WINTER 2021

THE Quarterly Dividend

Vol. 30 No. 1

Your guide to income tax & financial planning

FAST TRACK

A Penny for your Thoughts

Part One: Everyone is making plans for the day after the Corona virus will be "over". On an individual level we look forward to re-connecting with family and friends with whom we have had only limited contact for almost a year.

On a national and global level, we look forward to a Covid-19 vaccine that will restore our way of life and our economy.

Never before has there been an event where the whole

In this Issue:

Claiming Home Office Expenses

As more Canadians leave their offices to set up shop and work from home, it is important that all taxpayers who qualify for the "employment expense" deduction take advantage of this tax saving opportunity. Here is what you need to know:

Preliminary Considerations

(a) did your employer provide you with a signed T2200 Short form stipulating that you were required to pay "home office" expenses while carrying out duties of employment from home?; (b) did you work at least fifty percent of the time from your home during "four continuous weeks or more"? (c) were you required to pay for supplies used directly in your work? and (d) were you re-imbursed for these expenditures? If you answer "yes" to any of these questions, you are eligible to claim expenditures incurred on your 2020 personal income tax return.

Determination of Claim

Here is a list of items you should consider including in your calculation of home office expenses:

(a) items which you determine as a percentage of your residence from which you work; (i) heat (ii) light (iii) water (iv) mortgage interest (v) property taxes (vi) repairs and maintenance (vii) internet.

For example, if your have calculated that your "home office" takes up fifteen percent of your residence and your property taxes are $6000 for the whole year, you can deduct ($6000 x 15%) or $900 as an allowable employment expense;

(b) Expenses incurred to perform your employment duties determined on a "reasonable" basis or documented by receipts; (i) office supplies (ii) stationery (iii) photocopier/fax (iv) cell phone (v) purchase of office desk and chair, computer, monitor (including installation).

(c) although technically allowable in certain situations, capital outlays in the form of home renovations or improvements to pre-existing structures should not be claimed. These are hard to justify and will ultimately take away from your "principal residence" designation of your home when you sell it.

Decision Time #1

Although it would result in a lower tax bill for the year, it is always better to have your employer re-imburse you for any out-of-pocket expenses you may have incurred. This is because your marginal tax rate is never 100% so that if you, say, buy stationery or postage for $100 and are re-imbursed by your employer, your "net cash outlay" will be $NIL. However if you have to pay this cost yourself, and are not "paid back", you will deduct the $100 as an employment expense but only have your taxes reduced by the tax rate at which you are taxed. If your "marginal tax rate" is 40%, for example, your taxes will go down by $40 but you will still be "out of pocket" $60.

See if he will "go along" for a full or partial re-imbursement. Then claim the difference on your 2020 tax return.

Decision Time #2

Taxpayers who have incurred "modest" expenses while working from their homes may decide that they do not have the documentation to make a more substantial claim. In these situations the government is allowing them to claim $400 with "no questions asked".

Compliments of

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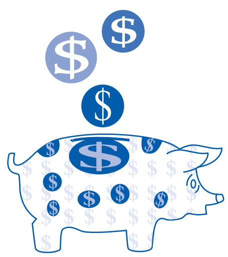


world suffered at once. What had always been considered a blessing, our instant communications and ease of interaction, were "turned on their head". It has become clear. that all of us "are in this together" and what goes on in one area of the world has historic ramifications for us all.

Not just one region of the map or just one continent has had to cope with this mysterious and deadly virus, but the entire globe.

We are living in historic times. We saw a lively and vibrant world before the Corona reduced to one of uncertainty and fear. We don't know what to expect next and whom to believe about what the future will hold.

What will we "take away" from the Corona on the day after it is over? What will we learn from this collective experience? What will change? What kind of world will we build together?

If allowed a prediction, I would guess that all of us have learned to "live in the moment". We have witnessed the fragility of life. Things that we thought were "so important" before have now to be taken in a new and different context.

The CRA's Answer to Income Splitting

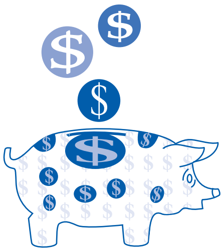
The desire to have taxable incomes allocated between at least two individuals has been around "forever". Instead of being taxed in one person's name at rates that increase as the income rises, the desire to "share" or "re-direct" amounts has prompted taxpayers to arrange their affairs in such a way as to "sprinkle" the income amongst family members and those with whom they do not deal at "arm's length".

