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Dear Clients:

We enclose a copy of our 2020 personal income tax checklist. It is designed for use by the majority of individuals and especially by either 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 those of you who had to work from home during 2020, there is a simplified calculation to claim expenses. For 2020 if an employee worked from home for more than 50% of the time over a period of at least four consecutive weeks in 2020 due to covid, they are able to claim a deduction of \$2 for each day worked at home during that period plus any other days working from home during 2020. You just indicate the number of days working from home and claim the deduction. When making the announcement, the government made this out to be a huge benefit but if you claimed the maximum number of days (200) at the top tax rate it works out to a \$214 tax savings. 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 2020, (with income figures based on the 2019 tax return) there is a new Canada Training Credit. Beginning with 2020, individuals will accumulate a credit of \$250 each year towards their training amount limit in a notional account. The credit can be claimed in the year that eligible tuition fees are paid. Claims for this credit will reduce the tuition fee credit amount or amount available for transfer.

Purchases of zero emission vehicles after March 19, 2019 and prior to January 1, 2024 used in a business are eligible for enhanced capital cost allowances (depreciation).

For the 2020 to 2024 tax years, you may be able to claim a non-refundable tax credit for expenses you paid in the year for a digital news subscription with a qualified Canadian journalism organization.

Business assets purchased between 2019 and 2023 (and up to 2028 at reduced rates) will be eligible for accelerated depreciation deductions in the first year.

There was a BC personal tax rate increase of 3.7% for those earning over \$220,000 per year, effective January 1, 2020. This gives B.C. a top marginal personal income tax rate of 53.5%. We are almost back at 54.17% which is the highest rate we can recall from the late 1990's.

In the past few years we have seen the following tax increases and deductions eliminated. (in no particular order):

1. Eliminated arts and fitness, education and textbook credits
2. Eliminated education and textbook credits
3. Eliminated the public transit fare credit after July 2018
4. Eliminated family income splitting credits
5. New rules to tax work in progress of professionals
6. Eliminated the ability of professionals to access multiple small business deductions
7. Severely restricted the ability of small businesses to income split using dividends from private corporations
8. Eliminated the ability to utilize principal residence trusts
9. Penalize private corporations earning passive income of \$50,000 or more
10. Introduced significant annual increases in CPP premiums beginning in the 2018 year and still continuing in 2021. Increases are much higher than the rates of inflation
11. Introduced complex rules that restrict or severely limit the ability of small businesses paying intercorporate dividends
12. Proposed rules to limit employee stock option deductions to the first \$200,000 of options for any employees who are part of a large, established mature company. Note this does not apply to options issued by "start up" companies.

The contribution limit for the tax free savings account ("TFSA") is still \$6,000 annually and for 2021 is now at a \$75,500 cumulative total, assuming you are aged 18 or over since 2009. This also assumes you have funds leftover after all the changes noted above. 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 2020 that you let us know so that it can be reported.

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. The credit is available to seniors aged 65 and over, or individuals with a disability credit certificate who own or rent their home, or to individuals who live with a senior relative.

## **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.

As you are aware the CRA requires that all professional firms preparing more than ten tax returns must electronic file all eligible personal and corporate tax returns with no exceptions. Therefore we must electronic file your personal tax return unless it meets one of the very few stringent exceptions.

## **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 has slowed down during 2020 due to covid but we still notice the CRA is very quick to reassess. Some items we have noticed over the past several years 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, or even worse in 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".
3. Reassessment of returns to include amounts purportedly not reported on the return, in some cases the amounts are clearly reported on the tax returns. Usually its because the amounts have been combined with other tax slips and its not totally obvious.
4. Assessment of late filing penalties, when clearly the returns have been filed on time.
5. Disallowance of deductions due to clearly incorrect interpretations of the Income Tax Act.
6. Automobile and employee expenses audits. Disallowance of 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?
7. Posting taxpayer payments into the wrong year and then sending out letters telling taxpayers there is an amount due, plus interest.

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 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. 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.

On the positive side, the CRA has made changes to the represent a client site and there are now many more actions that can be handled electronically. Finally if you have registered for "My Account" with CRA you may want to check it to see if there are any uncashed cheques from CRA owed to you.

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

Yours truly,



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