Credential

2020 year-end tax tips

Timely tactics to trim your tax exposure

Year-end is a time when we start thinking about winding down. However, in the field of tax planning, the end of the year is when we need to take stock, and potentially take action.

Below you will find important reminders and tips to help you navigate year-end tax planning, grouped by personal profile and type of need.

Of course, this year we are also dealing with the effects of the COVID-19 pandemic, for which we have included a summary and guidance on the government support programs rolled-out this year.

Click on the headings below to read the reminders and tips. They are high-level only, so please inquire further with your financial advisor and your tax professional to be certain if and how they may apply in your situation.

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COVID-19 financial supports

In response to the pandemic, the federal government implemented a variety of non-taxable and taxable benefit programs. For the taxable benefits, withholding tax was not applied to the early program, and even as applied to the later programs, the amount withheld may not be sufficient to cover actual tax due once added to the recipient's other income for the year.

This table will help you understand the tax treatment of each program, and whether you may need to set aside a cash reserve to cover any tax that may be due when you come to prepare your 2020 tax return.

Program	Eligibility and Amount	Tax treatment	2020 Dates
Canada Emergency Response Benefit (CERB)	▪ Unemployed or reduced employment due to COVID-19 ▪ $500/week up to 28 weeks; maximum of $14,000	Taxable, no withholding	Ended Oct 3
Canada Emergency Student Benefit (CESB)	▪ Post-secondary student unemployed or with reduced hours due to COVID-19 ▪ $1,250/4-week period up to 16 weeks; maximum of $5,000 ▪ Post-secondary student with a disability or dependants unemployed or with reduced hours due to COVID-19 ▪ $2,000/4-week period up to 16 weeks; maximum of $8,000	Taxable, no withholding	Ended Aug 29
Canada Child Benefit (CCB)	▪ Families already receiving the CCB ▪ $300 one-time payment	Non-taxable	Paid in May
One-time payment for seniors	▪ Seniors eligible for the Old Age Security pension received $300 ▪ Seniors eligible for the Guaranteed Income Supplement received an additional $200	Non-taxable	Paid in July
Persons with disabilities	▪ Holders of a Disability Tax Credit certificate, beneficiaries of the CPP or QPP disability pension or disability supports from Veterans Affairs Canada ▪ $600 one-time payment	Non-taxable	Scheduled to be paid on Oct 30
Canada Recovery Benefit (CRB)	▪ Workers not eligible for Employment Insurance, including self-employed ▪ $500/week for up to 26 weeks	Taxable, 10% withholding	Began Oct 12
Canada Recovery Caregiving Benefit (CRCB)	▪ Caring for child under age 12 or supervising a family member ▪ $500/week; up to 26 weeks; maximum of $13,000	Taxable, 10% withholding	Began Sep 27
Canada Recovery Sickness Benefit (CRSB)	▪ Unable to work if sick or need to self-isolate due to COVID-19, or have an underlying health condition that puts them at greater risk of getting COVID-19 ▪ $500/week up to 2 weeks; maximum of $1,000	Taxable, 10% withholding	Began Sep 27

Employment Insurance - COVID-19 (EI)	▪ For eligibility, please refer to the following link from the Government of Canada: https://www.canada.ca/en/services/benefits/ei/notice-covid-19.html#h2.03 ▪ $500/week minimum under temporary rule changes; minimum 26 weeks, maximum 45 weeks	Taxable, formula for withholding	Began Sep 27

Please refer to the following link from the Government of Canada for more information on COVID-19 financial support programs: https://www.canada.ca/en/department-finance/economic-response-plan.html

Spouses and families

Tax refunds and source deductions

Many individuals, including those with spouses and families, receive tax refunds after making their annual RRSP contributions. This happens when your employer's source deductions exceed your actual tax due. In this case, you have made individual registered retirement savings plan (RRSP) contributions that your employer would not have been aware of when determining payroll deductions.

You may wish to begin **2021** by filing Canada Revenue Agency (CRA) form T1213 to have your employer reduce its withholding (if you qualify), allowing you the use of that money, rather than it being a non-interest bearing deposit with CRA.

