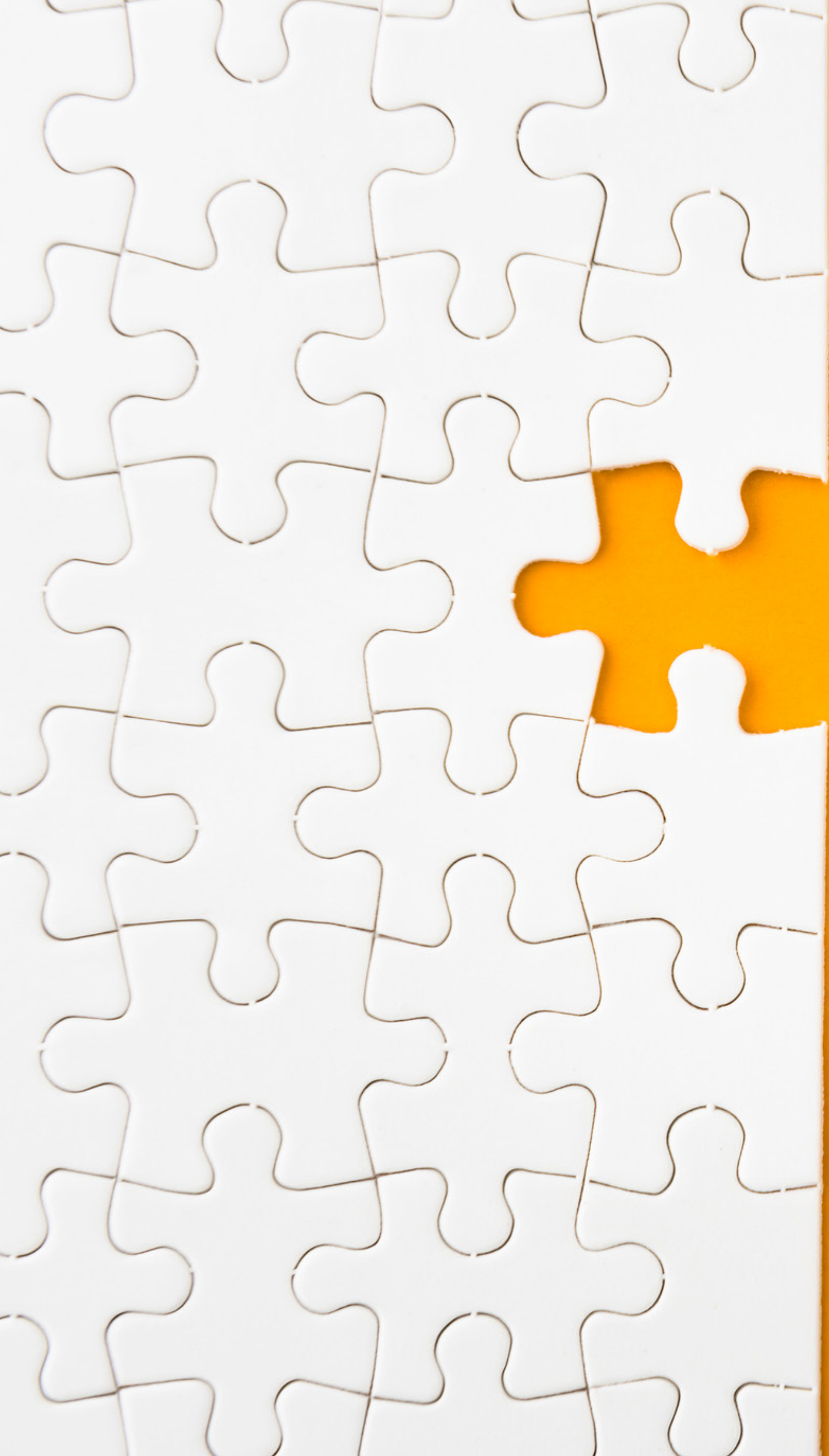

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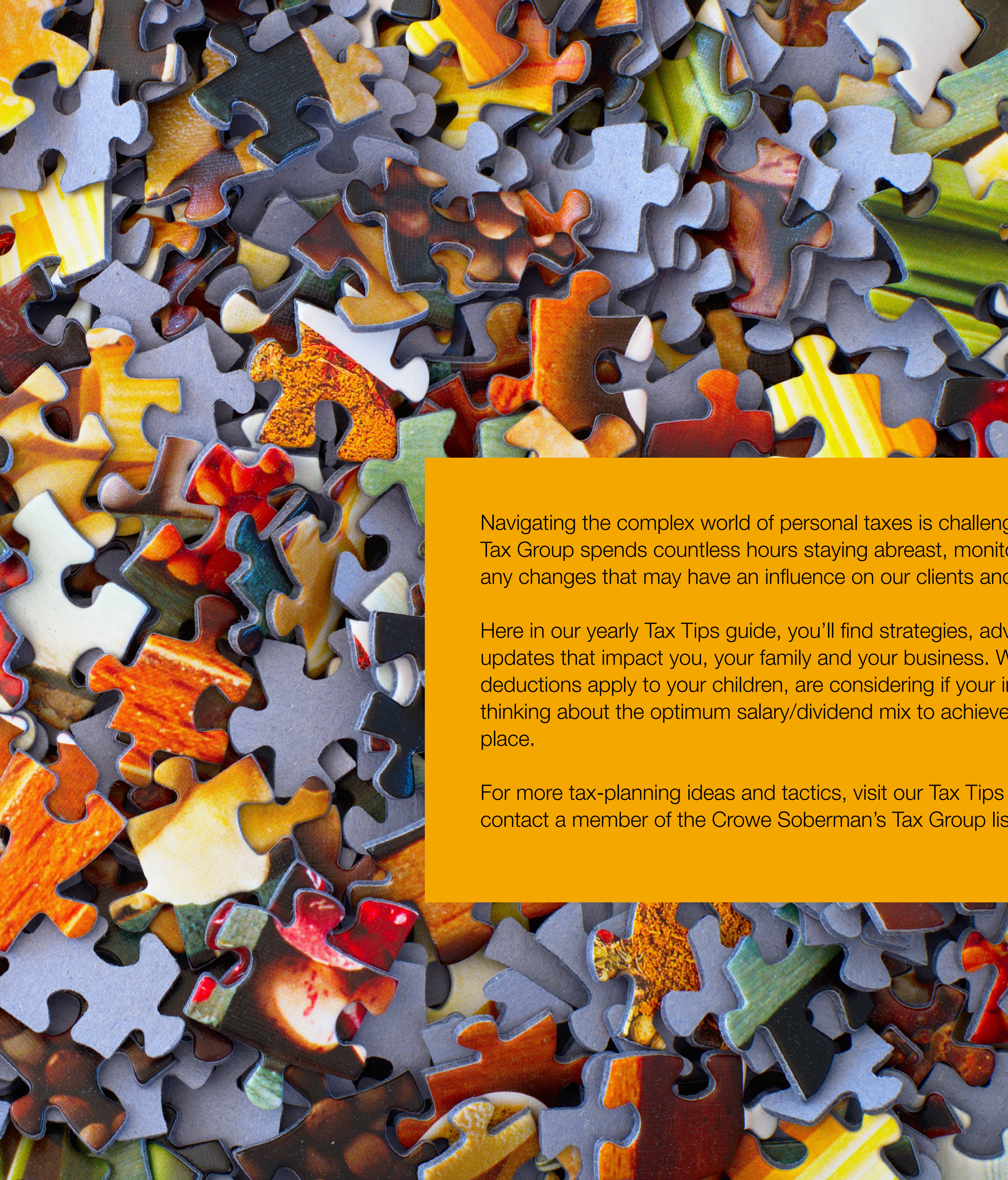
TAX TIPS 2019

Strategies To Get The Most Out Of Your Tax Return

Audit / Tax / Advisory

Smart Decisions. Lasting Value.



Foreword

Real life doesn't stop for tax season.

Navigating the complex world of personal taxes is challenging. We get it. Crowe Soberman's Tax Group spends countless hours staying abreast, monitoring the issues and strategizing for any changes that may have an influence on our clients and their businesses.

Here in our yearly Tax Tips guide, you'll find strategies, advice and direction on important tax updates that impact you, your family and your business. Whether you're wondering which tax deductions apply to your children, are considering if your investment income is tax efficient, or thinking about the optimum salary/dividend mix to achieve less overall tax - you are in the right place.

