Raymond Chabot Grant Thornton
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Tax

Planning

Year-end Tax Planning Guide for 2019

November 2019

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 2020 that should be taken into consideration.

The following are a few simple, effective strategies that can be implemented before the end of 2019 or early in 2020. 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

Manufacturing and processing equipment: invest in 2019!

Quebec offers an advantageous investment tax credit in respect of manufacturing and processing equipment. Until December 31, 2019, the credit is available for all Quebec regions, with a substantial enhancement.

Qualifying corporations[1] can temporarily benefit from enhanced increased rates of up to 45%, depending on when and where a qualifying investment is made.[2] The following table illustrates the increased rates in effect.

Location where the investment is made	Increased rates applicable to investments carried out		
	Before August 16, 2018 and after 2019	After August 15, 2018 and before 2020	
		Sectors other than metal processing sector	Metal processing sector
Remote zone	24	40	45
Eastern portion of Lower St. Lawrence	16	30	35
Intermediate zone	8	20	25
Other zones	-	10	20

If you plan to acquire production equipment and the related IT systems for a manufacturing corporation, do so before 2020.

Moreover, Quebec and Ontario manufacturing SMEs can benefit from a reduced tax rate if they meet certain conditions. Various tax incentives are also offered for manufacturing corporations, such as tax credits and an accelerated CCA for property used in connection with such activities.

[1] That is, a corporation whose consolidated paid-up capital (including that of associated corporations) is less than $250M. Corporations in the metal processing sector benefit from an additional credit rate increase. For corporations that do not qualify for the enhanced rate, the credit base rate of 4% is increased to 5% for property acquired no later than December 31, 2019. After that date, the credit will only be offered in resource regions, at a base rate of 4% and the regular increased rates.

[2] Several conditions apply. In particular, the property must be new and used in Quebec at least 730 days primarily for manufacturing and processing and the first $12,500 spent per equipment does not qualify for the credit.

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It may be necessary to restructure your corporation's operations to fully benefit from the available incentives. Don't hesitate to consult your Raymond Chabot Grant Thornton advisor.

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. Optimal planning does no only consider the individual's and the corporation's tax rate. Various other factors have an impact on this analysis.

Consider declaring a bonus

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).

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

Your earned income must be at least $151,278 in 2019 to be able to make the maximum RRSP contribution of $27,230 in taxation year 2020.

Rethink your salary-dividend mix and maximize the capital gains realized

The decision on a salary-dividend mix becomes more complex with the introduction of various changes affecting corporate and individual taxes.

Quebec has announced a reduction in corporate tax rates, as shown in the following table:[3]

General tax rate	2019	2020	2021
Quebec	11.6	11.5	11.5
Federal	15.0	15.0	15.0
Combined rates	**26.6**	**26.5**	**26.5**
Income qualifying for the SBD	**2019**	**2020**	**2021**
Quebec	6.0	5.0	4.0
Federal	9.0	9.0	9.0
Combined rates	**15.0**	**14.0**	**13.0**

There are now more restrictive rules to qualify for the SBD and a corporation may even qualify for federal purposes but not for Quebec, because of the total number of paid hours.[4]

Additionally, depending on the nature of its income, a corporation can accumulate a general rate income pool (GRIP) entitling it to pay eligible dividends, taxable at a lower rate, to its shareholders. However, under new rules in effect since 2019, refundable dividend tax payable on investment income can only be refunded to the corporation if it pays ordinary dividends to its shareholders, which has an impact on the overall tax rate.

Concurrently, the tax rates applicable to dividends were increased and in Quebec the gap between ordinary and eligible dividends is greater.[5] The difference is even greater between the rates applicable to dividends and those applicable to capital gains, making this type of income even more advantageous.

The following table illustrates the maximum marginal tax rates applicable in Quebec, based on the type of income earned by an individual.

