2020 Year-End Tax Planning

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As the year is coming to a close, we are sharing some tax planning opportunities that may be still available to you for 2020. The planning points outlined below are for general information and are not intended to serve as specific advice; you should always consult a Vine and Partners LLP advisor before implementing any of the planning points being suggested.

HOME OFFICE EXPENSES

EMPLOYEES

Generally, to qualify for any home office deductions the rules require one of the following:

1. The workspace is where you do your work more than 50% of the time; or
2. The workspace is used only to earn employment income and used on a regular and continuous basis for meeting clients, customers, or others in the course of your employment.

For those employees that meet one of the above rules they will require their employer to provide them with a completed Declaration of Conditions of Employment form T2200.

The good news is that although the current rules are strict to be able to claim home office expenses, the Canada Revenue Agency is considering amending the Declaration of Conditions of Employment form to allow for some flexibility given the impact of COVID-19. The details of any relieving provisions were not made available at the time this newsletter was released.

LIFETIME CAPITAL GAINS EXEMPTION

The lifetime capital gains exemption limit for 2020 increased to $883,384 from $866,912 in 2019 for dispositions of 'qualified small business corporation' shares by individuals. The lifetime capital gains exemption limit on qualified small business corporation shares is indexed to inflation for future tax years.

The lifetime capital gains exemption limit for "qualified farm and fishing property" is $1,000,000 for qualifying dispositions by individuals occurring in 2020.

PERSONAL INCOME TAX RATES

The combined federal and provincial top marginal tax rate in Ontario remains at 53.53%. The top marginal tax bracket now applies for income in excess of $ 220,000. The maximum marginal tax rate for eligible dividend income for 2020 is 39.34%. and the maximum marginal tax rate for regular dividends is 47.74%.

OWNER-MANAGER REMUNERATION

We can assist owner-managers with the right mix of dividend and salary that will ensure taxes are minimized. Our advisors will take into consideration Registered Retirement Savings Plan contributions, Canada Pension Plan contributions, the Tax on Split Income rules, and the Ontario Employer Health Taxes. Income splitting may also be possible if a family member provides services for which the individual can be paid a reasonable salary; this works particularly well where the family member has little or no income. Contact your Vine and Partners advisor for more information.

PRINCIPAL RESIDENCE RULES

The principal residence exemption provides a reduction in the gain that would otherwise be realized on the disposition of a 'housing unit' (e.g. house, condo, townhouse, cottage, share of housing co-op, etc.) by an individual resident in Canada who ordinarily inhabited the property. In order for a property to qualify as a principal residence, the housing unit must be designated as the principal residence for each taxation year. However, only one property can be designated each year for a family unit (i.e. spouses and minor children).

The algebraic formula used to determine the amount by which the gain may be reduced allows for a "plus-one" rule, which provides an additional year that the property may be eligible to be designated as the individual's principal residence. This rule is intended to allow an individual to designate a property in the year that the individual moves from an existing principal residence to a new principal residence.

The Income Tax Act (Canada) was amended in 2016 to reflect that the taxpayer must be a resident of Canada in the taxation year in which they acquired the property in order to claim the "plus-one" year rule in the formula. If the taxpayer was not a resident of Canada in the year of acquisition, they will not be eligible to claim the "plus-one" year.

The Canada Revenue Agency ("CRA") has also modified their administrative policy for reporting dispositions of a principal residence. Effective for dispositions on or after January 1, 2016, individuals will now be required to report any disposition of a principal residence on Schedule 3, *Capital Gains*, of their T1 *Income Tax and Benefit Return*. The year of acquisition, proceeds of disposition, and description of the property will need to be reported. This change also applies to deemed dispositions of property, such as a deemed disposition on the change in use of the property.

Form T2091, *Designation of a property as a principal residence by an individual (other than a personal trust)*, is also required to be filed for all dispositions of a principal residence.

The CRA will only allow the principal residence exemption on property disposed of in 2016 and later years if the sale and designation is reported in the return. Late filed designations may be accepted but are subject to a penalty equal to the lesser of (i) $8,000 and (ii) $100 for each month the designation is late. The designation is due with the return on April 30, 2021 for the 2020 taxation year.

