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As the year winds down, we wanted to take a moment to express our appreciation for your continued partnership.

Throughout the year, we have strived to exceed your expectations, and we are committed to continuing this standard of excellence in the coming year.

Looking ahead to 2024, we are excited about another year of growth and mutual success and the opportunities the new year will bring.

From everyone at McCann & Roque, we wish you and your loved ones a joyous holiday season and a prosperous new year.

Happy Holidays,

Altan Roque & Marcia McCann

Closing Dates - Please note our Holiday closure will begin at the end of the day on Thursday, December 21st and we will reopen on Tuesday, January 2nd.

Payroll Services over the Holiday period - Following the timelines and instructions provided to you by the payroll department means our staff can minimize the time needed to ensure everyone's payroll is paid on time through the Holiday closure. Please don't forget to send any payroll emails to payroll@mrcpas.ca as this is the only email monitored during this time period.

ENHANCED FIRST-YEAR CCA: PHASE-OUT AFTER DECEMBER 31, 2023

Over the past several years, several incentives permitting enhanced CCA claims in the year property first becomes available for use have been implemented. Claiming the enhanced first-year CCA provides a tax deferral by accelerating the deduction. The phase-out of these incentives will begin for assets that become available for use after December 31, 2023.

Immediate expensing property (IEP) Many capital assets, other than those with particularly long lives (such as buildings), are eligible IEP. This includes assets used in a business such as vehicles and equipment. CCPCs that acquire IEP that becomes available for use by December 31, 2023, can claim up to 100% CCA on the IEP. The same end date applies to property acquired by eligible Canadian partnerships that had at least one member that was not an individual. No claim is available under this provision after this date.

For individuals and other eligible Canadian partnerships (where all members are eligible individuals), the property must be made available for use by December 31, 2024.

ENHANCED GST RESIDENTIAL RENTAL REBATE: INCREASED INCENTIVES

On September 14, 2023, the Department of Finance provided details on a proposal to enhance the existing GST rental rebate. In general, the existing rebate provides a 36% rebate of the GST component of the price paid by landlords to construct, or purchase newly constructed, rental property. The existing rebate begins to be phased out for properties valued at over \$350,000 and is eliminated at \$450,000.

The proposal would increase the rebate from 36% to 100% and remove the phase-out thresholds for properties with a value over \$350,000. The proposal would apply to certain rental housing projects that begin construction between September 14, 2023 and December 31, 2030, inclusive, and complete construction by December 31, 2035.

Accelerated investment incentive property (AIIP) – general Most capital assets are eligible AIIP. AIIP property that is not manufacturing and processing (M&P) or clean energy equipment is eligible for triple the usual CCA claim available in the year of acquisition. For property that becomes available for use after December 31, 2023, this will decline to twice the usual CCA available in the first year. For property made available for use after December 31, 2027, no enhancement will be available.

Zero-emission property and manufacturing and processing (M&P) or clean energy equipment The 100% CCA deduction applicable to zero-emission vehicles, zero-emission automotive equipment and AIIP that is either M&P or clean energy equipment is only available for property that becomes available for use by December 31, 2023. Property that becomes available for use by December 31, 2025 will be subject to a maximum 75% first-year CCA deduction. Property that becomes available for use in the following two years will be subject to a 55% maximum.

ACTION: Many assets acquired and made available for use by December 31, 2023 will be eligible for an enhanced first-year CCA claim. When the asset is made available for use after this date, enhanced CCA may still be available but at a much lower rate.

To qualify for the enhanced rebate, new residential units would need to meet the requirements for the existing rental rebate and be in buildings meeting the following criteria:

- the property must contain at least four private apartment units (units must have a private kitchen, bathroom and living area) or at least 10 private rooms or suites (examples of residences for students, seniors and people with disabilities were provided); and
- at least 90% of the residential units in the building must be designated for long-term rental.



Projects that convert existing non-residential real estate, such as an office building, into a residential complex would also be eligible if all other conditions are met. Public service bodies would also be eligible to access the enhanced rebate.