This usually involves having children subscribe for shares in corporations owned and run by their parents or investing in partnerships that provide management services to a parent's professional practice. Other situations involve having investments in the names of family members so that payments originally intended for the primary investors are conferred on others.

Or having investments in the names of family members so that payments originally intended for the primary investors are conferred on others.

Not surprisingly, the Canada Revenue Agency has rules regarding these situations. They are summarized below:

	Tax on Split Income	Attribution Rules
who:	taxpayer who seeks to "share" his income with another taxpayer, typically a family member under the age of 24	taxpayer who seeks to "re-direct" his income to another taxpayer, typically a spouse, common-law partner, minor (under 18)
what:	(i) income and benefits conferred by a corporation on shareholders or relatives (ii) income earned through a partnership that provides property or services to a company owned by the taxpayer (iii) taxable capital gains realized on property sold to the taxpayer (iv) business or rental income earned by the taxpayer from entities actively employing family members or relatives under the age of 24	(i) investment income from property lent or transferred except where the taxpayer charges interest on the loan or the property was transferred at fair market value note: if spouse, common-law partner or minor re-invests the income, the income earned on the re-invested amount will be "theirs" (ii) capital gains realized (losses incurred) (iii) the allocated share of partnership income, unless "reasonable"
where:	on the income tax return of the taxpayer seeking to "share" the income	on the income tax return of the taxpayer seeking to "re-direct" the income
when:	taxpayer reports under provisions of "self-assessment" or upon CRA audit	taxpayer reports under provisions of "self-assessment" or upon CRA audit
how:	split income is reported on tax form in the manner in which it has been earned and taxed at a flat tax rate equal to the highest federal and provincial tax rates for the year	attributed income is reported on tax form in the manner in which it has been earned and taxed at taxpayer's marginal tax rate



Relations with family and friends, once taken for granted, have to be re-kindled and cherished. Ideas to which we once paid only lip service have to be re-examined and re-considered.

It is difficult to believe that one year could bring so much change.

There is always a discussion about when a new decade commences. Did the 2020's start January 1, 2020 and our previous twelve months belong to the second decade of the century? Or does it start on January 1, 2021 and we are heading only now into decade number three.

This time around, let's put 2020 into the last decade and start fresh with a new one right now.

Part Two: The most important thing to remember about the recognition of income for income tax purposes and the determination of the taxes to be paid on a transaction is that the taxpayer must always make sure that at the end of the day he has sufficient cash on hand to pay the government what they are owed.

While this may seem "obvious", it is sometimes overlooked in the taxpayer's haste to do the deal before the other

Property Purchase Taxes

Purchasers of residential and commercial properties in most provinces in Canada are charged a Land Transfer Tax or Property Purchase Tax upon closing the transaction.

The exact amount of the tax is determined by the selling price of the property that is changing hands, its location and the nationality of the buyer.

Let's look at a home that is about to be sold for $600000.

The "basic " land transfer tax will be $7200. If the property is located in Toronto, the buyer will be charged an additional $6475 and should he be a non-resident, he must be prepared to ante up an extra $90000.

Provincial Land Transfer Tax (except Saskatchewan, Alberta, rural Nova Scotia)

The tax is calculated as follows:

	Purchase Price $	Marginal Tax Rate	Amount $
First $55000	55000	0.005%	275
$55001 to $250000	250000	1.00%	2500
$250001 to $400000	295000	1.50%	4425
	600000		7200
$400001 to $2000000		2.00%	
$2000001 +		2.50%	

City of Toronto Land Transfer Tax (applicable to residences only)

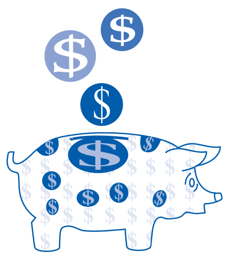
	Purchase Price $	Marginal Tax Rate	Amount $
First $55000	55000	0.005%	275
$250000 minus $55000	195000	1.00%	1950
$400000 minus $250000	150000	1.50%	2250
$500000 minus $400000	100000	2.00%	2000
	500000		6475

No additional tax for properties being sold for more than $500000

Non-resident Speculation Tax
Properties located between Niagara Falls and Oshawa, Ontario are located in the "Greater Golden Horseshoe". Foreign nationals are required to pay an additional 15% tax when buying residential properties.