For more tax-planning ideas and tactics, visit our Tax Tips Hub at crowesoberman.com or contact a member of the Crowe Soberman's Tax Group listed at the **end of this guide.**

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Chapter 1: Investors

Investment Income

1. Tax rates are significantly more favourable for dividend income than interest income. The top personal tax rates in Ontario for 2019 are as follows:

2019

Income	For taxable income over $147,667 to $150,000	For taxable income over $150,000 to $210,371	For taxable income over $210,371 to $220,000	For taxable income over $220,000
Eligible dividends (generally, dividends received from public corporations)	29.52%	31.67%	37.19%	39.34%
Non-eligible dividends (generally, dividends received from small business corporations)	39.21%	41.00%	45.60%	47.40%
Interest income	46.41%	47.97%	51.97%	53.53%
Capital gains	23.20%	23.98%	25.98%	26.76%

The top personal tax rates are not expected to change for 2020.

You may want to re-evaluate your investment strategy by comparing the pre-tax dividend rates with the pre-tax interest rates using the chart provided in the **Investment Income - A Closer Look** section at the end of this chapter.

2. You can defer tax on interest to the following year by investing funds for a one-year term ending in the next calendar year.

3. You can also defer purchases of mutual funds until early in the next calendar year to minimize taxable income allocated in the current year from the mutual fund.

4. Existing companies that have built up refundable dividend tax on hand (RDTOH) may consider paying dividends to recover this tax. Depending on its year-end, the company may have up to 24 months to enjoy the benefits of the tax refund before the shareholder is required to pay personal tax on the dividend. The individual circumstances should be reviewed, including the marginal tax rate applicable to the recipient shareholder as compared to the dividend refund rate in the corporation (38 1/3 %).

Capital Gains and Losses

5. If you own qualified small business corporation (QSBC) shares or qualified farm and fishing property, you may benefit from the lifetime capital gains exemption of $866,912 on the gain realized on the sale of these types of assets. The exemption is indexed to inflation annually.

   The Government has maintained the exemption of $1,000,000 for qualified farm and fishing property. The exemption is available on dispositions made on or after April 21, 2015.

6. Consider realizing accrued losses on investments to shelter capital gains realized this year and/or in the previous three years.

   Note that a loss realized from the disposition of an investment may be denied if you repurchase the investment within a short period of time.

7. If you have significant trading activity, the disposition of your securities may be considered a business for income tax purposes.
   If your disposition of securities is considered a business, your profits will be fully taxable as income (instead of being considered capital gains taxable at 50%), and your losses will be fully deductible against any source of income.

   If you are concerned about the disposition of your securities being considered a business, you can consider filing a one-time, nonrevocable election with the Canada Revenue Agency (CRA).

This election will treat all your gains from dispositions of Canadian securities as capital gains (and all your losses as capital losses) for the current year and all future years.

Tax-Free Savings Account (TFSA)

8. Canadian residents 18 years of age and older can each contribute up to $5,500 annually, plus any unused contribution room from previous years, to a tax-free savings account. Going forward, the contribution limit will be indexed to inflation and rounded to the nearest $500. The annual limit for 2020 is $6,000.

   For someone who has never contributed and has been eligible for the TFSA since its introduction in 2009 has contribution room of $63,500 available.

   Contributions to a TFSA are not deductible for income tax purposes.

   Interest on money borrowed to invest in a TFSA is not tax deductible.

   Contributions to and income earned in a TFSA are tax-free. Withdrawals from a TFSA are also tax-free.

   You can give money to your spouse for a TFSA contribution, and the income earned on the contributions in your spouse's TFSA will not be attributed back to you.
   You cannot contribute more than your TFSA contribution room in a given year, even if you make withdrawals from the account during the year. If you do so, you may be subject to a penalty tax for each month that you are in an excess contribution position.

Charitable Donations

9. Consider donating publicly-traded securities instead of cash.

   A tax-advantaged gift of securities can be made to a private foundation as well as to public charities. Any appreciation in the value of the securities will not be subject to capital gains tax if the securities are donated to:

   - A registered charity; or
   - A private foundation after March 18, 2007. There are special rules that apply to persons not dealing at arm's length with the foundation. For more information, please contact us.

   The donation credit (for individuals) or deduction (for corporations) continues to be available for the fair market value of the securities donated.

   To avoid capital gains tax on the appreciated securities, the actual securities must be transferred to the charity or foundation.

   Similar rules will apply to a capital gain on ecologically-sensitive land donated to a conservation charity. Due to 2011 changes in the tax rules, the donation of flow-through securities may trigger a capital gain to the donor.