The enhanced rebate will not apply to other properties, such as individually owned condominium units, single-unit housing, duplexes, triplexes or housing co-ops; however, the existing rebate would still be available. Substantial renovations of existing residential complexes would not be eligible.

On September 21, 2023, the Bill to enact these measures was introduced in the House of Commons. This Bill did not include all the criteria for eligible projects but provided that the remaining specifics would be set by regulation in the future.

CEBA REPAYMENT DEADLINE EXTENDED: SOME ISSUES

On September 14, 2023, the Department of Finance provided details on extending the deadline for Canada Emergency Business Account (CEBA) repayments, including the following key elements:

- the deadline to qualify for partial loan forgiveness (by paying the non-forgivable portion) has been extended from December 31, 2023 to January 18, 2024;
- if a refinancing application is made with the financial institution that provided the CEBA loan by January 18, 2024, the deadline to qualify for partial loan forgiveness will be extended to March 28, 2024;
- as of January 19, 2024, outstanding loans will convert to three-year term loans subject to a 5% annual interest rate regardless of whether refinancing is sought; and
- the previous final repayment deadline of December 31, 2025 has been extended to December 31, 2026.

Financial institutions will contact CEBA loan holders directly regarding their loans. The above changes also apply to CEBA-equivalent lending through the Regional Relief and Recovery Fund.

YEAR-END TAX PLANNING



December 31, 2023 is fast approaching... see below for a list of tax planning considerations. Please contact us for further details or to discuss whether these may apply to your tax situation.

SOME 2023 YEAR-END TAX PLANNING TIPS INCLUDE:

- 1.** Certain expenditures made by individuals by December 31, 2023 will be eligible for 2023 tax deductions or credits, including digital news subscriptions, moving expenses, labour mobility tax credit expenditures, multigenerational home renovation expenditures (NEW), child care expenses, charitable donations, political contributions, registered journalism organization contributions, medical expenses, alimony, eligible employment expenses, union, professional or like dues, carrying charges and interest expense. Ensure you keep all receipts that may relate to these expenses.
- 2.** A senior whose 2023 net income exceeds \$86,912 will lose all, or part, of their old age security pension. Senior citizens will also begin to lose their age credit if their net income exceeds \$42,335. Consider limiting income over these amounts, if possible. Another option would be to defer receiving old age security receipts (for up to 60 months) if it would otherwise be eroded due to high-income levels.
- 3.** If you own a business or rental property, consider making a capital asset purchase by the end of the year. Many capital assets purchased and made available for use in 2023 will be eligible for a 100% CCA write-off under the immediate expensing rules.

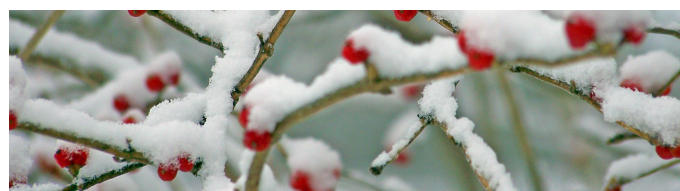
Some zero-emission electric vehicles purchased by businesses may be eligible for a 100% write-off (limited in some cases to the first \$61,000). Alternatively, zero-emission vehicles purchased in 2023 may be eligible for a federal incentive rebate of up to \$5,000.



