



## **PERSONAL INCOME TAXATION - 2020** **(February 2021)**

### **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
- 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:
  - BC increased the personal income tax rate on taxable income over \$ 220,000 from 16.8% to 20.5% starting 2020.
  - BC Charitable donation tax credit introduced higher credit rate at 20.5% (53.5% combined with federal rate) on donations over \$ 200, to the extent of taxable income amount above \$ 220,000.
  - The TFSA contribution limit remains at \$ 6,000 per year for 2020 and 2021.
  - Canada training credit (federal refundable credit) is available to taxpayers between 26 to 65 years old with total income more than \$ 10,000 (excluding investment income) but does not exceed the top of their tax bracket in that year (2020: \$ 150,473) for eligible tuition and other fees paid for courses taken in 2020 and subsequent taxation years. Amount of credit is lesser of 50% of the eligible tuition and fee paid in the year and the taxpayer's limit for the year (\$250/year, accumulate up to maximum of \$ 5,000 in a lifetime).
  - Effective October 1, 2020 BC Child Opportunity Benefit (BCCOB) replaced the BC Early Childhood Tax Benefit. The new benefit provides tax-free monthly payments 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 further reduced by 4% of the portion of the family income over \$ 80,000 until it is reduced to zero.
  - Digital News Subscription Tax Credit (federal non-refundable) can be claimed for the years 2020 to 2024 on digital news subscription fees paid to a qualified Canadian journalism organization (QCJO) up to maximum of \$ 500.
  - CRA's prescribed interest rate that applies to taxable benefits for employees and shareholders from interest-free and low-interest loans reduced from 2% to 1% per annum starting July 1, 2020. The interest rate of overdue income taxes also reduced from 6% to 5% per annum starting July 1, 2020.
  - Medical Services Plan (MSP) premiums were eliminated as of January 1, 2020.

- COVID-19 related matters:
  - Canada Emergency Response Benefit (CERB) is taxable and must be reported as income (excluding any repayment by December 31, 2020). Taxpayers can expect to receive a T4A slip before March 10, 2021 for the benefit amounts received. It is not classified as employment income and could affect the calculation of Guaranteed Income Supplement (GIS).
  - The following benefit amounts received from the CRA before December 31, 2020 will also be included in a T4A slip from the CRA:
    - Canada Emergency Student Benefit (CESB)
    - Canada Recovery Benefit (CRB)
    - Canada Recovery Caregiving Benefit (CRCB)
    - Canada Recovery Sickness Benefit (CRSB)
  - For businesses that received the \$ 40,000 or \$ 60,000 expansion Canada Emergency Business Account (CEBA) loan, the forgivable portion of the loan is to be recognized as income in the year received.
  - For businesses that received the Canada Emergency Wage Subsidy (CEWS) and/or Canada Emergency Rent Subsidy (CERS), the subsidy is to be included in income immediately before the end of the qualifying period to which it relates, not when the subsidy is received.
  - Home office expenses deduction is simplified due to increased work from home employees under COVID-19 pandemic. For employees who worked for more than 50% of the time at home for at least 4 consecutive weeks in 2020 due to COVID-19, they will be eligible to claim home office expense deduction using the temporary flat rate method or detailed method.
    - Under the temporary flat rate method, eligible employees can claim a deduction of \$ 2 for each work-at-home day, up to maximum of \$ 400, using Form T777S. No detail receipts nor Form T2200S is required.
    - Under the detailed method, eligible employees can deduct home office expenses not reimbursed by their employer using Form T777S. However, not all expenses are eligible. The simplified form T2200S must be completed and signed by the employer (retained by employee) and supported by documents.
  - For employees who have other employment expenses (such as motor vehicle expenses), they can still use the existing detailed method using Form T777 with a completed and signed T2200 by the employer.



## **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 \$ 883,384 for 2020), or qualified farm or fishing property (limit of \$ 1,000,000 for 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 Schedule 1, while the BC provincial tax is done on Form BC428. Both federal and provincial taxes are charges at graduated rates, with higher tax rates charged on higher levels of income. The 2020 combined federal and BC tax rates for the different brackets of income are presented in the table below.

