Raymond Chabot Grant Thornton

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Year-end Tax Planning Guide for 2018

November 27, 2018

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 2019 that should be taken into consideration.

The following are a few simple, effective strategies that can be implemented before the end of 2018 or early in 2019. 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 FOR BUSINESSES AND THEIR MANAGERS

Review your family income splitting structure

Since 2018, the tax on split income applies to all individuals, regardless of age. This tax, which previously applied only to minors, is intended to limit the possibility for individuals (entrepreneur-shareholder) to split income with family members with a lower tax rate by transferring certain income from a private corporation or other business in which they have an interest. The "split income" subject to this tax is taxed in the hands of the recipient at the highest marginal tax rate rather than the regular progressive rates. There are several exceptions to these rules, and their application should be analyzed based on each individual's situation.

If a member of your family receives income, directly or indirectly, through a trust or otherwise, dividends of a private corporation or income from a business in which you are involved or have a significant interest, you should consult a tax specialist to verify whether the income is subject to the tax on split income. Some tax planning options are possible to limit its application.

Prepare for changes regarding passive investments held in a corporation

New measures will come into effect in 2019[1] to limit the benefits of deferring tax on passive investments in private corporations. There are two measures in this respect. The first limits access to the small business deduction (SBD) for corporations earning high investment income and the second limits corporations' possibility of recovering the refundable tax paid on their passive income.[2]

Generally, the $500,000 business limit for which the SBD can be claimed will be reduced by $5 for each dollar of passive investment income in the previous taxation exceeding $50,000.[3] Accordingly, access to the SBD will be completely eliminated when the previous year's passive investment income amounts to $150,000. Moreover, refundable taxes from investment income cannot be recaptured if ordinary (non-eligible) dividends are paid to shareholders.

If your corporation has surpluses that it does not plan to invest in its activities in the near future, tax planning could be implemented in anticipation of these new rules. Don't hesitate to contact your Raymond Chabot Grant Thornton advisor for assistance.

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 SBD.

[1] Specifically, these rules will apply to the fist taxation year starting after December 31, 2018.

[2] The provinces of Ontario and New Brunswick have harmonized with these rules, whereas Quebec had not yet announced its position at the date of publication.

[3] Including all associated corporations.

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 $147,222 in 2018 to be able to make the maximum RRSP contribution of $26,500 in taxation year 2019.

Several factors should be considered when deciding on a salary-dividend mix. The analysis becomes more complex with the introduction of various changes affecting corporate and individual taxes. Accordingly, 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.

The federal[4] and Quebec[5] governments have announced corporate tax reductions in the coming years. Concurrently, the taxation parameters for dividends will also be changed, which will generally result in an increase in the applicable tax rate and a greater gap between the rates applicable to ordinary and eligible dividends.[6]

Moreover, eligibility for the SBD maximum rate is now subject to several restrictions. In particular, for Quebec tax purposes, it is determined on the basis of the total number of hours paid by the corporation during the year.[7] Lastly, the upcoming new rules that will limit access to the SBD based on the corporation's passive income could impact the development of a long-term strategy to maximize compensation.

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 being subject to the rules regarding tax on split income.

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, 2016 and unpaid on June 30, 2018 will be included in your income for the 2016 taxation year, that is, the calendar year during which you received the unpaid loan. If you repay the loan in 2019, you will be entitled to a deduction equal to the repaid amount in your 2019 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.[8] 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

The cumulative capital gains deduction limit for qualified small business corporation shares is $848,252 since January 1, 2018 and will increase every year due to indexing. Furthermore, this limit is set at $1M for farm or fishing property.[9]

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

4 The federal tax rate applicable to income eligible for the SBDs will be decreased from 10% in 2018 to 9% as of January 1, 2019.

5 The Quebec general corporate tax rate is reduced by 0.1% per year since 2017, and will therefore be reduced from 11.7% in 2018 to 11.5% as of 2020. The rate applicable to income eligible for the SBD was decreased from 8% to 7% on March 28, 2018 and will be reduced by 1% per year as of 2019 to reach 4% as of 2021.

6 In Quebec, the maximum marginal tax rate applicable to eligible dividends increase from 39.89% in 2018 to 40.11% as of 2020, and the rate applicable to ordinary dividends will increase from 44.83% in 2018 to 48.02% as of 2020. In 2019, the rate applicable to ordinary dividends will increase from 46.65% to 47.40% in Ontario and from 46.88% to 47.75% in New Brunswick.

7 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.