4. Consider selling non-registered securities, such as a stock, mutual fund or exchange-traded fund, that have declined in value since it was bought to trigger a capital loss that can offset capital gains in the year. Anti-avoidance rules may apply when selling and buying the same security, even where the same security is held in different brokerage accounts.
5. Consider restructuring your investment portfolio to convert non-deductible interest into deductible interest. It may also be possible to convert personal interest expense, such as interest on a house mortgage or personal vehicle, into deductible interest.
6. If you have equity investments or loans to a Canadian small business that has become insolvent or bankrupt, an allowable business investment loss (ABIL) may be available. For loans to corporations to be eligible, the borrower must act at arm's length. ABILs can offset income beyond capital gains, such as interest, business or employment income.
7. If a commercial debt you owe (generally a business loan) has been forgiven, special rules apply that may result in additional taxes or other adjustments to the tax return.
8. You have until Thursday, February 29, 2024, to make tax-deductible registered retirement savings plan (RRSP) contributions for the 2023 year. Consider having the higher income earning individual contribute to their spouse's RRSP via a "spousal RRSP" for greater tax savings.
9. NEW! As of April 2023, individuals can contribute to the new tax-free first home savings account (FHSA). Eligible contributions are deductible, and withdrawals to purchase a first home are not taxable. Up to \$8,000 can be contributed annually, to a maximum lifetime limit of \$40,000. Contributions must be made in 2023 to be deducted against 2023 income.
10. Individuals 18 and older may deposit up to \$6,500 into a tax-free savings account in 2023. An additional \$7,000 may be contributed starting on January 1, 2024. Consider a catch-up contribution if you have not contributed the maximum amount for prior years. For those who have never contributed to their TFSA and have been building room since 2009, the total maximum contribution room in 2024 will reach \$95,000. An individual's contribution room can be found online on CRA's My Account.



11. A Canada education savings grant for registered education savings plan (RESP) contributions equal to 20% of annual contributions for children (maximum \$500 per child per year) is available. In addition, lower-income families may be eligible to receive the Canada learning bond.
12. A registered disability savings plan (RDSP) may be established for a person under 60 eligible for the disability tax credit. Non-deductible contributions to a lifetime maximum of \$200,000 are permitted. Grants, bonds and investment income earned in the plan are included in the beneficiary's income when paid out of the RDSP.
13. Canada pension plan (CPP) receipts may be split between spouses aged 65 or over (application to CRA is required). Also, it may be advantageous to apply to receive CPP early (age 60-65) or late (age 65-70).
14. Are you a U.S. resident, citizen or green card holder? Consider U.S. filing obligations concerning income and financial asset holdings. Filing obligations may also apply if you were born in the U.S.



15. If income, forms or elections have been missed in the past, a voluntary disclosure to CRA may be available to avoid penalties.

16. Interest-free loans of up to \$40,000 are available to homeowners and landlords who undertake retrofits identified through an authorized EnerGuide energy assessment.

17. Underused Housing Tax (UHT) - The UHT is an annual 1% tax intended to apply to the value of residential real estate owned by non-residents that is considered to be vacant or underused. However, many Canadian individuals on the title of a residential property on December 31 may also need to file UHT returns. This can occur if a person is holding the property in trust for another (such as when a person is on the title but is not the true owner) or if a person is holding the property as a partner for a partnership. **NEW!** The government has proposed changes that would exclude many of these individuals from filings for the 2023 year (i.e. for those on title as of December 31, 2023). However, the relieving measures are not proposed to apply to those on title for the 2022 year. Filings for both the 2022 and 2023 years are due on April 30, 2024.

18. Tax-free Canada dental benefit payments of up to \$650 per child per year are available to cover dental expenses for children under 12 if they do not have dental insurance coverage. The benefit is available to families with an adjusted net income of less than \$90,000. Applications can be made online through CRA's MyAccount. **NEW!** If no benefit was claimed for the first application period (ending June 30, 2023), an additional payment may be available for the second period (ending June 30, 2024).

19. **NEW!** The 2023 Fall Economic Statement proposed to deny income tax deductions for expenses, including interest expenses, incurred to earn short-term rental income when that income is earned in provinces and municipalities that have prohibited short-term rentals and when short-term rental operators are not compliant with the applicable provincial or municipal licensing, permitting or registration requirements, effective for expenses incurred January 1, 2024 and onwards. While this does not affect 2023 filings, it may impact the financial considerations surrounding these assets in 2024.