Investment Income - A Closer Look

It may be a smart time for you to consider whether your investment income is tax efficient and consider investment alternatives.

The table below has been prepared to assist you in this matter. It assumes that your investment goal is to earn an after-tax rate of return of 5%.

The pre-tax rate of return required to achieve a 5% after-tax rate of return is approximately:

If your total taxable income is:	If you receive interest income	If you receive eligible dividends	If you receive non-eligible dividends
Between \$1,000 and \$46,605	5% - 6.6%	5%	5% - 5.8%
Above \$46,605 but below \$93,208	7.1% - 8.1%	5.3% - 6.1%	6.2% - 7.1%
Above \$93,208 but below \$144,489	8.8%	6.7%	7.8%
Above \$144,489 but below \$150,000	9.3%	7.1%	8.2%
Above \$150,000 but below \$220,000	9.6%	8%	8.5%
Above \$220,000	10.8%	8.2%	9.5%

It compares the pre-tax yield required to achieve a 5% after-tax rate of return by earning:

1. Interest income;
2. Eligible dividends (generally dividends received from public corporations); or
3. Non-eligible dividends (generally dividends received from small business corporations).

Chapter 2: Retirement Planning

Pensioners, retirees and pre-retirees

1. Income splitting opportunity: Individuals receiving pension income that qualifies for the pension credit can allocate up to half of this income to their spouse or common-law partner. A determination of the optimal allocation should be considered in tandem with the couple's continued ability to qualify for Old Age Security payments and certain personal tax credits.

2. An individual's RRSP must be converted to a Registered Retirement Income Fund (RRIF) or be used to acquire a qualifying annuity by the end of the year in which the individual turns 71.

An individual who turns 71 in 2019 can make RRSP contributions by the end of 2019, to the extent contribution room is available.

An individual can continue to contribute to a spousal RRSP until the end of the year in which his or her spouse turns 71, to the extent contribution room is available.

For 2015 and later years, the Government has introduced a reduction in the minimum amount that must be withdrawn from a RRIF for a holder who is over the age of 71. The new RRIF factors will permit holders to preserve more of their RRIF savings in order to provide income at older ages.

DID YOU KNOW?

The maximum RRSP contribution limit is $26,500 for 2019.

The amount of earned income required in 2019 to maximize your 2020 RRSP contribution room is $151,277 (the maximum RRSP contribution limit for 2020 is $27,230).

Canada Pension Plan (CPP)

Below are some noteworthy highlights of the CPP:

1. The maximum contribution to the base CPP for employers and employees in 2019 is $2,748.90. if you are self-employed, the contribution is $5,497.80.

2. The maximum earnings on which the CPP applies is $57,400 for 2019.

3. If you are an employee between the ages of 60 and 65 and you are still working, you must continue to contribute to the CPP even if you are already receiving a CPP retirement pension.

4. If you are an employee between the ages of 65 and 70 and you are still working, you can choose to continue to contribute to the CPP or you can opt out of making these contributions.

5. Any contributions you make to the CPP, regardless of your age, will increase your CPP benefits even if you are already receiving a CPP pension benefit.

6. You will be able to receive your CPP retirement pension without any work interruption.

7. Your employer must match your CPP contributions in each of the scenarios described in (3) and (4) above. Your employer must make these contributions regardless of whether you are already receiving a CPP pension benefit.

DID YOU KNOW?

The CPP contribution rates have increased, with the current contribution rate set at 5.15% for the 2019 taxation year. The CPP contribution rate will continue to increase to 5.95% by 2025. This is an effort by the Ontario government to ensure that retirees will have sufficient income past retirement in case they were unable to save during their working years.

Old Age Security (OAS)

1. The value of the Old Age Security (OAS) benefit for eligible seniors over the age of 65 is approximately $7,362 per year (indexed quarterly for inflation) but is generally reduced where net income exceeds $77,580 and is completely eliminated where income exceeds $123,386.

2. Beginning July 1, 2013, you may choose to delay receipt of your OAS for up to five years beyond the normal benefit start date of 65, in exchange for an increased monthly pension of 0.6% (up to a total of 36% annually) for each month that the benefit is delayed.

3. If you have already started receiving OAS payments but would like to benefit from the deferral, you can write to Service Canada to request a cancellation of your OAS pension, provided you have been receiving the pension benefits for less than 6 months, but you will have to repay the benefits you have received to date.