8 The rate is 1% for the first quarter of 2018 and is 2% for the rest of the year.

9 This limit is not indexed annually.

the asset is "available for use". The federal Accelerated Investment Incentive introduced since November 21, 2018 provides for an accelerated CCA for property acquired as of that date. Special enhanced measures are also applicable for assets used for manufacturing and processing and for the production of clean energy[10]. In Quebec, eligible property[11] acquired after March 27, 2018 and before April 1, 2020, gives entitlement to an additional CCA corresponding to 60%[12] 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 including the enhanced Quebec investment tax credit

Quebec has an advantageous investment tax credit for manufacturing and processing equipment. Since 2017, this credit was only available for eligible equipment acquired in certain resource regions, but it has been restored for all regions in Quebec for property acquired after August 15, 2018 and before January 1, 2020.[13] Additionally, the basic credit of 5% may be increased to amounts up to 10% and 40% based on the region where the investment is made and an additional increase is available for corporations in the metal processing sector.

Consider making planned investments in the coming years sooner to take advantage of the increased investment tax credit.

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."

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 2018 by refunding your employer for part or all the operating expenses before February 14, 2019. 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.

[10] Ontario has announced its intention to harmonize with these measures. The Government of Quebec will announce its position regarding the harmonization of its tax legislation as part of its December 3, 2018 economic update.

[11] 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.

[12] 35% for eligible property acquired after March 28, 2017 and before March 28, 2018.

[13] The credit is applicable to property acquired before January 1, 2023 in the resource regions.

This measure applies to new tools other than electronic communication devices and electronic data-processing equipment.

For 2018, 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 $1,195 ($1,160 in Quebec). If you are an employed tradesperson and have not yet purchased new tools costing at least $1,695 in the year, plan to do so before the end of the year.

Benefit from non-taxable benefits

Tax legislation provides for a number of non-taxable benefits for employees, 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 2018 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 2018 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 2018, 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 2019 rather than in 2018. This will allow you to defer paying tax on the interest income until April 30, 2020.

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 2019 could mean that you won't have to report any income for 2018. 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.[14]

If you are going to borrow, you should borrow the maximum amount for business and investment[15] 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.

OTHER ADVICE FOR INDIVIDUALS

Did you acquire a residence in 2018? You may be entitled to a credit!

Individuals who acquire their first residence[16] to use it as their principal residence are entitled to a non-refundable tax credit of 15% for federal purposes calculated on $5,000 (maximum credit of $750). Since 2018, this credit is also available in Quebec, thus increasing the total benefit available to individuals to $1,500.

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, 2019, 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[17] for expenses paid by owners-occupants and their spouse before January 1, 2020.

In addition, if you have work carried out to upgrade residential waste water treatment systems under an agreement entered into after

14 Based on an approximate marginal tax rate of 50%.

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

16 Individuals will be considered has having purchased their first home if neither the individual nor the individual's spouse was the owner-occupant of another residence in the current and four previous calendar years.

17 This credit can be claimed over four taxation years, from 2016 to 2019, depending on when the expenses are paid.

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 2018 is 2%. 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

You must make your 2018 RRSP contribution by March 1, 2019. However, if you turned 71 in 2018, your contribution must be made by December 31, 2018. Your RRSP planning should consider your RRSP deduction limit[18] 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 2018 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 2018, consider making an over-contribution in December based on your 2018 earned income (if any). Although you'll be charged a penalty tax for one month, you'll be entitled to an RRSP deduction in 2019;
- If your income is particularly low in 2018, 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.[19]

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.

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 2018, any individual 18 years of age or older can invest up to $5,500 annually in a TFSA.[20] 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 2018 tax liability before remitting your final instalment (which is due December 15, 2018). 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

[18] This amount is indicated in your 2017 Federal Notice of Assessment.

[19] 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.

[20] Amount indexed annually since 2010 and rounded to the nearest $500. The contribution ceiling was $5,500 in 2016 and 2017, $10,000 in 2015, $5,500 in 2013 and 2014 and $5,000 for 2009 to 2012.

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 2018 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 2018. 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);[21]
- Costs for physical, artistic, cultural, recreational or developmental activities for elders 70 years of age or older;
- Investment costs (interest and brokerage fees);
- Moving costs;
- Tuition fees 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.

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 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, $75,910 in 2018. The full amount of the pension must be refunded when the net income reaches a little above $123,386. 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;

21 This credit is only available in Quebec; costs incurred for a child under five years of age are not eligible.

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

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

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.

- 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, since January 1, 2018, 25% of the QST payable on these expenses can be refunded. The eligibility rate will increase to 50% then 75% as of January 1, 2019 and 2020 respectively 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. However, since July 1, 2018, the refund is abolished in Ontario. In Prince Edward Island, the HST refund rate (provincial component) will also be progressively reduced over three years; and the rate has been reduced 75% since April 1, 2018.

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]

Employment agencies and construction industry

For contracts concluded since 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

[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] Since January 1, 2018, an ITR of 25% of the QST paid on these expenses can be claimed (i.e. 25% of the eligible 50%). The eligible amount will be 50% as of January 1, 2019, 75% in 2020 and 100% in 2021.

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

for corporate tax. A major decision was rendered by the U.S. Supreme Court this year on this matter and several states have amended or are in the process of amending their Nexus legislation accordingly.

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.