	Eligible dividends	Ordinary dividends	Capital gain	Other income
2019	40.00%	46.25%	26.65%	53.31%
2020	40.11%	47.14%	26.65%	53.31%
2021	40.11%	48.02%	26.65%	53.31%

Some planning options make it possible for shareholder-managers to receive amounts taxable at the capital gain rate. Ask your Raymond Chabot Grant Thornton advisor if you are in a position to set up such a structure.

In addition to the shareholder's and corporation's tax rate, the salary-dividend analysis should take into account several factors, such as your personal tax rate and that of the corporation, payroll taxes, QPP/CPP contributions and access to various tax deductions or credits based on income at both a personal and corporate level.

There is no "rule of thumb" that owner-managers of private corporations can use in order to determine the best overall compensation method. Generally, tailored planning is required. Don't hesitate to contact your Raymond Chabot Grant Thornton advisor to discuss these matters.

Review your family income splitting structure

The tax on split income limits the possibility for individuals (entrepreneur-shareholder) to split income by directing some income from a corporation or business which the individual has an interest to family members with a lower tax rate. Such income subject 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, d their application should be analyzed based on each individual's situation.

If a member of your family receives, 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 make it possible to limit its application.

Pay a reasonable salary to your spouse or children

If your spouse or children work for the family business, consider paying a reasonable salary for the *bona fide*

[3] The general combined corporate tax rate is 26.5% in Ontario (25% for manufacturing and processing corporations) and 29% in New Brunswick, while the rate applicable to income that qualifies for the SBD is respectively 12.5% and 11.5% in those provinces.

[4] To summarize, to be entitled to the maximum SBD in Quebec, paid hours of the corporation's employees must total a minimum of 5,500 hours in the year or the corporation must operate in the primary and manufacturing sectors

[5] Since 2019, the maximum marginal tax rate applicable to eligible dividends is 39.4% in Ontario and 33.51% in New Brunswick, while the rate applicable to ordinary dividends is 47.40% in Ontario and 47.75% in New Brunswick. There is no increase expected in the coming years.

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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, 2017 and unpaid on June 30, 2019 will be included in your income for the 2017 taxation year, that is, the calendar year during which you received the unpaid loan. If you repay the loan in 2020, you will be entitled to a deduction equal to the repaid amount in your 2020 tax return.

A taxpayer who received a loan from his/her company may also be required to include a taxable benefit in income as interest, to the extent the interest rate on the loan is lower than the quarterly rate prescribed by the tax authorities.[6] 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 $866,912 since January 1, 2019 and will increase every year due to indexing. Furthermore, this limit is set at $1M for farm or fishing property.[7]

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

> Setting up a family trust could make it possible to multiply this deduction among the trust beneficiaries at the time the shares are sold. Discuss this option with your advisor.

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

Generally, all depreciable property temporarily gives entitlement to an accelerated capital cost allowance (CCA) in the first year.[8] Moreover, some property used in manufacturing and processing and to produce clean energy and certain new zero emission vehicles are fully deductible in the fist year. In Quebec an additional CCA corresponding to 30% of the CCA claimed the previous year is also available for certain qualifying property,[9] until the property is fully depreciated. From a tax perspective, acquiring such property is thus particularly attractive.

> If you are planning to purchase a new asset, think about acquiring it before the end of your fiscal year. You will therefore be entitled to a CCA for that year as long as the asset is "available for use".

Moreover, 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.

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.

[6] The rate is 2% for 2019.

[7] This limit is not indexed annually.

[8] Property acquired and available for use since November 21, 2018 and before 2024.

[9] 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.

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Hire experienced workers

In Quebec, you could benefit from a refundable tax credit if you hire workers aged 60 and over. The credit, calculated based on employer contributions paid in a calendar year, can be up to $1,250 for an employee between the ages of 60 and 64 and $1,875 for an employee aged 65 and over.

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 2019 by refunding your employer for part or all the operating expenses before February 14, 2020. 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 2019, 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 $1,222 ($1,180 in Quebec). If you are an employed tradesperson and have not yet purchased new tools costing at least $1,722 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 2019 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 2019 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 2019, 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.

