Year-End Tax Planner

Welcome!

Dear Clients & Friends,

As we approach the end of another year, now would be a great time to consider some tax-planning measures that could help reduce your 2019 tax obligations. To assist you with this, the following are some ideas you may want to consider. Your Segal advisor can assist you in determining which of these ideas are the best fit for you.

What's New

Home Buyer's Plan (HBP)

In the 2019, budget the government increased the amount that individuals can borrow from their RRSP from $25,000 to $35,000. This applies to withdrawals made after March 18, 2019.

Additionally, for separated/divorced couples, one spouse can borrow from an RRSP to purchase the other spouse's interest in their matrimonial home starting in 2020.

Donations of Cultural Property

There are very favourable tax rules when cultural property is donated. There is no capital gains tax and a full donation for the value of the property. However, before the budget, the cultural property had to have "national importance" in order to meet the tests. This has been removed as a requirement to obtain the tax benefits.

Medical Expense Tax Credit- Cannabis

Medical cannabis products sold after October 17, 2018 may be eligible for the medical tax credit provided they are sold by the holder of a licence that grants the holder the ability to sell authorized cannabis medical products. As well, the patient must have a qualifying medical document as defined in the Cannabis Regulations.

Zero Emission Vehicles

Cars that meet the definition of a zero-emission vehicle that were purchased after March 18, 2019, can now be depreciated by a business at a rate of 100% with no half year rule applied. The maximum amount that can be deducted is $55,000 plus sales taxes. Where the vehicle is a taxi, short term leasing vehicle or a truck, there is no threshold.

Scientific Research and Experimental Development (SR&ED)

SR&ED expenditures by a CCPC are eligible for a 35% refundable investment tax credit. The ITC would first be applied against taxes payable and any excess would be refunded. This is based on a maximum expenditure limit of $3 Million. In the past, this was reduced or eliminated where the taxable income of the associated group was above $500,000. The refundable credit was eliminated where the income was above $800,000. For year ends that end March 19, 2019 or later, this threshold has been eliminated. The only threshold that could reduce access to the refundable credit is if the taxable capital of the associated group is above $10M and access is eliminated above $50M.

Corporate and Business Tax Changes

Reduce Small Business Tax Rate

In 2018, Canadian-controlled private corporations benefited from the federal and Ontario small business tax rate of 10% and 3.5% respectively. The Federal rate was reduced to 9% in 2019. As a result, the combined federal and Ontario small business tax rate of 13.5% was reduced to 12.5% in 2019. The reduction will be prorated for companies with off-calendar year-ends.

Individuals

Registered Retirement Savings Plan

- The maximum RRSP contribution room for 2019 is limited to the lesser of $26,500 or 18% of your 2018 earned income less your pension adjustment. Your available contribution room should also be printed on the 2018 Notice of Assessment from the CRA.
- The deadline for your 2019 contribution is March 2, 2020. If you have excess cash available, consider making your 2020 contribution early, any time after January 1, 2020
- A salary of $151,278 is required in 2019 to earn the maximum RRSP contribution room of $27,230 for the 2020 taxation year
- If you turn 71 years old in 2019, you must terminate your RRSP this year. You can convert the RRSP into a Registered Retirement Income Fund (RRIF), into an annuity, or it can be withdrawn in a lump sum. You must make your 2019 RRSP contribution by December 31, 2019. If you withdraw the RRSP as a lump sum, the amount will be subject to tax as regular income.
- If you are terminating your RRSP in 2019 and you have earned income, consider making an over-contribution to your RRSP. This will result in a tax deduction for 2020 even though you can no longer contribute to your RRSP in that year. Since the over-contribution will be subject to a 1% penalty per month, it is advisable that the contribution be made in December to minimize the penalty.
- Consider making a contribution to a spousal RRSP to achieve income splitting in the future. The contributions will grow tax-deferred until withdrawn and will be taxed in the spouse's hand at that time. The contribution is entitled to the deduction at the time the contribution is made.
- A spousal RRSP is particularly useful if you are over 71 but your spouse is younger than 71. Although you may not be permitted to contribute to your own plan, you are permitted to make contributions to a spousal plan until the end of the year in which the spouse turns 71 years of age.
- Even if your children have no tax to pay, you may wish to file tax returns on their behalf. If they have earned income, they will generate RRSP contribution room which can be carried forward indefinitely.

