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Re: The Preparation of Your 2018 Personal Income Tax Return

Dear Valued Client:

Thank you for your continued confidence in our services. We look forward to working with you in the coming tax season.

The team at S & W LLP is ready to help you navigate tax season smoothly. Please note that we have a detailed list that will help you in the gathering of information required for your 2018 income tax return. You can access this list on our website at www.swcpas.ca. Just click on "Get your Income Tax Checklist".

At this time of year, we are all receiving all types of "T" slips from various sources, such as employers, banks, trusts etc. Most of these slips will have been mailed out to you by the first week of March. We ask that you please wait to accumulate these slips and then send them to us in a batch for processing instead of sending in these slips one by one. This simply reduces the load on our administration in processing and filing these slips to your proper account. Once you have assembled all your relevant documents, please ensure that you forward these to us in a timely manner so we can process your tax returns well in advance of the tax filing deadline.

The filing deadline for income tax returns is April 30 (June 15th if the taxpayer or spouse is reporting business income). If the returns are filed late the taxpayer is subject to a 5% penalty on the unpaid balance of tax and there is an additional penalty of 1% for each month it is late. The penalty may be more for repeat offenders.

If you earn income that has no tax withheld or does not have enough tax withheld for more than one year, you may have to pay tax by instalments. This can happen if you earn rental, investment, or self-employment income, certain pension payments, or income from more than one job. If your net tax owing in the prior year was more than $3,000 you will be required to make quarterly tax instalments. If you received an instalment reminder that shows an amount to pay, you may have to pay your income tax by instalments.

We invite you to visit our website at www.swcpas.ca and read some very informative blogs that cover topics such as "Common Business Errors to Avoid" and "How New Minimum Wage Impacts Small Business". Also, if you have an idea or topic for our blog, please let us know by email at info@swcpas.ca.

We would also appreciate it if you Google us "S & W LLP" and write a positive Google review on the right side of the page under "write a review".

SOME RECENT TAX CHANGES THAT MAY IMPACT YOUR 2018 INCOME TAX ARE AS FOLLOWS:

TAX ON SPLIT INCOME (TOSI)

This is a new tax that targets family owned businesses where “income sprinkling” was used to create an income splitting technique amongst family members. This procedure shifted income received from an incorporated family business from someone in a high-income tax bracket to individuals in a lower bracket, usually family members, to produce income tax savings.

Effective on and after January 1, 2018 the new TOSI rules limit the ability to share income within a family by paying dividends to various family members.

If income paid is deemed to be under these new TOSI rules, the highest marginal tax rates will be applied to such income.

These rules are complex and include spouses, common-law partners grandparents and grandchildren.

There are exceptions that will allow the business to be an “excluded business” under these TOSI rules. For example, If the individual meets the test of working at least 20 hours per week during the year, then the shares held, and the resulting dividends paid will be excluded from these new TOSI rules.

Income splitting will generally be allowed starting in the year when the spouse working in the business turns age 65. This compensates and aligns the TOSI rules with existing pension income splitting legislation.

TOSI applies from January 1, 2018 irrespective of pre-existing retained earnings in the corporation.

Multiplication of the lifetime capital gains exemption among family members who own shares directly in your private company is still possible under these TOSI rules. The lifetime capital gains exemption as indexed for 2018 was $848,252.

As before, wages received by family members are NOT subject to these TOSI rules, but have always been subject to an overall reasonableness test.

These rules are complex and should be discussed with any professional member of your S & W team if you would like further information.

CHANGES TO PASSIVE INCOME TAXATION

The new rules will reduce the small business deduction if the corporation or a combination of all associated corporations earn more than $50,000 in investment income. This is based on the prior year investment income.

