Raymond Chabot Grant Thornton

Tax

Planning

Year-end Tax Planning Guide for 2020

November 2020

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, certain measures coming into effect as of 2020 should be taken into consideration.

The following are a few simple, effective strategies that can be implemented before the end of 2020 or early 2021. Don't hesitate to contact your Raymond Chabot Grant Thornton advisor who can help you determine the measures that apply to your situation.

TAX ADVICE WITH RESPECT TO THE PANDEMIC

Make sure you've claimed all available assistance for your business

The Canada Emergency Wage Subsidy (CEWS) is the main program provided for Canadian businesses having experienced a revenue reduction, regardless of their size and industry. The subsidy is calculated on the remuneration paid by an eligible employer since March 15, 2020 and varies according to the business's revenue reduction in each eligibility period.

Similarly, the Canada Emergency Rent Subsidy (CERS) provides relief for commercial rent expenses incurred since September 27, 2020 by businesses and eligible organizations having experienced a revenue reduction. Eligible entities can benefit from this program, whether they are owners or renters, regardless of their size or industry.

Several other programs offer financial support to businesses to help them cope with the effects of the pandemic. Make sure you claim all the assistance you are entitled to.

There are several elections that can be made for the calculation of the CEWS and the CERS, and various factors must be taken into account in determining a business's eligibility and maximizing the subsidy for each eligibility period. Your Raymond Chabot Grant Thornton advisor can help you with this analysis.[1]

Be prepared for the new compliance requirements

T4 slips – new codes for 2020

For the 2020 tax year, you will be required to use the following new codes to report employment income and retroactive payments made to an employee during a given period in the "Other Information" area at the bottom of the T4 slip:

- Code 57: Employment income – March 15 to May 9;
- Code 58: Employment income – May 10 to July 4;
- Code 59: Employment income – July 5 to August 29;
- Code 60: Employment income – August 30 to September 26.

[1] The deadline to submit or amend a CEWS claim for a given period is the later of January 31, 2021 or 180 days after the end of the eligibility period. Accordingly, applications for periods 1 to 5, that is, from March 15 to August 1, 2020 can be submitted or amended no later than January 31, 2021.

Example: If employment income for the period of April 25 to May 8, 2020 was paid on May 14, 2020, you must use code 58.

This requirement applies to all employers, whether or not they have claimed the CEWS or another wage subsidy. This information will be used by the Canada Revenue Agency (CRA) to validate Canada Emergency Response Benefit (CERB) payments made during these periods.

10% Temporary Wage Subsidy (TWS) Self-identification Form for Employers

Under the TWS, qualifying small businesses can reduce their withholdings remittance on the salaries they paid during the period of March 18, 2020 to June 19, 2020 by 10% up to the lesser of $25,000 or $1,375 per employee. All eligible employers are deemed to have claimed this subsidy and the amount claimed reduces their CEWS amount for the period in question.

If you qualify for the TWS, you have to file the 10% Temporary Wage Subsidy Self-identification Form for Employers (PD27) to report the amount claimed under this subsidy.

You can also elect to waive the 10% TWS and only claim the CEWS by stating this in form PD27. Failure to properly reflect this waiver in the form means you are deemed to have claimed the maximum TWS and your CEWS could be reduced accordingly. You would then have to reimburse the excess amounts collected. It is therefore recommended that form PD27 be filed quickly to avoid discrepancies in the CRA's files.

Encourage your employees to get set up for telework

As an employer, you can reimburse employees for expenses incurred for the home office. Generally, reimbursing employees for supplies used in the course of their work, such as paper, ink or long-distance calls, does not trigger a taxable benefit for the employees. You should therefore encourage the reimbursement of such expenses, upon presentation of supporting evidence, rather than granting employees an allowance, which would be taxable.

However, if the reimbursed expenses include a personal component for the employee, a taxable benefit could be triggered. This is normally the case for property of a durable nature, such as furniture (chair, desk, etc.) or computer equipment, since the employee can use them outside the duties of employment. However, in the exceptional context of COVID-19, the CRA and Revenu Québec both consider that repayment, on presentation of supporting documentation, of a maximum of $500 to offset the cost of purchasing personal computer and office equipment so employees can perform their work duties at home is not a taxable benefit for the employee.