Chapter 3: Professionals and Business Owners

If you have your own corporation

Consider your optimum salary/ dividend mix to achieve less overall tax:

Salary will qualify you and other family members active in the business for RRSP contributions, Canada

Pension Plan (CPP) contributions, and child-care deductions. Dividends will not qualify an individual for these contributions or deductions.

In the past, the payment of dividends to shareholders over 17 years of age was an easy way to achieve income splitting, costing the family unit less in current taxes. With the introduction of TOSI (Tax on Split Income), income splitting has become significantly more difficult. The TOSI eliminates the tax benefits of paying dividends to family members (with little or no other sources of income), who are not active in the business or who do not own "excluded shares" of the company. If TOSI applies to the dividends, the recipient individual will pay tax on these dividends at the highest marginal tax rate. Speak to your Crowe Soberman advisor to determine whether you may still benefit from income splitting given your specific circumstances.

Consider accessing funds from the corporation that can be withdrawn tax-free. For example, repay shareholder loans, return capital to shareholders up to the lesser of the paid-up capital and the adjusted cost base of the shares, or roll in personal assets with a high cost base to the corporation on a tax-free basis to extract the cost base of the assets on a tax-free basis.

Defer income that is not required personally for longer period:

If you do not require cash from your corporation to spend personally, consider keeping the funds invested in your corporation and defer the tax payable on the ultimate withdrawal of the funds.

Consider instalments for 2020:

The threshold above which corporations must pay income tax, GST and source deductions instalments is $3,000. The threshold will be based on 2019 tax amounts payable.

Certain Canadian-controlled private corporations are allowed to make quarterly, instead of monthly, income tax instalments. To qualify, certain conditions must be met, including the following criteria relating to the 2019 taxation year:

- The corporation has been in perfect compliance in the previous 12 months;
- The corporation was entitled to the small business deduction;
- The taxable income of the associated group did not exceed $500,000; and
- The taxable capital of the associated group did not exceed $10 million.

Instalment planning for 2020 can be addressed during 2019 by meeting the conditions where applicable.

DID YOU KNOW?

Private corporations (or associated corporations in a corporate group) that earn passive investment income will have a reduction in their $500,000 small business deduction threshold limit. The $500,000 limit will be reduced once the passive investment income earned in the associated group exceeds $50,000, with full elimination once investment income exceeds $150,000.

DID YOU KNOW?

On November 6, 2019 the Ontario government, announced a reduction to the small business deduction rate effective January 1, 2020. The rate decreased from 3.5 percent to 3.2 per cent. The federal government has maintained the small business rate at nine per cent. These rate reductions result in a larger deferral of after- tax business profits in the corporation that can be reinvested in the business. The combined (federal and Ontario) small business rate will be as follows:

Year	Tax Rate
2018	13.5%
2019	12.5%
2020	12.2%

Interest deductibility

Where possible, maximize interest deductions by structuring or arranging your borrowings to be incurred, first for business or investment purposes, and then, for personal use.

Where certain business or capital property (e.g., shares, but not real estate or depreciable property) is lost or ceases to earn income, the interest incurred on the related borrowing may in some cases continue to be deductible.

If you are self-employed

If you have a home office and you meet certain conditions, you can deduct eligible home office expenses, including a portion of your mortgage interest, home insurance, property taxes, utilities and minor repairs.

Consider the potential benefits of incorporating your business.

DID YOU KNOW?

Effective for taxation years beginning in 2019, corporations must now track Refundable Dividend Tax on Hand into two separate pools, being Eligible Refundable Dividend Tax on Hand ("ERDTOH") and Non-Eligible Refundable Dividend Tax on Hand ("NERDTOH"). As such, corporations will obtain a dividend refund on the payment of eligible dividends (which are subject to lower dividend tax rates in the hands of shareholders) only to the extent they have an ERDTOH pool.

Chapter 4: Employees

If you are employed

Reduce tax withheld at source:

If you will have large tax deductions available to you (e.g., RRSP contributions, tax shelters, interest, business losses, work related car expenses, tuition credits, or alimony), apply in advance to the CRA for a reduction of the payroll withholdings that are withheld from your salary.

