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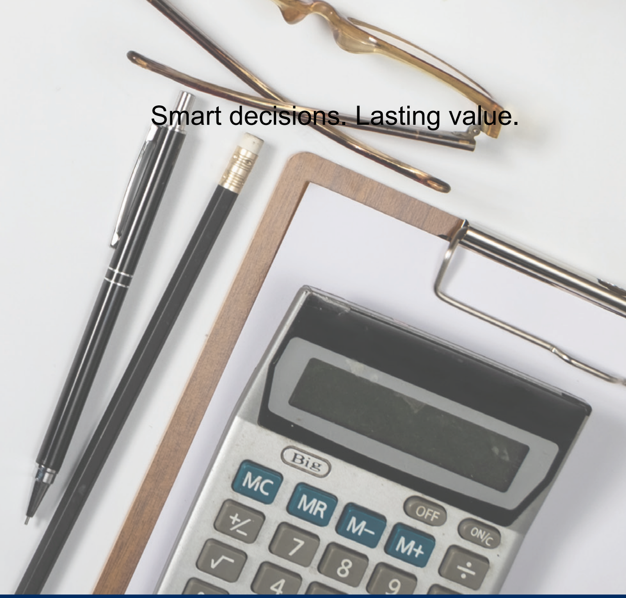

Preparing Your 2021 Taxes

Year-End Tax Planning Issue WINTER 2021

Welcome to our 2021 tax planning issue, full of topics and opportunities that we believe you should consider as we reach the end of the year and look forward to 2022.

A reminder that this publication is not intended to be a summary of the technical provisions of the Income Tax Act. Before you undertake any tax planning strategies it is important to review it thoroughly with your trusted Crowe MacKay tax advisor.

COVID-19 Update

Repayment of CERB Advances from Service Canada

Many Canadians who applied for the Canada Emergency Response Benefit (CERB) through Service Canada before June 14, 2020, received an advance payment of $2,000. Those who applied on or after June 14, 2020, did not receive an advance payment of $2,000.

To reconcile this advance payment, Employment and Social Development Canada (ESDC) applied it against other payment periods in June, July, and August of 2020. However, if recipients of the advance payment were not entitled to or did not collect CERB payments for at least 20 weeks, some or all of the advance payment remains as an outstanding balance owing.

Service Canada will be contacting Canadians who still have an outstanding balance of money owed from the advance payment, outlining their appeal rights and the process for repayment.

Reporting COVID-19 Assistance

Government assistance received in the year such as the Canada Recovery Benefit (CRB), the Canada Recovery Sickness Benefit (CRSB) or the Canada Recovery Caregiving Benefit (CRCB) are taxable and must be reported on your 2021 income tax return. The Government should be issuing T4A tax slips to individuals who received assistance in 2021.

HIGHLIGHTS IN THIS EDITION

Calgary	(403) 294-9292
Edmonton	(780) 420-0626
Kelowna	(250) 763-5021
Sunshine Coast	(604) 697 9271
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Whitehorse	(867) 667-7651
Yellowknife	(867) 920-4404

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Expenses You May Be Entitled to Deduct

Employment Expenses

Employees who are required to use their own automobiles for work (other than for travelling from home to and from their work place) without reimbursement from their employer can deduct the business portion of their automotive expenses. If you are reimbursed and the amount of the reimbursement is not "reasonable," you can still claim a deduction for the non-reimbursed portion. In order to claim employment expenses, your employer will have to provide you with a completed form T2200 Declaration of Conditions of Employment.

In 2020, the Federal Government announced a temporary simplified home office deduction. Eligible employees could deduct a maximum of $400 relating to home office expenses without needing to track the details of the expenses. The Federal Government has announced that it would extend the simplified home office deduction to the 2021 and 2022 tax years, increasing the maximum deduction to $500 annually.

The CRA also indicated that there would be relief in 2020 on amounts that would normally be considered taxable employee benefits. For example, the CRA announced that it will not consider an employer's reimbursement of up to $500 for home office equipment to be a taxable benefit, as long as the employee requires the equipment to perform their employment duties at home. Reimbursements or reasonable allowances received from employers for certain commuting costs, parking, internet and cell phone costs relating to employment purposes would also not be considered taxable benefits. At this time, the CRA has not yet updated its guidance on this relief for 2021.

