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Inform

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A newsletter from Ritchie Shortt & Tully LLP Chartered Professional Accountants

Access to the small business deduction

Beginning January 1, 2019, federal access to the small business deduction for Canadian Controlled Private Corporations (CCPCs) will be reduced by $1 for every $5 of passive income earned in each taxation year that ended in the previous calendar year in excess of $50,000. In general terms, passive income includes income received in the form of interest, dividends, rent, royalties and capital gains. Passive income may be excluded if it is incidental to the active business, or if it is received from an associated corporation as part of active business activities. Capital gains may also be excluded if the gain is from the sale of active business assets, shares in a CCPC that has an active business, or an interest in a partnership that carries on active business activities.

Recovering refundable taxes

Higher tax rates are paid on passive income and on income in excess of the small business deduction. A portion of the taxes paid at the higher rates is accumulated as Refundable Dividend Tax on Hand (RDTOH) and is recoverable by the corporation upon the payment of dividends to shareholders. New rules have come into effect for all fiscal years beginning on or after January 1, 2019. Under the new rules, RDTOH will be divided into two categories, eligible and non-eligible RDTOH accounts. Recovering refundable taxes will generally require the payment of non-eligible dividends (which carry a higher personal tax burden than eligible dividends). Eligible RDTOH will track refundable taxes paid under Part IV on eligible portfolio dividends. The payment of non-eligible dividends can result in a refund from the eligible RDTOH account only when there is no balance left in the non-eligible RDTOH account. Otherwise, the payment of eligible dividends will result in a refund from the eligible RDTOH account only.

Accelerated Capital Cost Allowance (CCA)

The 2018 Fall Economic Statement introduced a temporary enhancement of the first year of CCA on most capital assets acquired from November 21, 2018 to December 31, 2027. The "half year rule", which had previously limited the CCA on assets in the year of purchase to 50% of the regular rate for that class, will be suspended during this period. In addition, the available CCA deduction will be increased by 50%. This will result in a deduction that is three times what would previously have been allowed on newly purchased assets.

For manufacturing and processing equipment acquired between November 21, 2018 and December 31, 2023, a full deduction may be available in the year of acquisition. This will be reduced to 75% for eligible equipment purchased in 2024 or 2025, and to 55% for 2026 and 2027. Similar temporary enhancements have been set up for Clean Energy Equipment.

New CCA Classes 54 and 55 provide for accelerated CCA of 100% for zero-emission vehicles.

Zero-Emission Vehicles

A federal incentive of up to $5,000 is now available to individuals and businesses that purchase or lease a zero-emission vehicle on or after May 1, 2019. An individual is limited to only one incentive per year while a business can receive up to ten incentives per year. The dealership is responsible for completing the required documentation for this claim.

2020 Federal and Ontario Combined Corporate Income Tax Rates

Canadian Controlled Private Corporations		Other Corporations	
Small Business Income (up to $500,000)	**Investment Income*** **	**General Manufacturing and Processing Income**	**General Active Business Income**
12.20%	50.20%**	25.00%	26.50%

**30.667% of investment income is eligible for refund at a rate of $1 for every $2.61 of dividends paid.

***Canadian taxable dividend income (not from a connected corporation) is taxed federally only under Part IV at a rate of 38.33%. This tax is eligible for refund at a rate of $1 for every $2.61 of dividends paid.

Housing Initiatives

First-Time Home Buyer Incentive

The 2019 Budget introduced a new First-Time Home Buyer Incentive (FTHBI) in effect at the end of 2019. The FTHBI provides first-time home buyers with the opportunity to lower their borrowing costs by entering into a shared equity mortgage of 5% or 10% with the Canada Mortgage and Housing Corporation (CMHC). This is an income-tested program where combined qualifying annual income cannot exceed $120,000. A first-time home buyer is a person that has never purchased a home before, or has recently experienced a breakdown of a marriage or common-law partnership, or has not occupied a home that either they or their spouse/common-law partner have owned in the last 4 years. While this arrangement is non-interest bearing, CMHC would own an interest in the property and any corresponding value increases/decreases to that property.

Home Buyers' Plan

The 2019 Budget increased the amount that may be withdrawn from an RRSP under the home buyers' plan from $25,000 to $35,000. First-time home buyers can withdraw from their RRSP to buy or build a home before October 1 of the year following the year of the withdrawals. The withdrawals must be repaid within fifteen years.

Canada Pension Plan (CPP)

The details for Bill C-26's change to increase CPP contributions gradually between 2019 through to 2025 have been released. In phase 1 of this change, the 4.95% base employee/employer contribution rate increased to 5.10% in 2019, and will increase to 5.25% in 2020, 5.45% in 2021, 5.70% in 2022 and 5.95% in 2023. The increased contributions will still be eligible for a non-refundable tax credit for the employee. Phase 2 will begin in 2024 and 2025, and will require additional contributions at a rate of 4% on earnings in excess of the Year's Maximum Pensionable Earnings. The excess contributions would be eligible for a deduction against income for the employee. The employer is able to deduct the contributions under both phases.

Personal Real Estate Corporations (PREC)

On November 19, 2019, the government introduced the *Trust in Real Estate Services Act, 2019* in the Ontario legislature. If passed, it would update the *Real Estate and Business Brokers Act, 2002,* the legislation that sets out rules that govern Ontario's real estate salespersons, brokers and brokerages. The new provisions (if passed) would allow real estate agents to incorporate and to be paid through a corporation. Future regulations will outline the conditions and restrictions under which this might take place, but it is expected that the ownership of 100 percent (or at a minimum a majority of shares) be owned by the real estate professional. The new laws are not likely to come into effect until 2021. If the laws are passed, the biggest advantage that real estate professionals can expect from incorporation in Ontario is a tax deferral opportunity. In Ontario, the corporate small business tax rate in 2020 is 12.2% (on the first $500,000 of taxable income). When you compare this rate to the 53.53% rate for earners in the top personal tax bracket, there is a deferral of tax.

2020 Combined Federal and Ontario Tax Brackets for Individuals

Taxable Income	Regular Income %	Ineligible (Private Corporation) Dividends %	Eligible Canadian Dividends %	Capital Gains %
$ 0 to $ 44,740	20.05	9.24	0.00	10.03
$ 44,741 to $ 48,535	24.15	13.95	0.00	12.08
$ 48,536 to $ 78,783	29.65	20.28	6.39	14.83
$ 78,784 to $ 89,482	31.48	22.38	8.92	15.74
$ 89,483 to $ 92,825	33.89	25.16	12.24	16.95
$ 92,826 to $ 97,069	37.91	29.78	17.79	18.95
$ 97,070 to $150,000	43.41	36.10	25.38	21.70
$150,001 to $150,474	44.97	37.90	27.53	22.48
$150,475 to $214,368	47.97	41.35	31.67	23.98
$214,369 to $220,000	51.97	45.95	37.19	25.98
$220,001 and up	53.53	47.74	39.34	26.76

(This table does not include the Ontario Health Premium.)

CRA tax tips for protecting your personal information

- Sign up for My Account or My Business Account.
- Set a unique Personal Identification Number which must be provided to a call centre agent.
- Verify the identity of a caller claiming to represent the CRA by requesting their name, badge number, work section and office location and tell them you want to first verify their identity. Then contact CRA at the individual (1-800-959-8281) or business (1-800-959-5525) inquiries line.

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