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Your Guide to Tax-Saving Strategies

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TAXSTRATEGY

Yearly Wrap Up

Fall Tax Update

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I would have never predicted that my last article of 2020 would still be focused on COVID and various tax relief measures. Who would have thought that we would be back into another lock down in many parts of the country, 10 months after our first lock down? It's surreal. But here we are. And no 2020 Federal Budget yet. What we did get, however, was the 2020 Economic Fall Tax Update which was delivered by Finance Minister Chrystia Freeland on November 30, 2020.

Based on the Update, we can expect a deficit of \$381.6 billion for fiscal 2020-21 and forecasted deficits of \$121.2 billion for 2021-22 and \$50.7 billion for fis-

cal 2022-23. The Update outlined Canada's plan to fight the COVID-19 pandemic, support Canadians, and invest in a recovery that is inclusive, sustainable, and creates good jobs for Canadians.

Although the Update did not include any personal or corporate tax rate changes, it did include several measures affecting corporate and personal taxpayers, some of which are outlined below.

INCOME TAX - Individuals

Stock Options

As you may recall, the 2019 Federal Budget introduced new rules to limit the 50 per cent federal tax deduction on stock option shares to those shares having a maximum value of \$200,000 at the time the options are granted. The intent was that

this restriction would only apply to options issued by mutual fund trusts and large, mature companies (but not apply to companies that were Canadian Controlled Private Corporations CCPC), such that options in Canadian private companies would not be affected.

The Update provided some more detail in that it has provided an exception to the restriction for options issued by non-CCPC companies with annual gross revenues under \$500 million. In addition, employers will be able to deduct the amount of any stock option benefit included in an employee's income where the stock option deduction is limited (currently there is no deduction available to employers).

The new rules will apply to stock option agreements entered on or after July 1st, 2021.

Home Office Expense Deduction

Employees working from home in 2020 due to COVID-19 will be entitled to claim up to \$400 of home office expenses without having to track specific expenses. More details will be communicated in the coming weeks. This will be a welcome deduction, as currently an employee can only claim a deduction if they have signed Form 2200 by their employer, confirming that the expense was required for purposes of their job (and was not being reimbursed by the employer).

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The Canada Child Benefit (CCB) top-up

As of 2021, the CCB will be subject to tax free top-up payment of between \$600 and \$1,200 per child for families with children under the age of six.

Home Energy Retrofits

Starting December 1, 2020, a grant of up to \$5,000 will be available to homeowners who make energy-efficient improvements to their homes as well as free EnerGuide energy assessments.

INCOME TAX - CORPORATIONS

Canada Emergency Wage Subsidy (“CEWS”)

The Update increases the CEWS to a maximum of 75 per cent of eligible wages for the qualifying periods from December 20, 2020 to March 13, 2021 (i.e., periods 11 to 13). The maximum base subsidy remains at 40 per cent and the maximum top-up wage subsidy rate would increase to 35 per cent. Previously, this rate was scheduled to remain at a maximum of 65% until December 19, 2020. Program details have been released until March 13, 2021.

The Update also confirmed that the amount that can be claimed under the CEWS continues to be calculated based upon the revenue decline of the business. And effective December 20, 2020, a business must continue to use the same comparative benchmark it used from Period 5 (beginning on July 5, 2020) onwards. Support for furloughed employees has been extended until March 13, 2021

and can reach up to \$595 per employee, per week.

Canada Emergency Rent Subsidy (“CERS”)

Per the Update, the amount that can be claimed under the CERS continues to be calculated based upon the revenue decline of the business detailed in this table (i.e. a business must continue to use the same comparative benchmark they used for prior CERS periods which, would be the same as the comparative benchmark for CEWS used from Period 5 (beginning on July 5, 2020) onwards, if the CEWS was claimed). In short: if an entity elects to use an alternative method for computing its revenue decline under the wage subsidy, it must use that alternate method for the rent subsidy.

The CERS subsidy allows employers to claim on up to 65 per cent of eligible expenses as follows:

- Revenue decline of 70 per cent and over — 65 per cent
- Revenue decline of 50 per cent to 69 per cent— 40 per cent + (revenue drop – 50 per cent) x 1.25 (e.g., 40 per cent + (60 per cent revenue drop – 50 per cent) x 1.25 = 52.5 per cent subsidy rate)
- Revenue decline of 1 per cent to 49 per cent — Revenue drop x 0.8 (e.g., 25 per cent revenue drop x 0.8 = 20 per cent subsidy rate)

Canada Emergency Business Account (“CEBA”)

Non-interest bearing loans granted under CEBA will be increased by up to \$60,000 (from \$20,000). Applicants who have

received the \$40,000 CEBA loan may apply for the \$20,000 expansion, which provides eligible businesses with an additional \$20,000 in financing. All applicants have until March 31, 2021, to apply for \$60,000 CEBA loan or the \$20,000 expansion. If the loan is paid by December 31, 2020, \$20,000 will be forgiven (you should also note that this forgiven amount can result in income tax).

But there is a catch. The CEBA loan expansion criteria differs significantly from the original loan criteria first announced earlier this year. While similar rules exist requiring the funds to be used for non-deferrable expenses, the program now provides significant guidance as to exactly what the funds should and should not be used for. Furthermore, the expanded program requires the signing of an attestation that “knowingly submitting inaccurate information or documentation as part of the Existing Attestation or this Attestation could result in criminal penalties of up to 14 years’ imprisonment, as well as significant fines, and the court-ordered repayment of any monies advanced”. Yikes.

SALES TAX

Effective July 1, 2021, new GST/HST registration and collection requirements will apply to:

- Foreign-based vendors selling digital products or services to consumers in Canada; and
- Digital marketplace platforms (including digital platforms offering short-term accommodation). □