You may be able to claim additional home office expenses related to your work space and office supplies. Your employer will need to provide you with a completed form T2200 and you must ensure you maintain records of receipts and expenses for any eligible home office expenses incurred. The CRA has not yet updated its guidance on deductibility home office expenses incurred in 2021 due to COVID-19, however, you should keep records in case you are eligible to claim these expenses.

Carrying Charges & Deductible Interest

Borrowed funds must generally be used for the purpose of earning income (e.g. investing) in order for the related interest to be deductible. Maintaining proper documentation of loans and interest payments will help support claims for interest deductions. Deductible carrying charges may include investment counsel fees, bank fees, or similar charges.

Childcare Expenses

Subject to certain limitations, childcare expenses may be deducted from income by the lower income spouse. These expenses include daycare, babysitting, boarding school, and day camps. Note that you will have to provide the Social Insurance Number of any individual you paid for childcare and supporting documentation is frequently requested by the CRA.

Moving Expenses

If you moved during the year to be at least 40 kilometres closer to a new job, to run a business, or to attend a post-secondary educational institute full-time then you may be able to deduct certain moving expenses. The amount you can deduct is limited to the amount you earn at the new location in the year. Unused deductions can be carried forward and deducted against the related income in a subsequent year.

Some examples of allowable moving expenses are:

- Accommodation, meals, and temporary living expenses near your new or old residence
- Cost of changing your address on legal documents
- Cost of replacing your driver's license
- Cost of cancelling the lease for your old residence or expenses for selling your old residence, such as real estate commissions and advertising
- Cost to maintain your old residence when vacant (maximum of $5,000)
- Certain expenses related to purchasing your new residence
- Transportation and storage for household effects
- Travelling from your old residence to your new residence
- Utility hook-ups and disconnections, etc.

Proper documentation of your expenses, including receipts, is critical as the CRA generally requests support for moving expenses.

Continued

Tax Credits You Might Be Eligible to Claim

Charitable Donations

Charitable donations made by you or your spouse during the year should normally be added together and claimed on the income tax return of one spouse. A higher credit is available when total donations exceed $200, so it makes more sense to combine the donations and claim them on one return. If your total donations are less than $200 there is no advantage to claiming them on one return. The key to supporting your claim is to keep the official tax receipts.

If you are donating certain publicly-listed securities, your donation credit is based on the fair market value of those securities. Furthermore, you will not pay tax on capital gains on the donated securities.

Donations can also be carried forward up to five years, so if you find a donation receipt that was not previously claimed, bring it in to review with your Crowe MacKay tax advisor.

Medical Expenses

You may claim a non-refundable tax credit on medical expenses for yourself, your spouse, and dependent children. While either spouse can make the claim, as with charitable donations, medical expenses should usually be added together and claimed on the income tax return of one spouse (usually the lower income spouse) in order to maximize tax savings. You are not restricted to claiming on a calendar year basis as you can claim medical expenses for any 12-month period that ends in the year.

The most commonly missed expenses are dental bills, eye glasses, private medical insurance (including certain travel medical insurance premiums), and certain travel costs such as travel to regional or provincial centres for treatment.

You may also claim certain expenses in respect of an animal specifically trained to perform specific tasks to assist with post-traumatic stress disorder.

Medical cannabis can be claimed as a medical expense. However, individuals can only claim purchases from specific registered sellers. Purchases from other retailers may not be eligible.

Attendant Care & Nursing Home Expenses

For persons who qualify for the disability amount, attendant care expenses may be claimed for:

- Part-time or full-time attendant care in a self-contained domestic establishment (the person's home, for instance)
- Full-time attendant care in a nursing home
- Attendant care in retirement homes, homes for seniors, or other institutions

Attendant care expenses can be claimed as medical expenses to a maximum of $10,000 per year if the disability tax credit is claimed. However, there is no maximum amount if the disability tax credit is not claimed.

When the expenses are for full-time care in a nursing home there is no limit on the total attendant care expense that can be claimed as medical expenses, however, the disability tax credit cannot be claimed. It is recommended you get a detailed fee statement from long term care facilities to ensure appropriate expenses are claimed.

Disability Tax Credit

This credit is available to a person with a severe and prolonged impairment in physical or mental function subject to certain criteria. To qualify, the CRA must approve an application signed by your doctor or nurse practitioner. Areas that may apply include the following:

- Vision/blindness
- Life-sustaining therapy
- Impairment to physical functions such as walking, speech, hearing, feeding
- Impairment to performing the mental functions necessary for everyday life

The 2021 Federal Budget proposed broader eligibility requirements which should make the credit more accessible to those with an impairment to performing the mental functions necessary for everyday life. The Budget also proposed a reduction in the eligibility requirements for individuals undergoing life-sustaining therapies, reducing the frequency of therapy to two times each week; however, an individual must still receive therapy for a duration averaging not less than 14 hours a week. The changes apply to DTC certificates filed on or after July 6, 2021.

