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Dear Clients:

We enclose a copy of our 2022 personal income tax checklist. It is designed for use by the majority of individuals and especially by employees who incur automobile and other expenses in the course of their employment, self employed individuals or those with rental properties. It will assist with identifying the various types of deductions that are available.

This checklist outlines most of the major categories of expenses incurred and records most of the information, such as percentage use of automobile, to ensure an accurate income tax return is prepared. In order to assist us in preparing your return, please complete the relevant sections of the checklist to the best of your ability and bring it with you when you drop off your information slips for preparation of your income tax return. If you already prepare your financial information in another similar format, there is no requirement to use this checklist.

If you are unsure about whether an expense is deductible, just note the item down for discussion. We do not require original receipts or automobile log books but you should save them for seven years in case CRA wants to view them.

What's new

For employees who worked from home during 2022 due to COVID-19, the simplified method of computing home office expenses is continued. If the conditions are met, you can use the flat rate method of $2 per day for up to 250 days or a $500 deduction. In order to claim the deduction an employee must have worked from home for more than 50% of the time over a period of at least four consecutive weeks in 2022 due to COVID-19. You just indicate the number of days working from home and claim the deduction. No employer certification is required for this claim. There is still an option to claim home office expenses using a detailed method, but a T2200 form signed by the employer will be required.

Beginning in 2022 the first time home buyers tax credit is increased from $5,000 to $10,000. This applies to a qualifying home purchased after December 31, 2021.

Self employed individuals may claim a refundable credit of 25% of expenses to improve ventilation or air qualify at their place of business. Expenses must be incurred between September 1, 2021 to December 31, 2022 and is limited to $10,000 per business location.

Business assets purchased after December 31, 2021 are eligible for immediate expensing.

Purchases of zero emission vehicles after March 18, 2019 and prior to January 1, 2024 used in a business are eligible for enhanced capital cost allowances (depreciation).

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The non refundable tax credit for eligible home renovation or alteration expenses for seniors and persons with disabilities to gain access to a dwelling or to reduce the risk of harm in a dwelling or accessing a dwelling is increased to $20,000. In addition the 10% B.C. refundable seniors' and persons with disabilities home renovation tax credit applicable on up to $10,000 of annual eligible expenditures incurred after March 31, 2012 remains in effect.

Type 1 diabetics and type 2 diabetics on insulin will now qualify for the disability tax credit. In addition if they meet certain criteria they may apply for the DTC for up to ten prior years.

Surrogacy expenses were added as an eligible medical expense eligible for the medical expense tax credit.

The contribution limit for the tax free savings account ("TFSA") is increased to $6,500 annually and for 2023 is now at an $88,000 cumulative total, assuming you are aged 18 or over since 2009. Unused contribution room can be carried forward year to year, and all Canadian residents age 18 and over are eligible to contribute to a TFSA. All earnings inside a TFSA are tax free, while losses if any are non deductible. Given the increasing limits, everyone should review the merits of opening a TFSA. US citizens and green card holders need to be very careful as TFSA are not tax free for US income tax purposes and may include additional compliance requirements.

Beginning in October 2016, the sale of your principal residence must now be reported on schedule 3. In the past, it was always the CRA's administrative position that you did not have to report a sale of a principal residence if it was all tax free. A late reporting can be made but it may be subject to penalties. It is imperative if you have sold your principal residence home during 2022 that you let us know so that it can be reported.

Other items

If you have many prescription receipts, it will be beneficial for you to ask your pharmacist to print out a listing of all your prescription costs for the year. That way you ensure that all of the prescriptions are accounted for and you do not have to deal with those tiny receipts.

Underutilized Housing Tax (UHT)

While the UHT has nothing to do with income tax we thought that we should mention it, given the severity of the penalties. It is administered by CRA and there are many traps for the unwary. The UHT is the federal governments failed version of the Vancouver empty homes tax and the B.C. speculation tax. The NDP has to show that they are doing something to address the housing shortage but it will come nowhere close to achieving this and similar to prior tactics of this government they want to penalize and collect taxes from innocent taxpayers who are going to be caught by this tax and its penalties (more on this later).

The following is a very brief summary and should not be relied on as advice of whether the UHT applies in any particular situation without a discussion with your professional advisors.

The UHT is a 1% annual tax of the fair market value of residential property that is vacant or underused.

The starting point is that it applies to residential property defined as a detached house or other building containing no more than three dwelling units. Condos and townhouses are included. Apartment buildings with more than three units that are not strata title units are excluded. It does not apply to commercial properties. If you do not own a residential property there is no need to file the UHT.

The UHT rules apply to the legal owner on title (property tax records would be a good place to start).

An excluded owner is not required to file a return. The largest group of excluded owners are Canadian citizens or permanent residents. However this exclusion does not apply to those who hold their interests as a trustee of a trust or as a partner of a partnership.

Anybody on title to a residential property who is not an excluded owner must file a return.

If you must file a return you do not pay the UHT if the owner of the property is

a corporation and all the shareholders are excluded owners (specified Canadian corporation),

a trustee of a trust where all of the beneficiaries of the trust are excluded owners or specified Canadian corporations (specified Canadian trust)

a partnership where all partners are excluded owners (specified Canadian partnership).

There are also exemptions available if the property is used as a place of residence for the owner, spouse or child. Other exemptions are available for long term rentals (greater than a month), certain vacation properties if the owner or family uses the property for at least 28 days in the year, and for properties under construction, or uninhabitable properties.