TRUST INCOME ALLOCATIONS

Income not allocated from an *inter-vivos* trust to an income beneficiary of the trust is taxed at the highest marginal personal tax rate (2020 - 53.53% for Ontario resident trusts) in the trust. In order to allocate income from an inter-vivos trust to a beneficiary in 2020, the income must be paid or payable to the beneficiary **on or before December 31st, 2020**.

Care should be taken when allocating certain types of income, such as private company dividends, to beneficiaries as the "Tax on Split Income" ("TOSI") may apply to tax such income at the highest marginal personal tax rate.

TAX ON SPLIT INCOME ("TOSI")

Prior to 2018, the TOSI rules imposed taxes at the top marginal rates on certain types of income of a child under the age of 18, such as dividends from private corporations, or certain types of income earned through a trust or partnership.

Effective January 1, 2018, the TOSI rules were expanded to include most individuals. Individuals over the age of 17 will be subject to TOSI on certain types of income received that is not commensurate with a "reasonable" amount that would otherwise be received for their active involvement in the business, contribution of assets, or risks assumed in respect of the business. The types of income subject to TOSI have been expanded to include income from certain debt obligations, gains from certain dispositions of property (the income from which is split income), and compound income earned on property that was previously subject to TOSI.

If you have questions about the TOSI rules read to our comments in the "Income Sprinkling: Where Are We Now?" article in the Industry Updates section of our website or for further information contact your Vine and Partners LLP advisor.

REVIEW YOUR WILL

Changes to the Income Tax Act (Canada) that came into effect in 2016 will tax certain trusts at the top marginal tax rate. If your will includes the creation of a trust, you should consider the tax impact and review your estate plan accordingly. The 2016 rules introduced the concept of GRE – Graduated Rate estate for more information contact your Vine and Partners LLP advisor.

If you plan to make gifts to charity through your will or estate, you may be able to benefit from more flexibility in the use of your estate's charitable donation tax credits by allocating the charitable donation credit between the terminal tax return for the year of death and the estate tax return after death to obtain a more favourable tax position. This can be done when the tax returns are prepared and does not necessarily require a change to your will.

LOW-INTEREST LOANS

The CRA's prescribed rate of interest is currently 1%. This low interest rate provides tax planning opportunities for individuals to split income with family members using related party loans.

Related party loans that bear interest at a rate equal to the prescribed rate in effect as of the date of the loan can provide significant tax savings. A properly structured loan avoids the attribution rules which would otherwise apply to funds that are lent to your spouse or minor children, whether through a trust or otherwise, on an interest free basis. Annual interest payments made to you from the loaned funds will be taxed as income in your hands; however, any income generated by the recipient of the loan will be taxed as income in the hands of the recipient. Consequently, significant income can be shifted from your hands into the hands of a family member with a lower marginal tax rate.

Interest charged on related party loans outstanding in 2020 must be paid **before January 30, 2021** in order to avoid the attribution rules.

Contact your Vine and Partners LLP advisor if you feel that you may benefit from such an arrangement.

CAPITAL LOSSES

Capital losses may be used to offset capital gains realized during the year, reducing the income taxes that are payable for 2020. Therefore, it may make sense to sell investments that have dropped in value in order to realize a loss. To trigger capital losses before the end of the year, the transaction settlement date must be **on or before December 31, 2020**. The time it takes to settle a trade will vary depending on the nature of the security and the exchange on which it is listed. Check with your financial institution to determine the last date your trade can be initiated to ensure that it settles by December 31, 2020; the last trade date for most publicly traded stocks will be Tuesday, December 29, 2020.

Want to buy back the same investments? Wait until at least 30 days have elapsed after the settlement date – otherwise, your losses will be denied and added to the cost base of your re-purchased investments.

If you transfer investments with accrued losses from your non-registered account into your registered account (i.e. RRSP or TFSA) thinking that you will realize a loss, there a tax rules that deny the loss. A better option would be if you want to realize the loss that you sell the investment, and then contribute the cash to the RRSP or TFSA, and then you buy back the investment after the 30 day period ends.

If your capital losses exceed your capital gains in 2020, the net capital losses may be carried back three years or carried forward indefinitely to offset taxable capital gains in other years.

