Raymond Chabot Grant Thornton

Tax

Planning

Year-end Tax Planning Guide for 2023

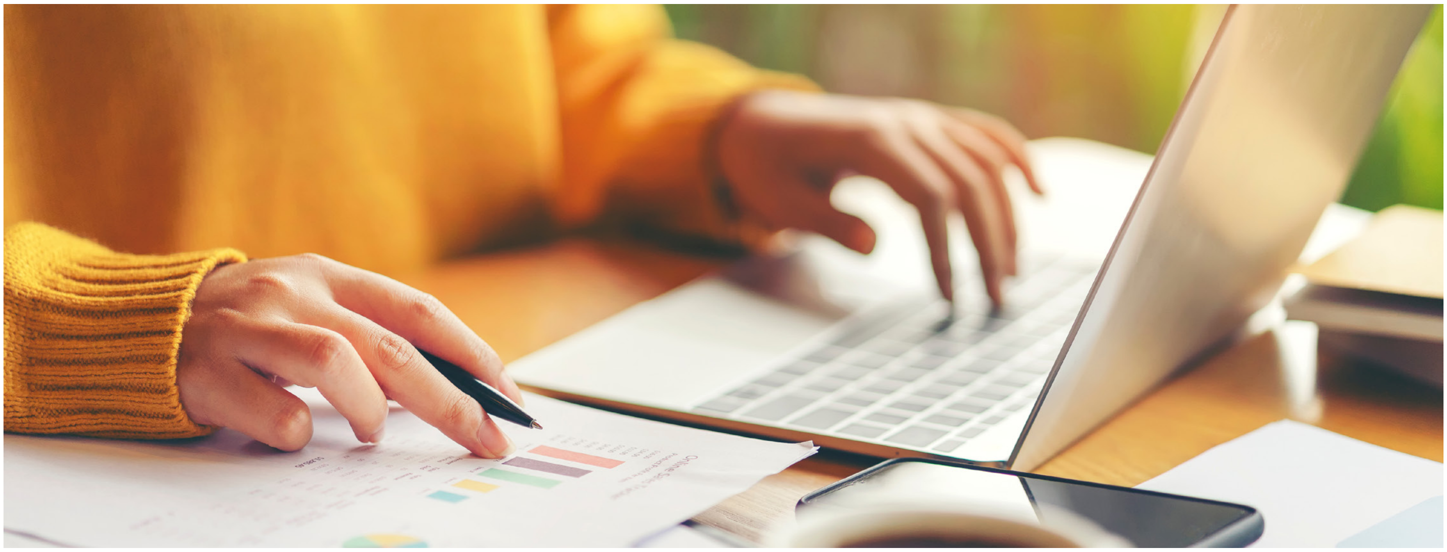
November 2023

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 for taking advantage of the accelerated and additional capital cost allowance and enhanced rates of the Tax Credit for Investment and Innovation (C3i), which will end on December 31, 2023. So, now is the time to invest to benefit from these major tax incentives!

Furthermore, certain measures coming into effect as of 2024 should be taken into consideration as of now. This is especially true of upcoming changes to the Alternative Minimum Tax. These measures could affect high-income individuals, particularly those who expect to make significant capital gains, exercise stock options or make large charitable donations in the short term.

If you are planning on transferring your business to your children or grandchildren, significant changes are also planned for 2024 with regard to the intergenerational transfers of shares of small businesses or family-owned farming or fishing corporations.

The following are a few simple, effective strategies that can be implemented before the end of 2023 or early in 2024. Don’t hesitate to contact your Raymond Chabot Grant Thornton advisor who can help you determine the measures that apply to your situation.



BUSINESSES: TAKE ADVANTAGE OF MAJOR TAX INCENTIVES BEFORE THE END OF 2023!

Tax Credit for Investment and Innovation (C3i): there's still time to invest!

In Quebec, the C3i is a refundable tax credit available to corporations in all sectors of activity for their acquisitions of property such as manufacturing and processing equipment, computer hardware and certain management software packages.[1]

This tax credit will be available until the end of 2029, but the credit rates are enhanced for property acquired until **December 31, 2023**.