The disability tax credit can be claimed retroactively for up to 10 years. A T1 adjustment can be filed to claim the credit for any tax years that have lapsed since the time that impairment began, as certified by your doctor.

Once a person with a disability has applied for and is deemed eligible for the disability tax credit, they may also be eligible to participate in a Registered Disability Savings Plan, which will be discussed later in this newsletter.

Other credits may be available to those supporting certain family members who are dependent on them due to a physical or mental infirmity:

- Amount for infirm dependents age 18 or older
- Attendant care and nursing home expenses
- Canada Caregiver amount

Continued

Home Accessibility Tax Credit

The Home Accessibility tax credit is available for seniors (age 65 and older) and individuals who qualify for the disability tax credit. This credit allows these individuals to claim a 15% non-refundable tax credit on up to $10,000 of expenses incurred to perform a “qualifying renovation” on their home. The renovation must allow the individual to gain access to, be mobile or function within the home, or reduce the risk of harm to the individual within or gaining access to the home. Such expenses may also be eligible for the medical expense tax credit, providing a double tax benefit from claiming these expenses.

Teacher & Early Childhood Educator School Supply Tax Credit

The Teacher and Early Childhood Educator School Supply tax credit is a refundable tax credit. Traditionally this credit allowed an employee who is a teacher or early childhood educator to claim a 15% refundable tax credit on up to $1,000 of purchases of eligible teaching supplies during the year; it has been proposed by the Federal Government to increase this tax rate to 25% effective for the 2021 tax year. Refer to the "Major Changes in 2022" section in the newsletter for more details.

Student Loan Interest

Interest paid on student loans obtained under the Canada Student Loans Act, the Canada Student Financial Assistance Act, or similar provincial or territorial government legislation for post-secondary education can be claimed as a tax credit. If you do not use the credit for the year in which the interest is paid, the unused amount can be carried-forward for up to five years.

Digital News Subscription Tax Credit

For the years 2020 to 2024, individuals can claim a 15% non-refundable tax credit on amounts up to $500 spent on a digital news subscription with a qualified Canadian journalism organisation. Note that only the cost of a standalone digital subscription will be eligible. If your subscription provides you with access to content in digital and non-digital form, then only one-half of the amount paid will be eligible for the credit.

Home Buyers' Amount

If you are a first time home buyer, you may be eligible to claim a 15% non-refundable tax credit on $5,000. Generally speaking, you may be considered a first time home buyer if neither you nor your spouse or common-law partner owned and lived in another home anywhere in Canada in the calendar year of the purchase or in any of the four preceding calendar years.

Canada Training Tax Credit

This refundable tax credit aims to help workers between the ages of 25 and 64 and encourages them to pursue professional development. Individuals can accumulate $250 of credit room per year, up to a lifetime maximum of $5,000. The amount that an individual can claim as a credit in a particular tax year is equal to the lesser of 50% of eligible tuition and fees paid in a year and the accumulated room at the beginning of the year.

What to Do Next?

Filing On Time

The normal deadline for filing an income tax return for the previous year is April 30. This filing deadline is extended to June 15 if you or your spouse are self-employed. However, income taxes payable are still due on April 30. Similarly, the information return for “Specified Foreign Property” having an aggregate cost over $100,000 CAD at any time during the year (Form T1135) must be filed by the individual’s filing deadline.

Taxpayers who do not file their income tax returns on time face significant late-filing penalties: 5% of the balance due plus 1% per month to a maximum of 12 months for the first offence, plus applicable interest on the penalty. The penalty can more than double where the taxpayer fails to file on time for a second time in three years and if a formal demand for filing has been issued by the Minister.

Interest and penalties are not tax deductible and add up quickly at the rates charged by the CRA. Even if you cannot pay the amount of taxes due, ensure that you file on time.

Penalties for Failing to Report Income

If you have income from several sources, make sure that you do not miss reporting any of it. By failing to report income on your return in the current year and in any of the three preceding years, you could be subject to federal and provincial/territorial penalties based on 10% of the unreported income in addition to paying the understated tax liability on the unreported income. Interest applies on the unpaid amounts. We recommend that you ensure that you have information on all of your income when having your return prepared.