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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 2020 rather than in 2019. This will allow you to defer paying tax on the interest income until April 30, 2021.

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 2020 could mean that you won't have to report any income for 2019. 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.[10]

If you are going to borrow, you should borrow the maximum amount for business and investment[11] 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 2019? You may be entitled to a credit!

Individuals who acquire their first residence[12] 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). This credit is also available in Quebec, thus increasing the total benefit available to individuals to $1,500.

Are you considering acquiring property following a recent separation? You could qualify for the HBP!

As of 2020, individuals can borrow up to $35,000 from their RRSP to buy back their former spouse's share of the family home or to by a new residence following a separation. Consult your Raymond Chabot Grant Thornton advisor for the eligibility requirements of this new measure.

Renovate your residence and benefit from a tax credit

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.

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 2019 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 2019 RRSP contribution by February 29, 2020. However, if you turned 71 in 2019, your contribution must be made by December 31, 2019. Your RRSP planning should consider your RRSP deduction limit[13] 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 2019 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 2019, consider making an over-contribution in December based on your 2019 earned income

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

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

[12] 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.

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

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(if any). Although you'll be charged a penalty tax for one month, you'll be entitled to an RRSP deduction in 2020;

- If your income is particularly low in 2019, 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.[14]

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 2019, any individual 18 years of age or older can invest up to $6,000 in a TFSA.[15] 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 2019 tax liability before remitting your final instalment (which is due December 15, 2019). 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 2019 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 2019. 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);[16]
- 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.[17]

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.

[14] 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.

[15] Amount indexed annually since 2010 and rounded to the nearest $500. The contribution ceiling was $5,500 for the years 2016 to 2018, $10,000 in 2015, $5,500 in 2013 and 2014 and $5,000 for 2009 to 2012.

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

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

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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.[18] 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.

Plan your return to school

For federal purposes, as of 2020, individuals can benefit from the new Canadian Training Credit. This credit entitles individuals between the ages of 25 and 64 to recover up to 50% of training costs incurred in a year from a notional account where they accumulate credits of up $250 per year up to a lifetime amount of $5,000.

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[19] 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, $77,580 in 2019. The full amount of the pension must be refunded when the net income reaches a little above $125,696. 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[20] 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 are being progressively phased out since January 1, 2018. As a result, for the period of since January 1, to December 31, 2019, 50% of the QST payable on these expenses can be refunded. The eligibility rate will increase to 75% as of January 1, 2020 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 only entitled to a partial ITR on meals, beverages and entertainment expenses subject to the 50% limitation.[21]

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

[19] 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.

[20] 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.

[21] Since January 1, 2019, a partial ITR of 50% of the QST paid on the qualifying portion of these expenses (i.e. 50% of the eligible 50%) can be claimed. The eligible ITR rate will be 75% as of January 1, 2020 and 100% in 2021.

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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). However, as a result of the phasing out of restrictions since January 1, 2018, a person qualifying as a large corporation must remit QST on 50% of the benefit granted for 2019 and 75% and 100% of the benefit in 2020 and 2021 respectively.

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, the refund is abolished in Ontario. In Prince Edward Island, the HST refund rate (provincial component) is also progressively reduced over three years. The rate is down to 50% since April 1, 2019 and will be reduced to 25% as of April 1, 2020 before being completely eliminated as of April 1, 2021.

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.[22]

It should be noted that the rules in this regard have been significantly amended in recent years.

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 for corporate tax. A major decision was rendered by the U.S. Supreme Court in 2018 on this matter and several states have amended or are in the process of amending their economic Nexus legislation accordingly. Economic Nexus creates a compliance obligation for non-residents when they reach certain economic thresholds in a state, for example, $100,000 in sales or 200 distinct transactions during the year. When that threshold is reached, the corporation may be required to register for sales tax in that state.

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

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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**.