RRSP CONTRIBUTIONS

March 1, 2021 is the last day you can contribute to an RRSP and deduct the contribution on your 2020 personal tax return. However, the earlier you make the contribution, the more time you have to let your tax-sheltered retirement income funds grow.

Your 2020 RRSP "contribution limit" is equal to 18% of your 2019 "earned income" up to a maximum contribution limit of $27,230, plus any unused contribution room from prior years. Earned income generally consists of net income from employment, business, and rental.

Your 2020 RRSP "contribution limit" can be found on your 2019 Notice of Assessment and on any subsequent 2019 Notice of Reassessment. Be sure to consider any undeducted RRSP contributions you may already have when deciding how much to contribute to your RRSP for 2020. Unused RRSP contribution room can be carried forward indefinitely until fully utilized. Over-contributions to RRSPs are subject to a penalty tax of 1% per month.

If you turned 71 during 2020 you must wind up your RRSP by the end of the year. Therefore, the last day you can contribute to your RRSP is December 31, 2020. However, if you have "earned income" in 2020, you will be entitled to additional contribution room for 2020. Since you must terminate your RRSP by December 31, 2020, you might consider making a contribution in December 2020 before your plan is wound up. Although you may be assessed a 1% per month over-contribution penalty for the month of December, you will be entitled to a tax deduction in 2020 for the contribution made. In addition, even if you are over the age of 71, you can still make contributions to a spousal RRSP up to the end of the year your spouse turns 71.

Income splitting in the future may be achieved by contributing to a spousal RRSP. However, to ensure your spouse pays the income tax on any withdrawal from the plan (rather than you), your spouse must wait until the third calendar year after the year of your last spousal RRSP contribution before making the withdrawal. Making the spousal contribution near the end of the year will effectively reduce the waiting period to just over two years.

ALLOWABLE BUSINESS INVESTMENT LOSSES

While capital losses can only be used to offset capital gains, an allowable business investment loss ("ABIL") can be used to reduce income from all sources. Therefore, if you are a shareholder or creditor of a financially unviable private small business corporation, consider selling your shares or debt to an unrelated person, or claiming a special write-down for the shares or debt, before December 31, 2020 to realize an ABIL for 2020. Keep in mind that if you have already claimed any capital gains deduction ("CGD") in the past, the amount of the ABIL will be reduced by the CGD claimed. In addition, certain rules may disallow the ABIL claim if your investment is in the form of a loan which does not bear interest.

YEAR-END PLANNING FOR CERTAIN INVESTMENTS

As a planning point, you may want to delay purchasing certain investments outside of your RRSP or TFSA until January 2021. Purchases of mutual funds that are expected to make taxable distributions near the end of 2020 can be delayed until 2021 to avoid paying tax sooner than necessary. Likewise, you might consider selling mutual funds before the end of the year to minimize your allocation of taxable income for 2020. When it comes to purchasing interest bearing securities (such as GICs) with a maturity date of one or more years, consider waiting until early 2021 so that you don't have to pay tax on accrued interest income until 2022, the year of the investment's first anniversary.

TAX-FREE SAVINGS ACCOUNT (TFSA)

You can contribute up to $6,000 to a TFSA for 2020 if you are a Canadian resident age 18 or older. Any unused contribution room can be carried forward indefinitely, so this limit may be higher if you did not contribute to a TFSA in a prior year. For example, if you have never contributed to a TFSA, you may be able to contribute a total of $69,500 before December 31, 2020. Contributions to a TFSA are not tax deductible, but investment income earned in the TFSA is tax-free, and you can make tax-free withdrawals from the TFSA at any time. When you make a withdrawal, the amount withdrawn will be added to your contribution room for the following year, so that it can be re-contributed in or after that following year. Over-contributing to your TFSA may result in a penalty of 1% per month on the amount off excess TFSA contributions until you have withdrawn the excess amount or more contribution room becomes available in the subsequent year.

One attractive feature of a TFSA is that if you have more money for investment than your spouse, you can give funds to your spouse to establish his or her own TFSA and the normal income attribution rules that would otherwise tax the investment income in your hands would not apply while the funds remain in the TFSA.

Unlike an RRSP, which has to be wound up when you reach age 71, you can maintain your TFSA for your entire lifetime.