Employees, claim your home work expenses

As an employee, you can deduct an amount for office rent and supplies used directly in performing your duties if your employment contract requires you to pay the expenses and if they are not reimbursed by your employer. These conditions must be certified in a declaration signed by your employer. Deductible "office rent" includes the portion of costs associated with maintaining office space, such as electricity, heating and maintenance costs. Property taxes, home insurance premiums and mortgage interest are not deductible as an employee's home office expenses.

The tax authorities have issued numerous guidelines regarding deductible home office expenses. Take the time to review the content.

CERB beneficiaries, be prepared to pay taxes!

If you stopped working or significantly reduced your hours this year because of the pandemic, you likely claimed the CERB that paid individuals an equivalent of $500 per week for a maximum of 28 weeks during the period of March 15, to September 26, 2020.

While most employers deduct tax from their employees' salaries, this is not the case with the CERB, where no tax was deducted and remitted to the tax authorities. Accordingly, when you file your 2020 tax return, generally by April 30 next year, you will be required to include in your income the CERB amounts you received and pay the resulting tax. The amount of tax payable will depend on your other taxable income earned during the year.

For 2020, the basic personal amount, that is, the first portion of income for which no tax is payable, is $13,229 for federal purposes and $15,532 for Quebec purposes. Income earned above these amounts is taxable at progressive rates. For example, in Quebec, income in the $16,000-$42,000 tax bracket is generally taxed at a combined rate (federal and Quebec) of 27.53%. The combined rate increases as additional income is earned.

Example: You have earned a total salary of $30,000 in 2020 and you received CERB benefits of $8,000 for a total of 16-weeks period while you were not receiving a salary from your employer. Your employer has already deducted and remitted tax on the $30,000 salary you received. However, when you file your 2020 tax return, your income will be $38,000 because of the CERB. Since your income is in the $16,000-$42,000 bracket, your marginal tax rate is 27.53%, which means you may have to pay additional taxes of $2,200.

Several factors will impact the taxes payable on the CERB amount, including your deductions and tax credit entitlements for the year. Some credits are determined based on your taxable income, so you may be entitled to additional credits this year if your income is lower. Additionally, contributing to your registered retirement savings plan (RRSP) may reduce your tax bill. Estimating the amount of taxes payable must take account of each person's situation.

Lastly, while the CERB was being paid, it was generally possible to earn maximum income of $1,000 per month. If your income was higher than that threshold while you were receiving the CERB, you may not have been eligible for the CERB. In such a case, you may be required to reimburse benefit overpayments.

If any of these situations applies to you, you may have significant amounts payable. Make sure you plan accordingly.

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. Optimal planning does not 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). Like salary, a bonus is deductible from the company's income, making it possible to achieve this result, unlike a dividend.

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

Your earned income must be at least $155,611 in 2020 to be able to make the maximum RRSP contribution of $27,830 for the 2021 taxation year.

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

The salary-dividend mix decision has become more complicated in light of the various rules introduced in recent years that affect corporate and individual tax. The federal and Quebec governments have not announced any change in the corporate tax rate, which means the rates are as follows:[2]

General tax rate	2020	2021
Quebec	11.5	11.5
Federal	15.0	15.0
Combined rates	**26.5**	**26.5**
Income qualifying for the SBD	**2020**	**2021**
Quebec[3]	5.0	4.0
Federal	9.0	9.0
Combined rates	**14.0**	**13.0**

There are 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, 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.

In parallel in Quebec, there is a significant gap between the tax rates applicable to ordinary and eligible dividends, and this gap will increase again in 2021.[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
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, RRSP, QPP/CPP contributions and access to various tax deductions or credits based on income at both a personal and corporate level.

[2] The general combined corporate tax rate is 26.5% in Ontario (25% for manufacturing and processing businesses) and 29% in New Brunswick, while the applicable rate for income that qualifies for the SBD is 12.2% and 11.5% respectively in these provinces.

[3] In Quebec, corporations in the primary and manufacturing sectors benefit from an additional 1% reduction of the tax rate applicable to income that qualifies for the SBD in 2020, bringing the combined rate on this income to 13%. This difference will disappear as of 2021.

