

## **PERSONAL INCOME TAXATION - 2019** **(February 2020)**

### **General information:**

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

The deadline for filing the T1 General – Income Tax and Benefit Return is generally April 30<sup>th</sup> 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 15<sup>th</sup> of the following year; however, any taxes owing is still payable by April 30<sup>th</sup> (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

- 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 Canada Workers Benefit (CWB) replaces and strengthens the Working Income Tax Benefit (WITB) in 2019. The CWB is an enhanced refundable tax credit.
  - The BC education tax credit has been eliminated starting 2019 (federal credit eliminated in 2017).
  - The maximum amount an individual can withdraw from the Registered Retirement Savings Plan (RRSP) under the Home Buyers Plan (HBP) increased from \$ 25,000 to \$ 35,000 for withdrawals made after March 19, 2019.
  - Effective October 1, 2020, a new BC Child Opportunity Benefit (BCCOB) will be combined with the Early Childhood Tax Benefit into a single new benefit. The benefit provides tax-free amounts to families with children under 18 and provides an annual benefit of up to \$ 1,600 for a first child, \$ 1,000 for a second child and \$ 800 for each subsequent child. The benefit amount is reduced where family income is between \$ 25,000 and \$ 80,000 and completely eliminated altogether where family income reaches \$ 97,500.
  - Starting in 2019, the Canada Pension Plan (CPP) is being enhanced, which means that an individual will receive higher benefits in exchange for making higher contributions. A taxpayer can claim a deduction for the enhanced contributions to the CPP for a maximum amount of \$ 80.85.
  - Starting in 2019, there is a temporary enhanced first-year capital cost allowance of 100% for eligible zero-emission vehicle for an individual who is self-employed or claiming employment expenses. Eligible vehicles must be acquired after March 18, 2019, and become available for use before 2024, and have not received assistance paid by the Government of Canada under the federal purchase incentive.
  - The TFSA contribution limit for both 2019 and 2020 is \$ 6,000.

- For 2020 and future years, an eligible individual may be able to claim a new refundable tax credit, Canada Training Credit, equal to their Canada Training Credit Limit for the year or 50% of their eligible tuition and fees paid to an educational institution in Canada, whichever is less. The eligible individual will be able to accumulate \$250 per year, up to a maximum of \$5,000 in a lifetime.
- CRA's prescribed interest rate that applies to taxable benefits for employees and shareholders from interest-free and low-interest loans was 2% in 2019 (and remained unchanged for the first quarter of 2020). The interest rate of overdue income taxes was 6% in 2019 (and also remained unchanged for the first quarter of 2020).
- Medical Services Plan (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.

### **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 \$ 866,912 for 2019 and \$ 883,384 for 2020), or qualified farm or fishing property (limit of \$ 1,000,000 for 2019 and 2020).

**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 "Step 5 - Federal Tax" (formerly on Schedule 1) of the Income Tax and Benefit Return, 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 2019 combined federal and BC tax rates for the different brackets of income are presented in the table below.

**2019 Income Tax Rates for Residents of B.C.**

Taxable Income	Ineligible Dividends	Eligible Dividends	Capital Gains	Other Income
0	- 40,707	10.43	0.00	10.03
40,708	- 47,630	13.47	0.00	11.35
47,631	- 81,416	19.80	1.63	14.10
81,417	- 93,476	23.02	5.49	15.50
93,477	- 95,259	25.07	7.96	16.40
95,260	- 113,506	31.40	15.55	19.15
113,507	- 147,667	34.17	18.88	20.35
147,668	- 153,900	37.62	23.02	21.85
153,901	- 210,371	40.04	25.92	22.90
Above 210,371		44.64	31.44	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 15% in 2019.

**2019 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:

	<u>Federal</u>		<u>BC</u>	
	Amount	Tax Credit	Amount	Tax Credit
Basic Personal	\$ 12,069	\$ 1,810	\$ 10,682	\$ 540
Age	\$ 7,494	\$ 1,124	\$ 4,791	\$ 242
Spouse or eligible dependant	\$ 12,069	\$ 1,810	\$ 9,147	\$ 462
Canadian caregiver – regular	\$ 7,140 for infirm dependent over 18; \$ 2,230 for dependent child under 18	\$ 1,071 or \$ 334	\$ 4,674, reduced by dependent net income over \$ 15,820	\$ 236
CPP contributions	Amount contributed; max. \$ 2,668.05	15% x amount	Amount contributed; max. \$ 2,668.05	5.06% x amount
EI premiums	Amount contributed; max. \$ 860.22	15% x amount	Amount contributed; max. \$ 860.22	5.06% x amount
Disability	\$ 8,416	\$ 1,262	\$ 8,012	\$ 405
Additional disability for child under 18	\$ 4,909	\$ 736	\$ 4,674	\$ 236
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 \$ 2,352	15% x amount	Expense in excess of 3% of net income or \$ 2,221	5.06% x amount

	<u>Federal</u>		<u>BC</u>	
	<b>Amount</b>	<b>Tax Credit</b>	<b>Amount</b>	<b>Tax Credit</b>
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	Eliminated in 2019	n/a
Canada Employment Credit	Max. \$ 1,222	\$ 183	n/a	n/a
Charitable donations	Donations (up to 75% of net income)	15% of first \$200; 29% or 33% of balance	Donations (up to 75% of net income)	5.06% of first \$ 200; 16.80% of balance
Adoption expense	Up to \$ 16,255 per adoption	Max. \$ 2,438	Up to \$ 16,255	Max. \$ 822
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

### 2019 Refundable tax credits

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

	<u>Federal</u>		<u>BC</u>	
	<u>Amount</u>	<u>Tax Credit</u>	<u>Amount</u>	<u>Tax Credit</u>
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
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

*Disclaimer: Information is current to February 11, 2020, 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.*