2023 REMUNERATION

Higher personal income levels are taxed at higher personal rates, while lower levels are taxed at lower rates. Therefore, individuals may want to, where possible, adjust income out of high-income years and into low-income years. This is particularly useful if the taxpayer is expecting a large fluctuation in income due to, for example, an impending:

- maternity/paternity leave;
- large bonus/dividend; or
- sale of a company or investment assets

In addition to increases in marginal tax rates, individuals should consider other costs of additional income. For example, an individual with a child may receive reduced Canada child benefit (CCB) payments. Likewise, excessive personal income may reduce the receipt of OAS, GIS, GST/HST credit and other provincial/ territorial programs.

There are various ways to smooth income over several years to ensure an individual is maximizing access to the lowest marginal tax rates.

- Taking more or less earnings out of the corporation (in respect of owner-managed companies).
- Realizing capital gains/losses by selling investments.
- Deciding whether to claim RRSP contributions made in the current year or carry forward the contributions.
- Withdrawing funds from an RRSP to increase income. However, care should be given to the loss in the RRSP room based on the withdrawal.
- Deciding whether or not to claim CCA on assets used to earn rental/business income.

Dividends paid to shareholders of a corporation that do not "meaningfully contribute" to the business may result in higher taxes due to the "tax on split income" rules.

Year-end planning considerations not specifically related to changes in income levels and marginal tax rates include:

- 1.** NEW! The alternative minimum tax (AMT) regime is proposed to change for 2024. Individuals may find themselves subject to a larger AMT liability in 2024 and onwards if they have high earnings (above approximately \$173,000) and experience certain events with tax-advantaged benefits, such as large capital gains (including the use of the lifetime capital gains deduction) and significant charitable donations. In some cases, triggering transactions in 2023 may be advantageous.
- 2.** Corporate earnings in excess of personal requirements could be left in the company to obtain a tax deferral (the personal tax is paid when cash is withdrawn from the company). The effect on the qualified small business corporation status should be reviewed before selling the shares where large amounts of capital have accumulated. In addition, changes that may limit access to the small business deduction where significant corporate passive investment income is earned should be reviewed.
- 3.** If dividends are paid out of a struggling business with a tax debt that cannot be paid, the recipient could be held liable for a portion of the corporation's tax debt, not exceeding the value of the dividend.
- 4.** Individuals who wish to contribute to the CPP or an RRSP may require a salary to generate earned income. RRSP contribution room increases by 18% of the previous year's earned income up to a yearly prescribed maximum (\$30,780 for 2023; \$31,560 for 2024).
- 5.** Consider paying taxable dividends to obtain a refund from the refundable dividend tax on hand account in the corporation. The refund amount may be restricted if eligible dividends are paid. Eligible dividends are subject to lower personal tax rates.
- 6.** It is costlier, from a tax perspective, to earn income in a corporation from sales to other private corporations in which the seller or a non-arm's length person has an interest. As such, consideration may be given to paying a bonus to the shareholder and specifically tracking it to those higher-taxed sales. Such a payment may reduce the total income taxed at higher rates.
- 7.** Access to the corporate federal small business deduction is reduced where more than \$50,000 of passive income is earned in the corporation. Consider whether it is appropriate to remove passive income-generating assets from the corporation and whether a shift in the types of passive assets held is appropriate. In some provinces, it may actually be beneficial to have access to the federal small business deduction reduced. As many variables affect these decisions, consultation with a professional advisor is suggested.
- 8.** If you provide services to a small number of clients through a corporation (that would otherwise be considered your employer), CRA could classify the business as a personal services business. There are significant negative tax implications of such a classification. Consider discussing risk and exposure minimization strategies (such as paying a salary to the incorporated worker) with a professional advisor in such scenarios.
- 9.** NEW! Effective January 1, 2023, all gains arising from the disposition of residential property (including assignment sales) owned for less than 365 days are deemed to be business income (taxed at the full rate and not eligible for the principal residence deduction) unless a particular exception is met. Consider holding such properties for more than 365 days to avoid the application of these rules. Gains on such dispositions later than 365 days may still be classified as business income under the traditional rules, depending on the nature of the transaction.



2024

See you next year!

