

The form must be filed with the tax authorities no later than the first day where one of the corporations is required to file a GST/HST and QST return for which the election is effective.

Employee expense-related advice

Don't forget to adjust for the GST/HST paid on meals, beverages, and entertainment if you claim the total tax throughout the year. Where applicable, this 50% adjustment is made on the return filed in the first reporting period immediately after the fiscal year-end. Note that large businesses for QST purposes are generally not allowed to claim an ITR on meals, beverages and entertainment expenses subject to the 50% limitation. [26]

GST/HST and QST must also be self-assessed with respect to employee taxable benefits regarding taxable goods and services. The tax must be reported in the return for the reporting period that includes the last day of February of the following year. Note that large businesses for QST purposes are not required to remit the QST on benefits related to restricted expenses (i.e. automobiles).

HST in participating provinces

Verify if you qualify as a large business for HST purposes in order to refund the provincial component of Ontario and Prince Edward Island HST payable for certain expenses. These expenses include, in general, meal and entertainment expenses as well as expenses related to energy, telecommunications and road vehicles under 3,000 kg and their fuel. Since July 1, 2017, the HST refund rate in Ontario is 25% and it will be completely abolished as of July 1, 2018. In Prince Edward Island, the HST refund rate (provincial component) will also be progressively reduced over three years; it will be down to 75% as of April 1, 2018.

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24 The regions include: Bas-Saint-Laurent, Saguenay–Lac-Saint-Jean, Abitibi-Témiscamingue, Côte-Nord, Nord-du-Québec, Gaspésie, Îles-de-la-Madeleine, the RMCs of Antoine-Labelle, La Vallée-de-la-Gatineau, Mékinac and Pontiac as well as the agglomeration of La Tuque.

25 A large business is a person whose taxable income the previous year, including that of associated persons, exceeds $10M. The calculation must include supplies made in Canada or outside Canada through a permanent establishment located in Canada and goods and services received in exchange, as well as the considerations for supplies made between specified members of a closely related group.

26 As of January 1, 2018, an ITR of 25% of these expenses can be claimed.

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Joint ventures

In recent years, tax authorities have been applying the joint venture rules more strictly.

Ensure that transactions are processed appropriately by your joint venture since it could be difficult to limit the costs related to a future assessment. Thus, it is important to verify that the joint venture agreement is properly evidenced in writing and that the name of the person designated to manage taxes on behalf of all joint venture participants is qualified to do so in accordance with the Act. Note however that not all businesses with commercial activities can make the election to designate an individual to manage the taxes.

Don't hesitate to contact your Raymond Chabot Grant Thornton advisor who can help you determine if your business can make this election.

Management companies offering financial services

Generally, financial services are exempt for both QST and GST purposes. However, some financial services supplied to non-residents by a financial institution may be zero-rated.

This is a good time to review your corporate structure to check if various provisions of the Act could be used by entities in the group to recover the QST and GST payable within a corporate group, particularly if certain members have activities that include the supply of financial services.[27] Recent case law in these matters is favourable for taxpayers.

Employment agencies and construction industry

For contracts concluded as of March 1, 2016, employment agencies and businesses that perform construction work must obtain an attestation from Revenu Québec that they must then remit to work providers. Clients of such agencies are required to obtain a copy of the attestation, verify its validity and authenticity in the manner specified to avoid potential penalties.

It may be worthwhile to review your internal procedures to ensure that you are in compliance.

Other sales taxes and international transactions

Tax registration and collection may be required, regardless of whether you have a permanent establishment in the jurisdiction.

If you have clients in Manitoba, Saskatchewan, British Columbia or abroad, check if you are required to register for sales taxes in these various jurisdictions.

Furthermore, if you work in e-commerce and have sales abroad or in western Canada, it may also be time to review your processes and structures in light of the OECD recommendations and global changes with respect to local regulations on the application and collection of sales tax.

Lastly, if you do business in the United States, you could be required to collect state sales tax even if your company does not have an permanent establishment in the state in question. The concept of Nexus is far more encompassing for U.S. sales tax purposes than it is for corporate tax.

Please do not hesitate to contact your Raymond Chabot Grant Thornton advisor to discuss any of the measures described herein.

For additional information, visit our website: rcgt.com.

[27] Including, for example, receiving dividends or interest.

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