

Kurt Rosentreter Tax Planning Tips Q3 2021



Tax Ticklers . . . some quick points to consider

- Access to the Canada Emergency Wage Subsidy (CEWS), Canada Emergency Rent Subsidy (CERS) and Canada Recovery Benefits has been extended to October 23, 2021.
- A recent poll of millennials (aged 25 to 40) found that the top reasons for creating an estate plan were: having a child (38%), the pandemic (17%), general life planning (13%), buying a home (6%), death in the family (6%), marriage or divorce (6%), travelling (4%), and chronic illness/medical issue (3%).
- The U.S. has recently stated that it intends to spend \$80 billion over ten years to address “sophisticated tax planning.”
- As of July 1, 2021, GST/HST applies to all platform-based short-term accommodations in Canada (such as those on Airbnb and VRBO).

Contents

Special Interest Articles

Tax Ticklers	1
Canada Emergency Rent Subsidy	2
CRA Collections: Business Impact	2
Travel Allowances	3
COVID-19 Medical Expenses	4
CERB Repayments	4
TFSA Excess Contributions	5
Will and Beneficiary	6
CRA or Scammer?	7
How Kurt Can Help You	8

Kurt's Comments:

Business traditionally conducted in person may have required changes (e.g. services provided virtually; curbside pick-up; delivery) during a lockdown. These changes may permit access to the lockdown subsidy as business continued in some form.

***Kurt's Comments:***

CRA can collect your tax liability by requiring your clients to pay them rather than you. To limit the business and operational issues arising from an RTP, steps should be taken proactively to communicate with CRA collections.

Canada Emergency Rent Subsidy (CERS) **More Clarification**

CERS provides support to businesses by covering a portion of rent and property ownership costs of qualifying property. The government has recently extended access to this program until October 23, 2021.

The CERS program has the following two components:

- the base CERS which subsidizes eligible expenses based on the applicant's revenue decline compared to pre-pandemic earnings; and,
- the lockdown support component, which provides an additional subsidy for eligible applicants subject to a lockdown under a public health order (due to COVID-19) that must shut their doors or significantly restrict their activities (25% of the revenue derived from the property from the prior period must have been earned from "restricted activities").

CRA Collections: **Potential Impact on Business**

As some businesses struggle with cash flow, they may be motivated to prioritize suppliers and other creditors ahead of CRA. A recent court case demonstrates CRA's power to collect tax arrears and the impact of CRA exercising this power on a business.

In a June 11, 2021 Court of Queen's Bench of Alberta case, the taxpayer had fallen into arrears in respect of both GST/HST and payroll remittances. Payment arrangements were entered into with CRA to assist in meeting the obligations. However, after failing to meet the agreed-upon terms, requirements to pay (RTPs) were issued to several of the taxpayer's clients.

The taxpayer advised CRA that it was considering receivership, which led to the seizure of assets and issuance of more RTPs. One client sent a letter to the taxpayer that noted that CRA had visited them personally to serve the RTP and implied that the taxpayer could be out of business or shut down. Further, the client noted that they were asked by CRA whether they could get their parts from alternate suppliers, and the client indicated that they were now considering doing so.

CRA Collections: (Continued)

RTPs are legal documents that require recipients (the taxpayer's clients in this case) to submit payment to CRA rather than the taxpayer. The RTP gives priority to CRA over most other creditors.

After the taxpayer had renegotiated a new payment plan, all RTPs were cancelled except for the one to its largest client. After struggling to meet the new payment plan and facing a new withholding liability, CRA once again issued RTPs. Shortly after, the taxpayer lost its largest client (the one that the sole RTP had been issued to previously).

Taxpayer loses

The court found that CRA and its agents did not owe a duty of care to the taxpayer, that there was no negligence, and that the government's actions did not unlawfully interfere with the economic relations of the taxpayer.



Travel Allowances: Limited Distance Covered

In a March 5, 2021 French Technical Interpretation, CRA commented on whether a travel allowance paid to employees on a per kilometre basis, but only up to a limited number of kilometres, could be a non-taxable allowance.

For the allowance to be non-taxable, it must be a reasonable allowance for the use of a motor vehicle when travelling in the performance of employment duties. Further, measurement of the use of the vehicle must be based solely on kilometres, or the allowance will be deemed unreasonable and therefore taxable.

First, CRA opined that placing a cap on the number of kilometres covered would not mean that the measurement was not based solely on kilometres. As such, it would not automatically be unreasonable.

