ACCOUNTING PLUS
CHARTERED PROFESSIONAL ACCOUNTANT

141 Wellington St., St. Thomas, ON N5R 2R8
mike@accountplus.ca
519.207.9345

Dear Valued Client,

I hope that this newsletter finds you well in this new year!

I would like to take this opportunity to thank you for your continued support. I take great satisfaction in helping clients navigate their various tax issues. This assistance can take many forms whether it be physical tax preparation, advocacy with the CRA, or planning and consultation. Underpinning the success of all these activities is good communication. As always, you are welcome to contact me with any questions or issues you may have.

I have included updates on current filing issues and information about some of the CRA credits and benefits that might be of interest. Notably, the **CRA has introduced 2 new filing requirements** that have implications for a small handful of tax payers. Both of the new filing requirements come with stiff financial penalties for non-compliance. The 1st section of my newsletter details more information about these filings, If you are unsure whether you might need to file one of these returns, please contact me for more information.

New CRA filing requirements

1. **New Trust filing requirements.** CRA has introduced new rules that will require the filing of a trust return in a couple of situations that were previously exempt. The **filing deadline for these trusts is April 2nd, 2024**. If you feel that any of the following circumstances pertain to you or are uncertain, please contact my office ASAP. The initial filing of a trust return can be a lengthy process, late filing & gross negligence penalties can be steep. The government has been in consultation regarding these changes for some time but have unfortunately been unclear about many of the details until recent months. Common situations that would require the filing of a trust return are:
    a. **Holding title on a property for someone else** who is the beneficial owner of the property. This is a common occurrence when a parent is helping their child purchase a home and cannot qualify for a mortgage. Or is the case when a parent purchases a property for a child in the parent's name to shield the property from issues surrounding divorce or challenges with a child's disability.
    b. **Investments held in trust** for children/grand children etc., These arrangements are quite common for minor children. As long as the fair market value of the trust does not exceed $50,000 in the year the trust is exempt from filing. This exemption is only allowed as long as the trust only holds cash, stock, segregated or mutual funds.
    c. **Probate or estate planning.** This could include:
        i. Investments held jointly
        ii. Properties held jointly
        iii. Bank accounts held jointly

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This list is not inclusive of all scenarios but are the most common examples of trusts that are affected by the new rules. CRA has not been definitive on whether probate and estate planning trusts need be included, as a result current best practice is to file these returns in order to avoid costly penalties.

2. **Underused housing tax.** CRA introduced the underused housing tax for the 2022 tax year. Requirements to file a return were initially postponed until Oct 31st, 2023 and have now been extended to April 30th, 2024. The standard due date for these returns is April 30th, of the following year. Generally speaking the UHT was introduced to levy a tax on foreign owners that left properties in Canada vacant. However, the filing requirements included Canadian Private Corporations, Business partnerships and trusts who owned property in Canada. While these entities were not required to pay a tax, steep penalties were set out for non-filing. The government has since recognized that the lack of clarity surrounding the program has caused much confusion and frustration on the part of tax payers and their accountants. They have since reduced the penalties for non-compliance for this group and are working towards exempting this group from future filings. However the requirement to file a return for the 2022 year is still in place. **Entities holding residential property in Canada on 12-31-2023 that are required to file a return are:**
    a. **Canadian Controlled Private Corporations**
    b. **Canadian Partnerships.** A quick caution, you may not consider yourself a partner in a partnership; however If you filed your business or rental returns as a partnership, this may apply to you.
    c. **Resident Canadian Trusts (see above section on trusts).** These include "bare trusts". A bare trust exists where there is an undocumented agreement to hold something in trust for another. This is frequently the case when a property is purchased in the name of a parent, and held for a child or grandchild.

General updates & reminders

- **Personal tax return deadline**. The due date for 2023 tax returns and payments is Tuesday, April 30, 2024. Self-employed have until Monday, June 17, 2024 (since June 15th is a Saturday to file their 2023 tax returns, but any amounts owing must still be paid by April 30th.
- **Late payments.** The interest rate for late instalment payments and tax balance due payments is going up to 10% on January 1, 2024. Best to always make payments on time!
- **TFSA withdrawals.** The 2024 contribution limit has been increased by $7,000. A TFSA withdrawal in any year increases the TFSA room in the **following calendar year**.
- **RRSP contributions.** The contribution deadline for the 2023 income tax year is February 29th, 2024. A quick cautionary fact, If you transfer shares or other investments on which you have a ***loss*** to a registered account, ***the loss will not be deductible***. If you transfer shares