Registered Education Savings Plans

- Transfers between individual RESPs for siblings are allowed, subject to certain restrictions. This is intended to permit the same flexibility regarding the allocation of RESP assets among siblings as it exists for RESP family plans.

Make a Charitable Donation

If your contributions are in excess of $200, you will benefit from a greater level of tax savings. Since the CRA permits either spouse to claim a donation, one spouse should claim all donations made by both spouses.

- If you have little or no tax owing this year, you may choose not to claim the charitable donation tax credit. Unclaimed charitable donations can be carried forward 5 years. Consider saving your unclaimed donations for a future year.
- One advantage of having the lower-income spouse claim all of the donations is that the lower-income spouse may receive a tax refund that can be reinvested without the attribution rules applying. That would otherwise tax the investment income in the hands of the higher income spouse.
- Donations to US charities can only be claimed on your Canadian tax return if they were made to a prescribed university or to the extent that you have US source income.
- Instead of cash, donate stocks or mutual fund units that have unrealized capital gains. Capital gains taxes are eliminated on gains that are generated when publicly traded securities are donated directly to a charity, or to a private foundation.

Income-Splitting

- Consider making an investment loan to your lower-income spouse to split income earned on non-registered assets and reduce taxes on the income. The CRA allows these loans as long as you charge at least the CRA prescribed interest rate on the loan and document the interest payments. Currently the prescribed rate is 2%. The set interest rate will apply for the duration of the loan. Payment of the interest is due at the end of the calendar year and must be paid no later than January 30th of the following year.

Tax Loss Selling

- Consider triggering capital losses before the end of the year to offset any capital gains that were realized in 2019 or in one or more of the last three years.
- Be aware that specific rules prohibit you or an affiliated person from buying an identical asset within 30 days of the sale.
- Normally, stock transactions are settled within two business days. Due to weekends and holidays, consider completing all trades by December 27, 2019.

Adjust Your December Instalments

If your income has decreased since last year, you may be able to decrease your December instalment payment. Use caution since any under-payment will result in penalties and non-deductible interest charges.

Adoption Expense Tax Credit

The maximum amount of eligible expenses for the Adoption Expense Tax Credit has increased to $16,255 per child for the 2019 taxation year.

Child Care Expense Deduction

Currently, the maximum annual amount that can be claimed under the Child Care Expense Deduction is limited to the least of:

- The total amount spent on childcare expenses;
- Two-thirds of the lower income spouse's earned income; and
- The total of the maximum dollar limits for all children, or;

$8,000 per child under the age of seven, $5,000 per child aged 7 to 16, and $11,000 for children that are eligible for the Disability Tax Credit regardless of age.

*** Please ensure you keep all your receipts.

Medical Expenses

- You are permitted to select any 12-month period ending in 2019 when claiming medical expenses.
- You can plan for the timing of certain medical expenses since they are claimable based on when they are paid. For example, you may wish to pay for orthodontic treatment in full before the end of the year, even if the treatment will span the next year.

Tuition Tax Credits

- Individuals will still be able to claim the federal tuition tax credit. However, the Ontario tuition tax credit was eliminated in September 2017.
- Fees paid for an examination to obtain professional status recognized by federal and provincial statutes can be claimed as a tuition tax credit.
- Examination fees paid to an educational institution, professional association, or provincial ministry will qualify.

Other Suggestions

- If income in an inter-vivos trust is to be taxed in a beneficiary's return, the income must be paid or payable to the beneficiary by December 31, 2019.
- Consider purchasing assets eligible for capital cost allowance before year-end.

Corporate

Corporate Tax Rates

The combined federal and Ontario tax rate on active business income for a Canadian Controlled Private Corporation ("CCPC") is 12.5% for 2019 (26.5% if active business income exceeds $500,000). For investment corporations, the tax rates remain unchanged from prior year at 50.17%.