[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. Relief applies for this calculation for 2020 to reflect the fact that some businesses had to temporarily discontinue their activities due to the pandemic.

[5] In 2020, 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 47.74% in Ontario and 47.75% in New Brunswick. There is no increase expected in the coming years.

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 in which the individual has an interest to family members with a lower tax rate. Such income 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, 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 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 makes it possible to split income without being subject to the rules regarding tax on split income.

Repay advances and other 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, 2018 and unpaid on June 30, 2020 will be included in your income for the 2018 taxation year, that is, the calendar year during which you received the unpaid loan. If you repay the loan in 2021, you will be entitled to a deduction equal to the repaid amount in your 2021 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 or received an advance from your corporation, we suggest you 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 (SBCS) is $883,384 since January 1, 2020 and will increase every year due to indexing. Furthermore, this limit is set at $1M for farm or fishing property.[7]

A number of conditions must be satisfied for small business shares to qualify as SBCS, including some that apply for the 24-month period preceding the sale. If you're planning to sell shares or other property that is eligible for this deduction, consider checking if you qualify and 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.

In some cases, you could consider crystallizing your capital gain deduction on your small business shares while your corporation qualifies. This would be the case, for example, if you anticipate accruing significant amounts of liquidity or surplus assets that are not used in the business.

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 (CCA)

Generally, all depreciable property temporarily gives entitlement to an accelerated CCA in the first year. Moreover, some property used in manufacturing and processing and to produce clean energy and certain new zero emission vehicles are even 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,[8] until the property is fully depreciated. From a tax perspective, acquiring such property is therefore particularly attractive.

If you are planning to purchase new depreciable property, 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 property is "available for use".

[6] This rate is 1% since July 1, 2020 (2% before that date).

[7] This limit is not indexed annually.

[8] 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.

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.

Take advantage of investment tax credits

The investment and innovation tax credit (C3i) is a new refundable tax credit varying between 10% and 20%[9] that can be claimed by businesses in all industries with respect to the acquisition of property such as manufacturing and processing equipment, computer equipment and some management software. Alternatively, the investment tax credit is still available for eligible property acquired to be used primarily in a resource region; the tax credit rate varies between 4% and 24%.[10]

> Consider planning your investments in order to benefit from the C3i, or the investment tax credit, whichever is more advantageous for your business. 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.

Support Quebec innovation

The new Synergy Capital tax credit will come into effect in 2021. The purpose of this measure is to promote business networking and synergy among Quebec businesses by allowing an established company (investor) that subscribes to the capital stock of an eligible innovative growth corporation to obtain a non-refundable tax credit up to an annual maximum of $225,000. An eligible corporation that wants to issue shares to an eligible investor under this program must first obtain a certificate from Investissement Québec. Your Raymond Chabot Grant Thornton advisor can provide information about this measure and help you implement it.

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 CRA 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.

Hire experienced workers or persons with a severely limited capacity for employment

In Quebec, you could benefit from a refundable tax credit if you hire workers aged 60 and over. The credit available for SMEs is calculated based on employer contributions paid in a calendar year and 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.

Similarly, you could claim a credit equal to the employer contributions paid with respect to workers with a severely limited capacity for employment, that is, persons with a handicap or who receive a social solidary allowance.

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 2020 by refunding your employer for part or all the operating expenses before February 14, 2021. 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.

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[9] Businesses in the Montréal and Québec City metropolitan community benefit from a 10% credit rate and others are entitled to a 15% or 20% credit, depending on their region's economic vitality. The credit is fully refundable in the case of corporations with assets and income less than $50M. Beyond this threshold, the refund decreases. This credit is subject to expense thresholds and an eligible investment ceiling.

[10] If the property acquired is eligible for both these credits, it is deemed to be eligible for the C3i credit, unless the corporation makes an election to claim the investment tax credit instead.

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 2020, 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 $1,245 ($1,200 in Quebec). If you are an employed tradesperson and have not yet purchased new tools costing at least $1,745 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 lossesl

If you have realized a capital gain in 2020 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 2020 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.