Place where property is acquired to be used[2]	Rates according to property acquisition date: From March 26, 2021 to December 31, 2023[3]	Rates according to property acquisition date: 2024 to 2029
Low economic vitality zone	40%	25%
Intermediate zone	30%	20%
High economic vitality zone	20%	15%

Consider planning your investments before the end of 2023 in order to benefit from the enhanced C3i rates.

Maximize your capital cost allowance (CCA) now

In general, all depreciable property acquired and put into service before 2024 qualifies for accelerated CCA in the first year. Most assets acquired by Canadian-controlled private corporations are even fully deductible in the first year, provided they are put into service no later than December 31, 2023, up to an annual ceiling of $1.5 million.[4] As of 2024, certain accelerated CCA measures will cease, while others will be gradually eliminated until they are completely phased out in 2028.

If you are planning to acquire new depreciable assets, consider doing so before the end of the year. You will then be entitled to a greater CCA for this financial year, provided the asset is ready for use.

In Quebec, additional CCA equal to 30% of the CCA claimed in the previous year is available on computer equipment and eligible manufacturing and processing equipment[5] acquired before 2024, until the asset is fully depreciated. The acquisition of such assets no later than December 31, 2023 is therefore particularly attractive from a tax standpoint.

Incidentally, the disposal of assets that have appreciated in value may give rise to significant tax liabilities, while a terminal loss may arise on the disposal of assets that have depreciated more rapidly. Planning the timing of disposal can defer or reduce the potential tax arising from the sale of a significant capital asset.

ADVICE TO TRUSTS AND HIGH-INCOME INDIVIDUALS

Consider upcoming changes to the calculation of the Alternative Minimum Tax (AMT)

The AMT is designed to ensure that all individuals (including trusts) pay their fair share of tax. It is a parallel calculation to regular tax that allows fewer deductions, exemptions and tax credits than the ordinary rules. When you file your tax return, you pay the higher of the minimum tax and regular tax.[6]

As of 2024, the AMT calculation will be significantly modified to better target high-income taxpayers. The AMT rate will rise from 15% to 20.5% and the basic exemption will increase from $40,000 to approximately $173,000[7]. Additionally, the taxable income base used to calculate the AMT will be broadened, in particular as follows:

- Capital gains, including those arising from the donation of an asset other than a listed security, included at 100% (currently 80%);
- Capital gains arising from the donation of a listed security, included at 30% (currently 0%);
- Capital losses carried forward and eligible business investment losses deductible at 50% (currently 80%);
- Employee stock option benefits included at 100% (currently 50%) and no deduction for such benefit (currently deductible at 20%);
- Non-refundable tax credits and miscellaneous deductions (e.g., charitable donations, interest and financial expenses incurred to earn income, childcare costs, moving expenses, employment expenses not related to commission income, etc.) deducted at 50% (currently 100%).

These changes will have an impact on individuals who realize significant capital gains, particularly on the sale of shares in a private company. Individuals who exercise large stock options or make large charitable donations could also be affected.

If you are planning to realize significant capital gains in the short term through the sale of shares or other assets, consider consulting your Raymond Chabot Grant Thornton advisors. They can help you minimize the impact of these new rules and make informed decisions based on your personal situation.

[1] The credit is fully refundable for corporations with assets and income of less than $50 million. Above this threshold, the refundability of the credit is reduced. The credit is subject to expenditure thresholds and a ceiling on eligible investments.

[2] The tax credit rate is determined according to the region where the property is acquired to be used primarily and the time at which the investment is made. The metropolitan communities of Montreal and Québec City are normally considered regions of high economic vitality.

[3] The enhancement applies to property legally acquired before **April 1, 2024**, provided that it is acquired in accordance with a written obligation entered into before January 1, 2024 or that its construction had begun prior to that date. Properties acquired in accordance with a written agreement entered into before March 26, 2021 and those where construction began before that date are excluded.

[4] This measure also applies to property acquired by an individual (other than a trust) and by a partnership composed of individuals and/or CCPCs, provided that the property becomes available to use before 2024 or 2025, as the case may be.

[5] Equipment that is new at the time of acquisition and mainly used in Quebec for a period of 730 days following its acquisition.

