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TaxNewsFlash

Canada

Get a Head Start on Your 2021 Personal Tax Roundup

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As 2021 begins to wind down, it's a good time to take a closer look at your finances and think about if there are any ways to improve your tax position. As many of us continued to work from home in 2021, you should consider taking stock of any COVID-19 support you benefitted from earlier this year, and gather any records of home office expenses. In any case, it is helpful to consider available opportunities and planning choices before the end of this year to ensure you are achieving your financial goals in a tax effective manner.

This publication outlines important issues, deadlines and tax tips that you should consider in order to make the most of your potential tax savings opportunities for 2021, and includes an appendix outlining the 2021 top marginal income tax rates for individuals in each province/territory. While these suggestions can be helpful when considering your annual tax return, don't forget that scheduling regular reviews can ensure your tax planning is effective all year round.

Top tax issues you should consider before 2021

- Your tax deadlines
- COVID-19 considerations
- Your investments
- Your family tax situation
- Your retirement and estate planning
- Other planning opportunities.

Tax deadlines

Meet upcoming deadlines to achieve 2021 tax savings

In some cases, you only have until December 31, 2021 to make payments that could be eligible for tax deductions or credits on your 2021 income tax return. Other payments due during the first 60 days of 2022 may also be eligible for 2021 tax savings. Ensure you are aware of the upcoming deadlines:

Payments due by December 31, 2021

- Charitable gifts
- Medical expenses
- Union and professional membership dues
- Investment counsel fees, interest, and other investment expenses
- Certain child and spousal support payments
- Political contributions
- Deductible legal fees
- Interest on student loans
- Contributions to your RRSP if you turned 71 during 2021 (you will also have to wind up your RRSP by this date).

Payments due by January 30, 2022

- Interest owed on intra-family loans
- Interest payable by you on loans from your employer, to reduce your taxable benefit.

Payments due by February 14, 2022

- Reimbursement of personal car expenses to your employer to reduce your taxable operating benefit from an employer-provided automobile.

Payments due by March 1, 2022

- Deductible contributions to your own RRSP or a spousal RRSP
- Contributions to provincial labour-sponsored venture capital corporations
- RRSP repayments under a Home Buyers' Plan or a Lifelong Learning Plan.

COVID-19 considerations

Prepare to report government assistance

If you received government assistance as a result of the COVID-19 pandemic, you should be prepared to report these payments and pay tax on them, just like regular income. In particular, if you stopped working because of the pandemic and received the Canada Recovery Benefit (CRB), Canada Recovery Sickness Benefit (CRSB) or Canada Recovery Caregiving Benefit (CRCB), you must report these taxable benefits on your 2021 income tax return. The government provided a T4A tax slip to individuals to report these payments last year and could do the same this year.

If you received a federal COVID-19 benefit in 2020 such as the CRB, CRSB or CRCB but repaid it in 2021, you can either request an adjustment to claim a deduction for this repayment on your 2020 income tax return, or claim a deduction on your 2021 income tax return. For more details, see *TaxNewsFlash-Canada* 21-21, "2021 Federal Budget Highlights".

Keep your receipts to claim home office expenses due to COVID-19

If your employer asked you to work from home during the COVID-19 pandemic, you may be able to claim home office expenses for work spaces and home office supplies, as long as your employer doesn't directly reimburse these expenses. Although the CRA has not yet updated its guidance on home office expenses for 2021, you should maintain full records of any work space expenses and keep receipts for any eligible home office supplies just in case the CRA says you need them to claim deductions for the 2021 tax year.

In its 2021 federal election campaign, the Liberal Party promised to extend the simplified home expense deduction introduced for 2020 through the 2022 tax year and increase the maximum deductible amount to $500 (from $400). For more details, see *TaxNewsFlash-Canada* 21-46, "New Tax Changes May Follow 2021 Federal Election". Note that the CRA has not yet confirmed these changes in updated guidance for 2021.

Last year, the CRA expanded the list of eligible expenses to include home internet access fees and introduced a temporary flat rate method to claim home office expenses for 2020. If you used this simplified method, you were able to claim up to $400 without supporting documentation, and without a completed and signed Form T2200, "Declaration of Conditions of Employment" or Form T2200S, "Declaration of Conditions of Employment for Working at Home Due to COVID-19". For more details, see *TaxNewsFlash-Canada* 20-92, "Employees — Claim Home Office Expenses for 2020".

Your investments

Maximize your TFSA contribution

You can contribute up to $6,000 into a TFSA for 2021, so long as you are 18 or over and resident in Canada. If you have not made any TFSA contributions in previous years and are 30 or older in 2021, you may be able to contribute a total of $75,500.

If you need to withdraw funds from your TFSA, consider doing so by the end of the year rather than deferring to early 2022, because these withdrawals are not added to your TFSA contribution limit until the beginning of the year following the year you made the withdrawal. For example, if you withdraw $5,000 from your TFSA in December 2021, your TFSA contribution limit will be increased by $5,000 in January 2022. However, if you withdraw $5,000 from your TFSA a month later in January 2022, your TFSA contribution limit will not be increased by $5,000 until January 2023.

