

Tax Letter

January 2023

2022 Personal tax info

The tax filing season is fast approaching... new credits, changes, and updates have been put into effect for the 2022 tax year

Tax Filing Deadline

The tax filing season will commence in February 2023. The tax filing deadline for 2022 tax year, for most Canadians, is May 1, 2023. The deadline is extended until June 15, 2023 for individuals that are self-employed, or have a self-employed spouse or common law partner.

Work-from-home expenses continue

Individuals that continued to work from home due to COVID measures, you may continue to claim the Work-from-home tax credit.

Count the total number of days you worked from home and multiply by \$2 per day, with a maximum allowable credit of \$500 for the 2022 tax year.

Canada Dental Benefit

The interim Canada Dental Benefit is intended to help lower dental costs for eligible families earning less than \$90,000 per year. Parents and guardians can apply if the child receiving dental care is under 12 years old and does not have access to a private dental insurance plan.

Depending on your adjusted family net income, a tax-free payment of \$260, \$390, or \$650 is available for each eligible child. This interim dental benefit is only available for 2 periods. You can get a maximum of 2 payments for each eligible child. Benefit payments are administered by the Canada Revenue Agency (CRA).

The first benefit period is for children under 12 years old as of December 1, 2022 who receive dental care between October 1, 2022 and June 30, 2023.

Ontario Staycation Tax Credit

This temporary refundable personal income tax credit encourages Ontario families to explore the province, while helping the tourism and hospitality sectors recover from the financial impacts of the COVID-19 pandemic.

Ontario residents can claim 20% of their eligible 2022 leisure stays of less than a month, regardless of timing of payment.

Examples include stay at a hotel, cottage, or campground, with limits of \$1000 per individual or \$2000 for a family, 20% of which may be refundable.

RRSP's

Deadline

The RRSP contribution deadline for the 2022 tax year is **March 1st, 2023**.

Maximum contribution

The annual contribution limit is 18% of your earned income for the previous year. For 2022, the limit is **\$29,210**. Please refer to the *RRSP Deduction Limit Statement* section of your notice of assessment for further info.

Types of Income

Both income and capital gains are taxable in Canada. All business, property, and employment income, whether active or passive, falls within the scope of Canadian taxation.

Fifty per cent of capital gains are included in income and, accordingly, only 50% of capital losses may be claimed against capital gains.



IMK

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TAX TIME EXTENDED OFFICE HOURS
FEBRUARY 1 - May 1, 2023

MON - TUES 9 am - 7 pm

WED - THUR 9 am - 5 pm

FRIDAY 9 am - 1 pm

SATURDAY 10 am - 3 pm

Taxing Luxury: Canada's New Luxury Items Tax

Canada's new tax on luxury cars, aircraft, and boats came into effect on September 1, 2022. The luxury tax was first announced in Budget 2021 as a tax measure targeting those "who can afford to buy luxury goods". The following is an overview of the said tax:

The luxury tax applies on the sale or importation of certain new cars, aircraft, and boats (referred to as *subject items*) valued over a certain *price threshold*. The *price threshold* is \$100,000 for cars and aircraft, and \$250,000 for boats. The tax is equal to the lesser of:

1. 10% of the total price of the subject item; and
2. 20% of the total price above the price threshold for the subject item.

The intent is for the luxury tax to apply on either the sale of a *subject item* to an end consumer, or the importation of a *subject item* by an end consumer. That is accomplished by way of a mandatory registration regime for persons who are manufacturers, wholesalers, retailers, or importers of *subject items* in the course of their business activities (notice the resemblance to the current administration of GST/HST).

Once registered, those *registered vendors* are able to purchase or import *subject items* without payment of the luxury tax. When a *registered vendor* makes a taxable sale to an unregistered purchaser, the luxury tax is payable by the vendor. An unregistered person who imports a *subject item* into Canada must pay the luxury tax to the Canada Border Services Agency (CBSA) upon importation.

... from current Tax Court Files

Shareholder loans should be income, but penalties reversed

In *Deyab*, the taxpayer was reassessed for approximately \$2.4 million of shareholder benefits received from M.D. Consulting 2005 Inc. ("M.D. Consulting") over the 2007 to 2011 years.

On December 21, 2020, the Federal Court of Appeal ("FCA") released its decision in *Deyab v Canada, 2020 FCA 222* ("*Deyab*"), partly overturning the decision of the Tax Court of Canada ("TCC"). The FCA's decision clarified that failing to document corporate withdrawals may justify the reassessment of a statute-barred taxation year but does not alone warrant the imposition of gross negligence penalties.

The taxpayer did not dispute that he and other family members received amounts from M.D. Consulting but argued that he was simply withdrawing money he had previously loaned to the company. However, the taxpayer failed to produce sufficient evidence documenting his advances of funds to the company and admitted that M.D. Consulting did not keep records of its shareholders' loan accounts.

The FCA did not accept that the withdrawals were loan repayments to the taxpayer. However, the assessment of gross negligence penalties for each of the 2007 to 2011 years was overturned, noting that the requirements for assessing gross negligence penalties are only met if the conduct of the taxpayer amounts to gross negligence that amount to intentional acting or indifference. Since the taxpayer maintained throughout the appeal that the company was simply repaying funds he had previously transferred to M.D. Consulting, there was no basis to conclude he knowingly failed to report the amounts as income from the company. Therefore, the taxpayer's insufficient recordkeeping justified reassessing otherwise statute-barred years but did not amount to gross negligence.

This case reinforces the heavy burden on the Minister to justify the imposition of gross negligence penalties. The FCA was clear that while insufficient record keeping may be evidence of carelessness that would permit reassessment of statute-barred years, that fact alone does not justify the imposition of gross negligence penalties.

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