AccoTax CPA
Professional Corporation

TAX PLANNING GUIDE

It’s no secret that tax can be pervasive and complicated — personal taxes perhaps the most of all. But despite these challenges, Canada’s tax system offers a range of opportunities for you to realize savings. The key is to know where to find them and which are available to you. That’s where we can help.

Of course, it depends on your personal situation — your age, stage in life, province or territory of residence, whether you’re a business owner or an employee, if you have investments, how often you travel for business and many more factors. Achieving your tax-saving goals requires you to step back and ask yourself some important questions. How can I sort through the myriad tax credits to find the ones that are right for my situation? What tax deductions can I make for my kids? What do I need to know before buying a house or making any other major investment? Is an RRSP or a TFSA the better plan for retirement?

Year 2023 has been an incredibly challenging year for most if not all Canadians throughout the country amid rising inflation and high cost of living. The federal and provincial (Ontario) governments have come up with relief programs to provide benefits and aid to combat inflation to individuals and families resident in Canada.

AccoTax CPA Professional Corporation | Chartered Professional Accountant

226.566.3086

Unit 12 - 900 Jamieson Parkway
Cambridge, ON, N3C 4N6

psingh@accotaxcpa.ca
www.accotaxcpa.ca

Difference between Tax deductions and tax credits

Tax deductions are amounts you subtract from your total income, making your taxable income lower. This means you'd be charged taxes on a smaller amount of income. An example would be self-employed business expenses.

Tax credits are amounts that reduce the tax you pay on your taxable income. Some are refundable and some aren't.

- **Non-refundable tax credits**: You can use these to reduce your tax payable to zero, but you can't claim a refund based on these amounts. An example of a non-refundable credit is the charitable donation tax credit.

- **Refundable tax credits**: When the total of these amounts is more than the amount of tax due, or if there is no tax due because the deductions have reduced it to zero, these credits help you get a refund. An example of a refundable tax credit is the (GST/HST) credit which is a refundable sales tax issued outside of your income tax return.'

Here is a summary of most common tax deductions, credits and benefits available to Canadian taxpayers.

REFUNDABLE CREDITS*

GST/HST Credit
Ontario Trillium Benefit
Ontario Political contributions tax credit
Canada Workers Benefit
Home Accessibility Tax Credit

NON-REFUNDABLE CREDITS*

Federal Political contributions
Charitable donations and gifts tax credit
Home Buyers' Amount
Medical Expenses
Canada Caregiver Credit
Disability Tax Credit
Tuition Tax Credit

DEDUCTIONS*

Registered Retirement Savings Plan (RRSP) Deduction
Child Care Expenses
Student Loan Interest
Moving Expenses
Work from home expenses
Self-employment expenses

BENEFITS / REBATES*

Canada Child Benefit
Child Disability Benefit
Climate Action Incentive
GST/HST Residential Rental Property Rebate
GST/HST New Housing Rebate

*Not an exhaustive list, refer to CRA guide for other credits and deductions.

NEW CHANGES TO 2023

First home savings account The FHSA is a new type of registered account intended to help Canadians save for a down payment for their first home. These accounts have a blend of features that will be familiar to individuals who already invest in RRSPs and TFSAs, such as tax deductions for contributions and annual limits on the amount of contributions. Qualifying withdrawals made to purchase a first home are non-taxable. Even though the accounts are designed to appeal to first-time home buyers, you may be able to requalify as a "first-time" buyer if you have not owned a home for several years. If used for the intended purpose, the funds contributed to an FHSA can be free of liability for income tax. Initial contributions attract a tax deduction, meaning they're effectively made out of pre-tax income, and withdrawals can be made tax free. This structure contrasts with RRSPs, which offer a tax deferral opportunity as opposed to a tax-free one, and TFSAs, where contributions are made out of after-tax income

TIPS TO USE FHSA

- Remember that although making an FHSA contribution entitles you to claim a tax deduction, it may be better to use the deduction in a later year if you expect to be paying tax at higher marginal income tax rates in the future. You can carry the deduction forward indefinitely.
- You can gift your spouse or adult child the cash to make a contribution to an FHSA. They will be able to claim a tax deduction in the same year or a future year, and the income earned in the account will not be attributed to you.
- Contributing to an FHSA does not affect your RRSP contribution room. If your ability to make υ tax-deductible RRSP contributions is limited due to a pension adjustment, opening an FHSA may allow you to set aside up to an additional $8,000 per year, to a lifetime maximum of $40,000, and claim a tax deduction for it.
- You can transfer money from your RRSP to an FHSA on a tax-free basis to use up FHSA contribution room. Although you would not receive a tax deduction for the contribution, the contributed amount can later be withdrawn tax free if used for a qualifying home purchase.

226.566.3086
Unit 12 - 900 Jamieson Parkway
Cambridge, ON, N3C 4N6
psingh@accotaxcpa.ca
www.accotaxcpa.ca

FHSA vs RRSP vs TFSA – How to best optimize your savings!

Wondering if a TFSA, RRSP or FHSA may be right for you? Discover how each of these accounts can help you reach your goals—and remember, you don't have to pick just one!

We provide a summary overview to help you understand the basics of each of these three available savings plans. It is important to assess your situation and carefully plan the timing of when to contribute/withdraw money from these plans.

RESIDENTIAL ANTI-FLIPPING RULES

The 2022 federal budget and corresponding legislation introduced a new rule to ensure profits from flipping residential real estate are subject to full taxation. The rule applies to dispositions occurring in 2023 and later years.

The residential property flipping rule generally treats profits arising from the disposition of residential real estate in Canada — including a rental property — that was owned for less than 365 consecutive days, as business income. Flipped property does not include a property that is included in the seller's inventory.