Disclosing the Sale of a Principal Residence

Many Canadians are aware of the fact that they will likely not pay tax on the sale of their home as a result of the principal residence exemption. However, what some taxpayers are not aware of is that this does not relieve them of the requirement to disclose the sale to the CRA. If you sold your home during the year, you must file your personal tax return, completing Schedule 3 and Form T2091(IND). Failure to do so will result in penalties.

Tax Instalments

Failure to pay quarterly income tax instalments when required may result in interest charges. It is possible to make catch-up payments and reduce or offset the interest charges. Contact your Crowe MacKay tax advisor if you are unsure if you are required to make tax instalments.

Continued

Importance of Filing

Even if you do not have income to report, failing to file your return can put you at a financial disadvantage. Several benefits and social programs are available to individuals based on the income (or lack thereof) reported in their filed tax return. For instance, the Canada Child Benefit is a tax-free monthly payment from the Government to assist eligible low income families with the costs of raising children. In order to be considered for the benefit, you and your spouse must file your return every year. Guaranteed Income Supplement (GIS), GST/HST credit, and the Canada Workers Benefit are other benefits that are assessed and paid based on personal income tax filings.

How to Impact Your 2021 Tax Bill

Accounting & Legal Fees

Certain accounting or legal fees such as the cost of representation on tax disputes are deductible in the year paid. If you have these costs be sure to pay them before the end of the year.

Charitable or Political Donations

If you are planning to give money to a charity or political party, make sure the gift is made before December 31, 2021, to ensure you can claim the tax credit on your 2021 return.

Home Office

If you are an individual using a home office as your principal place of business (more than 50%), or exclusively for earning business income and meeting clients or customers on a regular and continuous basis, then you may be able to deduct home expenses related to the office space. Such expenses include the business portion of rent, mortgage interest, property taxes, utilities, insurance, repairs, and telecommunications. The home office expenses you can deduct depend on whether you are an employee, a commissioned employee, or self-employed.

Equipment Purchases

If you have equipment you are planning to purchase for your business early next year, consider purchasing it before December 31, 2021, or before your corporate year-end as applicable. The tax depreciation only starts when the equipment is available for use in your business. Similarly, if you are going to sell equipment, consider doing so early in 2022 rather than in 2021. Tax depreciation can only be deducted on equipment that is owned as at December 31, 2021.

Family Trust

Ensure that any desired distributions to or from a family trust are made by December 31, 2021. If distributions are planned, ensure appropriate dividends are paid through the trust by year-end. Payments by cheques deposited and distributed before the end of the year are required, unless detailed steps are completed.

New tax reporting requirements are coming for trusts that have taxation years ending on December 31, 2021. See the What's New for 2021 section for further details on these requirements. The "tax on split income" rules introduced in 2018 remain in effect and may significantly impact certain tax benefits associated with using family trusts for income-splitting purposes. Please contact your Crowe MacKay tax advisor for more details on how these new rules may affect you and to identify opportunities that may be available to plan around the new rules.

Investments

If you have realized capital gains in the current year, consider selling investments with unrealized capital losses before year end. This strategy could reduce your tax bill as capital losses can be offset against capital gains. The key is to trigger these losses in 2021 so the last settlement day for 2021 must be considered. Where a loss has been triggered, you or an affiliated party cannot acquire the same or an identical investment within 30 days before or after the sale or the loss will be disallowed.

We recommend that you consult your Crowe MacKay tax advisor and your investment advisor prior to undertaking this strategy.

Shareholder Loans

If you have a shareholder loan from your company that has been outstanding since the December 31, 2020 year end (i.e. it is at risk of showing up as a receivable on two consecutive balance sheets), ensure it is repaid by December 31, 2021, or it may result in a deemed taxable benefit to the shareholder. Consult your Crowe MacKay tax advisor to determine if the amount must be repaid and to discuss repayment methods such as dividends or net wage compensation.

Family Income Splitting Loans

If you have a spousal or family income splitting loan ensure the interest is paid by January 30, 2022, by a "documented" method such as a deposited cheque. These loans with interest at the prescribed rate (currently 1%) are typically used for income-splitting where families have large investment pools (generally over $1M).

