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PERSONAL INCOME TAXATION - 2018
(January 2019)

General information:

The taxation year for individual resident in Canada is from January 1st to December 31st of each calendar year.

The deadline for filing the T1 General – Income Tax and Benefit Return is generally April 30th of the following year. Each taxpayer files his or her own return (Canada does not have joint or spousal returns).

For individuals with self-employment income and their spouses, the filing deadline is extended until June 15th of the following year; however, any taxes owing is still payable by April 30th (with interest accruing after that date).

For deceased individuals, the deadline is usually the later of the normal deadline and six months after death.

Items to note:

Taxes can be reduced by various deductions and tax credits. Therefore, timely planning can be helpful. It is very important to keep adequate records and supporting documents. Because Canada has a graduated tax rate system (i.e. higher income, higher tax rates), planning and tax return optimization can also be helpful to reduce taxes.

Areas to consider:

- Income splitting restrictions – watch out for income attribution rules and tax on split income (TOSI) rules effective starting 2018
- Deferral where possible
- Consider registered plans to increase deferral and possible income splitting – RRSP including Spousal RRSP, RRIF, RESP, RDSP
- Consider maximizing contributions to your TFSA
- Families – income splitting with a spouse (although restricted with income attribution and TOSI rules), claim child care expenses, eligible dependant amounts, adoption expenses and tuition, consider Canada Child Benefit (income-tested)
- Seniors – possible age amount (income-tested), pension income amount.
- Persons with disabilities – consider disability amount, Canada caregiver amount, medical expenses, registered disability savings plan (RDSP), Child Disability Benefit (income-tested), and amount spent on home renovations

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- Keep receipts and documents related to the following:
    - Medical expenses (combine family's expenses and claim by spouse with lower net income; choose optimal 12-month period ending in taxation year)
    - Donations (combine and claim in one spouse's return if combined total exceeds $200)
    - Purchase and sale of properties (including rental properties, securities)
    - Rental operations – leases and expense invoices
    - Business operations – sales and expenditure invoices

- Some recent changes:
    - The amendments and expansion of the TOSI rules are effective starting 2018 to restrict income sprinkling involving adult individuals. TOSI applies tax at the highest marginal tax rate to any dividends or interest paid by a private corporation to an individual from a related business and certain capital gains, unless the amount falls within a specific exclusion.
    - The new BC caregiver credit replaced the infirm dependent and in-home care of relative tax credits effective for 2018.
    - The BC textbook credit has been eliminated starting 2018 and the BC education credit will be eliminated for 2019 (federal credit eliminated in 2017).
    - The BC children's fitness, children's fitness equipment and children's arts tax credits have been eliminated starting 2018 (federal credit eliminated in 2017).
    - BC increased the personal income tax rate on taxable income over $ 150,000 from 14.7% to 16.8% starting 2018.
    - BC increased the dividend tax credit from 36 6/19% to 43 11/19% of gross up, resulting in a decrease to the effective tax rate of eligible dividends starting 2019.
    - The TFSA contribution limit increased from $ 5,500 for 2018 to $ 6,000 for 2019.
    - CRA's prescribed interest rate that applies to taxable benefits for employees and shareholders from interest-free and low-interest loans increased from 1% to 2% starting from the second quarter of 2018 (and remained unchanged for the first quarter of 2019). The interest rate of overdue income taxes also increased from 5% to 6% starting from the second quarter of 2018.
    - Medical Services Plan (MSP) premiums will remain the same in 2019 after it was reduced by 50% in 2018. MSP premiums will be eliminated effective 2020. To replace the revenue lost from premiums, the government created a new employer health tax, which is an annual tax on an employer's BC remuneration paid to employees and former employees in a calendar year beginning on January 1, 2019.
    - For tax years starting after March 21, 2017, designated professionals (such as accountants, lawyers, dentists, doctors, veterinarian and chiropractors) and professional corporations must include an amount for work-in-progress (WIP) at the year-end in business income for tax purposes. To reduce the cash flow impact of these changes, the rules allow a five-year phase-in period.

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Residents, Citizens and Canadian Taxpayers

Canadian taxation applies on the world-wide income of Canadian residents and Canadian-sourced income of non-residents of Canada. Accordingly, residence is a key concept in Canadian taxation.