The loss may be refused if you sell the property to certain related persons or entities, such as your spouse, a corporation that you or your spouse controls, your RRSP, your tax-free saving account (TFSA) or if one of these persons or entities holds or purchases the same or an identical property in the 30 days after 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 2020, 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 Guaranteed Investment Certificate (GIC) or T-Bill, consider arranging for a maturity date early in 2021 rather than in 2020. This will allow you to defer paying tax on the interest income until April 30, 2022.

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 2021 could mean that you won't have to report any distribution income for 2020. 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.[11]

If you are going to borrow, you should borrow the maximum amount for business and investment purposes and as little as possible for personal reasons.[12] Conversely, when repaying debt, as much as possible, pay off loans on which interest is non-deductible before you repay those on which interest is deductible.

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 2020? You may be entitled to a credit!

Individuals who acquire their first residence[13] to use 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 that may be available to you to $1,500.

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

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

[13] Individuals will be considered as 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.

Are you considering acquiring property following a recent separation? You could qualify for the Home Buyer's Plan!

Since 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 buy a new residence following a separation. Consult your Raymond Chabot Grant Thornton advisor for the eligibility requirements of this new measure.

Renovate your residence

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 2020 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. Do not hesitate to contact your Raymond Chabot Grant Thornton advisor to discuss this measure.

Contribute to a Registered Retirement Savings Plan

You must make your 2020 RRSP contribution by March 1, 2021. However, if you turned 71 in 2020, your contribution must be made by December 31, 2020. Your RRSP planning should consider your RRSP deduction limit[14] 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 2020 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 2020, consider making an over-contribution in December based on your 2020 earned income (if any). Although you'll be charged a penalty tax for one month, you'll be entitled to an RRSP deduction in 2021;
- If your income is particularly low in 2020, 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.[15]

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.

Take advantage of the Registered Education Savings Plan (RESP) and Registered Disability Savings Plan (RDSP)

Based on your personal and family situation, you may be able to make contributions to other registered plans such as the RESP and RDSP. Unlike an RRSP, the contributions to these plans are not deductible for tax purposes.

There is no tax on the income earned in such a plan until the amounts are withdrawn. Contributions can give entitlement to substantial government grants based on the contribution amount and family income. Don't delay to invest in these plans so you won't lose your right to grants.

Don't forget to plan a withdrawal strategy for funds held in an RESP before your beneficiary children start post-secondary studies. Sound tax and financial planning is needed to optimize the benefits of such a plan.

Don't forget your TFSA

For the year 2020, any individual 18 years of age or older can invest up to $6,000 in a TFSA.[16] 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.

[14] This amount is indicated in your 2019 Federal Notice of Assessment.

[15] 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.

[16] Amount indexed annually since 2010 and rounded to the nearest $500. An individual born before 1991 (i.e. who was at least 18 years of age in 2009) has accrued contribution room totalling $69,500 in 2020.

For some individuals, a TFSA may be more beneficial than an RRSP, even though TFSA contributions are not deductible. Your Raymond Chabot Grant Thornton advisor can help you make informed decisions on the right plan for you, based on your personal situation.

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 2020 tax liability before remitting your final instalment (which is due December 15, 2020). 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 2020 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 2020. 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);[17]
- Costs for physical, artistic, cultural, recreational or developmental activities for seniors 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 childcare costs when the caregiver has little or no income tax.

Maximize 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.[18]

Combine and plan your charitable donations

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.[19] 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, since 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[20] 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

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

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

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

[20] 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.

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, $79,054 in 2020. The full amount of the pension must be refunded when the net income reaches a little above $128,137. 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[21] 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. As a result, for the period of January 1 to December 31, 2020, 75% of the QST on these expenses can be recovered 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. It is also important to consider this question if a unanimous shareholder agreement was introduced as it may alter a corporation's controlling interests.

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.[22]

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 75% of the benefit granted for 2020 and 100% of the benefit for 2021.

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 25% since April 1, 2020 and will be 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. 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.

[21] 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.

[22] 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 is 75% since January 1, 2020 and it will be 100% in 2021.

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.[23]

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

Employment agencies, construction industry and maintenance services

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. As of January 1, 2021, this requirement will be extended to the public building maintenance work sector.

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. Moreover, new rules have been implemented for online sales platforms that sell on behalf of third-party suppliers.

23 Including, for example, receiving dividends or interest.

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**.

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