Raymond Chabot Grant Thornton

Tax

Planning

Year-end Tax Planning Guide for 2021

November 2021

Would you like to reduce your income taxes? Proper tax planning should be a year-long activity. However, there is still time to implement a few strategies that could reduce your taxes. Furthermore, certain measures coming into effect as of 2022 should be taken into consideration.

The following are a few simple, effective strategies that can be implemented before the end of 2021 or early in 2022. 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

As a shareholder-manager, properly structure your compensation

If you are the owner-manager of a 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 taxation. 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, which is not the case with 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 $162,278 in 2021 to be able to make the maximum RRSP contribution of $29,210 in taxation year 2022.

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

The salary-dividend mix decision should take into account various rules that affect corporate and individual tax. The federal and Quebec governments have not announced any change in the corporate tax rates, which means the rates are as follows:[1]

General tax rate	2021	2022
Quebec	11.50	11.50
Federal	15.00	15.00
Combined rates	**26.50**	**26.50**
Income qualifying for the SBD	**2021**	**2022**
Quebec	3.38[2]	3.20
Federal	9.00	9.00
Combined rates	**12.38**	**12.20**

[1] 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 for 2021.

[2] Rate reduced to 3.2% since March 26, 2021 (4% before that date). Average rate of 3.38% for 2021.

Eligibility for the maximum SBD rate is subject to several restrictive rules and a corporation may even qualify for federal purposes but not for Quebec, because of the total number of its paid hours.[3]

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, there is a significant gap between the tax rates applicable to ordinary and eligible dividends.[4] 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
2021	40.11%	**48.02%**	26.65%	53.31%
2022	40.11%	**48.70%**	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 payroll taxes, RRSP and 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. 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 their income by allocating some income from a corporation or business in which the individual has an interest to family members with a lower tax rate. The income subject to the tax on split income is taxed at highest marginal tax rate in the hands of the recipient 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

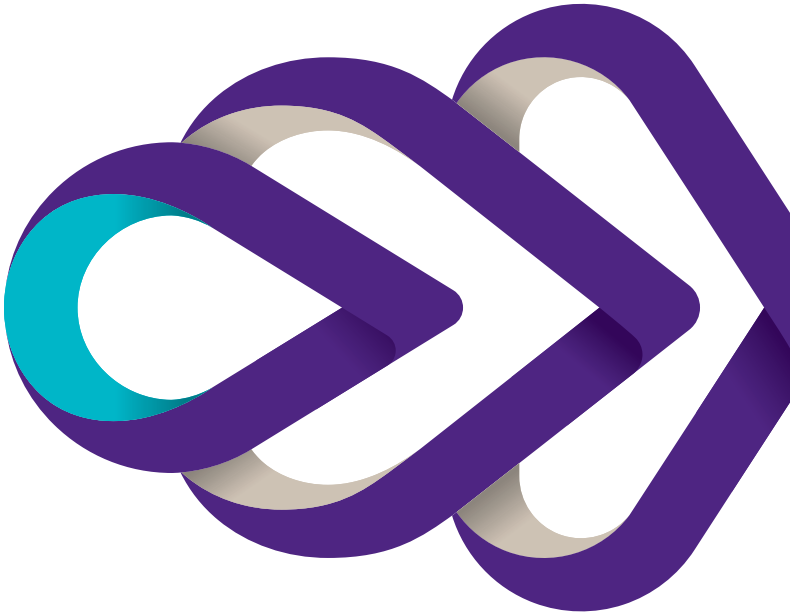
If your spouse or children work for the family business, consider paying a reasonable salary for the bona fide services they provide. This strategy will be worthwhile if their marginal tax rate is less than yours, while providing them with earned income for QPP/CPP and RRSP purposes. Such a strategy 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, 2019 and unpaid on June 30, 2021 will be included in your income for the 2019 taxation year, that is, the calendar year during which you received the unpaid loan. If you repay the loan in 2022, you will be entitled to a deduction equal to the repaid amount in your 2022 tax return.

Shareholders who received a loan from their company may also be required to include a taxable benefit in their income in respect of interest, to the extent the interest rate on the loan is lower than the quarterly rate prescribed by the tax authorities.[5] If you have borrowed or received an advance from your corporation, we suggest you review the tax consequences with your tax advisor.



[3] To summarize, to be entitled to the maximum SBD rate in Quebec, paid hours of the corporation's employees must total a minimum of 5,500 hours in the year or the corporation must primarily operate in the primary and manufacturing sectors. Automatic relief applies for this calculation for taxation years ended between March 15, 2020 and June 30, 2020 to reflect the fact that some businesses had to temporarily discontinue their activities due to the pandemic. For tax years ended after June 30, 2020 and before July 1, 2021, a corporation can **elect** to use the paid hours for the previous tax year in order to maintain its eligibility for the SBD.