Minimize taxable employee benefits:

Arrange to receive non-taxable benefits from your employer instead of taxable benefits where possible. Examples of non-taxable benefits include: employer contributions to a registered pension plan (the pension is taxable when you receive it); and contributions to a "private health ser- vices plan," such as those covering medical expenses, hospital charges and drugs not covered by public health insurance and dental fees.

If you received interest-free or low- interest loans from your employer, the loans will generally result in a taxable benefit.

- Some of the benefit can be offset by an "interest" deduction if the loans are used for certain purposes.
- If not deductible, be sure to pay any interest payable on the loan for 2019 by January 30, 2020 to reduce or eliminate your taxable benefit.
- Consider renegotiating any home purchase loans from your employer in order to minimize taxable benefits by "locking in" the loan at a lower prescribed interest rate for a five-year term.

If your employer provides you with an automobile

The taxable benefit is based on original cost of the automobile and does not decrease as the car ages. Consider purchasing the car from the company by way of an interest-free loan from your employer and personally claiming depreciation on the car.

Avoid employer-owned vehicles costing over $30,000.

You can reduce the taxable benefit if your automobile is used primarily (generally, greater than 50%) for business purposes and by keeping your personal use to less than 20,000 kilometers per year.

If you work in the U.S.

A Canadian resident who works in the U.S. may deduct contributions made to a U.S. pension plan, under certain circumstances, up to the taxpayer's RRSP deduction limit.

This will reduce the individual's unused RRSP contribution room.

Chapter 5: Families

If you have young children

Save for your child or grandchild's education with a Registered Education Savings Plan (RESP).

An RESP is a trust arrangement that earns tax-free income to be used to fund the cost of a child or grandchild's post-secondary education. Contributions to an RESP are not deductible for tax purposes and withdrawals of capital from the RESP are not taxed. The beneficiary is taxed on the income portion when withdrawn from the RESP for the purpose of funding his or her post-secondary education. While at school, the child or grandchild tends to have relatively low sources of other income, and, as a result, the income is usually taxed at lower rates, if at all.

For RESP contributions in 2019:

- There is no annual contribution limit;
- The lifetime contribution limit is $50,000 per beneficiary; and
- A federal Government grant of 20% of annual RESP contributions is available for each beneficiary under the "Canada Education Savings Grant." The maximum annual RESP contribution that qualifies for the federal Government grant is $2,500.

Maximize child-care expense deduction.

The maximum amounts deductible for child-care expenses are $11,000 for a disabled child, $8,000 for children under age seven, and $5,000 for other eligible children (generally, children aged 16 and under). In most cases, the spouse with the lower net income must claim the child-care expenses against his or her earned income.

Apply for the Canada Child Benefit (CCB)

The Government merged the Universal Child Care Benefit (UCCB) and Canada Child Tax Credit (CCTB) in to a new Canada Child Benefit (CCB). The CCB is a tax-free payment based solely on the family's income from the previous year. The program provides parents with monthly benefits of up to $553.25 ($6,639 annually) for children aged six and under and up to $466.83 ($5,602 annually) for children aged 6 to 17.

It is expected that families making below $150,000 will receive more in monthly child-benefit payments than they were otherwise receiving under the UCCB and CCTB programs. However, the benefit is gradually clawed back for families making over $30,000 and fully eliminated for families making over $200,000 annually.

The application for the CCB can be made online through the CRA "My Account" when you complete your child's provincial birth registration form or by completing **Form RC66.**

More information can be found at **here**.

If you have disabled or infirm dependents

The Registered Disability Savings Plan (RDSP) is a savings plan that is intended to help parents and others save for the long-term financial security of a person who is eligible for the Disability Tax Credit.

- Contributions to an RDSP are not tax deductible and can be made until the end of the year in which the beneficiary turns 59 years of age.
- To help you save, the Government pays a matching grant of up to $3,500. You can carry forward unused grant entitlements for up to ten years.
- Contributions that are withdrawn are not included in the income of the beneficiary, although the Canada dis- ability savings grant, Canada disability savings bond, and investment income earned in the plan will be included in the beneficiary's income for tax purposes when paid out of the RDSP.
- There is no annual limit on amounts contributed to an RDSP of a particular beneficiary, but the overall lifetime limit is $200,000.
- A deceased individual's RRSP or RRIF can be transferred tax-free into the RDSP of a financially dependent infirm child or grandchild.

For 2016 and subsequent tax years, the Government implemented a new non-refundable Home Accessibility Tax Credit.