Transfer of Dividend Income from Taxable Canadian Corporations to a Spouse

If you are entitled to a spousal tax credit for your spouse or common-law partner, you may be able to include all of your spouse's dividends from a taxable Canadian corporation in your income if doing so will allow you to claim or increase the claim for the spousal tax credit. The election should only be made if it results in lower overall taxes. It might not always be beneficial to transfer this income between you and your spouse. Please contact your Crowe MacKay advisor to discuss this in further detail.

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Old Age Security (OAS) Claw Back

If you are collecting OAS and your net income in 2021 is over $79,845, you are required to repay some or all of your OAS benefits. This "claw back" is the lesser of your OAS benefits received in the year and 15% of your net income that is over $79,845. The OAS claw back is calculated solely on your net income and is not affected by your spouse's income. *Note: if your net income is $129,757 or greater in 2021 you will be required to repay all of your OAS benefits.*

If you are eligible to receive OAS but are subject to a full claw back you may consider deferring receiving OAS until a year in which the claw back is reduced or eliminated. Deferring the receipt of OAS will increase your OAS entitlement when you begin to collect it and it will increase your maximum annual net income to receive OAS. Contact your Crowe MacKay tax advisor if you have any questions about OAS.

Pension Income-Splitting

If you are earning eligible pension income you may be able to split up to 50% of this income with your spouse or common-law partner. Eligible pension income excludes Canada Pension Plan, Old Age Security, and certain foreign pension income. This pension income-splitting may be done by filing a joint election with your income tax return and can result in significant tax savings if your spouse or common-law partner is in a lower tax bracket. Your spouse or common-law partner may also be able to claim the pension income amount tax credit on the income that he/she is deemed to have received (see below).

Pension Sharing

If you are collecting Canada Pension Plan, you may be eligible to pension share this income with your spouse. If a taxpayer's spouse is in a lower marginal tax bracket, this may be an effective means of income splitting and reducing the couple's overall tax bill. Individuals must apply through Services Canada by completing form ISP1002.

Pension Tax Credit

A $2,000 pension tax credit is available if you earn eligible pension income, which typically includes income from a registered pension plan, income from a registered retirement income fund (RRIF), and annuity payments from an RRSP. If you are eligible to receive pension income and are not currently doing so, you may consider converting a portion of your RRSP to a RRIF in order to receive eligible pension income on which the pension tax credit can be claimed. Please contact your Crowe MacKay advisor to discuss the age restrictions that apply to your circumstances.

Registered Retirement Savings Plan (RRSP)

Regular and spousal contributions for the 2021 taxation year may be made up to March 1, 2022. Similarly, if you must repay a portion of your Home Buyers' Plan or your Lifelong Learning Plan, payments must be made by that same date.

Overall tax savings are most significant for individuals who are currently in a high tax bracket but will be in a lower bracket when the RRSP money is withdrawn.

There may be an opportunity to income-split with your spouse if you contribute to a spousal RRSP, and they make a withdrawal from that spousal RRSP in a subsequent year. Be careful of attribution rules that will apply if the funds are withdrawn within three years of your last contribution to a spousal RRSP. If you turn 71 and can no longer contribute to your own RRSP, you can still make contributions to a spousal RRSP until the end of the year in which your spouse turns 71.

The Home Buyers' Plan and Lifelong Learning Plan are also useful RRSP tools as they allow you to withdraw funds from your RRSP on a tax deferred basis to help fund a home purchase, full-time training, or education. Please be aware if the required repayments under these plans are not made by the RRSP deadline, then the amounts will be included in your income for the 2021 tax year.

We suggest that you contact your Crowe MacKay tax advisor if you have any questions about RRSPs.

The RRSP contribution limit is $27,830 for 2021 and $29,210 for 2022.

Registered Education Savings Plan (RESP)

Make contributions to a RESP before December 31 to qualify for any 2021 grants you may be eligible for. As in years past, beneficiaries under the age of 18 qualify for the Canada Education Savings Grant which is equal to 20% of annual contributions made for a beneficiary, subject to a $500 annual cap and a $7,200 lifetime maximum. Additional grants are possible where there is unused grant room from a previous year and for families with lower net income.

Tax on Split Income (TOSI)

The rules introduced by the Government in 2018 with respect to income splitting between family members remain in effect in 2021. In general terms, the TOSI rules will apply where an individual has received income from a private corporation that carries on a business in which a related individual is active, but has not worked in or contributed much to the business. We suggest that you contact your Crowe MacKay tax advisor if you have any questions regarding the application of TOSI rules to your particular situation and to identify opportunities that may be available to plan around the new rules.