Strategic spousal RRSPs

Generally, withdrawals from a spousal RRSP are taxable to the spouse who is the annuitant/owner of the plan. However, an exception applies when the withdrawal occurs in the year of contribution or the following two calendar years. Such early withdrawals will be attributed to the contributor.

While contributions made in the first 60 days of **2021** can be applied to reduce **2020** taxes, you have to wait until 2024 to make withdrawals that will avoid this attribution. Alternatively, if the money is in before the end of 2020, it can be withdrawn by the spouse-annuitant in **2023** without concern, provided that there are no further contributions in the interim that would restart the attribution clock.

Accordingly, be sure to make spousal RRSP deposits before year-end if you are planning for withdrawals in the next few years.

Prescribed rate loans

On a gift from one spouse to the other, tax on investment income is attributed back to the giver, but that will not occur if a properly documented loan is used. To qualify, interest on the loan must be charged by the lending spouse to the borrowing spouse at the rate prescribed by tax regulations. That rate is an integer (that is, without decimal places), with the lowest possible rate being 1%.

Though the prescribed rate is adjusted quarterly according to economic conditions, the rate on your loan can remain at the level at its inception, as long as annual interest is paid no later than 30 days after year-end, being January 30.

The prescribed rate had been at 1% for much of the last decade before rising to 2% in 2018.

With the economic decline due to the pandemic, the rate again fell to **1%** midway through 2020, making it an opportune time to either establish a new loan, or retire an existing loan to be replaced by a new one at the current lowest possible rate.

Gift to spouse for TFSA

As a complement or alternative to spousal RRSPs and prescribed rate loans, remember that there is no attribution on a gift to a spouse for a TFSA contribution.

A TFSA contribution is a simpler way to share the wealth between spouses, and here you don't have to worry about year-end issues.

Changing a past tax return

If you want to change a previously filed tax return, you can only do so for a tax year ending in any of the 10 preceding calendar years. A request for a change related to **2010** must be made before year-end **2020**.

Employees

Employee expenses while working from home

If you have been required to work from home during the COVID-19 pandemic, you may be wondering whether any deductions may be available to you this year.

In general, for an employee's expenses to be deductible, they must be a condition of employment, as certified by the employer using Form T2200 Declaration of Conditions of Employment. There are two types of expenses that are potentially deductible:

1. Out-of-pocket expenses consumed in the performance of employment duties (eg., stamps, paper, toner cartridges, etc.), but not capital like office furniture, even if used for business purposes.
2. Costs of maintaining a home office.

If no T2200 existed prior to beginning to work from home, it may be challenging to retroactively make the case that a given expense is a condition of employment. Additionally, it would be cumbersome for employers to prepare and issue T2200 forms for a large number of employees.

Fortunately, the CRA has been accommodating. In April, it issued a notice that employees could receive up to $500 as a tax-free reimbursement for the purchase of personal computing equipment to assist them in their work responsibilities. At the October meeting of the Canadian Tax Foundation, a CRA official stated that the treatment would also apply to home office furniture, but the $500 threshold would not be increased. Invoices should be provided by the employee in those circumstances where there is reimbursement in respect of that $500 threshold.

Employer reimbursements and other payments

If an employer reimburses a business payment made by an employee, this is neither income nor an expense/deduction for that employee.

However, where a payment from the employer is of a personal nature, it is likely to be a taxable employee benefit. For example, it is a taxable benefit if an employer pays for a gym membership. Many employers have provided additional payments to help their employees working from home during the pandemic. Your employer's human resources department can advise whether those payments are to be reported as taxable benefits.

Anticipating tax bracket changes

If you will be away from work in the coming year or returning after an absence, you may be in a different tax bracket than at present. If you have expenses or transactions that can be adjusted, it may be beneficial to align them with the year when you are in a lower bracket. For example, if you are contemplating the sale of an appreciated investment property that will result in you recognizing a taxable capital gain, you might negotiate to have the closing date in the lower tax bracket year.

Students and education planning

Important ages you should know about for RESPs and CESGs (Birth years 2003 to 2005 and 2008)

CESG, Canada education savings grant, offers a matching value of 20% of what the plan subscriber contributes to a Registered Education Savings Plan for a child. For your 17-year-old (born in **2003**), 2020 is the last year for grant eligibility. If there is unused room from previous years, the CESG may match up to $1,000 for a $5,000 contribution.