Sell investments with unrealized capital losses/gains

If you own investments with unrealized capital losses, consider selling them before year-end to realize the loss and apply it against any net capital gains you realized during the year, or in the past three years. However, when selling these investments, it's important to comply with special tax rules designed to stop the artificial creation of tax losses (e.g., the superficial loss rules). If you intend to do any last-minute 2021 trades, consider completing all trades on or before December 20, 2021, and confirm the settlement date with your broker.

If you have investments with unrealized capital gains but no capital losses to offset the capital gains, consider whether it may be beneficial for you to sell those investments after 2021, so that you will be taxed on the gains in 2022 instead of this year.

On the other hand, you may want to consider whether it may be beneficial for you to sell investments with unrealized capital gains now. Although an increase to the capital gains inclusion rate was not part of the Liberal Party's 2021 federal election campaign platform, there has been media speculation of a possible increase. It is important to note that selling now may not make sense if you are not already thinking of selling those investments in the near future because you will be paying taxes earlier than you otherwise would.

In each case, tax considerations should not override your investment decisions.

Your family tax situation

Consider income splitting loans with your family

The CRA's low prescribed interest rate offers an opportunity for you to enter into income splitting loan arrangements with family members or a family trust. By locking into a family loan at the 1% rate on or before December 31, 2021 and by having a family member or family trust invest the borrowed funds at a higher rate of return, you can transfer future investment income earned on the funds to your spouse or another family member who has little or no other income and thus pays little or no tax. If properly implemented, you can effectively arrange for all investment income earned over 1% to be taxed at the lower-income-earning family member's tax rate while the loan is outstanding.

Note that income splitting loans between an individual and a private company may be subject to the Tax on Split Income (TOSI) rules.

Time your out-of-province/territory move

If you are planning on moving to another province/territory, remember that your province/territory of residence on December 31, 2021 may be the one that you pay your taxes to in respect of all income earned in 2021. If you're moving to a higher-tax province/territory, you may want to delay your move until the new year, if possible. If you're moving to a lower-tax province/territory, you may want to take up residence there by

December 31, 2021. Please see the Appendix for the top marginal income tax rates for individuals in each province/territory.

Report information about your home sale

If you sold your principal residence this year you must disclose and report certain information about the sale in your 2021 personal income tax return. Keep any documents related to the sale on-hand for when you prepare your personal income tax return. If you fail to report the sale as required, the sale may become taxable because you won't qualify for a "principal residence exemption" on any capital gain that arises from the sale.

Your retirement and estate planning

Make your RRSP contribution

You have until March 1, 2022 to make your RRSP contribution for 2021. Keep in mind these three factors that limit the amount you can contribute:

- A dollar limit ($27,830 for 2021 and $29,210 for 2022)
- A percentage of your previous years' "earned income" (18%)
- Your pension adjustment (which represents the notional value of pension contributions made by you and your employer in the year).

Deducting your RRSP contribution when computing your taxable income reduces your after-tax cost of making that RRSP contribution. For example, if the top marginal income tax rate applies to you, and you are a resident of Nova Scotia (where the combined top marginal income tax rate is 54%), a $1,000 RRSP contribution only costs you $460, after tax savings.

If you contributed more than the maximum to your RRSP, you need to consider how you can withdraw your overcontributions. It is important to note that, at any one time, up to $2,000 can be overcontributed without penalty. However, any amount above this $2,000 threshold is subject to a penalty tax of 1% per month until the excess is withdrawn.

Check whether its time to wind-up your RRSP

If you turned 71 in 2021, you need to wind-up your RRSP by December 31, 2021. Remember that, in this situation you only have until December 31, 2021 (not March 1, 2022) to make a contribution to your RRSP for 2021.

Gather information for new trust reporting requirements

If you have a family trust, you may need to gather information for the new trust reporting requirements applicable to taxation years that end on or after December 31, 2021, even if the trust has no income and no activity. These additional T3 return reporting requirements include the name, address, date of birth, jurisdiction of residence and taxpayer identification number (e.g., SIN) of the settlor, trustees, beneficiaries (including contingent beneficiaries) and protector. For more details, see *TaxNewsFlash-Canada* 20-81, "Prepare for Upcoming Trust Reporting Rules".

Although these new trust reporting requirements have not yet been included in a bill, you should contact your KPMG Tax Advisor as soon as possible to help you gather the necessary information because these requirements are very onerous and there are stiff penalties for failing to file.

Other planning opportunities

Contribute to RESP

If you have an RESP for a child, you can contribute up to $2,500 annually to receive a 20% government grant under the Canada Education Savings Grant (CESG) program. The grant is worth up to $500 per year (to a maximum of $7,200 per beneficiary) for each year a beneficiary is under 18. If you do not make the maximum contribution this year, you can still carry forward entitlement to the grant to a later year (within restrictions). Where entitlement is carried forward, the total CESG per beneficiary per year is capped at $1,000 or 20% of the unused CESG room, whichever is less.