[6] The additional tax can then be applied against the regular tax payable over the following seven years, provided you are not again subject to the Alternative Minimum Tax.

[7] An amount equal to the lower threshold of the fourth tax bracket (estimated at $173,000 in 2024). In Quebec, it is planned that the AMT rate will be increased from 14% to 19% and the basic exemption to $175,000 in 2024.

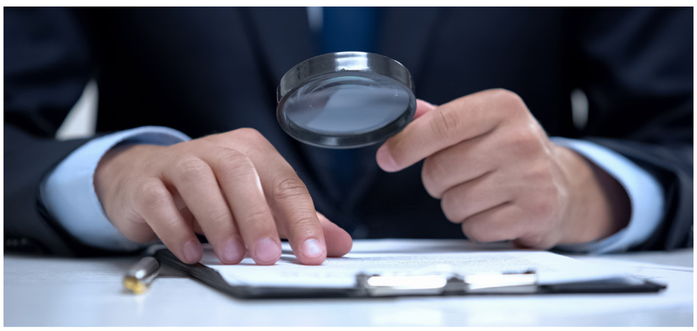
ADVICE FOR BUSINESSES AND THEIR MANAGERS

Take advantage of the new loan repayment flexibility of the Canadian Emergency Business Account (CEBA)

If you received CEBA loans, you now have until January 18, 2024 to repay them in order to benefit from a partial write-off of $10,000 (on a $40,000 loan) or $20,000 (on a $60,000 loan). Additionally, if you submit a refinancing application to the financial institution that granted you the loan by January 18, 2024, you will have until March 28, 2024 to conclude this agreement and repay the loan, leading to a partial write-off.[8]

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. Declaring a bonus at year-end can help 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 $175,333 in 2023 to be able to make the maximum RRSP contribution of $31,560 in taxation year 2024.

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

The salary-dividend mix decision should consider various rules that affect corporate and individual tax.

The corporate tax rates in Quebec are as follows, for 2023 and following years:[9]

Tax rate	With SBD[10]	Without SBD
Quebec	3.20%	11.50%
Federal[11]	9.00%	15.00%
Combined rates	**12.20%**	**26.50%**

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.

There is a significant gap between the tax rates applicable to ordinary and eligible dividends. 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, Ontario, and New Brunswick, based on the type of income earned by an individual:

2023	Eligible dividends	Ordinary dividends	Capital gain	Other income
Quebec	40.11%	48.70%	26.65%	53.31%
Ontario	39.34%	47.74%	26.76%	53.53%
N.-B.	32.40%	46.83%	26.25%	52.50%

> 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 consider 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 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.

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.

[8] Loans not repaid by these dates will be converted into interest-bearing loans at 5% per annum (with no partial write-off), repayable by December 31, 2026 at the latest.

[9] 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 2023.

[10] The SBD is progressively reduced when the taxable capital of the corporation (including associated corporations) exceeds $10M, and it is completely eliminated when it reaches $50M. Eligibility for the maximum SBD rate is subject to several restrictive rules, including the criterion of paid hours in Quebec.

[11] For federal purposes, the rates with and without the SBD are reduced to 4.5% and 7.5% respectively for qualifying zero-emission technology manufacturing and processing 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.

> **Example:** If your corporation's financial year-end is June 30, an advance made on July 3, 2021, and unpaid on June 30, 2023, will be included in your income for the 2021 taxation year, that is, the calendar year during which you received the unpaid loan. If you repay the loan in 2024, you will be entitled to a deduction equal to the repaid amount in your 2024 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.[12]

There are some exceptions to these rules. If you have borrowed or received an advance from your corporation, we suggest you review the tax consequences with your tax advisor.

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 $971,190 since January 1, 2023 and increases every year due to indexing. The limit is set at $1M for farm or fishing property (not indexed annually).

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 this deduction on your shares, consider making sure that you are able to claim the maximum deduction available at the time of their disposal, considering the increased limits.

If you're planning to transfer your business to your children or grandchildren, you should be aware that important changes to the rules to make it easier to transfer the shares of small business or of a family farm or fishing corporation between generations should be coming into effect in 2024.

The government also proposed new rules to facilitate the use of employee ownership trusts, which can provide an additional option to facilitate a transfer to successors without the direct ownership of shares by employees.