[4] In 2021, 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 (non-eligible) is 47.74% in Ontario and 47.75% in New Brunswick. There is no increase expected in the coming years.

[5] The rate is 1% throughout 2021.

Take full advantage of your capital gains deduction and plan your business succession

The cumulative capital gains deduction limit for qualified small business corporation (QSBC) shares is $892,218 since January 1, 2021 and increases every year due to indexing. Furthermore, this limit is set at $1M for farm or fishing property.[6]

A number of conditions must be satisfied for small business shares to qualify as QSBC shares, 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 gains deduction on your QSBC 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. If you've already crystallized your capital gains deduction, consider checking whether you would be able to claim the maximum deduction available at the time of their disposal, taking into account the increased limits. It might be necessary to undertake a reorganization of the property ownership, including your corporate structure. Your Raymond Chabot Grant Thornton advisor can suggest solutions that are tailored to your needs.

Lastly, if you're planning to transfer your business to your children or grandchildren, you should be aware that Bill C-208, which was assented to on June 29, 2021, makes it easier to transfer the shares of small business or of a family farm or fishing corporation between generations.

The government has announced its intention to amend some aspects of these new rules. Nevertheless, if you are planning to transfer shares to your children or grandchildren, contact your Raymond Chabot Grant Thornton advisor to discuss new opportunities in this area.

Defer the tax on the sale of a business by reinvesting the proceeds of disposition

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. 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. Until 2023, most of the property acquired by a Canadian-controlled private corporation may even be fully deductible in the first year, up to an annual ceiling of $1.5M.

In Quebec an additional CCA corresponding to 30% of the CCA claimed the previous year is also available for certain qualifying property,[7] 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". If you qualify for the accelerated CCA in the first year and your eligible acquisitions exceed the $1.5M ceiling, consider distributing them between 2021 and 2022 to maximize this incentive.

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. 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 the temporary investment and innovation tax credit (C3i) enhancement

The C3i credit is a refundable tax credit 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. Enhanced rates ranging from 20% to 40% apply to expenditures to acquire eligible property from March 26, 2021 to December 31, 2022.[8]

Consider planning your investments in order to benefit from the C3i. It may be necessary to restructure your corporation's operations to fully benefit from this incentive. Don't hesitate to consult your Raymond Chabot Grant Thornton advisor.

Support Quebec innovation

Since January 1, 2021, the Synergy Capital tax credit is available to promote business networking and synergy among Quebec businesses. It allows 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.

[6] This limit is not indexed annually.

[7] 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.

[8] Usually, businesses established in the Montréal and Québec metropolitan communities benefit from a rate of 10% and others are entitled to a credit of 15% or 20%, depending on their region's economic vitality. These rates are increased to 20%, 30% and 40% respectively until the end of 2022. The credit is fully refundable for corporations whose assets and income are less than $50M. Beyond that threshold, the credit's refundability is reduced. This credit is subject to expenditure thresholds and an eligible investment ceiling.

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

Reduce 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.[9] 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 2021 by refunding your employer for part or all the operating expenses before February 14, 2022. 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 2021, 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 $1,257 ($1,215 in Quebec). If you are an employed tradesperson and have not yet purchased new tools costing at least $1,757 in the year, plan to do so before the end of the year.

Take advantage of 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.

[9] For 2021, employees who have an automobile provided by the same employer as in 2019 can use the 2019 automobile usage to determine if this criterion has been met.

ADVICE FOR INVESTORS

Plan the realization of your capital gains and losses

If you have realized a capital gain in 2021 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 2021 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 consider obtaining investment advice prior to making this type of a decision.

The loss may be denied 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. Different dates may apply for foreign exchanges. If you want a sale to close in 2021, you should contact your broker to ensure that the transaction settles before the end of the year.

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 2022 rather than in 2021. This will allow you to defer paying tax on the interest income until April 30, 2023.

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 2022 could mean that you won't have to report any distribution income for 2021. 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 purposes and as little as possible for personal reasons.[11] 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 2021? 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 that may be available to you to $1,500.

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

Individuals can withdraw 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.

Have work carried out on your residential waste water treatment systems

If you have work carried out to upgrade residential waste water treatment systems under an agreement entered into 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.

If you're planning to have this type of work carried out, enter into an agreement before April 1, 2022 to benefit from the credit.