Plan your charitable donation

Did you know that there are potential tax savings available to you when you make a charitable donation? For example, if you live in British Columbia, a $1,000 charitable donation could save you $406 in federal and provincial tax, assuming your income is under $216,512.

If you are considering making a charitable donation before the end of 2021, see *TaxNewsFlash-Canada* 21-52, "Make Your 2021 Charitable Gifts Go Further".

Reduce the taxable benefit for your company car

If you drive an automobile that is owned or leased by your employer, you might be able to reduce the taxable benefit for your use of the car in 2021. The taxable benefit is made up of two elements: a standby charge and an operating cost benefit. The standby charge is based on the cost of the automobile to your employer (or the leasing cost, if it is leased). If certain conditions are met, your employer can reduce your standby charge to a percentage equal to your personal-use kilometres driven divided by 20,000 (assuming the car was available to you for the full 12 months).

The standby charge may also be reduced by any reimbursement you make in 2021 for your use of the car other than reimbursements of operating costs. If you think you may qualify for a reduced standby charge, be sure to contact your employer to discuss these opportunities well before your employer issues T4 slips for 2021 at the end of February 2022.

If your employer pays any operating costs during 2021 for your personal use of an employer-provided car, make sure you fully reimburse your employer by February 14, 2022, otherwise your taxable benefit for operating costs will be 27¢ per kilometre of personal use for 2021 (less any partial reimbursement).

As a result of the COVID-19 pandemic, note that your employer can use your 2019 automobile usage to determine whether:

- Your employer-provided automobile is eligible for the reduced standby charge in 2021
- Your operating cost benefit can be calculated as 50% of your standby charge in 2021.

Complete luxury vehicle, aircraft and boat purchases now

If you bought or are planning to buy a luxury vehicle, personal aircraft or boat, you may want to complete your purchase and ensure the goods are delivered or imported by December 31, 2021, where possible. The 2021 federal budget introduced a new tax on certain new luxury goods that is expected to apply as of January 1, 2022. The new tax is equal to the lesser of:

- 10% of the total sale price of the vehicle, aircraft or boat, or
- 20% of the total sale price in excess of $100,000 for vehicles and aircrafts, and in excess of $250,000 for boats.

GST/HST would also apply on the final sale price of these luxury goods, inclusive of the proposed new tax. Imported vehicles, aircraft and boats are also subject to this new tax. Although Finance has not yet released draft legislation for this measure, specified vehicles, boats and aircraft delivered or imported after December 31, 2021 which were sold under a written agreement entered into on or after April 20, 2021 may be subject to the proposed new luxury tax, according to the proposed framework for these rules. For more details, see *TaxNewsFlash-Canada* 21-44, "Vendors — Have Your Say on Upcoming Federal Luxury Tax".

Pay your tax instalments

If you have to pay your 2021 personal tax in instalments, avoid interest and penalty charges by paying your final instalment by December 15, 2021. If you're behind on your 2021 instalments, you can reduce or eliminate non-deductible interest and penalties by making a "catch-up" and advance payment now (or any time before December 15). If you make an extra or early instalment payment, you can offset some or all of the non-deductible interest that you would have otherwise been assessed.

Make a taxpayer relief request

You have until December 31, 2021 to make a taxpayer relief request related to 2011. The December 31 deadline specifically applies to relief requests that relate to the 2011 tax year, as well as any interest that accrued during the 2011 calendar year for any tax year.

We can help

Even though you only have to file your tax return once a year, taking tax planning steps throughout the year will help you save money at tax time. Your KPMG Tax Advisor can help you review your personal or business tax situation and help you decide which steps you can take before the year-end to help you with the taxes you'll pay for 2021.

Appendix

Combined Top Marginal Income Tax Rates for Individuals — 2021

	Interest and Regular Income	Capital Gains[1]	Eligible Dividends	Non-eligible Dividends
British Columbia	53.50%	26.75%	36.54%	48.89%
Alberta	48.00	24.00	34.31	42.30
Saskatchewan	47.50	23.75	29.64	42.29
Manitoba	50.40	25.20	37.79	46.67
Ontario	53.53	26.76	39.34	47.74
Quebec	53.31	26.65	40.11	48.02
New Brunswick	53.30	26.65	33.51	47.75
Nova Scotia	54.00	27.00	41.58	48.27
Prince Edward Island	51.37	25.69	34.23	46.22
Newfoundland and Labrador	51.30	25.65	42.62	44.59
Yukon	48.00	24.00	28.93	44.04
Northwest Territories	47.05	23.53	28.33	36.82
Nunavut	44.50	22.25	33.08	37.79

Notes

(1) The lifetime capital gains exemption limit for qualified farm property, qualified fishing property and qualified small business corporation shares increased to $892,218 (from $883,384) for 2021. An additional lifetime capital gains exemption of $107,782 is available for qualified farm or fishing property disposed of in 2021.