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What's New for the 2021 Tax Season:

Tax credits, COVID-19 benefits, and more

Another year of navigating the COVID-19 pandemic has led to significant tax changes for the 2021 season as governments introduce temporary deadline extensions, subsidies, and enhanced credits to support individuals and businesses throughout this ongoing public health crisis.

Our Tax Group shares new and noteworthy personal tax highlights for taxpayers as you plan for the upcoming tax-filing season:

Personal Tax Measures

Registered Retirement Savings Plan Limits

The maximum Registered Retirement Savings Plan (“RRSP”) contribution limit for 2021 is \$27,830. Your RRSP deduction for 2021 is generally calculated as 18 per cent of your 2020 earned income, less 2021 pension adjustments to a maximum of \$27,830, plus any unused RRSP deduction room carried forward from prior years.

Tax-Free Savings Account Limits

The Tax-Free Savings Account (“TFSA”) annual contribution limit for the 2021 tax year has increased to \$6,000. The cumulative contribution limit is \$75,500.

Investment income earned in your TFSA is not taxable and the contributions you make to your TFSA are not deductible.

Enhanced Support for Teachers

Under the current tax rules, teachers are eligible to claim a refundable tax credit of 15 per cent on an amount of up to \$1,000 in expenditures made in a taxation year for eligible supplies. To qualify, eligible supplies must be purchased for use in a school or other regulated child care facility for the purpose of teaching or facilitating learning. Eligible supplies include books, construction paper, flash cards, games and puzzles, containers, and educational support software. Under the current rules, electronic devices are not included in the list of eligible supplies.

The 2021 Economic and Fiscal Update proposes to enhance this tax credit for 2021 by:

- Increasing the refundable credit to 25 per cent;
- Broadening the rules regarding the locations where teaching supplies are permitted to be used by removing the requirement that teaching supplies must be used in a school or regulated child care facility to be eligible; and
- Expanding the list of eligible supplies to include certain electronic devices, including:
 - 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; and
 - 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.

Home Buyers' Plan Withdrawal Limit

The Home Buyer's Plan limit for the 2021 tax year remains at \$35,000. Amounts withdrawn under the Home Buyer's Plan must be repaid to an RRSP over a period not exceeding 15 years, starting in the second year following the year in which the withdrawal was made to prevent any income inclusion. The Home Buyer's Plan applies to first-time home buyers.

First-Time Home Buyers' Amount

The first-time home buyers' amount is \$5,000, in respect of which you may qualify for a federal non-refundable tax credit of \$750, if you purchased a home in the year and both of the following conditions apply:

1. You or your spouse or common-law partner acquired a home; and
2. You did not live in another home owned by your/or your spouse or common-law partner in the year of acquisition or in any of the preceding four years.

Interest Paid on Student Loans

Interest paid in 2021 or the preceding five years on qualifying student loans can normally be claimed as a non-refundable tax credit. Interest paid on a Canada Apprentice Loan amount for registered Red Seal apprentices can also be claimed.

Canada Caregiver Credit

For 2017 and subsequent taxation years, the Infirmitiy Dependent tax credit, the Caregiver tax credit, and the Family Caregiver tax credit have been replaced by a new 15 per cent non-refundable Canada Caregiver Credit ("CCC"). The amount in respect of which the CCC is calculated is \$7,348 and may be claimed for the care of an infirm dependent relative. The credit amount is reduced by the dependent's net income over \$17,256 and fully phased out when the net income of a dependent exceeds \$24,604.

Ontario Childcare Access and Relief from Expenses Credit

In 2019, the province of Ontario introduced the Ontario Childcare Access and Relief from Expenses ("CARE") tax credit for low- and moderate-income families who pay child care expenses. The CARE is a refundable tax credit that is only available to families with household income under \$150,000.

The CARE tax credit is in addition to the existing Child Care Expense Deduction. Families could receive up to \$6,000 per child under the age of seven, up to \$3,750 per child between the ages of seven and 16, and up to \$8,250 per child with a severe disability.

Canada Workers Benefit

For 2019 and subsequent taxation years, the Working Income Tax Benefit is replaced by the Canada Workers Benefit ("CWB") which is a federal refundable tax credit. The amount of the CWB will be computed as 26 per cent of earned income over \$3,000, to a maximum credit of \$1,381 for single individuals without children and \$2,379 for families (couples and single parents).