> If you are planning to transfer shares to your children, grandchildren or your employees, contact your Raymond Chabot Grant Thornton advisor to discuss opportunities in this area.

Support Quebec Innovation

The Synergy Capital tax credit aims 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 Quebec.

> If you are considering investing in such projects, your Raymond Chabot Grant Thornton advisor can help you take the necessary steps to benefit from these measures.

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.

There are numerous 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 whose payroll is not greater than $7.2M in 2023 applies to employer contributions paid in a calendar year. It 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.

[12] The rate is 5% of the last quarter of 2023.

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 records of business and personal use of the vehicle, for this calculation.

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 31st 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 2023 by refunding your employer for part or all the operating expenses before February 14, 2024. You should check before if this option is to your advantage.

Lastly, 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 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.

Since 2023, the amount of this deduction is increased to $1,000 (previously $500). The amount you can deduct for the purchase of eligible tools (up to a maximum of $1,000) is the amount by which the purchase cost exceeds $1,368 ($1,325 in Quebec). Therefore, if you have not purchased any new tools for a total cost of at least $2,368 during the year, plan to do so before the end of the year.

If you are a teacher or an early childhood educator and purchased eligible school supplies, you could benefit from a refundable tax credit up to $250 for federal purposes.

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.

ADVICE FOR INVESTORS

Plan the realization of your capital gains and losses

If you have realized a capital gain in 2023 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 2023 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 transfer 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 2023, you should contact your broker to ensure that the transaction settles before the end of the year.

Structure your loans to maximize your interest deduction

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

If you are going to borrow, you should borrow the maximum amount for business and investment purposes and as little as possible for personal reasons.[14] 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.

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

[14] Interest expenses incurred to invest in a registered account, such as an RRSP or TFSA, are not deductible.

ADVICE REGARDING YOUR RESIDENCE

Did you acquire a residence in 2023 or are you planning such a purchase? You may be entitled to a tax assistance!

If you or your spouse acquire a first home for use as your principal residence[15], you may be entitled to a non-refundable tax credit of 15% for federal purposes, calculated on $10,000 (maximum credit of $1,500). This credit is also available in Quebec, bringing the total benefit to $3,000.

If you are planning to purchase your first home, the HBP entitles individuals and their spouse to each withdraw up to $35,000 from their respective RRSP, without any tax impact, to buy a first home.[16] The HBP is a loan that must be repaid to the RRSP in annual instalments over a maximum of 15 years. Any unpaid instalment becomes taxable.

Lastly, the new Tax-Free First Home Savings Account (FHSA) is designed to enable an individual to save for the purchase of a first home. Every adult can contribute $8,000 annually in this account, up to a lifetime amount of $40,000. Contributions paid are deductible. Income earned in the account and eligible withdrawals will not be taxable.

It is possible to benefit from both the FHSA and the HBP for the purchase of the same home.

Consult your Raymond Chabot Grant Thornton advisor for the eligibility requirements of these plans.

Renovate to house an elderly or handicapped relative

Expenses incurred to make your residence safer and more accessible for a relation who is handicapped or aged 65 years or older who lives with you may give entitlement to a tax credit of up to $3,000 for federal purposes. Since 2023, expenses incurred to create an independent dwelling unit in your residence (multigenerational home) for such a person may give entitlement to a credit of up to $7,500.

Be careful, however, as such renovations could result in a change of use of your principal residence and cause you to lose part of the exemption on the capital gain you realize on its sale. If you are making such expenditures to support a family member, talk to your advisor about the tax implications.

Have work carried out on your residential wastewater treatment systems

If you have work carried out to upgrade residential wastewater treatment systems under an agreement entered before April 1, 2027, 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, 2028.

OTHER ADVICE FOR INDIVIDUALS

Contribute to a Registered Retirement Savings Plan

You must make your 2023 RRSP contribution by March 1, 2024. However, if you turned 71 in 2023, your contribution must be made by December 31, 2023. Your RRSP planning should consider your RRSP deduction limit[17] 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 2023 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 2023, consider making an over-contribution in December based on your 2023 earned income (if any). Although you'll be charged a penalty tax for one month, you'll be entitled to an RRSP deduction in 2023;
- If your income is particularly low in 2023, 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.[18]

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.