Capital Gains

- If you do not receive all of the proceeds of sale upon closing, you may be able to defer some of the tax for up to five years. This can be extended to 10 years for farm property.
- Capital gains on the sale of shares of a qualifying corporation may be sheltered by the capital gains exemption ("CGE"), with a lifetime limit of $866,912 for 2019 and indexed for subsequent years.
- If you have previously claimed an allowable business investment loss (ABIL) or if you have a cumulative net investment loss (CNIL), your ability to claim the capital gains exemption in 2019 may be restricted. Steps should be taken to rectify this issue in order to claim the capital gains exemption.

Shareholder Loans Should Be Repaid

- If you or your family members have borrowed money from a corporation in fiscal 2019, the loan must be repaid by the end of fiscal 2020. If the loan is not repaid at that time, it will be treated as income for 2019.

- Also, remember to pay any interest owing to the corporation by January 30, 2020 in order to avoid receiving a taxable benefit.

Declare A Bonus

A CCPC can take advantage of lower corporate tax rates if their taxable income is below $500,000. If a bonus is declared and accrued in order to bring taxable income down to this level, the bonus must be paid within 179 days after the fiscal period.

Interest Expense

Interest may be deductible if it is incurred for the purpose of earning income from a business or from property. Interest on money borrowed for personal purposes is not deductible.

Any excess cash should be applied first against paying off your non-deductible loans. Consider restructuring your borrowings such that the interest incurred is tax deductible.

GST/HST Election For Closely Related Persons

Supplies of most property and services made between closely related parties (e.g. where 90% or more of the ownership is held by one corporation of another corporation) that are resident in Canada and exclusively engaged in commercial activities are not subject to GST/HST if an election is completed and filed with the CRA.

- A prescribed election form is required to be filed with the CRA by the first date on which any of the parties to the election is required to file a return. Parties to this election will be jointly and severally liable for any GST/HST owing on supplies.

Partnerships

Deferral opportunities for corporations with a significant interest in a partnership that has a different fiscal period from the corporation are limited. Corporations must accrue income for the portion of the partnership's next fiscal period that falls within the corporation's taxation year.

Trusts & Estates

Review your trust arrangement and make sure all documentation is up-to-date and ensure all transactions are completed and recorded on a timely basis.

- Graduated tax rates for graduated rate estates are available for first 36 months after the death of the testator. After that period, the estate is subject to tax at the highest marginal tax rate and will be required to adopt a December 31 year-end.
- Donations made pursuant to the Will will be treated as having been made by the estate at the time the property is transferred to a qualified donee. Where the transfer is made within 60 months following an individual's death, the estate may claim the donation tax credit either in the year the donation is made or in an earlier year of the estate. Alternatively, the estate may deem the deceased individual to have made the donation in the year of death or the previous year.
- With various court decisions affecting the trust's residency, it is important that you review the arrangement for family trusts set up abroad or in another province in determining where a trust is resident for Canadian tax purposes.

ABOUT SEGAL LLP

Segal LLP ("Segal") was established in 1976 and has since grown to become one of the largest independent accounting firms in the Greater Toronto Area. Our scope of practice includes integrated solutions in Assurance, Taxation, and Business Advisory.

Led by over 100 audit, accounting, tax and business professionals, we utilize a collaborative approach to leverage the expertise of our multi-disciplinary team at all levels. From our client-first focus to our collegial working style, at our core is an approach that provides the best opportunity to add to your success. We understand that for a relationship to thrive, it must be built on commitment, awareness and focus. Our clients are leaders in their industries and recognize and rely on the expertise, advice and guidance that Segal's exceptional team provides.

We take a comprehensive and customized approach to deliver reliable advice and practical solutions. Our diverse and skilled team also specializes in providing insight into managing risk, growth, and profitability. Adding to your success isn't just our motto, it's our mission.