To be entitled to CESG for a 16- or 17-year-old child, there has to have been a minimum of $2,000 in total contributions by the end of the year that child turned age 15, which for 2020 would be a child born in **2005**. Alternatively, at least $100 must have been contributed in any four (not necessarily consecutive) preceding years. If no contributions have yet been made for a child turning age 12 this year (born in **2008**), a $100 contribution before year-end will keep this window open. That then would have to be followed with at least $100 in each of the next three years. For both rules, the funds must remain in the plan.

RESP withdrawals

RESP withdrawals in the form of educational assistance payments (EAPs), are taxed to the student in the year the amounts are withdrawn from their RESP. If it is expected that the student will be at a higher tax bracket in **2021** (for example, graduating), it will likely be preferable to make the withdrawal before year-end.

Also, be aware that EAPs must be taken no later than six months after leaving school. If your child graduated or stopped attending a qualifying program in **2020**, you may wish to arrange for a final EAP.

RRSP Lifelong Learning Plan

If you are considering funding a return to education using the RRSP Lifelong Learning Plan (LLP), the withdrawal limits are up to $10,000 in a calendar year, and up to $20,000 in total. Depending on your anticipated cost and start date, it may be advisable to make your first withdrawal before the **2020** current year-end.

Once your training/education is complete, you must begin returning funds to your RRSP the earlier of the second year after you ceased to be a student or five years after your first LLP withdrawal. The table below illustrates an example of when payment is due after withdrawal:

Withdrawal year	5th year after withdrawal	Payment in 2021
2015	2020	Payment may be made in first 60 days of 2021 to satisfy repayment obligations for 2020.

Note : LLP repayments are not deductible, and any unrepaid amounts are treated as taxable income in the year when they were due.

Interest on student loans

If you are a paying interest on a government sponsored student loan, you may take a tax deduction for the amount of interest you pay each year. If you don’t have sufficient income to make use of the deduction that year, you can carry forward and claim the deduction up to five years later. Your **2020** return is the last opportunity to claim interest that you paid in **2015**.

Homeowners, house-hunters

Large TFSA withdrawals

If you plan a significant TFSA withdrawal in **2021** – for example as part of the down payment for a home purchase – you may wish to take your withdrawal before year-end **2020**. That way you’ll get your re-contribution credit at the beginning of **2021**, rather having to wait for it until **2022**, which only really matters if you expect to have cash available in the coming year to make a TFSA contribution.

The annual allotment of TFSA room has been **$6,000** since **2019**. It was $5,000 at inception in 2009, with an index formula to increase it by $500 every few years. It was $5,500 from 2013 to 2018, with the exception of being $10,000 in 2015. It will probably be 4 or 5 years before it is increased to $6,500.

If you were at least 18 years of age in 2009 and have not used any TFSA room, your cumulative available room in **2020** is **$69,500**.

RRSP Home Buyers' plan

If you used the Home Buyers' Plan (HBP) to purchase a new home, your repayment period starts the second year after the year you withdrew funds. If it looks like your purchase or closing will be delayed, it may be worthwhile to delay your HBP withdrawal so that you are not having to begin repayments too soon after taking occupancy of your new home.

The table below illustrates an example of when payment is due after withdrawal:

Withdrawal year	2nd year after withdrawal	Payment in 2021
2018	2020	May be made in first 60 days to satisfy repayment obligations for 2020

Note :

- HBP repayments are not deductible, and any unrepaid amounts are treated as taxable income in the year when they were due.
- The HBP limit is a per-person entitlement. The 2019 Federal Budget increased the withdrawal limit from $25,000 to $35,000, meaning that a couple could access up to $70,000 using the program.
- The 2019 Budget also introduced provisions to allow individuals to be re-eligible as a first-time homebuyer sooner if they experience a marriage/relationship breakdown.

Principal residence exemption

As of **2016**, disposition of a principal residence must be reported on Schedule 3 Capital Gains and Losses on your tax return. While not a year-end issue, it's worth keeping this in mind if you disposed of an eligible property, as failure to report properly could lead to penalties or even a denial of the exemption.

Moving within Canada

If you are planning a move within Canada, keep in mind that your annual income is taxed in the province where you are resident on December 31 of the year.