TFSAs are generally allowed to hold the same types of investments as RRSPs. This includes cash, mutual funds, publicly traded securities, GICs, bonds and (in limited circumstances) certain shares of "small business corporations".

REGISTERED DISABILITY SAVINGS PLAN (RDSP)

You can set up an RDSP for a child if he or she qualifies for the disability tax credit. The maximum lifetime contribution limit is $200,000 per child, and contributions are not tax deductible. Income earned inside the plan is exempt from tax and withdrawals are taxable to the beneficiary. You will have to consider whether an RDSP might disqualify your child from receiving provincial or territorial income support amounts.

Contributions may be supplemented to a maximum of $3,500 in matching grants in one year, and up to $70,000 over the beneficiary's lifetime by payments from the Canada Disability Savings Grant Program depending on the beneficiary's family income and contribution levels.

REGISTERED EDUCATION SAVINGS PLAN (RESP) CONTRIBUTIONS

December 31, 2020 is the last day you can contribute to an RESP and receive a Canada Education Savings Grant (CESG) for 2020. There is no maximum annual RESP contribution limit, but the lifetime maximum is $50,000. CESG grants are calculated at 20% of your RESP contributions, subject to an annual limit of $500 ($1,000 if there is unused grant room from a previous year) per child under the age of 18 and a lifetime limit of $7,200. Additional age restrictions apply for RESP contributions and withdrawals.

Families with a total income of less than $97,069 may qualify for increased CESG benefits on the first $500 of RESP contributions.

DEFER A BONUS

If you are going to receive a bonus for 2020, you may want to talk to your employer about deferring the bonus until January of 2021. That way, you can defer paying income taxes on the bonus for a full year, although a certain level of payroll withholdings will still be required.

To avoid income tax withholdings entirely (to the extent that you have RRSP contribution room available) you can have your employer transfer the bonus directly into your RRSP in January or February 2021. This will enable your employer to reduce the income tax withholdings on the bonus and will allow you to take an RRSP deduction in 2020 despite the bonus being included in your 2021 income for tax purposes. However, the bonus will be included in your income in 2021 and you will have already deducted the RRSP contribution in 2020, so a balance of taxes owing for the 2021 year may result.

INTEREST DEDUCTIBILITY

In order to deduct loan interest on your income tax return, the borrowed money must be used for the purpose of earning income from a business or property. If you are currently paying interest that is not deductible (for example, on a home mortgage loan), contact your Vine and Partners LLP advisor to discuss the possibility of reorganizing your affairs to make the interest deductible.

As already mentioned, interest charged on related party loans structured to avoid the attribution rules must be paid before January 30, 2021 in order to be deductible.

Finally, keep in mind that a deduction for your life insurance premiums is permitted where the life insurance policy is assigned as collateral for a loan, provided the assignment is required by the lender, the lender is a Canadian or Quebec licensed financial institution, and the interest payable on the loan is deductible for tax purposes.

INVESTMENT COUNSELING FEES

You may be eligible to claim a tax deduction if you paid investment counseling fees for non-registered accounts during the year. Since income earned in registered accounts, such as an RRSP or a TFSA, is tax-sheltered, counseling fees paid to manage these accounts are not deductible.

REVIEW YOUR PERSONAL USE OF EMPLOYER-PROVIDED AUTOMOBILES

A taxable benefit called a "standby charge" applies to an individual who uses a company owned automobile for personal purposes. If your total personal use is less than 20,004 KMs and represents less than 50% of the total use for the year, you may qualify for a reduction of the standby charge. Also, if your business use exceeds 50% of your total use, then you have the option to calculate your operating cost benefit as one-half of the standby charge (rather than the default 28 cents per km of personal use) less reimbursements, should this prove beneficial.

It is important to maintain a log that records all of the business use of your vehicle for the year, and to note the odometer details at the end of each year, so you can document your business use and total use in the case of a CRA audit.

Review your automobile log to see if you fall within the thresholds. If you intend to use the alternate 50% method for calculating the operating cost benefit, you must advise your employer in writing by December 31, 2020.

