Tax Letter

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Irmina M Koza
Professional Corporation

IRMINA M KOZA
CHARTERED PROFESSIONAL ACCOUNTANT

4 - 480 Mapleton Ave.
Barrie, ON L4N 9C2

Regular office hours:
Monday –Thursday
9am – 7pm
Friday
9am – 5pm

PH: 705.812.2002
FAX: 705.792.2138

info@imkoza.ca
www.imkoza.ca

Tax Filing 2019

Technically, you only need to file taxes if you owe money to the government, however it is often beneficial to file anyway.

Many credits and refunds are calculated and applied for through the process of income tax filing, therefore you will miss out if you don't file.

This tax year doesn't seem to be a year with many tax changes aimed at individuals; most of the changes introduced were aimed at small business owners and professionals.

RRSP for 2018 Tax Year

Deadline

This year, the RRSP contribution deadline for the 2018 tax year is **March 1st, 2019**.

Maximum contribution

The annual contribution limit is 18% of your earned income for the previous year. For 2018, the limit is **$26,230**.

Other elements to consider

Contributions to your employer's pension plan reduce the amount you can invest in an RRSP.

Your unused contribution room (annual contribution limit, less contributions paid) for a year can be carried forward.

To know the exact amount of your contribution limit, please refer to the "RRSP Deduction Limit Statement" section of the notice of assessment sent each year by the Canada Revenue Agency.

Professional Corporations and billed-basis accounting

For tax years that begin after March 21, 2017, professional corporations are no longer permitted to elect to exclude the value of work in progress (WIP) at the end of a tax year from calculation of business income.

As a transitional measure, where a corporation has elected to use billed-basis accounting for its last tax year that begins before March 22, 2017, the inclusion of work in progress is phased into income as follows:

- 1st tax year after March 21, 2017, 20% of WIP will become the value of inventory held under the ITA
- The % will increase each year to reach 100% at end of the fifth tax year that begins after March 21, 2017, therefore full WIP will be included in income

Sale of Principal Residence

Individuals are now required to report basic information (date of acquisition, proceeds of disposition and address) on the tax return when selling principal residence in order to avoid tax and claim the full principal residence exemption.

The property must have been principal residence for all the years owned for full exemption, prorated taxable capital gains will be calculated in cases where property was partially used for other purposes, such as rental, triggering Rental Income.

Working Income Tax Benefit (WITB) Scams

WITB (which will be renamed the Canada Workers Benefit starting in 2019) is a refundable credit intended to help low-income individuals, and to encourage entering workforce.

The CRA warns taxpayers that the scheme involves the promoter preparing a fictitious T4 Employment Income slip with an amount that triggers the maximum WITB credit and refund.

The promoter will request that you pay them the deductions they noted on the T4 slip as well as a fee for completing your tax return.

A legitimate tax preparer will never ask for any deductions nor will prepare a T4 when you did not earn that income.

Business tax info

Shareholder Loans

Loans received from corporations may need to be included in your income, with a few exceptions:

1. If the loan is repaid in the taxation year following the year in which the loan was advanced, as long as loan and repayment is not a series of loans and repayments.
2. If you are a shareholder but also employee of the corporation – the loan is received in the capacity as employee. In some cases, loan must be used only to purchase new shares, purchase of a home or purchase of a car for employment purposes.
3. If the loan is received from a corporation that is in the money-lending business ex. bank.

If the loan is included in your income, you get a deduction in the year in which you repay the loan.

If You Have A Corporation But No Employment Income

If you are receiving income from your corporation in some other form, other than employment income, you need to carefully evaluate that your current income distribution is correct (especially if it is in the form of self-employment income ie. as an independent contractor without source deductions withheld at source).

The Canada Revenue Agency (CRA) often takes the position that the company owner/manager who earns income from the corporation for work done is an employee. The CRA will then assess the company penalties for failing to withhold income tax from your pay, as well as employer and employee portions of CPP.

Many court cases have concluded that owner/manager was in fact an independent contractor for the corporation, however there are just as many indicating otherwise. The facts of each case must be carefully examined to determine what is the actual working relationship between you and the corporation.

Personal Service Business corporate tax

What is a personal services business corporation? It is a corporation that provides services to a *third party (ie. Client)* that, in the absence of the corporate structure, the shareholder of such corporation would be considered an employee of the *third party*.

Under legislation passed on June 26, 2013 (retroactive to corporate taxation years beginning after October 31, 2011), the tax rate on such income is now the general corporate tax rate plus an additional 13%. The federal tax alone is 33%, plus provincial corporate tax could potentially amount to a cumulative rate of 38-44% (depending on the province).

Because of this higher tax rate, payments of dividends from the corporation will result in excessive taxation. That is, the dividend tax credit assumes a corporate tax rate of 16% rather than the actual 33% for this type of corporation.

Double taxation can be avoided if the income is paid out as salary to the shareholder. In this case, the payment will be deductible for the corporation, and taxed at the individual's regular marginal tax rates. The new rules do prevent deferrals of tax through retention of earnings in the corporation and subsequent payment of dividends.

… from current Tax Court Files

TD Bank (mortgage lender) lost out to client's pre-existing GST debt

In the Queen vs. Toronto-Dominion Bank, 2018 FC 538, Mr. Weisflock was in the landscaping business as a sole proprietor. In 2007-2008 he accumulated some $68,000 of unpaid GST, which he had collected but did not remit.

In 2010, Mr. Weisflock and his wife took a line of credit (mortgage) from TD Bank, secured by their home, which was registered in his name. A year later he sold the home and repaid the loan to the bank, discharging the LOC (mortgage).

The CRA sued the bank in Federal Court for the $68,000, claiming section 222 of the Excise Tax Act (the GST/HST legislation), that imposes a deemed trust on Mr. Weisflock's property despite any security interest. Therefore, unpaid HST took priority over registered security.

The Court agreed with the CRA and ordered the bank to pay the $68,000 to the CRA, along with pre and post judgement interest. The bank has appealed this decision to the Federal Court of Appeal, so this issue is not yet finally resolved, but gives an excellent example of the priority rights given to CRA on uncollected government funds owing.