This small business deduction (SBD) is ground to $0 if investment income exceeds $150,000. If your SBD is ground to "0" the usual tax rate on the SBD, which is capped at $500,000 of taxable income, will jump to 26.5% instead of being taxed at 13.5%. The cost in tax dollars is $65,000! Examples of investment income includes:

- Interest
- Dividends from non-connected corporations (i.e. portfolio dividends)
- Capital gains (other than from assets used in an active business)
- Rental income from non-associated corporations
- Rental income from associated companies not carrying on an active business

PRINCIPAL RESIDENCE

The following type of residence may qualify for your principal residence:

- House
- Condominium unit
- Cottage
- Trailer or mobile home
- Houseboat
- Leasehold interest in a housing unit

A property will qualify as your principal residence if it is *ordinarily inhabited* by you or certain family members, a family unit, such as your current or former spouse or common law partner, or any of your children under 18 and you designate the property as your principal residence.

In general, a housing unit must be ordinarily inhabited in the year not *throughout the year*. A cottage or vacation home may also meet the ordinarily inhabited requirement (even if you reside there only when on vacation), as long as the property is not owned primarily to gain or earn income.

If only part of the home is used as a principal residence only the part occupied by the owner would qualify for the principal residence exemption. This happens where there is a dedicated rental unit that is part of the house. If the following three conditions are met the rental unit is still considered to be a part of the house and the full home would qualify for the principal residence exemption. These three conditions are as follows:

- The income producing use is secondary to the main use of the property.

- No structural changes are made to the property to improve its suitability to rent.
- No capital cost allowance is claimed on the property.

This has some complex rules and for more in-depth analysis please see the CRA's policy as set out in its Income Tax Folio at the following website:

https://www.canada.ca/en/revenue-agency/services/tax/technical-information/income-tax/income-tax-folios-index/series-1-individuals/folio-3-family-unit-issues/income-tax-folio-s1-f3-c2-principal-residence.html

NEW RULES FOR ACCELERATED CAPITAL COST ALLOWANCE (CCA)

Capital cost allowance measures announced in the Fall Economic Statement presented by the Finance Minister introduced three key capital cost allowance (CCA) acceleration measures:

- Full expensing for M&P machinery and equipment
  - A business can claim a tax deduction of 100% of the purchase price in the year of purchase, for equipment purchased after November 20, 2018
- Full expensing for clean energy equipment
  - Equipment that generates power from sources other than fossil fuels
- An accelerated investment incentive.
  - Business will be allowed to claim a much larger tax deduction for assets purchased after November 20, 2018, as much as 3 times the current tax deduction.

A LOWER SMALL BUSINESS RATE

Effective January 2018 the new corporate tax rate for small business dropped down to 13.5%. this is a savings of ½ of 1%. If a company has earnings to the maximum of $500,000, this can save the tax payable by $2,500. There is an additional rate reduction in 2019 of a further full 1% to 12.5%.

WHO IS LIKELY TO BE MOST AUDITED?

Technically, everyone can be audited. However, the CRA tends to zero in on certain categories of taxpayers. Some elements of your tax return could also raise red flags and lead to an audit. You're especially at risk if:

- You're self-employed. Tax returns for self-employed people are usually more complicated. There isn't a single piece of paper, like a T4 slip, that the CRA can use to cross-reference the income you declared.
- You work in construction, retail or the restaurant industry. The CRA has singled out those industries, where businesses are often heavily cash-based, for extra scrutiny due to high rates of tax evasion.
- You keep reporting rental and/or business losses. Are you really bleeding cash or are you stashing it away in the Cayman Islands? The CRA will wonder.
- You reported drastic swings in income, especially if self-employed. See above.

- Your income doesn't match your postal code. Are you making significantly less than your neighbours? The CRA could start to wonder how you can afford to live where you do.
- You have offshore assets. Owning assets abroad is also something that could attract unwanted scrutiny.
- You received wire transfers from abroad of $10,000 or more. Since 2015, all financial institutions must report to the CRA, international electronic funds transfers (EFTs) of $10,000 or more. If your bank accounts have been on the receiving end of several of those, the CRA might have some questions.