Lend money to your spouse 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

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

[11] Interest expenses incurred to invest in a registered account, such as 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.

or common-law partner can invest the loan proceeds and include any income/capital gains in his/her income. The loan must bear interest at the prescribed rate in effect at the time it was granted. For example, the prescribed rate in effect for the last quarter of 2021 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 2021 RRSP contribution by March 1, 2022. However, if you turned 71 in 2021, your contribution must be made by December 31, 2021. 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 2021 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. However, you must earn eligible income in the subsequent years to deduct these amounts;
- 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 2021, consider making an over-contribution in December based on your 2021 earned income (if any). Although you'll be charged a penalty tax for one month, you'll be entitled to an RRSP deduction in 2022;
- If your income is particularly low in 2021, 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.

Since 2021, taxable postdoctoral fellowship income is included for purposes of the RRSP contribution limit calculation and it is possible to apply to the CRA to have the measure apply to the 2011 to 2020 years.

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.

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, contributions to these plans are not deductible from taxable income, but they may give entitlement to substantial government grants in an amount based on the plan contribution and family income.

There is no tax on these grants or on the income earned in such a plan until the amounts are withdrawn. Don't delay investing 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 helps to optimize the benefits of such a plan.

Don't forget your TFSA

For the year 2021, 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.

[13] This amount is indicated in your 2020 Federal Notice of Assessment.

[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. An individual born before 1991 (who was therefore under the age of 18 in 2009) has accumulated rights totally $75,500 in 2021.

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.

Keep an eye on your instalment requirements

If you are required to make quarterly tax instalments, you should review your expected 2021 tax liability before remitting your final instalment (which is due December 15, 2021). 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 significant 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. Example: If you had to make quarterly tax instalments of $6,000 during the year, no interest should be charged if, instead of making payments of $6,000 each on March 15 and June 15, you paid $12,000 on May 1.

To offset a late instalment payment, you could have your source deductions on a bonus or your RRSP or RRSF increased. If it is properly calculated, this increased deduction as source will have the same effect as though the instalments had been paid on time.

Pay your expenses in 2021 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 deductions and credits to which you are entitled for 2021. 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 individuals 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.

Owners of a rental property: keep track of your travel

If you own one or rental properties, the vehicle expenses you can deduct depend on several factors. Keep your receipts and a log of your travel to enter the kilometers driven regarding this income source.

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.[17]

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 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.[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 advantageously for tax purposes.

Plan your return to school

For federal purposes, since 2019, eligible individuals over 25 years of age and under 66 years of age can accumulate $250 per year (up to a lifetime maximum of $5,000) in a notional account for the Canada training credit limit account. Individuals can claim a refundable credit equal to 50% of training fees incurred during the year up to the maximum amount accumulated in this regard at the end of the previous year. For example, individuals who accumulate rights since 2019 and have never claimed the training credit can claim a maximum amount of $500 in 2021 if they incur eligible training costs of at least $1,000 during the year.

[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.

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

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 requires that Old Age Security payments be refunded when the pensioner's net income for the year exceeds a certain annual threshold, that is, $79,845 in 2021. The full amount of the pension must be refunded when the net income is about $129,581. If you have the ability to manage the amount of income you receive in a year, keep these thresholds in mind.

SALES TAX ADVICE

New tax on select luxury goods

Subject to certain exceptions, a new tax on luxury items will come into effect as of January 1, 2022 on the retail sale of the following property:

- Cars or personal aircraft with a sale price greater than $100,000;
- Boats with a sale price greater than $250,000.

Plan your purchases accordingly and don't hesitate to contact with your Raymond Chabot Grant Thornton advisor for details on this measure.

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 at the beginning of the 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 real property and financial services, and applicable taxes. This election must be filed at the beginning of 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.

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 and consistent with company practice, 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.

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.

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.

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

Management and financial services companies

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.[20]

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

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

Businesses in the construction and maintenance of public building and employment and temporary foreign worker recruitment agencies

Businesses in the construction and maintenance of public building sectors must obtain an attestation from Revenu Québec that they must then remit to work providers. Clients of such businesses are required to obtain a copy of the attestation, verify its validity and authenticity in the manner specified to avoid potential penalties.

Since September 1, 2021, employment and temporary foreign workers recruitment agencies must have a valid Revenu Québec attestation to obtain or renew their permit. Clients of such agencies must verify the validity of their permit.

Consider reviewing 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. Registration requirements have been expanded in Manitoba, Saskatchewan and British Columbia for businesses that do not have a presence in these provinces. Your Raymond Chabot Grant Thornton can help you determine if your business is required to register in these provinces.

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 taxes.

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 a 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.

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**.