When you work with Segal, you are supported by an entire team. Our collaborative approach – no matter the size of the assignment – allows us to leverage the expertise from talented team members at all levels. This includes national and international affiliations, which allow us to seek advice from the best and brightest worldwide. That's the Segal difference.

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APPENDIX I – Key Deadlines

Due Dates	Items To Be Filed/Payments to be Made
December 16, 2019	• Final quarterly tax installment due for individuals for 2019
December 27, 2019	• Final trading day on which to settle a trade in 2019 for Canadian stock exchanges
December 31, 2019	Last day to make certain payments in order to claim tax credits or deductions on your 2019 individual tax return • RRSP contributions if you turn 71 by December 31, 2019 • Charitable and Political donations • Child-care • Investment counsel fees • Medical expenses • Moving expenses • Tuition fees and interest on student loans • Alimony and maintenance payments
January 30, 2020	• Interest due on family loans (to avoid attribution of income)
March 2, 2020	• Last day to file: T4, T4A, T4A-NR and T5 Summary and Supplementary forms
March 2, 2020	• Deductible contributions to your own RRSP or spousal RRSP (for 2019 deductions) • RRSP Home Buyer's Plan repayment due (to avoid 2019 inclusion)
March 16, 2020	• First quarter tax installment due for individuals for 2020 income tax
March 30, 2020	• Last day to file income tax returns for inter vivos trusts without penalty • Last day to file NR4 Summary and Supplementary forms regarding amounts paid or credited to non-residents of Canada
April 30, 2020	• Last day to file personal tax returns • Last day to pay 2019 personal income tax Note: Self-employed individuals or spouses of self-employed individuals - the deadline to file your personal tax return is June 15, 2020. Any tax owing must still be paid no later than April 30, 2020. The filing deadline for personal returns may be later if an individual or spouse died during the year (terminal return).

APPENDIX II – 2019 Personal Tax Rates

	Ordinary Income & Interest Income	Capital Gains	Canadian Dividends (Eligible)	Canadian Dividends (Non-Eligible)
Federal Only	33.00%	16.50%	24.81%	27.57%
Alberta	48.00%	24.00%	31.71%	42.31%
British Columbia	49.80%	24.90%	31.44%	44.64%
Manitoba	50.40%	25.20%	37.78%	46.67%
New Brunswick	53.30%	26.65%	33.51%	47.75%
Newfoundland and Labrador	51.30%	25.65%	42.61%	44.59%
Northwest Territories	47.05%	23.53%	28.33%	36.82%
Nova Scotia	54.00%	27.00%	41.58%	48.28%
Nunavut	44.50%	22.25%	33.08%	37.79%
Ontario	53.53%	26.76%	39.34%	47.40%
Prince Edward Island	51.37%	25.69%	34.22%	45.22%
Quebec	53.31%	26.65%	39.99%	46.25%
Saskatchewan	47.50%	23.75%	29.64%	40.37%
Yukon	48.00%	24.00%	28.93%	42.17%

If you wish to obtain more information on any of the above, please contact your advisor at Segal LLP to review your situation and determine what steps might be taken before the year-end and in the new year to minimize your taxes.

APPENDIX III – 2019 Corporate Tax Rates

	General	Manufacturing & Processing (M&P)	Canadian-Controlled Private Corporations (CCPCs)	
			Active Business Income	Investment Income
			< $500,000	
Federal	15%		9%	38.67%
Alberta	26.5%[1]		11%	50.17%[2]
British Columbia	27%		11%	50.67%
Manitoba	27%		9%	50.67%
New Brunswick	29%		11.5%	52.67%
Newfoundland and Labrador	30%		12%	53.67%
Northwest Territories	26.5%		13%	50.17%
Nova Scotia	31%		12%	54.67%
Nunavut	27%		12.5%[3]	50.67%
Ontario	26.5%	25%	12.5%	50.17%
Prince Edward Island	31%		12.5%	54.67%
Quebec	26.6%		15%	50.27%
Saskatchewan	27%	25%	11%[4]	50.67%
Yukon	27%	17.5%	11%	50.67%

If you wish to obtain more information on any of the above, please contact your advisor at Segal LLP to review your situation and determine what steps might be taken before the year-end and in the new year to minimize your taxes.