Last year the CRA reviewed more than 3 million tax returns. A CRA review is not a tax audit but simply a routine check to ensure that the information you provided is correct on your return. You must keep all your tax documents for at least six years from the date you file your tax returns.

TAX DEDUCTIONS FOR STUDENTS

Tuition Tax Credits

Although not available at the provincial level, students can claim the tuition tax credit federally if the student attended certain post-secondary educational institutions.

Interest Paid on Student Loans

The student can claim interest paid over the last five years if they have not yet claimed this. The loan must have been from a provincial or territorial program.

Eligible Moving Expenses

If the student moved to work, including a summer job or to run a business, they can claim these moving expenses from the income earned at the new work location. The eligibility still requires that the new residence must be at least 40 km closer to the new work location.

HOW TO INTERACT WITH THE CRA

The CRA BizApp is a mobile web app for small business owners and sole proprietors. It lets you manage your business accounts securely, anytime and anywhere. CRA BizApp is available on the go, and on any mobile device with an Internet browser—no app stores needed.

With CRA BizApp, you can view and manage your corporation, GST/HST, payroll, and excise duty account balances. The app also lets you make payments to your business accounts, at your convenience!

If you are already registered for My Business Account, you can use your login information to access CRA BizApp.

ENHANCED FEATURES OF CRA BIZAPP

- **My Payment in CRA BizApp** – Make secure payments using a version of My Payment right from your phone.
- **View and submit remittances** – Make payroll remittances and view your year-to-date remittance total on the summary page.
- **View and pay interim balances** – You can now pay GST/HST and corporation income tax instalments from CRA BizApp and view the interim balance on the app's summary page.
- **Manage payroll return status** – View your payroll accounts and stay on top of your business account balances.
- **Returned mail indicator** – View your returned mail notifications if any mail related to your accounts has been sent back to the CRA.
- **Make a payment at Canada Post outlets using cash or debit** – Generate a QR code to make a payment at Canada Post outlets using cash or debit (for a fee).

Use your mobile web browser to log in, then bookmark the webpage on your home screen for quick access. For more information, go to:

https://www.canada.ca/en/revenue-agency/services/e-services/cra-mobile-apps.html

THE DISABILITY TAX CREDIT

Although this credit is not new, applications for this credit can now be certified by nurse practitioners across Canada.

MEDICAL EXPENSES PAID ON A DEPENDENT'S BEHALF

If you are paying expenses for the care of your parent because he or she is infirm and cannot afford to do so themselves, you may also be able to claim certain attendant care and nursing home costs as a medical expense. "Attendant care" expenses include wages paid to people for food preparation, housekeeping services, laundry services, health care, social activity programming, transportation and certain other costs. Costs of rent, food, supplies and operating costs are not included in this definition.

Attendant care expenses can be:

- The cost of a person hired to help with in-home care;
- A portion of the costs paid to a retirement home (the retirement home must provide a breakdown of their fees); and/or
- Nursing home costs.

To claim attendant care expenses for a retirement home (also commonly called community care or assisted living facilities), your parent will need a disability certificate (Form T2201) completed by their doctor or nurse practitioner. If they are in a nursing home (full-time nursing care facility), you need Form T2201, or a letter from a medical practitioner indicating that they need full time attendant care because of mental incapacity for the foreseeable future. If they have a full-time attendant at home you need Form T2201, or a letter from a medical practitioner indicating that they need full time attendant care because of mental or physical incapacity for the foreseeable future. Take note that whether you need form T2201 or a letter, and the wording of the letter varies depending on where your parent is living. Also note that attendant care costs cannot be paid to your spouse or to a person under age 18; another adult relative would qualify.