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Registered Disability Savings Plan (RDSP)

The RDSP is a registered long-term savings plan specific to people with disabilities who are eligible for the disability tax credit. Contributions may be made by the beneficiary, a family member, or by any other authorized contributor. There is no annual limit on contributions; however, there is a lifetime contribution limit of $200,000.

Although contributions to the plan are not tax-deductible, income earned inside the plan is not taxed until it is withdrawn by the beneficiary. Contributions can be made until the end of the year in which the beneficiary turns 59 and payments from the RDSP must begin by the end of the year in which the beneficiary turns 60.

There are currently two income-based programs in place to enhance the funds that are contributed to the RDSP. The Canada Disability Savings Grant Program, and the Canada Disability Savings Bond Program.

The rules related to RDSPs can be complex and we recommend you speak with your Crowe MacKay tax advisor if you believe this program may be right for you or a family member.

Taxable Benefits

Auto Benefit

If you drive an automobile that is owned or leased by your employer, you may be subject to a taxable benefit for your personal use of the automobile. You may reduce this taxable benefit by reimbursing your employer for the amount paid for your personal use of the automobile. The deadline for the reimbursement is February 14, 2022.

Interest Benefit

If your employer provided you with an interest-free loan or a loan at an interest rate that is lower than CRA's prescribed rate (excluding a home relocation loan), you may be subject to a taxable benefit. You may reduce this taxable benefit by paying the interest to your employer at the prescribed interest rate (currently 1%). The deadline for this interest payment is January 30, 2022.

Tax-Free Savings Account (TFSA)

Canadian residents age 18 and over are eligible to open a TFSA. Income earned in a TFSA is not taxable as it is earned nor is it taxable when withdrawn from the account. Contributions to a TFSA are not tax deductible.

For 2021, the maximum contribution is $6,000 plus any outstanding contribution room carried forward. The cumulative contribution room granted to Canadians since the start of the TFSA program is $75,500 to December 31, 2021. Please contact the CRA, check your online CRA My Account and/or contact your investment advisor for the maximum contribution you may make for 2021.

If you are considering a withdrawal in the foreseeable future, it is preferable to withdraw these funds in 2021 rather than early 2022. Withdrawals are added back to the taxpayer's contribution limit at the beginning of the calendar year after the year of withdrawal.

Moving Provinces or Territories

Generally speaking, Canadian individuals pay provincial or territorial taxes based on their province or territory of residence as of December 31. If an individual is moving provinces or territories towards the end of the year, it is worth trying to time the move before year-end if it is a move to a province or territory with lower tax rates, and after year-end if it is a move to a province or territory with higher tax rates.

Ties to the U.S.? Know Your Filing Obligations

U.S. Citizens Living in Canada

If you are a U.S. Citizen living in Canada, you still have U.S. tax filing obligations. If you are delinquent in your U.S. filings, the IRS does have a streamlined process in place to allow you to get caught up without penalties. However, it is unclear how much longer the IRS will keep this process open, so if you have been holding off, now is the time to get caught up.

Being a U.S. citizen can also present problems if you hold investments in Canada such as RESPs, RDSPs, TFSAs, and mutual funds or if you are the shareholder of a Canadian corporation.

If you are or ever have been a U.S. Citizen, we suggest you contact your Crowe MacKay tax advisor to determine your filing requirements.

Snowbirds

If you own property in the United States, or are spending significant amounts of time down there, make sure you let your Crowe MacKay tax advisors know. You can run into tax issues on both sides of the border, so it is important to know and understand the rules and how they may affect you. Both Canada and the U.S. can now track the number of days you are spending in each country, so being aware of your compliance requirements is more important than ever.

Continued

What's New For 2021?

Trust Reporting Requirements

There are new reporting requirements for trusts requiring most trusts to file a T3 return, regardless of income or activity levels (with some exceptions, see below). The new reporting requirements will apply to trusts with taxation years that end on or after December 31, 2021, and will require disclosure of information about the settlor, trustees, and beneficiaries (including contingent beneficiaries), such as name, address, date of birth, jurisdiction of residence, and taxpayer identification number (e.g., SIN).

Certain trusts are excluded from these new rules including:

- Trusts that have been in existence for less than three months
- Trusts that hold assets with a maximum of $50,000 in fair market value throughout the year (these assets are limited to deposits, government debt obligations, and listed securities)
- Graduated rate estates
- Qualified disability trusts

There are significant penalties for non-compliance so you should start gathering the required information if these rules apply to you.

