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Dear Clients:

We enclose a copy of our 2024 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

The biggest change for 2024 is the failure of the capital gain inclusion rate increase. The proposed increases in the capital gains inclusion rate from 1/2 to 2/3 is not going to occur. We have the Conservatives to thank for this for grinding Parliament to a standstill in late 2024 trying to get information on the green slush fund. It meant no other legislation, including the capital gains changes got passed. Then we had the finance minister and the prime minister resign. It looks like this legislation will never become law, if you trust what the Liberals say? This comes from a government that despises professionals and Canadian controlled private corporations. How else can we explain the annual budget changes that have increased the tax burden on professionals and their corporations. Combined personal income tax rates have increased from 43.7% to 53.5% in ten years, CPP contributions for self employed professionals has increased from $4,960 to $8,860 since 2016. The last attack was the proposed penalty tax of approximately 8% for earning capital gains within your corporations. Thankfully for our clients with private corporations, this did not pass.

As part of the capital gains changes, it was proposed that the exemption for qualified small business corporation shares would be increased to $1,250,000 effective for gains after June 24, 2024. It appears that the government will follow through with this legislation.

The government has paused its poorly drafted legislation on the new trust reporting rules introduced for the 2023 filing year. These new rules were supposed to try and stop money laundering and terrorists from hiding themselves using trusts but the government vastly overreached with the legislation. As you may recall on March 28, 2024, almost at the end of the trust filing deadline, the government paused its new reporting requirements for bare trusts. In its wisdom, the government acknowledged that its poorly drafted legislation had an unintended impact on taxpayers. However the filing requirement for inactive trusts, especially family trusts holding private company shares remains. New rules have been introduced that will apply to bare trusts for 2025 filings, due next March 2026. The exemptions for filing have been broadened.

Some of the more common examples of bare trust arrangements are as follows (this is not an all inclusive listing)

Child on title on elderly parents principal residence for probate planning purposes
Parent on title to a child's property (1% interest) to help them with mortgage financing
Child on title to parents bank or investment accounts for probate planning purposes
Parent on title to child's bank or investment accounts or parents holding these accounts in trust for a child
Joint owners on accounts but only one individual beneficially owns and reports the income and expense
Shareholders holding assets in trust for a corporation
Nominee corporations holding assets for joint ventures, partnerships or other corporations

Starting January 1, 2023, any gain from the disposition of a housing unit (houses or condos, including rental properties) owned or held for less than 365 consecutive days before its disposition is deemed to be business income and not capital gain for federal income tax purposes. Starting on January 1, 2025, B.C. introduced its own home flipping tax. This tax applies if you are selling a property that you have owned for less than two years. The tax is 20% of the total gain if you sell within one year and is reduced beginning at the start of the second year. Note that due to poorly drafted federal legislation what is a taxable flip transaction for federal purposes may or may not be taxable for BC purposes.

Starting on January 1, 2024, you are denied any expenses incurred for your property for non-compliant short term rentals. This could apply if you rent out your property on Airbnb or other short term rental platforms but your local legislation does not allow for short term rentals.

Beginning for withdrawals after April 16, 2024, home buyer plan withdrawals towards the purchase of a home are being increased from $35,000 to $60,000. In additional the deferral period to start repayments is increased for up to five years.

The 2024 fall economic statement proposes to reinstate the accelerated investment incentive to allow for increased capital cost allowance deductions for business property acquired on or after January 1, 2025. In addition immediate expensing measures for certain property would be reinstated. These proposals are not law.

In 2023 the province of BC introduced a $400 refundable tax credit for tenants. In order to claim the rebate, tenants will enter the address of the rental property, amount of rent paid and to whom the rental payments were made. This provides CRA with lots of information to pursue rental tax return matching. Whether they actually do it or not is another issue. Landlords should ensure that rental income is correctly reported.

The First Home Savings Account "FHSA" was introduced in 2023 and starting April 1, 2023, contributions to an FHSA are generally deductible and qualifying withdrawals made from an FHSA to purchase a qualifying home are tax free. You can only create participation room if you have opened a FHSA. You could open an account, accrue the deduction limit or room but not contribute until later years when income is higher.

The contribution limit for the tax free savings account ("TFSA") is $7,000 annually and for January 1, 2025 is now at an $102,000 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 2024 that you let us know so that it can be reported.

Other items

A reminder that if you have foreign property with a cost of greater than $100,000 you may need to report this and file a form T1135.
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.

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 2021 due to covid but towards the end of 2022 we have noticed an increase in collections activity and audit activity, especially desk audits. CRA has commented that these types of audits where they send letters to request information generate much more inflow per dollar spent than having auditors physically visit clients. 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. Review of corporate income tax returns for travel and automobile expenses, and foreign tax paid.
3. Automobile and employee expenses audits resumed during 2022. 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? In many cases they also want to see electronic mileage logs.
4. 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 (low hanging fruit analogy). 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.

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

Yours truly,

Hirji, Lum & Orr

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