Citizenship is not the criteria used for Canadian taxation. Therefore, a Canadian citizen who is not resident in Canada and has no Canadian-sourced income would not be subject to Canadian taxation. A resident of Canada who is not a Canadian citizen would still be taxed on his or her world-wide income.

A taxpayer may be a "factual resident" or a "deemed resident".

A factual resident is someone who meets various tests. These tests involve significant residential ties (dwelling place, spouse, dependants), where any one test may be considered determinative by Canada Revenue Agency (CRA); and secondary residential ties (personal property, social ties, economic ties, immigrant status/work permits, medical insurance, driver's license, registered vehicle, seasonal dwelling, Canadian passport, memberships), which are looked at collectively to weigh the significance of ties to Canada.

A person may be a deemed resident because he or she has sojourned in Canada for 183 days or more in a year.

Foreign Property, Foreign Affiliates and Foreign Trusts

There are various reporting requirements for Canadian residents with respect to foreign property, investments and trusts.

A Form T1135 should be completed if the taxpayer has foreign property with an aggregate cost over C$100,000 (excluding foreign personal-use property, foreign property used exclusively in carrying on the taxpayer's active business, and foreign investments included in Canadian registered mutual funds, RRSPs, RRIFs and RPPs). A simplified reporting method using Form T1135 is also available for individuals who own specified foreign property with a total cost of less than $250,000 throughout the year.

If a Canadian resident has 1% or more equity interest in a foreign company and total held by him or her and related persons is 10% or more, then the foreign company is a foreign affiliate. A controlled foreign affiliate is a foreign affiliate controlled by the taxpayer or by non-arm's length person(s) or jointly by the taxpayer and non-arm's length persons, OR by the taxpayer and not more than four other residents of Canada, OR by not more than four residents of Canada other than the taxpayer. The Form T1134 must be filed with a separate supplement for each foreign affiliate.

There are also reporting requirements when a Canadian resident has made transfers or loans to a foreign trust (Form T1141) or when a Canadian resident has received distributions from or was indebted to a foreign trust (Form T1142).

Significant penalties apply when a taxpayer has not complied with foreign reporting rules.

Completion of T1 General Income Tax and Benefit Return

1. Identification:

The taxpayer provides personal information and indicates where he/she has foreign property with a cost of over $100,000.

2. Total income:

The taxpayer lists income from all sources that are subject to taxation to calculate total income. The most common sources of income are:

- Employment income (including most benefits)
- Pension income
- Dividend income
- Interest and other investment income
- Rental income
- Taxable capital gains
- Self-employment income (business and professional income, fishing and farming income)

3. Net income:

Net income is determined after certain allowable deductions are subtracted from total income. The most common of these deductions are:

- RPP and RRSP deductions
- Union or professional dues
- Child care expenses (e.g. daycare, babysitter, summer camp, or other care provider)
- Carrying charges and interest

4. Taxable income:

Taxable income is determined after certain additional deductions are subtracted from net income. The most common of these deductions are:

- Losses of other years (non-capital, capital and limited partnership losses)
- Capital gains deduction for qualified small business corporation shares (limit of $ 848,252 for 2018 and $ 866,912 for 2019), or qualified farm or fishing property (limit of $ 1,000,000 for both 2018 and 2019).

5. Refund or Balance owing:

The federal tax and provincial tax of the taxpayer are aggregated to arrive at total taxes payable. Any taxes already withheld at source or paid by instalments are subtracted from taxes payable to arrive at the balance owing or refund due to the taxpayer.

The calculation of the federal tax based on the taxpayers' taxable income is done on Schedule 1, while the BC provincial tax is done on BC 428. Both federal and provincial taxes are charges at graduated rates, with higher tax rates charged on higher levels of income. The 2018 combined federal and BC tax rates for the different brackets of income are presented in the table below.

2018 Income Tax Rates for Residents of B.C.

Taxable Income			Ineligible Dividends	Eligible Dividends	Capital Gains	Other Income
0	-	39,676	9.23	0.00	10.03	20.06
39,677	-	46,605	12.30	0.00	11.35	22.70
46,606	-	79,353	18.68	4.39	14.10	28.20
79,354	-	91,107	21.93	8.25	15.50	31.00
91,108	-	93,208	24.00	10.72	16.40	32.79
93,209	-	110,630	30.38	18.31	19.15	38.29
110,631	-	144,489	33.18	21.64	20.35	40.70
144,490	-	150,000	36.66	25.78	21.85	43.70
150,001	-	205,842	39.09	28.68	22.90	45.80
Above 205,872			43.73	34.20	24.90	49.80

Note: marginal tax rate for dividends is a percentage of actual dividends received (not grossed-up taxable amount). Marginal tax rate for capital gain is a percentage of total capital gains (not taxable capital gains). Grossed-up rate for eligible dividends is 38%, and for non-eligible dividends is 16% in 2018, and 15% in 2019.