However, the allowance could still be unreasonable since it may not be high enough in relation to the total motor vehicle expenses that the employee is expected to incur in the performance of their employment duties. If considered unreasonable, the allowance would be taxable.



Kurt's Comments:

Structure compensation for the employment use of an employee's vehicle carefully to ensure that any allowance received will not be taxable to the employee. A taxable assessment after the fact can create significant employee / employer issues.

COVID-19 Medical Expenses: Tax Treatment



Kurt's Comments:

Be sure to review wills and beneficiary designations when major life events or changes in the family occur. Death or critical illness/injury can arrive unexpectedly, limiting the possibility of estate planning updates that can compound the emotional strife of loved ones after an individual's passing.

Medical expenses eligible for a personal tax credit are limited to those specifically provided for by the Income Tax Act. While an expense may clearly relate to an individual's health, it may still not be an eligible medical expense. CRA recently provided comments on a number of medical expenses related to COVID-19.

Face masks

In a February 25, 2021 Technical Interpretation, CRA opined that the costs of a non-medical mask, that is mostly used to protect others from the wearer, would not likely qualify as a medical expense. However, in the specific situation where a medical practitioner prescribes a medical face mask or respirator for a patient to cope with or overcome a severe chronic respiratory or immune condition, the mask or respirator would likely be an eligible medical expense.

COVID-19 vaccines and tests

In an April 22, 2021 Technical Interpretation, CRA opined that a COVID-19 vaccination received outside of Canada and a COVID-19 test (for example, those required for travel) must be prescribed by a medical practitioner to potentially be eligible as a medical expense. CRA also reiterated that they do not have the discretion to waive the prescription requirement.

Leasing costs of temporary accommodations

In a January 19, 2021 Technical Interpretation, CRA stated that the leasing cost of a second condominium to protect a family member's health during the COVID-19 pandemic does not qualify as an eligible medical expense.

Canada Emergency Response Benefit (CERB) Repayments

Self-employed individuals whose net self-employment income was less than \$5,000 will not be required to repay CERB, as long as they met all other eligibility criteria.

Kurt's Comments:

If you repaid CERB for the above reasons, make sure to apply to have the amount reimbursed.

***Kurt's Comments:***

Under the facts (on the right) CRA does not believe they have the discretion to waive the penalty tax on an excess TFSA contribution. Even where they have that discretion, they often refuse to waive the tax. Care should be afforded to ensure not to make excess TFSA contributions, and if an error is made, it should be corrected as soon as possible.

Canada Emergency Response Benefit (Con't)

Individuals who have already repaid CERB due to their net income being less than \$5,000 (but meeting all other eligibility criteria) will need to apply by completing Form T180 to get reimbursed for their repayment. Eligible applicants can expect reimbursements within about 90 days of submitting their applications. It is estimated that approximately 6,500 individuals could receive this type of reimbursement. CRA has also noted that, if a taxpayer is reimbursed for their CERB payment repaid in 2020, CRA may reassess their 2020 tax return.

TFSA Excess Contributions

Individuals who contribute excess amounts into their TFSA are subject to a penalty tax of 1%/month on the excess amount for each month that the TFSA is overcontributed. However, CRA has the discretion to waive this penalty tax if the excess amount resulted from reasonable error and the excess contribution, plus any income or capital gains reasonably attributable to them, is withdrawn without delay.

CRA recently considered whether relief on this penalty tax could be provided where the value of the TFSA had reduced to nil. They opined that, as the excess contribution could not be withdrawn without delay, they would not have the discretion to waive the penalty tax. As such, the penalty tax would continue to apply until the individual accumulated enough additional TFSA room to cover the excess contribution.

Kurt's Comments:

Be sure to review wills and beneficiary designations when major life events or changes in the family occur. Death or critical illness/injury can arrive unexpectedly, limiting the possibility of estate planning updates that can compound the emotional strife of loved ones after an individual's passing.



Will and Beneficiary Designations: Are they current?

RRSP designations

A May 10, 2021 CBC article demonstrated the importance of reviewing RRSP beneficiary designations. The article discussed the unfortunate cascade of events where, in 2018, a 50-year-old individual went to the hospital for stomach pain and was diagnosed with cancer. He passed away three weeks later, leaving a spouse and a child. It appeared as if the deceased had not reviewed the designated beneficiary on his \$685,000 RRSP, which remained his mother from the time when he had originally set it up while single. Not only did this mean that the surviving spouse and child would not receive these savings, but also that they were effectively liable for the tax on the RRSP funds. Although the will included a clause making the spouse the 100% beneficiary of the estate, this did not override the RRSP beneficiary designation.