A separate return is required for each affected owner of each residential property. Good luck if you own a stratified apartment building. The filing deadline for 2022 is April 30, 2023, extended to May 1, 2023 because of the weekend. Note: the deadline was subsequently extended to October 31, 2023 for the first year only. The penalty for failure to file the return is a minimum of $5,000 for individuals while for corporations it is a $10,000 minimum penalty. The penalty applies even if you are one day late in filing. If a return is not filed by the following year, any available exemptions based on use are not available.

Observations regarding the UHT

- Joint owners of rental properties may be carrying on a partnership and have to file the UHT.
- All private corporations owning residential property or properties must file
- All individuals holding property as trustee for a beneficiary must file. Will likely be exempt from the tax if the beneficial owner is a Canadian citizen. This provision will catch many unsuspecting owners such as those who are on joint title on a parents or childs property. Those who hold title on behalf of an alter ego trust or joint spousal trust will also have to file.
- If you own multiple properties and are an affected owner (not excluded) you will be filing multiple returns.
- Most owners who must file will likely be exempt as they fall within the ownership rules but must still go through the hassle of filing or face penalties for non filing.
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This has to be the most poorly drafted piece of legislation that we have seen in a long time. Instead of mirroring the Vancouver empty homes tax and BC speculation tax this government goes out and invents its own legislation. There has never been such a harsh penalty in the Income Tax Act. But this is not income tax legislation so maybe the government in justified with these penalties. They are following the IRS in moving towards a penalty based system. Overall the target of this tax is a limited pool of properties owned by nonresidents and which are empty and underused. With this legislation it appears the government is going to collect penalties from individuals and corporations who inadvertently fail to file the UHT return. They could easily have included specified Canadian corporations, trusts and partnerships into the class of excluded owners who do not have to file the UHT but chose not to. Perhaps in time a judge will throw this penalty out for being too harsh, similar to the case of Galachiuk v Queen. CRA has already indicated the UHT filing will be reviewed with the clearance certificate application when nonresidents sell Canadian property. For domestic taxpayers its expected that CRA could closely review land title transactions to identify those who should have filed. Many property owners who hold legal title only on residential properties will be caught because they are not aware they have to file. This is low hanging fruit for the government to go after and which has been a theme with this government (see principal residence reporting earlier and see examples later on in this letter).

Canada Revenue Agency ("CRA") Activities

One very disturbing trend we have noticed with CRA, beginning about 2015 is that it seems they are assessing for trivial amounts without doing detail reviews or doing incorrect reviews or requesting ridiculous justification for the deductions. This slowed down during 2020 due to covid but towards the end of 2021 we have noticed an increase in collections activity and audit activity. Some current initiatives include:

1. Disallowance of foreign tax credits because insufficient information was submitted to support the payment of foreign taxes. They are requesting account transcripts to show proof of the foreign taxes paid. This is a huge burden especially for those clients of ours who are taxed in the USA as IRS is slow to assess and then an account transcript must be requested. Worse for those in the UK or Australia which do not follow a calendar year tax system. In our view this is guilty until proven innocent. If they want to disallow the foreign tax credit claim they should also remove the foreign income which you have so honestly reported!
2. Disallowance of deductions (especially medical and donations) because taxpayers cannot show proof of "payment" of medical expenses.
3. Review of corporate income tax returns for travel and automobile expenses.
4. Automobile and employee expenses audits have resumed during 2021. Auditors continue to disallow auto repair expenses if you do not show evidence of payment. When was the last time you got your car back from the mechanic without paying the invoice?
5. Posting taxpayer payments into the wrong year and then sending out letters telling taxpayers there is an amount due, plus interest.
6. Generally allowing taxpayers anywhere form 15 days to 30 days to respond to CRA reviews. But if CRA wants to reassess or collect they are very quick. Adjustments can take years to process.

In many cases the amounts payable can range from one hundred to a few thousand dollars, nothing outrageous and it almost seems that the government is hoping that taxpayers will pay the amounts instead of seeking professional advice. If its incorrect we can usually reverse the reassessments. But we have noticed that even that is taking a long time, a minimum of several months to years to get adjustments made. We have noticed some clients have paid such reassessments without informing us. If you get notices from CRA and if the reassessment is not plainly obvious please let us review it.

Something else that is happening much more frequently is for CRA to arbitrarily assess unfiled GST or income tax returns. They have become much faster at doing this over the past several years. Once they have the arbitrary assessment in place the collections department can decide to issue garnishee orders against your income sources or assets.

CRA is still reviewing automobile and employment expenses claims. One important thing to remember is that you should keep a log of business kilometers versus total kilometers. There are no some nice apps for use with your phone that can keep track of business versus personal mileage. Also ensure that you keep actual receipts for automobile expenses and not just credit card statements. Dates and purpose of the travel and nature of expenses should be noted. CRA mentioned that a new policy on automobile and employment expenses was forthcoming prior to the end of 2018. We have yet to see the new proposals.

CRA has made changes to the represent a client site and there are now many more actions that can be handled electronically. However CRA has instituted a new authorization process that requires all taxpayers to have a personal "My account" in order to authorize accountants to access their account.

If you have any further questions, please do not hesitate to contact us.

Yours truly,

Hirji, Lum & Orr

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