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2018 Non-refundable tax credits

Taxpayers are allowed certain federal and provincial non-refundable tax credits, which reduce their federal and provincial taxes payable. The amounts of the major non-refundable tax credit items and their resulting tax credit (tax reduction) amounts are listed below:

	Federal		**BC**	
	Amount	**Tax Credit**	**Amount**	**Tax Credit**
Basic Personal	$ 11,809	$ 1,771	$ 10,412	$ 527
Age	$ 7,333	$ 1,100	$ 4,669	$ 236
Spouse or eligible dependant	$ 11,809	$ 1,771	$ 8,915	$ 451
Canadian caregiver – regular	$ 6,986 for infirm dependent over 18; $ 2,182 for dependent child under 18	$ 1,048 or $ 327	$ 4,556, reduced by dependent net income over $ 15,419	$ 231
CPP contributions	Amount contributed; max. $ 2,593.80	15% x amount	Amount contributed; max. $ 2,593.80	5.06% x amount
EI premiums	Amount contributed; max. $ 858.22	15% x amount	Amount contributed; max. $ 858.22	5.06% x amount
Disability	$ 8,235	$ 1,235	$ 7,809	$ 395
Additional disability for child under 18	$ 4,804	$ 721	$ 4,556	$ 231
Pension	Pension amount; max. $ 2,000	Max. $ 300	Pension amount; max. $ 1,000	Max. $ 51
Volunteer firefighters or search and rescue volunteers	$ 3,000	$ 450	$ 3,000	$ 152
Medical expense	Expense in excess of 3% of net income or $ 2,302	15% x amount	Expense in excess of 3% of net income or $ 2,165	5.06% x amount

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	Federal			**BC**	
	Amount	**Tax Credit**		**Amount**	**Tax Credit**
Tuition fees	Tuition fees, examination fees for both post-secondary and professional program examinations	15% x amount		Actual tuition fees	5.06% x amount
Education	Eliminated in 2017	n/a		$ 200/month of full-time & $ 60/month of part-time	5.06% x amount
Textbook	Eliminated in 2017	n/a		Eliminated in 2018	n/a
Canada Employment Credit	Max. $ 1,195	$ 179		n/a	n/a
Charitable donations	Donations (up to 75% of net income)	15% of first $200; 29% or 33% of balance (First-time Donor's Super Credit is no longer available starting 2018)		Donations (up to 75% of net income)	5.06% of first $ 200; 16.80% of balance
Adoption expense	Up to $ 15,905 per adoption	Max. $ 2,385		Up to $ 15,905	Max. $ 804
Children's fitness	Eliminated in 2017	n/a		Eliminated in 2018	n/a
Children's arts	Eliminated in 2017	n/a		Eliminated in 2018	n/a
First Time Home buyers' tax credit	$ 5,000 of an eligible home	$ 750		n/a	n/a
Home accessibility tax credit (for 65 years of age or older at end of year, or eligible for disability tax credit)	Up to $ 10,000 of qualifying expenses	15% x amount		n/a	n/a

	Federal			BC	
	Amount	Tax Credit		Amount	Tax Credit
BC Home Renovation tax credit for seniors and persons with disability	n/a	n/a		Up to $ 10,000 of qualifying expenses	10% x amount
Child fitness equipment	n/a	n/a		Eliminated in 2018	n/a
Eligible educator school supply (formally the Teacher and early childhood educator school supply)	Up to $ 1,000 purchase of eligible supplies	15% x amount		n/a	n/a
Education coaching	n/a	n/a		Eliminated in 2018	n/a

Disclaimer: Information is current to January 25, 2019, based on information released by the Government of Canada under current provisions and judicial and administrative interpretations of the Canadian Income Tax Act and the Canadian Income Tax Regulations, at the time when this booklet is prepared. Please note that such information may change. We endeavour to provide accurate and timely information, but cannot guarantee that such information provided is accurate. There is information provided in this release that is of a general nature. Appropriate professional advice should be sought to address an individual's specific situation.