If you are moving to a higher-tax province, it may be beneficial to delay your move until the new year. Or if you are moving to a lower-tax province, an earlier move may serve your interests. Given that it's such a major change, you may not be able to adjust, but at least you'll be aware so that you're not surprised when it comes time to file your income tax return in the new year.

Disability needs

Registered disability savings plans (RDSPs)

An RDSP is a tax-sheltered investment plan that may be used by a person who is eligible to claim the disability tax credit. The lifetime contribution limit is $200,000, but there is no annual limit.

Government support is available in the form of up to $70,000 of grants at a matching rate as high as 300%, and $20,000 of free bonds. A plan may be opened no later than the year the beneficiary turns 59 years, and government support money is available up to when the beneficiary is aged 49.

In **2020**, that would mean it is the last year to open a plan for someone born in **1961**, and the last year of government support eligibility for someone born in **1971**.

Home accessibility tax credit

For persons aged 65 and over who claim the disability tax credit, the Home accessibility tax credit (HATC) is an annual credit that can be claimed on renovations that make your home safer or more accessible/functional for you. It applies to expenses up to $10,000, which could lower your tax bill by as much as $1,500.

As it can be claimed each year, a large renovation project might be planned to straddle a year-end to maximize the credit opportunity. A given payment may concurrently qualify for the medical expense tax credit, meaning both credits may be claimed for the same outlay.

Medical expenses

The medical expense tax credit may be claimed on the amount of qualifying medical expenses over the lesser of 3% of net income and an indexed annual dollar limit. For **2020**, the federal limit is **$2,397**, with provincial limits ranging from about **$1,600 to $2,500**. The credit may be claimed for any 12-month period ending in the taxation year, which could inform when you book procedures, or subscribe and pay for qualifying devices and services.

Savers & seniors

RRSP contributions

While you can make RRSP contributions in the first 60 days of **2021** and still claim against **2020** income, you may wish to start earlier. For example, you could make that contribution before year-end, or begin weekly or monthly payments before year-end and then top-up in February. Either way, the sooner you get the money in, the sooner tax sheltering begins working for you.

Even better, if you automate your contributions to occur on an ongoing basis thereafter, you relieve yourself of having to keep track of deadlines. As well, you'll spread out your risk of buying at a high point in the market by making a larger number of smaller contributions, as compared to a single large contribution that is pushed up against that first 60 days deadline.

Public pensions between ages 60 & 70

People born in **1960**, **1955** or **1945**, respectively turn age 60, 65 or 70 in **2020**.

The normal commencement date for Old Age Security (OAS) and Canada Pension Plan (CPP) is age 65. You can begin a reduced CPP retirement pension any month after you turn age 60, or receive an enhanced pension for each month after age 65 up to 70. For OAS, you can't take it earlier than age 65, but can receive an increased pension for each month you delay after age 65 to as late as age 70.

While these are based on age at the month each commences (not year-end specifically), it is prudent to be thinking about these as you enter the year when you intend to begin taking OAS or CPP. According to government sources, the application can take up to 6 months processing time.

CPP post-retirement benefit after age 65

Are you turning age 65 in 2021? If you receive a CPP retirement pension and continue to work after age 65 (up to age 70), you have the option to stop paying CPP premiums. Your employer must match if you continue to pay premiums, and together these are credited toward your CPP post-retirement benefit (PRB).

To start or stop premiums, you must advise CRA and your employer using Form CPT30. It can be filed in any month, but only once per calendar year, so it is helpful to understand how it works before you turn age 65.

Maturing RRSP at age 71

If you were born in **1949**, you turn age 71 in **2020**. Before the end of the year, you will be required to convert your remaining RRSPs into a registered retirement income fund (RRIF) or registered annuity, or take the lump sum as income.

Final RRSP contributions at age 71

As well, you can no longer make contributions to your RRSP after December 31 of the year you turn age 71. This is a problem if you have earned income in this particular year, as the contribution room credit does not arise until after year-end.

If you have a spouse who is under age 71, you may use this room to contribute to a spousal RRSP in the new year. If not, you could intentionally over-contribute the amount immediately before year-end, incur the 1% over-contribution penalty for December, but then be automatically brought back onside in January when the contribution room is credited.