PURCHASING BUSINESS ASSETS

If you own a business and are planning to buy certain assets for your business in the next few months, you may want to consider purchasing them and making them available for use in the business before year-end. Doing so will enable you to claim capital cost allowance on the assets a full year sooner than if you wait until the New Year. In addition, if you are registered for GST, you can claim a full GST credit in the year of purchase, which will allow you to reduce the GST you owe for 2020.

The 2018 Fall Economic Statement delivered by the Federal Government included accelerated capital cost allowance rates for certain assets purchased after November 20, 2018. This will result in higher capital cost allowance deductions in the year of acquisition of qualifying property.

ZERO-EMISSION VEHICLES

Further to the 2018 announcement there was an announcement made in 2019 that introduced a 100% write-off for the acquisition of zero-emission vehicles. A zero-emission vehicle is defined as a motor vehicle that is a plug-in hybrid with a battery capacity of at least 7 kWh or is fully electric, fully powered by hydrogen, or a combination of the two, and is acquired after March 18, 2019 and before 2028. For vehicles purchased in 2024 and after are subject to a phased in reduction of the first year eligible deduction. For example, a qualifying vehicle purchases in 2024 or 2025 would be able for a 75% first year deduction, for 2026 and 2027 the first year deduction would be 55%. There are a few restrictions for being able to claim this write-off which are:

1. The vehicle cannot be a vehicle that has been used or acquired for use for any purpose before it was acquired
2. The vehicle cannot be one which assistance has been paid by the Government of Canada under the federal purchase incentive program.

Qualifying vehicles that would normally be included in Class 16 (a truck or tractor designed to haul freight) would be included in class 55 and all other zero-emission vehicles would be included in class 54. For class 54 additions there is a capital cost limitation of $55,000.

MOVING EXPENSES

If you moved within Canada during the year, your moving expenses may be deductible. In order to qualify, you must start employment or operating a business at a new location, and your new home must be at least 40km closer to the new location than your old home. The deductibility of moving expenses is limited to the income earned at the new location in the year and can be carried forward indefinitely. Moving expenses include out-of-pocket costs for moving, realtor's commissions and legal fees on the sale of your old home, and the property transfer tax and legal fees paid on the purchase of your new home.

If you moved into or out of Canada during the year but remained a Canadian resident for income tax purposes while you were abroad, you may also be able to deduct your moving expenses.

CHARITABLE DONATIONS

Charitable donations must be made on or before December 31, 2020 to qualify for a tax credit in 2020. Donations may be claimed up to an amount not exceeding 75% of net income. Donations in excess of 75% of net income can be carried forward and deducted for up to 5 years. For deceased taxpayers, the limit is increased to 100% of net income in both the year of death and the preceding year (taking into account bequests or legacies in the deceased's will).

Donations of certain publicly traded marketable securities that have appreciated in value can offer even greater income tax benefits than cash donations. The inclusion rate for capital gains realized on the disposition of securities by way of donation is reduced to 0% (instead of the normal capital gains inclusion rate of 50%). The 0% inclusion rate is also available for donations made to private foundations. Therefore, instead of selling securities with accrued gains to make a cash donation, consider donating the securities instead. Keep in mind that most charities require more time to process receipt donations of securities than for donations of cash. Donating publicly-traded marketable securities that are in a loss position can also be effective as you will receive a donation receipt for the fair market value of the securities at the date of the donation, and you will also be able to use the capital loss.

For donations of shares issued pursuant to a 'flow-through share agreement' entered into after March 21, 2011, the exemption from capital gains tax is only available to the extent that cumulative capital gains in respect of dispositions of shares of that class exceed the original cost of the flow through shares. This essentially eliminates the additional tax benefits of donating flow-through shares.

POLITICAL DONATIONS

Political donations must be made on or before December 31, 2020 to qualify for a tax credit in 2020.

MEDICAL EXPENSES

Medical expenses you wish to claim in 2020 must be paid within any twelve-month period ending in 2020 to obtain a tax credit. The credit is equal to the medical expenses incurred, minus the lesser of (i) 3% of net income and (ii) $2,352, multiplied by 15%. Calculations are required to determine whether it is more beneficial to claim medical expenses in the current year or to defer them to the following year.