Capital Gains Exemption

For 2021, the capital gains exemption for qualified small business corporation shares has risen from $883,384 to $892,218. This exemption will be indexed for inflation in subsequent years. The capital gains exemption for qualified farm or fishing property remains at $1,000,000.

Northern Residents Deductions

The 2021 Federal Budget proposed to expand the travel component of the Northern Residents Deductions for the 2021 and subsequent taxation years. An eligible individual will be able to claim, for each member of the household, a deduction up to the travel benefit provided by their employer. Alternatively, a $1,200 ($600 for Intermediate Zone) standard amount may be allocated across eligible trips taken by the individual. The Budget proposed a maximum of two trips taken by the individual for non-medical purposes would be allowed to be claimed in total, and any number of trips for medical purposes in a household.

Employee Stock Options

The Government recently clarified the proposed changes to limit the benefit of the employee stock option deduction. These rules are effective for stock options granted after June 30 , 2021. An employee is subject to a taxable benefit if they acquire shares of their employer under a stock option agreement and the fair market value of the shares at the time of excise exceeds the amount paid by the employee to acquire the shares. A stock option deduction equal to 50% of the taxable benefit is available to employees if certain conditions are met. Under the new rules, a $200,000 annual limit is proposed on the amount of employee stock option grants that can qualify for the 50% stock option deduction. This restriction will apply to stock options in non-CCPCs and mutual fund trusts.

Employee stock options in CCPCs would generally not be subject to this $200,000 limit. Also, non-CCPC employers with annual gross revenues of $500M or less should also not be subject to these measures. Individuals employed by non-CCPCs should keep in mind the limited tax benefit of stock options over the $200,000 annual limit when negotiating their compensation packages.

Major Changes Coming In 2022

Luxury Goods Tax

The 2021 Federal Budget proposed a tax on certain new luxury cars, aircrafts, and boats. It is expected to come into force as of January 1, 2022. The new tax will apply on the following purchases:

- The lessor of 20% of the price above $100,000 or 10% of the full price for luxury cars and aircrafts.
- The lessor of 20% of the price above $250,000 or 10% of the full price for boats.

GST/HST will still apply to applicable purchases and is applied to the final sale price, inclusive of the luxury tax. Therefore, GST/HST is being levied on the tax that is levied on the purchase cost.

Property Vacancy Tax for Non-Residents/Non-Canadians

As announced in the 2021 Federal Budget, starting in 2022, real estate that is vacant or underutilized will have a new national tax of 1% levied on the assessed value annually.

Under the proposed rules, an owner would be exempt from the tax if the residence in question is the primary place of residence of:

- the owner;
- the owner's spouse or common-law partner; or
- a child of the owner or of the owner's spouse or common-law partner, but only if the child is in Canada for the purposes of authorized study and the occupancy relates to that purpose.

Additional exemptions being proposed for vacation/recreational properties would apply to properties:

- Located in an area of Canada that is not an urban area within either a census metropolitan area or a census agglomeration having 30,000 or more residents.
- Personally used by the owner (or the owner's spouse or common-law partner) for at least four weeks in the calendar year.

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An owner eligible for either of the above exemptions would claim the exemption in the annual return that they would be required to file with the CRA in respect of the residential property.

The Underused Housing Tax would be effective for the 2022 calendar year with the first filing required on or before April 30, 2023.

Teacher & Early Childhood Educator School Supply Tax Credit

In the Federal Government's 2021 Fall Economic Statement, they propose increasing the Educator School Supply tax credit to 25%. In addition to the tax credit increase they have also broadened the definition of eligible supplies, removing the requirement that teaching supplies must be used in a school or regulated child care facility. This measure would also expand the list of eligible durable goods to include certain electronic devices. The following items would be added to the list of prescribed durable goods:

- calculators (including graphing calculators)
- external data storage devices
- web cams, microphones, and headphones
- wireless pointer devices
- electronic educational toys
- digital timers
- speakers
- video streaming devices
- multimedia projectors
- printers
- laptop, desktop, and tablet computers (provided that none of these items are made available to the eligible educator by their employer for use outside of the classroom)

Educators would be required to provide a certificate from their employer attesting to the purchase of supplies.

This measure would apply to the 2021 and subsequent tax years.

Small Businesses Air Quality Improvement Tax Credit

The Government proposes to introduce a temporary Small Businesses Air Quality Improvement Tax Credit to encourage small businesses to invest in upgrading ventilation and air filtration systems to improve indoor air quality. The refundable tax credit would apply to eligible entities' incurred expenditures dedicated to improving air quality in qualifying locations between September 1, 2021, and December 31, 2022. The tax credit rate will be 25%.