[15] An individual is considered to have purchased a first home if neither this individual nor his/her spouse were owner-occupiers of another home during the previous year or the four previous calendar years.

[16] It can also be used to buy out a former spouse's share of the family home or to acquire a new home following a separation.

[17] This amount is indicated in your 2022 Federal Notice of Assessment.

[18] This would normally 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.

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, 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 2023, any individual 18 years of age or older can invest up to $6,500 in a TFSA.[19] 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 1st of the year following the one in which the withdrawal was made.

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 2023 tax liability before remitting your final instalment (which is due December 15, 2023). 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 15th and June 15th, you paid $12,000 on May 1st.

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 2023 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 2022. 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;
- Investment costs (interest and brokerage fees);
- Moving costs;
- Tuition fees and interest on student loans.

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 kilometres driven regarding this income source.

Combine 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.

Plan your return to school

For federal purposes, since 2019, individuals aged from 26 to 65 years can accumulate $250 per year (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 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 $1,000 in 2023 if they incur eligible training costs of at least $2,000 during the year.

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 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, $86,912 in 2023. The full amount of the pension must be refunded when the net income is about $142,428 ($147,979 for individuals 75 years of age and older). If you have the ability to manage the amount of income you receive in a year, keep these thresholds in mind.

[19] 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 $88,000 in 2023.

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

SALES TAX ADVICE

Compliance elections: reporting, periods and methods

La 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 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.[21]

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 Quebec 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.

Employment and temporary foreign workers recruitment agencies must have a valid Revenu Quebec 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.

GST rebate for residential rental properties

For the construction of rental properties intended for long-term rental, a partial rebate of 36% of the GST is provided for homes valued at $350,000 or less. The rebate declines for

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

homes valued between $350,000 and $450,000. A 36% QST rebate is also available, but the rebate elimination thresholds are $200,000 to $225,000.

The government has proposed a temporary increase in the GST rebate for the construction of certain rental properties, increasing the rebate from 36% to 100%[22] and abolishing the elimination thresholds. The buildings concerned are those with at least four private flats or at least 10 private rooms or suites and where 90% of the units are intended for long-term rental. Your Raymond Chabot Grant Thornton advisor can help you determine whether these measures apply to your project and assist you in taking the necessary steps to benefit from them.

Imported goods and services

The GST is generally payable at the time of import and collected by the Canada Border Services Agency when the goods are released from customs. A person who imports intangible property or services for use otherwise than exclusively in its commercial activity must self-assess and pay the GST on its net tax return or non-registrant return. A registrant would generally be entitled to ITCs for the GST paid on import for the portion of the property or services used in its commercial activity, based on the usual rules.

Similarly, QST is payable by persons who bring goods into Quebec by self-assessment through their net tax return or the return of a non-registrant. As an exception, QST is not payable when a registrant brings goods or services into Quebec for use exclusively in the course of its commercial activity. A registrant will be entitled to ITRs for the QST paid by self-assessment for the portion of the goods or services used in the registrant's commercial activity under the normal rules.

Non-resident suppliers who make sales of intangible property and services to Canadian residents who are not registrants are required to register for the simplified system and to collect the GST and QST.

As registrants who acquire intangible property or services from foreign suppliers, the end of the year is an opportunity to update your records with these suppliers. In particular, make sure they have your GST and QST registration numbers on hand, so they do not collect GST and QST from you by mistake if they are registered under the simplified system. If such tax was collected in error, you will have to claim a refund from the supplier, as the tax authorities do not refund this tax, nor do they allow ITCs/ITRs in this regard.

Businesses that are not exclusively engaged in commercial activities and that are required to self-assess GST or QST on imported taxable supplies should take advantage of the year-end to review their processes and validate whether the non-resident supplier is registered for the simplified system before proceeding with such self-assessment. Supplies made by a supplier registered in the simplified system are deemed to be made in Canada and are therefore not subject to the imported taxable supply rule.

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.

[22] The 100% rebate applies to buildings for which construction begins on or after September 14, 2023 and before December 31, 2030, and ends no later than December 31, 2035.

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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