Generally speaking, if a person qualifies for the disability credit, then you can claim **either** the disability credit or the attendant care fees (but not both) for full-time care in the person's home or for a nursing home (see exception below). A retirement residence, community care home or assisted living facility is not a nursing home. All costs for a nursing home can be claimed if applicable, including room and board, but only salary and wages paid for attendant care will qualify for people living elsewhere.

There is an exception to the either/or claim regarding the disability credit and the attendant care costs discussed in the previous paragraph. You can claim both the disability credit and the attendant care costs where you claim only salaries and wages for the attendant and claim no more than $10,000 ($20,000 in year of death). If you pay attendant care wages, for example, of $15,000, you can choose to claim only the attendant care, only the disability credit, or $10,000 of wages plus the disability credit.

MEDICAL EXPENSES FOR INFERTILITY TREATMENTS

Costs associated with treating infertility are now included as eligible medical expenses. This change is retroactive which means that if you've paid for fertility treatments within the past 10 years, you can request an adjustment of past tax returns to include these amounts.

The following table may be used to approximate taxes payable and is only for general purposes:

2018 - PERSONAL INCOME TAX RATES - ONTARIO

Taxable income ($)	Federal tax ($)	Ontario tax ($)	Total tax (%)	Average rate (%)	Marginal Rate (%)					
					Federal	Ontario	Total*	Non-eligible dividends**	Eligible dividends**	Capital gains
5 000	0	0	0	0,0	0,00	0,00	0,00	0,00	0,00	0,00
10 354	0	0	0	0,0	0,00	0,00	0,00	0,00	0,00	0,00
11 809	0	0	0	0,0	15,00	0,00	15,00	5,77	0,00	7,50
15 089	492	0	492	3,3	15,00	5,05	20,05	8,00	0,00	10,03
20 000	1 229	487	1 716	8,6	15,00	5,05	20,05	8,00	0,00	10,03
25 000	1 979	740	2 719	10,9	15,00	5,05	20,05	8,00	0,00	10,03
30 000	2 729	992	3 721	12,4	15,00	5,05	20,05	8,00	0,00	10,03
40 000	4 229	1 497	5 726	14,3	15,00	5,05	20,05	8,00	0,00	10,03
42 960	4 673	1 646	6 319	14,7	15,00	9,15	24,15	12,76	0,00	12,08
46 605	5 220	1 980	7 200	15,4	20,50	9,15	29,65	19,14	7,56	14,83
50 000	5 916	2 291	8 207	16,4	20,50	9,15	29,65	19,14	7,56	14,83
60 000	7 966	3 206	11 172	18,6	20,50	9,15	29,65	19,14	7,56	14,83
70 000	10 016	4 121	14 137	20,2	20,50	9,15	29,65	19,14	7,56	14,83
71 500	10 323	4 258	14 581	20,4	20,50	11,00	31,50	21,29	8,95	15,75
82 000	12 476	5 413	17 889	21,8	20,50	13,50	34,00	24,19	12,39	17,00
92 000	14 526	6 763	21 289	23,1	20,50	17,50	38,00	28,83	17,91	19,00
93 208	14 773	6 974	21 747	23,3	26,00	17,50	43,50	35,21	25,50	21,75
100 000	16 539	8 163	24 702	24,7	26,00	17,50	43,50	35,21	25,50	21,75
144 489	28 106	15 948	44 054	30,5	29,00	17,50	46,50	38,69	29,64	23,25
150 000	29 705	16 913	46 618	31,1	29,00	19,00	48,00	40,43	31,71	24,00
205 842	45 899	27 523	73 422	35,7	33,00	19,00	52,00	45,06	37,23	26,00
220 000	50 571	30 213	80 784	36,7	33,00	20,53	53,53	46,84	39,34	26,77
300 000	76 971	46 637	123 608	41,2	33,00	20,53	53,53	46,84	39,34	26,77

Notes: Table takes into account federal basic personal amount of $11,809 and Ontario basic personal amount of $10,354.
Table does not take into account health tax deductions.