Also, to ensure that you have not misplaced any prescription receipts it is our recommendation to request from your pharmacy an annual summary report which summarizes all your eligible prescriptions as this report provides the details required by your Vine and Partners LLP advisor to efficiently determine the optimal medical claim for you.

Expenses for medical or dental services (including related expenses such as travel) which are purely for cosmetic purposes do not qualify for the medical expense credit.

CHILD CARE EXPENSES

Subject to certain limitations, child care expenses incurred during the year may be claimed as a deduction from income. In two-parent families, child care expenses must generally be claimed by the lower income spouse. The maximum deductible amounts are $8,000 for each child under the age of seven at the end of the year, and $5,000 for each child between the ages of seven and sixteen at the end of the year.

If your child is eligible for the disability tax credit, the limit for child care expenses for any age is increased to $11,000.

The total deduction for child care expenses cannot exceed two-thirds of the earned income of the individual claiming the deduction.

Remember that boarding school and camp fees can qualify for the child care deduction (limits apply), and that you'll need to keep receipts for all child care expenses.

CANADA CHILD BENEFIT

The Canada Child Benefit (CCB) is a tax-free monthly payment made to eligible families. The CRA uses your income tax and benefit return from the previous year to determine the amount of CCB payments you are entitled to.

In order to qualify for the CCB payments, you and your spouse must file your return every year even if you did not have any income in the year.

Benefits are paid over a 12-month period starting July and ending in June of the following year. Your benefit will be recalculated every July based on your income tax and benefit return from the previous year.

ALIMONY AND MAINTENANCE

Alimony and maintenance payments made during the year are generally deductible for income tax purposes for the payer and included in the income of the recipient.

There is an exception for child support payments made pursuant to an agreement, court order, or an amendment to an agreement or court order, dated after April 30, 1997. Such payments are not deductible by the payer and are not includible in the recipient's income. Certain payments made to third parties may also qualify as alimony and maintenance payments, provided this is specified in the related agreement or court order.

HOME ACCESSIBILITY TAX CREDIT

Qualifying individuals, their spouses or common-law partners, or those for whom the qualifying individual is an eligible or infirm dependent, may claim up to $10,000 of eligible expenditures per calendar year per eligible dwelling under the non-refundable Home Accessibility Tax Credit.

Qualifying individuals include seniors (individuals who are sixty-five years of age or older at the end of the taxation year) and persons eligible for the Disability Tax Credit at any time in the taxation year.

An expense will be eligible for the Home Accessibility Tax Credit if it is made or incurred in relation to a renovation or alteration of an eligible dwelling to provide the qualifying individual with access to the dwelling, improved mobility or function within the dwelling, or to reduce the risk of harm to the qualifying individual within the dwelling. The expenses must be of an enduring nature and be integral to the dwelling (i.e. permanent fixtures).

ELIGIBLE EDUCATOR SCHOOL SUPPLY CREDIT

The Eligible Educator School Supply Tax Credit, a refundable tax credit at rate of 15% for amounts up to $1,000, is available to teachers and early childhood educators employed at an elementary or secondary school or regulated child care facility who purchased eligible teaching supplies.

You may be required to provide supporting receipts and a certification from your employer attesting to the eligible supplies expense if requested by the CRA.

STUDENTS

Scholarships and Other Prizes – All scholarship, fellowship, bursary or prize income received from a program that entitles the student to the education tax credit is tax exempt. Where the student is enrolled in a part-time program, the exemption applies only to the extent the award covers tuition fees and costs incurred for program-related materials. For other scholarships, fellowships, bursaries or prizes, the first $500 is tax exempt.

Tuition Credits – Tuition fees and student loan interest must be paid on or before December 31, 2020 to qualify for a tax credit in 2020. Unclaimed tuition credits can be carried forward indefinitely (or transferred to a supporting parent, grandparent, or spouse up to certain limits), while unclaimed credits for student loan interest can be carried forward for five years.

Foreign University Tuition Fees – If you attended a foreign university, your tuition fees may be eligible for a tuition credit in Canada. To support such fees, you must have the foreign university complete a Form TL11A, *Tuition, Education, and Textbook Amounts Certificate – University Outside Canada*, and provide the form to CRA upon request.