Assure your pension credit

The pension credit applies to the first $2,000 of eligible pension income (EPI) received in a year.

Under age 65, EPI is generally limited to income from a registered pension plan (RPP). It may also i nclude income from a registered annuity or RRIF that is paid as a result of the death of a spouse or common-law partner.

If you are age 65 or over, EPI includes all RPP, registered annuity and RRIF income, but notably does not include an RRSP withdrawal. If you are holding RRSP funds alone, you will need to convert a sufficient portion to obtain RRIF payments before year-end to qualify for this credit.

Registered plan rollovers on death

RRSPs and RRIFs may be rolled over to certain beneficiaries, most often spouses, without tax applying on the transfer. This applies to amounts paid by December 31 of the year after the death occurred, which means December 31, **2020** for deaths occurring in **2019**. If there has been a delay for any reason, that will need to be resolved by year-end, otherwise payments made after this date may be taxable to either the recipient estate or the named beneficiaries on the RRSP/RRIF contract.

Investors and markets

Capital gain/loss selling

In a non-registered investment account (also known as an open or cash account), the sale of an investment can lead to a capital gain or loss. When a loss is realized, it must first be applied to reduce capital gains in that year, with any excess allowed to be carried back as many as three years, or carried forward indefinitely. If you had realized capital gains in **2017**, then **2020** is the last year you can realize capital losses to carry back against those gains and recover tax by amending that earlier tax return.

Foreign exchange – If foreign securities are involved, carefully consider the implications of foreign exchange before initiating a transaction. If the Canadian dollar has fallen against the foreign currency from the acquisition date to the disposition date, this would reduce the apparent capital loss when viewed in the foreign currency alone, and could possibly result in a capital gain. Consult a tax professional to verify your calculations.

Superficial losses – If you're anxious about being out of the market, keep in mind the "superficial loss" rules, which can apply if you buy the identical security 30 days before or 30 days after a capital loss transaction. The rule extends beyond you to affiliated persons, including a spouse, a corporation you control, and trusts of which you are the main beneficiary (such as your RRSP, RRIF or TFSA). Under the rules, the loss is denied and added back to the adjusted cost base (ACB) of the acquired property. The capital loss could still be realized, but only on the later sale of the repurchased security, assuming all transactions occurred in non-registered accounts.

In-kind transfer caution – The superficial loss rules can be especially harsh if you transfer an investment in-kind from a non-registered account to a registered account. As there is no ACB for investments in such accounts, the capital loss is simply gone. From a tax perspective, it would be preferable to sell the investment and contribute cash to the registered plan, wait the 30 days (understanding the market may move for or against you in that time) and then acquire within the registered plan.

Settlement date T+2

The settlement date for securities trades is when a transaction is completed for tax purposes. For decades up until 2017, settlement was trade date plus 3 days, or T+3. Now it is trade date plus 2 days, or T+2.

This year, a transaction made by **Tuesday, December 29** will settle by **Thursday, December 31**, the last business day of **2020**.

Interest and fee expenses

An investor may claim a tax deduction for investment management fees and for interest on debt used to acquire business or investment assets (though not for RRSPs, RESPs or other non-taxable plans). To qualify, the fees or interest must be paid before year-end.

Mutual funds at year-end

Many mutual funds distribute their annual income to investors as of a record date near calendar year-end, often mid-December. If you purchase late in the year but before the record date, you may be taxed on the full year's distributed income, despite only briefly being a holder in that year.

This is not a problem with registered accounts that grow tax-sheltered, but in a non-registered account you could find yourself with an unwanted tax bill. Though this is accounted for in the investment's adjusted cost base when you have a later disposition, you are out of pocket in the present. Accordingly, it is usually preferable to defer your non-registered mutual fund purchases until after the end of the year.

Getting down to business

Small business rate, affected by corporate passive income

Corporations offer significant tax deferral compared to earning income at top personal tax rates. If the income qualifies for the small business rate, the deferral (until shareholder dividends are paid) is about 36% to 42% depending on province. This allows more to be reinvested in the business, or if not needed for business operations then to be held in corporate passive portfolio investments.