The maximum credit is reduced by 12 per cent of adjusted net income over \$13,064 for single individuals without children and \$17,348 for families.

In addition, in 2019, the government introduced an amendment to clarify that kinship care providers would be considered the parents of a child in their care for the purposes of the CWB. As a result, Kinship care providers would be eligible for the CWB amount available for families, provided all other eligibility requirements are met.

Disability Tax Credit

The 2021 Federal Budget proposed some changes relating to the mental functions necessary for everyday life, life-sustaining therapy, and the calculation of therapy time that are eligible for the DTC. Speak to your Crowe Soberman advisor if you think these changes may apply to you and/or any members of your family.

Adoption Expenses

You can claim an amount for eligible adoption expenses related to the adoption of a child who is under 18 years of age. For the 2021 taxation year, the maximum amount of eligible expenses for each child remains at \$16,563. Parents can claim these adoption expenses in the tax year that includes the end of the adoption period for the child.

The adoption period:

- Begins when an application is made for registration with a provincial or territorial ministry responsible for adoption (or with an adoption agency licensed by a provincial or territorial government) or when an application related to the adoption is made to a Canadian Court, whichever is earlier; and
- Ends when an adoption order is issued by, or recognized by, a government in Canada for that child or when the child first begins to live permanently with you, whichever is later.

Lifetime Capital Gains Exemption

For dispositions of qualified small business corporation shares in 2021, the lifetime capital gains exemption has increased to \$892,218.

For dispositions of qualified farm or fishing property, the lifetime capital gains exemption is maintained at \$813,600 for dispositions before April 21, 2015 and \$1,000,000 for dispositions after April 20, 2015.

COVID-19 Tax Measures

Simplified Home Office Deduction Claim Due To COVID-19

For the 2021 and 2022 tax years, employees working from home due to the COVID-19 pandemic may be able to claim up to a maximum of **\$500** using the temporary flat rate method, to calculate their home office expenses as announced in the Fall Economic Statement.

The Canada Revenue Agency (“CRA”) introduced a temporary flat rate method to simplify claiming the deduction for home office expenses in 2020. Individuals could use the simplified method if they worked more than 50 per cent of the time from home, for a period of at least four consecutive weeks due to the COVID-19 pandemic. The claim was \$2 per day, for each day that an individual worked from home, up to a maximum of \$400 or 200 working days. The maximum claim was increased to \$500 (\$2 per day for up to 250 days) for 2021 and 2022. The claim is made on an individual, not a household basis. As a result, each person working from home in the same dwelling can claim up to \$500. You do not need your employer to sign Form T2200 if the temporary flat rate method is used for the 2021 taxation year. If the temporary flat rate method is used, an individual cannot claim any other employment expenses.

Canada Recovery Benefit

The Canada Recovery Benefit (“CRB”) **closed** retroactive applications on December 23, 2021. You can no longer apply for this benefit.

The CRB gave income support to employed and self-employed individuals who were directly affected by COVID-19 and were not entitled to Employment Insurance (“EI”) benefits. The CRB was administered by the CRA.

Depending on when you applied for the CRB, you may have received either \$1,000 (\$900 after taxes withheld) or \$600 (\$540 after taxes withheld) for a two-week period.

The CRB payments received during 2021 are fully taxable and must be reported on your tax return. Depending on your total income for 2021, the 10 per cent tax withheld from your CRB payments may not be the only tax you will pay in respect of these payments.

Canada Recovery Sickness Benefit

The Canada Recovery Sickness Benefit (“CRSB”) is extended until **May 7, 2022**. The maximum number of weeks you can apply for CRSB also increases to **six weeks**. You can apply retroactively for periods 61 to 63 until February 16, 2022 if you are eligible.

The CRSB gives income support to employed and self-employed individuals who are unable to work because they are 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. The CRSB is administered by the CRA.

If you are eligible for the CRSB, you can receive \$500 (\$450 after taxes withheld) for a one-week period.

If your situation continues, you will need to apply again. You may apply for up to a total of six weeks between September 27, 2020 and May 7, 2022.

The CRSB payments received during 2021 are fully taxable and must be reported on your tax return. Depending on your total income for 2021, the 10 per cent tax withheld from your CRSB payments may not be the only tax you will pay in respect of these payments.

