Tax Letter

January 2021

IMK

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Personal Real Estate Corporations (PREC)

The Ontario Government has introduced new and amended regulations to the Real estate and Business Brokers Act, 2002 (REBBA).

The legislation has been **amended to permit** a brokerage to **pay remuneration** owed to a salesperson or broker for trading in real estate **to a corporation** that meets specific criteria.

The corporation is referred to as a personal real estate corporation (PREC). A PREC is a corporation that a salesperson or broker may establish that is permitted to directly receive from a brokerage remuneration that is earned by the registrant.

The use of PREC may have financial advantages for the salesperson or broker. PREC is not a professional corporation, but rather an entirely new "type" of one.

Reporting the sale of your principal residence

Starting with the 2016 tax year, you are required to report basic information (date of acquisition, proceeds of disposition and address) on your tax return when you sell your principal residence to claim the full principal residence exemption.

You do not have to pay tax on any capital gain when you sell your house if it was your principal residence for all the years you owned it and you did not earn any other income from it such as Rental Income.

RRSP for 2020 Tax Year

Deadline

This year, the RRSP contribution deadline for the 2020 tax year is **March 1st, 2021**.

Maximum contribution

The annual contribution limit is 18% of your earned income for the previous year. For 2020, the limit is **$27,230**.

Other elements to consider

Contributions to your employer's pension plan reduce the amount you can invest in your RRSP.
The unused contribution room (annual contribution limit, less contributions made) 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.

Tax-Free Savings Account

The Tax-Free Savings Account (TFSA) contribution limit for 2020 is $6000.

You can also carry forward any unused contribution room from previous years. The annual limits were $5000 for 2009-2012, $5500 for 2013-2014, $10,000 for 2015, $5500 for 2016-2018, and $6000 for 2019.

Shareholder Loans

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

- 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.
- 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.
- If the loan is received from a corporation that is in the money-lending business ex. money lending organization.

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

TAX TIME EXTENDED OFFICE HOURS
FEBRUARY 1 – APRIL 30, 2021

MONDAY-THURSDAY	9 am – 7 pm
FRIDAY	9 am – 1 pm
SATURDAY	10 am – 3 pm

Further Tax planning

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Potential Income Splitting with Family Members

Consider:

- Lending funds at a prescribed interest rates (currently 2% per year) to your spouse or common-law partner, or child aged 18 or over, for investment purposes, provided that the interest is paid within 30 days following the end of each year. The desired effect is for investment income to be taxed in the hands of the said individual.
- Gifting funds to your children aged 18 or over to potentially generate business income, capital gains or other income in certain circumstances.
- Hiring your spouse or common-law partner, or children, to perform services which would otherwise be performed by you or other employees.
- Reorganizing the family business to introduce other family members directly, or through a trust, as shareholders, beneficiaries, or partners.
- Investing in a Tax-Free savings account (TFSA) for you, your spouse, or children aged 18 or over.
- Contributing to a Registered Disability Savings Plan for a disabled child, grandchild, or other relative.
- Investing the Canada Child Benefit payments in designated investments for the benefit of a child.

… from current Tax Court Files

Business losses denied as not (yet) being a real business

In recent *Tremblay* decision of the Tax Court of Canada (2020 TCC 100), the CRA denied business expenses on the basis there was no real "business", and the court agreed.

Mr. Tremblay was an engineer with over 25 years of experience, who had been involved in developing new products and technologies related to mining and metallurgy, including processes for chemical treatment of sewage. From 2010-2013, while working for SNC-Lavalin, he also claimed substantial losses each year ($50,000 - $75,000) from a business he claimed to be running, trying to market sewage treatment technology.

The CRA reassessed Mr. Tremblay to deny his business losses, and he appealed to the Tax Court.

The judge concluded that Mr. Tremblay's "business" had not yet begun to operate during the years in question, and so he had no "source" of business income against which to deduct his expenses. The Court did not believe that the activities he undertook really were marketing activities. There was little evidence beyond Mr. Tremblay's own testimony (which was vague), and there was virtually no documentation such as a business plan or correspondence with his potential clients. As a result, the expenses, totaling over $230,000 over four years, were denied.