[1] On January 1st, 2019, the effective tax rate was 27.00%. The rate was subsequently dropped to 26.00% on June 30th, 2019.
[2] On January 1st, 2019, the effective tax rate was 50.67%. The rate was subsequently dropped to 49.67% on June 30th, 2019.
[3] On January 1st, 2019, the effective tax rate was 13%. The rate was subsequently dropped to 12% on June 30th, 2019.
[4] For income eligible for the small business-deduction between $500,000 to $600,000, the effective rate is 17%.

Further Information On New Tax Rules Affecting Private Corporations

Tax on Split Income

The Government released a number of rules that are effective in 2018 regarding the taxation of dividends, interest and shareholder benefits. The focus of the rules is to reduce those situations where income can be split with family members. Where dividends are subject to the tax on split income, the individual pays tax at the top tax rate. In very general terms, a dividend can be paid to any active family member over 17 years old. Active is defined as being full time which means 20 hours or more work per week throughout the year. If a family member works less than 20 hours per week throughout the year they can still be paid an amount that is reasonable to the contributions that they have made to the company. Moreover, in certain situations such as those where the company is not a professional corporation and whose revenue is less than 90% from ser- vice revenue and the revenue is all or substantially all from unrelated sources, dividends may be paid where the family member owns 10% or more of the votes and value of the company.

The rules are extremely complicated and should be reviewed before any dividends are paid in 2019.

Effect of Investment Income on Small Business Deduction

In the February 2018 budget, the government proposed new rules that will reduce the amount of small business deduction available based on the amount of investment income

of an associated group. These rules will apply to taxation years starting after 2018. The investment income of an associated group will reduce the small business deduction available for the associated group starting at investment income of $50,000. The entire small business deduction would be eliminated at investment income of $150,000. The amount of investment income is based on the year before. Therefore, even though these rules come into effect in 2019, the investment income earned in 2018 will determine the small business deduction available for that first year. The reduction of the small business deduction is basically $5 for each dollar of investment income earned above $50,000.

The amount of investment income is adjusted for various items including a reduction in the investment income for any capital gains on the sale of business assets or shares of companies that qualify as shares of a qualified small business corporation. Added to this investment income will be dividends from non-connected corporations and any capital losses carried forward and applied in the year to reduce taxable income.

Managing the amount of investment income earned in the year will help to manage the small business deduction available.

The above new rules will be effective for corporate taxation years beginning in 2019.

In November 2018, the Ontario government announced that it would not be implementing these changes at the Provincial level. Consequently, these changes will only affect the federal tax rates.

The New Refundable Dividend Tax on Hand Account

In the February 2018 Budget, the government proposed new rules with regard to the interaction between eligible dividends and the refund of refundable dividend tax on hand ("RDTOH"). In the past, any taxable dividend paid would recover a portion of the RDTOH. The integration system was set up on the assumption that the tax on the dividend received by the individual was at the top tax rate. However, if an eligible dividend is paid the tax rate is approximately

7.5% lower than a non-eligible dividend. Therefore, the government has come up with rules that, on a go forward basis, RDTOH can only be recovered if non-eligible dividends are paid unless it is a recovery of Part IV tax on eligible dividends received.

There are transitional rules that allow current RDTOH to be recovered by current available eligible dividends. However, as RDTOH accumulates in the future, eligible dividends will not be available to recover the RDTOH unless the eligible dividends were received from non-connected companies or the eligible dividends received from a connected company to the extent that the payor received a dividend refund from its eligible RDTOH balance.

Planning must be considered with regards to when to pay current eligible dividends as well as ensuring that there is a matching of the eligible dividends and RDTOH in those situations where there are parent companies and subsidiary companies.

The above new rules will be effective for corporate taxation years beginning in 2019.

For comprehensive advice that's custom tailored to your personal, corporate, and/or cross-border tax needs, contact our tax team:

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