Calculation: Purchase price $600000 x 15% = $90000

Rebates
Rebates up to $4000 are available under Provincial legislation and up to $4475 for City of Toronto purchasers. Non-residents may also qualify for a partial rebate on the land transfer taxes they pay.



party changes its mind. This is particularly relevant where the seller of the item in question has only a limited number of parties with whom he may transact. If one prospective buyer shows interest, the seller cannot waste time on anything that might impact negatively on this other party. That might include agreeing to certain terms that might not necessarily be in his best interest but might be seen as necessary if the deal is to go through.

The trick is to not get too emotional and "give away the store". Even (or especially) if you really want to go ahead and "sign", tell the other party you will "get back to them in a couple of days". Spend that time going over the agreement and its ramifications. If you are not comfortable "walk away". But if you are, sign on the "dotted line" and never look back.

What Constitutes a Valid Receipt?

The accompanying article mentions deducting home office expenditures by taxpayers who have been working from home during the COVID -19 pandemic.

Now is the time to get your documentary evidence together in case the Canada Revenue Agency decides to examine your particular claim and determine whether it has indeed been incurred for income tax purposes. This means getting "your story" straight and examining what separates an "acceptable" receipt from one that will be rejected out of hand by the CRA auditor.

There are two things going on (a) the provision of a receipt for the new office chair you said you needed to fulfill your employment responsibilities is easily documented. However it might still be denied by the Agency if they concluded that you "could have used" another chair you had in your house and did not really need to purchase a new (deductible) one; and (b) the validity of the receipt itself.

It is important to understand what separates a valid receipt from one that will not be accepted.

In general terms, a proper receipt will (a) substantiate your claim that you did indeed incur the expense you are claiming (and paid for it), (b) validate your claim as to the nature and timing of the expenditure, and (c) prove the dollar amount of the transaction in question.

In specific terms, an acceptable receipt will contain the following information, at a minimum: (i) the name and address of the party issuing the receipt (and their HST number, if applicable), (ii) the name and address of the party to whom the receipt is being issued, (iii) the date that the receipt is being processed, (iv) a description as to what goods or services the recipient received from the issuer, and (v) the issuer's signature (can be preprinted on the document).

Sequential numbering on the receipt itself is advised but not mandatory.

If the above information is included, the "unique identifier" of both the issuer and the recipient of the receipt cannot be questioned and the receipt can be considered "valid" for income tax purposes.

CRA BINGO (CORPORATIONS)

B	I	N	G	O
RECONCILIATION OF ACCT INC TO TAX INC	SMALL BUS DEDUCTION	DIVIDEND REFUND	AUTO/TRAVEL EXPENSES	FILM/VIDEO PROD TAX CREDIT
INTERNAT'L FINANCIAL REPORTING STANDARDS	CHAR DONATIONS	RENTAL INCOME	CAN JOURNALISM LABOUR TAX CRED	FEDERAL TAX ABATEMENT
SHAREHOLDER INFO	MANU/PROCESSING PROFITS DEDUCTION	FREE	CANADIAN CONTROL PRIVATE CORP	CAPITAL GAINS
NOTICE OF ASSESSMENT	CAPITAL COST ALLOW	NON-RESIDENT CORPORATION	RELATED/ASSOCIATED COMPANIES	PERSONAL SERVICES CORP
GST/HST	CO-OP EDUC TAX CRED	REFUNDABLE DIVID TAX ON HAND	SR&ED	INVEST INCOME

We all know how to play "traditional" bingo where a player uses a card with twenty-five squares each containing random numbers between one and seventy-five. A "caller" (or machine) selects numbers that are read aloud. Players "dab" selected numbers as they appear on their cards. Winners are those whose numbers appear in a straight or diagonal column across all five rows.

CRA Bingo is where the shareholder/taxpayer holds a theoretical card outlining the various areas of his corporation's business that are open to scrutiny by the CRA. The "caller" is a CRA auditor who gets in touch with the owner/manager to inquire about information contained on income tax, HST, payroll and other forms previously submitted (or not) to the Agency. Winners are those whose numbers are not called by CRA representatives and who have minimal contact with them throughout the year.

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