The tax credit is available for eligible expenses incurred in making a home more accessible to individuals aged 65 or older or to individuals who are disabled or infirm.

Either the individual who incurred the expenses or the individual for whom the expenses are made can claim the tax credit. The individual who incurred the expenses can only claim the tax credit in respect of expenses incurred for his or her spouse or common-law partner, or for disabled or infirm dependants.

You can claim up to $10,000 in eligible expenses under the Home Accessibility Tax Credit, resulting in a non-refundable tax credit worth up to $1,500. Expenses eligible for the claim must be permanent and non-routine renovations to the home. The alterations must allow the individual for whom the expenses were incurred to be mobile within the home and/or reduce the risk of harm to the individual within the home.

DID YOU KNOW?

On January 1, 2018, the changes to the tax on split income (TOSI) rules which impact the ability to split dividend and other types of income (generally applicable to dividends paid by private corporations) with adult family members came into effect. If TOSI applies, the income is taxed in the hands of the recipient individual at the highest marginal tax rate, regardless of his/her income level. The TOSI rules aim to curtail the splitting of income with related family members who have not otherwise made a meaningful contribution to the business, be it labour, capital, and/or an assumption of business risks. The TOSI rules are complex. Contact your Crowe Soberman advisor for more information on the application of the rules and potential exceptions.

Income splitting with family members – other opportunities

Consider the following legitimate means of shifting income to family members whose taxable income is below the lowest tax bracket, approximately $45,916. This will allow them to take advantage of certain non-transferable credits as well as lower tax rates.

Income splitting with children over the age of 17 ("adult children")

- Shift investment income by gifting money to your adult children or to a trust for their benefit, if you wish to maintain control.
- Lend funds (at the prescribed interest rate) to or purchase shares in a corporation whose shareholders are your adult children.

Income splitting with adult or minor children

- Purchase appreciating assets in the names of your children regardless of their ages. Capital gains will be taxed in their hands, not yours.
- Lend money to your children with actual interest payable at the prescribed rate. Earnings in excess of this rate will be taxed in their hands.
- Consider reorganizing the shareholdings of your private corporation to have your adult children (over the age of 24) own shares directly that give them 10% of the votes and value (i.e., "excluded shares" for purposes of the TOSI rules). Dividends can be paid by the corporation on these shares to your adult children without the TOSI applying. This planning is beneficial if your adult children are not otherwise active in the business and not already earning income that puts them at the highest marginal tax bracket. Note that this planning only works if the corporation earns business income, is not a professional corporation and is not in the provision of services.

Income splitting with your spouse or common-law partner

- Lend money to your spouse or common-law partner to earn business income.

- Have the higher-income spouse or common-law partner incur all household expenses, thus allowing the lower income person to acquire investments, which could be taxed at a lower rate.
- Lend money to your spouse or common-law partner with actual interest payable at the prescribed rate. Earnings in excess of this rate will be taxed in your spouse or common-law partner's hands.

- Consider reorganizing the shareholdings of your private corporation to have your spouse (over the age of 24) own shares directly that gives him/her 10% of the votes and value. Dividends can be paid by the corporation on these shares to your spouse without TOSI applying. This planning is beneficial if your spouse is not otherwise active in the business and not already earning income that puts him/her at the highest marginal tax bracket. Note, this planning only works if the corporation earns business income, is not a professional corporation and is not in the provision of services.

File and pay your taxes on time

- Even if you are receiving a refund, you should file your taxes on time. Filing on time avoids the possibility of late- filing penalties that may be applicable on CRA reassessments.
- The deadline for filing your 2019 personal tax return is Thursday, April 30, 2020. If you, or your spouse or common-law partner, are self- employed, the deadline for filing your tax return for 2019 is extended to Monday, June 15, 2020. Regardless of your filing due date, if you have a tax balance owing for 2019, you still must pay the balance due on or before April 30, 2020.

- The penalty for late filing your return is 5% of the unpaid taxes, plus an additional 1% for each complete month your return is late (up to 12 months). Penalties are higher for repeat offenders or gross negligence omissions.

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NEED TO TALK TO SOMEONE?

Your Crowe Soberman advisor is always available to answer your questions. Our group of tax experts are available to point you in the right direction and provide tangible planning and solutions.

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Contact us today and one of our tax advisors will be in touch with you to help you plan for your success!

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