Canada Recovery Caregiver Benefit

The Canada Recovery Caregiving Benefit (“CRCB”) is extended until **May 7, 2022**. The maximum number of weeks you can apply for also increases to **44 weeks**. You can apply retroactively for periods 61 to 63 until February 16, 2022 if you are eligible.

The CRCB gives income support to employed and self-employed individuals who are unable to work because they must care for their child under 12 years old or a family member who needs supervised care. This

applies if their school, regular program, or facility is closed or unavailable to them due to COVID-19, or because they are sick, self-isolating, or at risk of serious health complications due to COVID-19. The CRCB is administered by the CRA.

If you are eligible for the CRCB, your household can receive \$500 (\$450 after taxes withheld) for each one-week period.

If your situation continues, you will need to apply again. Each household may apply for up to a total of 44 weeks between September 27, 2020 and May 7, 2022.

The CRCB payments received during 2021 are fully taxable and must be reported on your tax return. Depending on your total income for 2021, the 10 per cent tax withheld from your CRCB payments may not be the only tax you will pay in respect of these payments.

Canada Emergency Business Account

The Canada Emergency Business Account (“CEBA”) was an interest-free loan providing support to businesses, including sole proprietorships. The CEBA became available on April 9, 2020 and provided \$40,000 of loaned funds. As of December 4, 2020, the CEBA loan was increased to \$60,000. Sole proprietors will have 33 per cent (up to a maximum of \$20,000) of the CEBA loan forgiven, to the extent they repay the loan balance by December 31, 2023. For example, if a sole proprietor

took a CEBA loan of \$60,000 and repays \$40,000 by December 31, 2023, the \$20,000 unpaid balance will be forgiven.

The forgivable portion of the loan is taxable to the proprietor in the year the loan is received, notwithstanding that the conditions of forgiveness (i.e., repayment by December 31, 2023) have not yet occurred. Therefore, if you received a CEBA loan of \$60,000 in the 2021 tax year, the \$20,000 forgivable portion is taxable to you in 2021. You may be eligible to elect under a specific provision of the Income Tax Act to reduce the amount of an outlay or expense that is made or incurred by you before the end of 2022, rather than directly including the amount in income. Speak to your Crowe Soberman advisor regarding this election and whether it applies in your circumstances.

The deadline to complete and file an application for the CEBA was June 30, 2021.

Applicants who applied for CEBA prior to the June 30 application deadline had until July 14, 2021 to submit supporting documents as part of their application, and until September 3, 2021 to resubmit documents if required.

Canada Emergency Rent Subsidy

The Canada Emergency Rent Subsidy ("CERS") provides support to sole proprietorships who pay rent for their business premises and have experienced a drop in revenue due to COVID-19. The drop in revenue is calculated by comparing revenue during the application period with revenue from a previous baseline period. The revenue drop is calculated and determines the amount of CERS an applicant can receive. The CERS can be applied for within 180 days from the end of a qualifying period. The CERS is taxable immediately before the end of the period to which it relates. If you applied for CERS for qualifying periods in 2021, you may be required to report these payments in your 2021 taxable income. Speak to your Crowe Soberman advisor regarding the taxation of these payments.

Canada Emergency Wage Subsidy

As a sole proprietor employer in Canada who was affected by the COVID-19 pandemic between March 15, 2020, and October 23, 2021, you may have been eligible for the Canada Emergency Wage Subsidy ("CEWS").

Beginning October 24, 2021, the CEWS and the Canada Emergency Rent Subsidy ("CERS") were replaced with two new programs, each offering wage and rent support:

- Tourism and Hospitality Recovery Program
- Hardest-Hit Business Recovery Program

If you were eligible for the CEWS, you can still apply for past claim periods until 180 days after the claim period has ended.

The CEWS provides support to sole proprietorships that had a payroll account on March 15, 2020 and experienced a drop in revenue. Each CEWS claim period is a specific period of four weeks beginning on a Sunday.

Each four-week period needs to be applied for and the applicant must confirm you are eligible and calculate the CEWS amount.

The CEWS is taxable immediately before the end of the four-week period to which it relates, not when the amount has been received. If you applied for and were eligible for CEWS payments in 2021, these may be taxable to you in your 2021 tax return. Speak to your Crowe Soberman advisor regarding the taxation of these payments.

This article has been prepared for the general information of our clients. Please note that this publication should not be considered a substitute for personalized advice related to your particular situation.

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