BILLED-BASIS ACCOUNTING

Certain designated professionals (i.e. accountants, lawyers, dentists, medical doctors, veterinarians, and chiropractors) could previously elect to exclude their work in progress from the computation of income for the year. This effectively provides that income is only recognized when it is billed (billed-basis accounting).

The billed-basis accounting method has been eliminated, and professionals will need to change the way they claim deductions for expenses that should be included in inventory at year end and not deducted for tax purposes until the time the work in progress is billed to customers. This measure is effective for tax years starting after March 22, 2018. For unincorporated professionals, the 2018 year was the first year of application.

A five-year transitional period will allow the elimination to be phased in gradually.

FILE TAX RETURNS FOR ALL FAMILY MEMBERS WHO RECEIVE INCOME OR ARE ELIGIBLE FOR TFSA CONTRIBUTION ROOM

All family members who receive income or have a capital gain or loss in a year should file income tax returns even if they do not have to pay any tax. Filing an income tax return generally prevents taxpayers from further reassessments after a period of three years from the notice of assessment date. In addition, for individuals who earn income from employment or business, filing a tax return will allow them to accumulate RRSP contribution room for use in future years.

Family members who don't have any income should still file income tax returns if they are 18 or older, because the CRA tracks TFSA contribution room only for individuals who file tax returns. In addition, some benefits (such as the GST credit, Canada Child Tax Benefit, and Guaranteed Income Supplement) are dependent on the assessed total income of a taxpayer and any spouse. For post-secondary students, you may be able to claim or carry forward the interest paid on your student loans, and transfer or carry forward your tuition, education, and textbook amounts.

OFFSHORE INVESTMENTS

If you hold "specified foreign property" costing more than $100,000 in total at any time during 2020, you are required to file Form T1135, *Foreign Income Verification Statement*. Shares of foreign corporations, rental properties outside Canada, and debts owing from non-residents can all be specified foreign property that is required to be reported. Shares of foreign companies held in a non-registered Canadian investment account are specified foreign property and must be reported; some Canadian financial institutions can give you a report showing the foreign property and the relevant cost amounts. The filing due date of the form is the same as the filing deadline for your personal tax return, and there are penalties for not filing the form on time.

If you held specified foreign property with a total cost of less than $250,000 throughout the year, there is a simplified reporting method available. With this method, only the type of property, the top three countries based on the maximum cost amount of specified foreign property held during the year, and any income or gains and losses will need to be reported.

If you held specified foreign property with a total cost of $250,000 or more, you will need to report the cost (maximum cost during the year, as well as cost at year-end), country where the property is held, income, and gains and losses in respect of each individual foreign investment. Taxpayers may choose to report the aggregate value of securities held in a Canadian registered broker account on a country-by-country basis. The highest fair market value at the end of any month during the year and the fair market value at year-end will be required to be reported. If the form is filed late or if the CRA finds any errors on the form, it can extend the period during which it can reassess your tax return by three years (to six years in total).

If you held shares in a foreign corporation that is a "foreign affiliate" at any time during 2020 you are required to file Form T1134, *Information Return Relating to Controlled and Not-Controlled Foreign Affiliates*. Whether a foreign corporation is a "foreign affiliate" is determined based on your shareholdings and the shareholdings of persons related to you, the aggregate of which must not be less than 10%. Most portfolio holdings of public companies would not meet the criteria. If you own shares of foreign corporations, contact your Vine and Partners LLP advisor to determine if Form T1134 is required.

If you were a beneficiary who received a distribution from a trust that is not resident in Canada, or made a contribution of property to such a trust, you may be required to file an information return in respect of income distributions or capital distributions from the trust. Penalties for failure to file the information return can apply.

U.S. CITIZENS LIVING IN CANADA

U.S. citizens or green card holders are subject to U.S. taxation on their worldwide income even if they live in Canada. Tax credit mechanisms exist to prevent double taxation, but certain information reporting forms carry non-filing penalties even where there is no U.S. tax payable.

U.S. personal income tax returns for citizens or green card holders living outside of the U.S. are generally due on June 15, 2021, but payment of any outstanding income taxes must be made by April 15, 2021 to avoid arrears interest.

If you have any questions, please feel free to contact us at (905) 549-8463.

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