An eligible entity would receive a maximum credit of $10,000 per qualifying location and a maximum of $50,000 across all qualifying locations. The limits on qualifying expenditures would need to be shared among affiliated businesses. Credit amounts would be included in the taxable income of the business in the taxation year the credit is claimed.

The tax credit is available to Canadian-controlled private corporations and individuals (but not trusts), and members of a partnership that are qualifying corporations or individuals (other than trusts). Specific eligibility requirements will apply to each of these groups.

Qualifying expenditures would include expenses directly attributable to the purchase, installation, upgrade, or conversion of mechanical heating, ventilation, and air conditioning (HVAC) systems, as well as the purchase of devices designed to filter air using high efficiency particulate air (HEPA) filters.

The taxation year for which an eligible entity would claim the tax credit would depend on when the qualifying expenditure was incurred.

- Qualifying expenditures incurred before January 1, 2022, would be claimed by an eligible entity for its first taxation year that ends on or after January 1, 2022.
- Qualifying expenditures incurred on or after January 1, 2022, would be claimed by an eligible entity for the taxation year in which the expenditure was incurred.

Fuel Charge Tax Credit for Farmers

The Government has proposed to return fuel charge proceeds directly to farming businesses in backstop jurisdictions (i.e. those who do not meet federal stringency requirements – Ontario, Manitoba, Saskatchewan, and Alberta) through a refundable tax credit, starting for the 2021-22 fuel charge year.

The return of fuel charge proceeds would be available to corporations, individuals, and trusts that:

- are actively engaged in either the management or day-to-day activities of earning income from farming (i.e., the raising of animals and harvesting of plants in a controlled environment); and
- incur total farming expenses of $25,000 or more attributable to backstop jurisdictions.

Businesses operating in a partnership are also eligible for this tax credit.

The credit amount would be equal to the eligible farming expenses attributable to backstop jurisdictions in the calendar year in which the fuel year starts, multiplied by a payment rate for the fuel charge year. The payment rate is per $1,000 in eligible expenses and has been set by the Minister of Finance; they are as follows:

- $1.47 in 2021
- $1.73 in 2022

Credit amounts would be included in the taxable income of the business in the taxation year the credit is claimed. Businesses can claim these refundable tax credits through their tax returns that include the 2021 and 2022 calendar years.

Digital Service Tax

It should be noted that the Federal Government is still planning on moving forward with the implementation of a Digital Service Tax (DST) if an international agreement is not approved by January 1, 2024. If an agreement is not in effect, the DST would be payable as of 2024 in respect of revenues earned as of January 1, 2022.

Important 2021 Tax Year Dates

Deadline	To Do List
December 15, 2021	• Final personal tax instalment for 2021 if you are required to pay instalments
December 31, 2021	• Charitable gifts • Political contributions • Certain spousal and child support payments • Deductible legal fees • Interest on student loans • Investment counsel fees, interest, and other investment expenses • Medical expenses • Childcare expenses • Moving expenses • Union and professional membership dues • RRSP contributions if you turned 71 in the year
January 30, 2022	• Pay interest on a low interest or non-interest bearing loan from your employer to reduce your taxable benefit • Pay interest on intra-family loans
February 14, 2022	• Reimbursement of automobile expenses to your employer to reduce your taxable benefit if you use an employer-provided automobile
March 1, 2022	• Contribution to your own RRSP or spousal RRSP for the 2020 tax year • Repayments under a Home Buyer's Plan or a Lifelong Learning Plan for the 2021 tax year
March 15, 2022	• U.S. filing deadline for 3520-A Annual Information Return of Foreign Trust with a U.S. Owner
April 18, 2022	• U.S. filing deadline for U.S. citizens
April 30, 2022	• Personal income tax filing deadline for individuals who do not earn self-employment income • Tax balance due date for all individuals
June 15, 2022	• Personal income tax filing deadline for individuals who earn self-employment income • U.S. filing deadline for US citizens living outside of the U.S. • U.S. filing deadline for 8840 "Closer Connection Exception Statement for Aliens"
September 15, 2022	• U.S. filings deadline for 3520-A Annual Information Return of Foreign Trust with a U.S. Owner if extension filed
October 17, 2022	• Final U.S. filing deadline if extension filed • U.S. FBAR filing deadline