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or other investments on which you have a ***gain*** to a registered account (or to someone else's account), you will have a ***taxable capital gain.***

- **Tax-free first home savings account.** This is a new registered account that would allow for **tax deductible contributions** of up to $8000 annually and $40,000 in total contributions. Withdrawals from the plan (including income earned in the plan) to purchase a first home would not be taxable. These accounts became available in 2023.
- **CRA my account.** You can use CRA my account to check the status of your income tax return, retrieve notice of assessments, review account balances and benefit entitlements along with many other features. Transfers between accounts can also be reviewed from this site. CRA will often transfer credits from one account to pay a balance owing in another.
- **Changes in relationship status.** Whenever, a persons relationship status changes (single, common law, married, separated, divorced or widowed) they must notify the CRA. Many benefits including the GST/HST rebate, the carbon tax rebate, trillium benefit and child tax benefit are calculated using your family income. CRA considers your relationship to be common law in any of the following situations:
    1. This person has been living with you in a relationship for at least **12 continuous months**
    2. This person is the parent of your child by birth or adoption
    3. This person has custody and control of your child (or had custody and control immediately before the child **turned 19 years** of age) and your child is wholly dependent on them for support

You can notify the CRA about your new marital status and the date of the change by using one of the following options: use the “Change my marital status” service in My Account. select “Marital status” in the MyBenefits CRA or MyCRA mobile apps. call 1-800-387-1193.

<u>CRA tax issues, benefits & credits</u>

- **Short term rentals.** It is proposed that, effective Jan 1, 2024, no expense deductions will be allowed for short-term rentals in areas that have prohibited short-term rentals, or when the rental operators are not compliant with applicable provincial or municipal licensing, permitting or registration requirements.
- **Property flipping.** The government is focusing on property sales and the way in which they are reported on your income tax. Areas of audit include the HST rebate on newly built homes & the principal residence exemption claimed against the gain on the sale of a property. It is worth mentioning that, profits on the sale of a residential property are fully taxable as business income, not capital gains, and no principal residence exemption will be allowed for residential property **owned for less than 12 months.** The property flipping rule applies to properties sold on or after January 1, 2023. There are limited exemptions to this rule based on changing life circumstances such as marriage, divorce, deaths in the family, etc. Properties used for rental or other income generating purpose are typically subject to capital gains treatment, as there intended use is long-term and capital in nature.

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- **Canadian dental care plan.** The Canadian Dental Care Plan (CDCP) has been designed to ease financial barriers to accessing oral health care for eligible Canadian residents who:
    a) have an annual adjusted family net income of less than $90,000 and
    b) don't have access to dental insurance

  For 2023 and subsequent years, there are new Boxes on T4 and T4A slips to indicate whether the employee or pensioner has dental insurance coverage available to them by the employer/payer.
- **Canada caregiver amount tax credit.** If you support an infirm spouse, eligible dependant or other dependant, you may be able to claim a non-refundable tax credit, even if they are not eligible for the disability tax credit. The dependant does not have to be financially dependent on you.
- **Enhanced GST rebate on new purpose built rental housing.** This enhancement increases the GST Rental Rebate from 36 per cent to 100 per cent and removes the existing GST Rental Rebate phase-out thresholds for purpose-built rental housing projects. The enhanced GST Rental Rebate will apply to projects that begin construction on or after September 14, 2023, and on or before December 31, 2030, and complete construction by December 31, 2035.
- **Donating shares and capital gain elimination.** Capital gains are deemed to be zero when certain types of capital property are donated to qualified donees (see the CRA definition for a qualified donee). The **taxable capital gain is eliminated** for this type of donation made after May 1, 2006. Following is a list of qualifying investments:
    a) a share, debt obligation or right listed on a designated stock exchange
    b) a share of the capital stock of a mutual fund corporation
    c) a unit of a mutual fund trust
    d) an interest in a related segregated fund trust
    e) certain ecologically sensitive land

A quick note, as part of my services I assist my clients with any Canada Revenue Agency inquires that may come about. Often, CRA will reach out to me directly; however, if you are contacted with a request for more information and would like assistance or clarification please do not hesitate to ask.

Warm regards,

Mike Kroekenstoel CPA, CGA