- The profit from selling such property would already be treated as business income under other provisions of the Income Tax Act.
- Similarly, profits arising from the disposition of rights to purchase residential property — also known as assignment sales — are treated as business income if the rights are held for fewer than 365 consecutive days before disposition.
- As a result, neither the 50% capital gains inclusion rate nor the principal residence exemption is available for these dispositions. If these dispositions result in a loss, it is treated as a denied business loss.
- The new rules acknowledge that a property may be bought and sold within a short period of time due to other factors, such as the breakdown of a relationship. Exceptions are provided to the anti-flipping rules for dispositions related to the following events:
    - Death, serious illness or disability of the individual or a related person
    - A related person joins the individual's household, Or the individual joins a related person's household
    - Breakdown of a marriage or common-law partnership

226.566.3086
Unit 12 - 900 Jamieson Parkway
Cambridge, ON, N3C 4N6
psingh@accotaxcpa.ca
www.accotaxcpa.ca

- Threats to personal safety of the individual or a related person
- Certain work-related or education-related relocations
- Involuntary termination of employment of the individual or their spouse or partner
- Insolvency of the individual
- Property destruction or expropriation

Note that even if you hold a residential property in Canada long enough that you would not be subject to the anti-flipping rule, or if one of the above exceptions applies to the rule, older tests based on case law still apply. In other words, if the deeming rule does not apply, it will still be a question of fact as to whether the profits from the disposition are taxed as a capital gain or as business income.

Corporation Owner-manager tax planning

Corporate business owners have great flexibility in making decisions about their remuneration from the company. It's important that decisions about remuneration be made before year end, as well as considered during the business's financial statement and tax return finalization processes. Changing federal and provincial personal and corporate tax rates have made remuneration planning more important than ever; the plan should be re-evaluated each year based on the specific needs of the business owner and be part of a holistic financial plan.

In determining the optimal salary-dividend mix, consider the following:

- in general, if the owner-manager did not need the money, it could be left in the corporation to grow subject to tax at corporate tax rates, which for active income are less than personal tax rates. However, under the passive investment income rules (see above), this strategy is no longer effective with respect to passive income that exceeds $50,000 per year, effective for taxation years beginning after 2018.
- Even if the owner-manager does not need the money, it may make sense to pay sufficient salary or bonus to create enough earned income to maximize their registered retirement savings plan (RRSP) deduction next year.
- Bonuses can be accrued and be deductible by the company in 2023, but don't have to be included in the business owner's personal income until paid in 2024 (provided they are paid within 180 days after the corporation's year end).
- Pay sufficient salary or bonus to eliminate or reduce a personal minimum tax liability.
- Payment of salary or bonus may increase provincial payroll tax.

- If you anticipate that the cumulative net investment loss (CNIL) rules will affect your ability to claim your remaining capital gains exemption, pay yourself dividends rather than salary.
- Paying dividends may occasionally be a tax-efficient way of getting funds out of the company. Capital dividends are completely tax free when received by Canadian-resident individual shareholders, eligible dividends are subject to a preferential tax rate and taxable dividends generate a dividend refund in a corporation with a refundable dividend tax account. A review of the company's tax attributes and relevant personal tax rates in the shareholder's province of residence will identify whether tax-efficient dividends can be paid.
- Dividends do not represent earned income for the purpose of creating RRSP contribution room. Earned income is also required for other personal tax deductions such as child care and moving expenses.
- Return paid-up capital, or pay down shareholder advances, as an alternative to paying taxable dividends or salary.
- Consider employing your spouse or partner and/or your children to take advantage of income-splitting opportunities. Their salaries must be reasonable for the work they perform. Salaries are not subject to the TOSI rules.

Corporate loans

- If you borrow funds from your corporation, either interest free or at a low rate of interest, you may have a taxable benefit for imputed interest on the loan, reduced by any interest payments you make by January 30 of the following year.
- The amount of imputed interest is computed at prescribed rates on the outstanding loan for the period. In 2023, the prescribed rate was 4% in Q1 and 5% in Q2, Q3 and Q4.
- To avoid an income inclusion for the entire amount of the loan, you should repay the loan by the end of the corporation's taxation year following the year the loan was made. If the entire amount of the loan is included in income, the imputed interest benefit does not apply.
- If a shareholder repays a loan that was previously included in income under these rules, the shareholder is entitled to a deduction in the year of repayment to the extent of the amount repaid, provided the repayment is not made as part of a series of loans or other transactions and repayments.

226.566.3086
Unit 12 - 900 Jamieson Parkway
Cambridge, ON, N3C 4N6
psingh@accotaxcpa.ca
www.accotaxcpa.ca

- Housing loans, car loans and funds borrowed to acquire newly issued shares of the company may not be subject to this income inclusion rule if received by virtue of employment.
- Consider holding investment assets personally so that the corporation maintains its small business corporation status. This will help ensure the shares are eligible for your remaining capital gains exemption by potentially reducing your personal CNIL account.
- If you take out a loan for the purpose of earning business or property income, the interest paid and the imputed interest benefit for low- or no-interest loans are deductible for tax purposes.

We at AccoTax CPA Professional Corporation help our small business owner-managers understand and plan their remuneration in the most tax-efficient ways, while they achieve their personal goals and grow their business. From incorporating your new business to providing complete bookkeeping, accounting and tax advisory services, we offer a comprehensive solution for your business and personal tax needs while you focus on growing your business. Contact us today to book an appointment and we'd be happy to help.

226.566.3086
Unit 12 - 900 Jamieson Parkway
Cambridge, ON, N3C 4N6
psingh@accotaxcpa.ca
www.accotaxcpa.ca