In 2018, the federal government took steps designed to limit corporate portfolio investment, mainly by targeting the small business deduction on the first $500,000 of active business income. As the small business rate is 13% to 19% lower than the general corporate rate (varying by province), a loss of the small business rate seriously cuts into the deferral benefit outlined above. Ontario and New Brunswick have not implemented the change, but the federal difference of 6% could still be lost in those provinces.

Now, for every $1 of passive income over $50,000 earned by the corporation in the preceding tax year, the $500,000 threshold is reduced by $5 until it is entirely lost once passive income hits $150,000.

With the prospect of higher corporate taxes, one of the best deductions is the owner-manager's own salary. A good starting point would be to take a salary of at least **$154,611** in **2020** to maximize the allowable RRSP contribution room of **$27,830** in **2021**. Even larger annual deductions may be available if an individual pension plan (IPP) is established to be used in place of RRSP contributions. The corporation could also re-direct some cash into tax-exempt life insurance, as the income in such policies does not contribute to the loss of room for the small business rate.

Despite being a couple of years old, these changes have ongoing implications for year-to-year income and dividend decisions, holding of passive investments and eventual drawdown of all corporate assets. Business owners should discuss with their legal and tax advisors how this affects their coordinated personal and business financial planning.

Tax-on-split-income (TOSI) and family shareholders

In 2018, the TOSI rules were expanded beyond minor children to apply to spouses and adult children of a principal shareholder of a corporation. Top bracket tax is imposed on certain income distributions, particularly dividends. There are some exceptions based on contributed capital, risk undertaken and degree of involvement in the business.

The exceptions can be very complicated, but there are some relatively simple ones. For example, TOSI will not apply on a dividend to a spouse if the principal shareholder is over the age of 65. With children, TOSI will not apply if a child over age 24 owns shares with at least 10% of the voting rights and value of the corporation, so it would make sense to delay dividends until such a child reaches age 25.

Beyond that, past practices should be revisited with legal and tax advisors to determine appropriate adjustments for the current year, and decide what further steps may be taken to manage future years.

Bonuses before year-end

Employee bonuses from a corporation are deductible in the corporation's tax year when declared, but do not have to be taken into the employee's income until actually paid. That can be as late as 179 days after the corporation's year-end. These arrangements are commonly set up to allow an owner-manager to defer income recognition over a calendar year-end, so close attention must be paid to all dates involved.

Note that the TOSI rules do not apply to reasonable (that is, market rate) employment income paid to family members, including legitimate bonuses.

Estate planning & charitable giving

Donations before year-end

The tax credit for charitable donations is one of the most generous tax benefits available. Initially it is at the lowest tax bracket rate, but then jumps to the highest bracket rate on annual donation amounts over $200. In order to claim the credit, the donation must occur in the calendar year, so make sure that the charity receives your donation before December 31.

Donating securities in-kind

Rather than simply making a cash donation, you might consider giving appreciated marketable securities, such as stocks, bonds or mutual funds. If these securities are donated in-kind to the charity, a special rule allows any as-yet unrealized capital gains to be effectively negated by the donation.

For example, say you have $1,000 cash and $1,000 in a non-registered stock that you purchased for $600. That's a $400 capital gain on the stock, half of which is taxable, which would cost you $100 in tax if you are at a 50% tax rate. That's what you would owe if you donate cash, However, the capital gain is negated if you donate the mutual fund in-kind to the charity, while keep the full $1,000 in your pocket. Either way, you get a donation receipt for $1,000.

You will need to confirm that the charity is willing and able (by its bylaws) to accept securities in-kind, and that it has a brokerage account ready for the purpose. Accordingly, make sure you allow sufficient time before year-end to do your homework on the charity, and to allow the charity to get itself in position to receive your donation in a timely manner.

A good time to review Wills and Powers of Attorney

While not a tax issue, year-end is a good time to think about your estate planning. We tend to see much more of our family during the holiday season, which is a built-in reminder of what estate planning is all about – the people around you, and your relationships with them.

As you review your tax planning, take time as well to consider whether any changes in your property might cause you to revise when or how you intend to share it with those people. Even more importantly, think about the changes you and others have undergone over the last year and what the next year may have in store, then revisit your estate planning to be comfortable that it continues to fit your needs and intentions.

For more information about how these tips and reminders might apply to you, please consult your financial advisor and tax professional.