#### 2020 Income Tax Rates for Residents of B.C.

Taxable Income	Ineligible Dividends	Eligible Dividends	Capital Gains	Other Income
\$ 0 - 41,725	10.43%	0.00%	10.03%	20.06%
41,726 - 48,535	13.47	0.00	11.35	22.70
48,536 - 83,451	19.80	1.63	14.10	28.20
83,452 - 95,812	23.02	5.49	15.50	31.00
95,813 - 97,069	25.07	7.96	16.40	32.79
97,070 - 116,344	31.40	15.55	19.15	38.29
116,345 - 150,473	34.17	18.88	20.35	40.70
150,474 - 157,748	37.87	23.32	21.96	43.92
157,749 - 214,368	40.29	26.22	23.01	46.02
214,369 - 220,000	44.64	31.44	24.90	49.80
Above 220,001	48.89	36.54	26.75	53.50

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 2020.



**2020 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	\$ 13,229	\$ 1,984	\$ 10,949	\$ 554
Age (max)	\$ 7,637	\$ 1,145	\$ 4,910	\$ 248
Spouse or eligible dependent (max)	\$ 13,229	\$ 1,984	\$ 9,376	\$ 474
Canadian caregiver – support to the physical or mental impaired	\$ 7,276 for dependent over 18; \$ 2,273 for dependent infirm child under 18	\$ 1,091 or \$ 341	\$ 4,792, reduced by dependent net income over \$ 16,215	\$ 242
CPP contributions	Amount contributed; max. \$ 2,898	15% x amount	Amount contributed; max. \$ 2,898	5.06% x amount
EI premiums	Amount contributed; max. \$ 856.36	15% x amount	Amount contributed; max. \$ 856.36	5.06% x amount
Volunteer firefighters or search and rescue volunteers	\$ 3,000	\$ 450	\$ 3,000	\$ 152
Canada Employment	Max. \$ 1,245	\$ 186	n/a	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



	<u>Federal</u>		<u>BC</u>	
	Amount	Tax Credit	Amount	Tax Credit
Adoption expense	Up to \$ 16,563 per adoption	Max. \$ 2,484	Up to \$ 16,563	Max. \$ 838
Digital news subscription tax credit	Max. \$ 500	Max. \$ 75	n/a	n/a
Pension	Pension amount; max. \$ 2,000	Max. \$ 300	Pension amount; max. \$ 1,000	Max. \$ 51
Disability	\$ 8,576	\$ 1,286	\$ 8,212	\$ 415
Additional disability for taxpayer under 18	\$ 5,003, reduced by attendant care and child care expenses over \$ 2,930	Max. \$ 750	\$ 4,791, reduced by attendant care and child care expenses over \$ 2,782	Max. \$ 242
Tuition fees	Tuition fees, examination fees for both post-secondary and professional program examinations	15% x amount	Actual tuition fees	5.06% x amount
Tuition amount transferred from child	\$ 5,000 (max) after child's claim	15% x amount	\$ 5,000 (max) after child's claim	5.06% x amount
Medical expense	Expense in excess of 3% of net income or \$ 2,397	15% x amount	Expense in excess of 3% of net income or \$ 2,277	5.06% x amount
Charitable donations	Donations (up to 75% of net income)	15% of first \$200; 29% or 33% of remaining	Donations (up to 75% of net income)	5.06% of first \$ 200; 16.80% or 20.50% of remaining



<b><u>2020 Refundable tax credits:</u></b>				
	<b><u>Federal</u></b>		<b><u>BC</u></b>	
	<b>Amount</b>	<b>Tax Credit</b>	<b>Amount</b>	<b>Tax Credit</b>
Canada training credit	Actual tuition fees (with limit)	15% x amount	n/a	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
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

***Disclaimer:*** Information is current to February 9, 2021, 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.