While the spouse and mother were able to settle and cover the tax bill with the proceeds of a life insurance policy, the case serves as a good reminder to review whether insurance and registered account beneficiary designations match the current intent of the parties.

Wills

In a March 16, 2021 Ontario Court of Appeal case, a dispute arose over the interpretation of a will regarding how proceeds from the sale of a cottage were to be distributed. As the deceased's daughters held a life interest in the cottage, the cottage was not sold until more than 40 years after the original owner's death. The proceeds from the sale of the cottage were to go to the grandchildren. However, within the 40-year period, one of the grandchildren passed away. At issue was whether the proceeds should be split among the four surviving grandchildren, or in five parts, with the deceased grandchild's estate and beneficiaries receiving a fifth.

The court used the "armchair rule," which seeks to interpret the will using the same knowledge that the testator had when making the will and determined that it should be divided into four.



CRA or Scammer: Who is it?

Most, if not all of us, have received a call from someone claiming to be from CRA. They may threaten arrest or other such actions if a tax bill is not immediately paid via iTunes or Bitcoin, for example. While some of these calls have become easier to identify as fraudulent, scamming techniques and systems constantly evolve.

On May 26, 2021, CRA released a Tax Tip which discussed why a taxpayer might be contacted by CRA, when to be suspicious, and how to report potential scams.

Some signs indicating that the caller may be a scammer include:

- they do not provide proof of CRA employment (such as a name and an office location);
- they pressure you to act immediately;
- they ask you to pay with gift cards, cryptocurrency or some other unusual manner;
- they ask for information not normally included on your tax return or not related to amounts owed CRA, such as a credit card number; and
- they recommend you apply for benefits and ask for related information.

To verify a caller is a CRA employee, CRA recommends that an individual:

- tell the caller that they first want to verify their identity;
- ask for, and note the caller's name, phone number, and office location;
- call the CRA phone number from the official CRA website to confirm that the call was legitimate; and
- call the CRA employee back.

To report a scam, go to antifraudcentre.ca or call 1-888-495-8501.

Kurt's Comments

Follow these instructions if you suspect a call is from a fraudster or scammer. Give us a call if you are uncertain how to respond to a call from CRA, whether or not it sounds legitimate.

KURT ROSENTRETER

Senior Financial Advisor
And Portfolio Manager
Manulife Securities Incorporated
President, Life Insurance Advisor
Upper Canada Capital

Manulife Securities Incorporated
302 – 3 Church Street
Toronto, Ontario M5E 1M2
Phone 416-628-5761 EXT 230
Fax: 416-225-8650
Kurt.rosentreter@manulifesecurities.ca

Find us on the Web:

www.kurtismycfo.com

www.uppercanadacapital.com

How Kurt and Team Can Help You with Taxes

- Oversee annual tax return preparation
- Thorough personal and business tax planning opportunity reviews
- Implementing life insurance to cover taxes at death
- Tax smart portfolio investment strategies
- Small business advanced tax planning
- Tax effective design of retirement cash flows
- Tax wise Will design
- Personal tax deductions and tax credits



UPPER CANADA CAPITAL
PRIVATE WEALTH MANAGEMENT



Upper Canada Capital is our trade name (i.e. business name) under which we offer all our services.

Upper Canada Capital is a trade name used for both securities business and insurance business.

Stocks, bonds, and mutual funds are offered through Manulife Securities Incorporated. Financial plans are offered through Manulife Securities Incorporated. Insurance products & services are offered through Upper Canada Capital Inc. and Manulife Securities Insurance Incorporated.

Mutual funds, stocks, bonds, GICs, and Financial Planning services are offered through Manulife Securities Incorporated. The opinions expressed are those of the author and may not necessarily reflect those of Manulife Securities Incorporated.

Insurance products and services are offered through Manulife Securities Insurance Inc. (a licensed life insurance agency and affiliate of Manulife Securities) by Manulife Securities Advisors licensed as life agents.

The opinions expressed are those of the author and may not necessarily reflect those of Manulife Securities Incorporated.

Manulife Securities Incorporated is a Member of the Canadian Investor Protection Fund.

Manulife, Manulife & Stylized M Design, Stylized M Design and Manulife Securities are trademarks of The Manufacturers Life Insurance Company and are used by it, and by its affiliates under license