



Newsletter December 2018

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A VERY SPECIAL KIND OF TAX FOR THE SEASON

For the province of B.C., a new Speculation and Vacancy Tax (SVT) came into law on November 27, 2018. Residential property owners in major urban centers within the province will have to make a declaration each year in order to be exempted from this tax. The first declaration is due on March 31, 2019 for calendar year 2018 with related payment by July 2, 2019, if SVT is applicable.

The word **Speculation** is highly misleading because in essence the tax applies to all residential properties that are not used as one's principal residence or tenanted under long-term rental arrangements. Other exemptions are also available and care must be exercised to ensure fulfillment of very specific conditions.

The applicable tax rate for owners of vacant properties who are foreign nationals or satellite families (defined as individuals or spousal units where the majority of their worldwide income is not reported on a Canadian tax return) will be 2% calculated on a property's assessed value. The applicable tax rate for all other owners is 0.5% and a small credit may be claimed against income sourced in B.C. to reduce its effect.

Please be cautioned that the SVT is not the same as the Empty Homes Tax of Vancouver. Therefore, one cannot assume exemption for one will necessarily mean exemption for the other. The provincial government will issue regulations to assist with the implementation of SVT in due course.

For more details, please refer to <https://www2.gov.bc.ca/gov/content/taxes/property-taxes/speculation-and-vacancy-tax>.

2018 YEAR-END TAX PLANNING

December 31, 2018 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 2018 YEAR-END TAX PLANNING TIPS INCLUDE:

- 1) Certain expenditures made by individuals by December 31, 2018 will be eligible for 2018 tax deductions or credits including: moving expenses, child care expenses, charitable donations, political 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.

ATTENTION READERS

This publication is a high-level summary of the most recent tax developments applicable to business owners, investors, and high net worth individuals. Enjoy

Please also visit our website at www.LLNpartners.ca. Previous issues of our newsletter are available on the website. If you wish us to stop sending this newsletter to you, please e-mail rbo@LLNpartners.ca with subject "stop newsletter".

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- 2) If you own a business or rental property, consider paying a reasonable salary to family members for services rendered. Examples of services include website maintenance, administrative support, and janitorial services. Salary payments require source deductions (such as CPP, EI and payroll taxes) to be remitted to CRA on a timely basis, in addition to T4 filings.
- 3) If you own a business or rental property, also consider making a capital asset purchase by the end of the year. Although not yet passed into law, the Federal Government has announced that most capital assets purchased after November 20, 2018 will be eligible for accelerated depreciation (generally three times the deduction to which they would normally be entitled in the first year). For example, a piece of equipment normally eligible for a 10% deduction in the first year (Class 8), would be entitled to a 30% deduction. This benefit is available even if purchased just before year-end.
- 4) A senior whose 2018 net income exceeds \$75,910 will lose all, or part, of their Old Age Security. Senior citizens will also begin to lose their age credit if their net income exceeds \$36,976. Consider limiting income in excess of 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.
- 5) You have until Friday, March 1, 2019 to make tax deductible Registered Retirement Savings Plan (RRSP) contributions for the 2018 year. Consider the higher income earning individual contributing to their spouse's RRSP via a "spousal RRSP" for greater tax savings.
- 6) Individuals 18 years of age and older may deposit up to \$5,500 into a Tax-Free Savings Account in 2018. The annual limit will increase to \$6,000 for 2019. Consider a catch-up contribution if you have not contributed the maximum amounts for prior years. An individual's contribution room can be found online on CRA's My Account.
- 7) 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 a Canada Learning Bond.
- 8) A Registered Disability Savings Plan (RDSP) may be established for a person who is under the age of 60 and 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.
- 9) Consideration may be given to selling non-registered securities, such as a stock, mutual fund, or exchange traded fund, that has declined in value since it was bought to trigger a capital loss which can be used to offset capital gains in the year. Anti-avoidance rules may apply when selling and buying the same security.
- 10) 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.
- 11) 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).

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- 12) Teacher and early childhood educators – A federal refundable tax credit of 15% on purchases of up to \$1,000 of eligible school supplies by a teacher or early childhood educator used in the performance of their employment duties may be available. Receipts for school supplies as well as certification from employer will be required.
- 13) Home accessibility tax credit – A federal non-refundable tax credit of 15% on up to \$10,000 of eligible expenditures (renovations to a qualified dwelling to enhance mobility or reduce the risk of harm) may be available each calendar year, if a person 65 years or older, or a person eligible for the disability tax credit, resides in the home.
- 14) Did you incur costs to access medical intervention required in order to conceive a child which was not previously allowed as a medical expense? Certain expenses for the previous 10 years may now be eligible (amounts incurred in 2008 must be claimed by the end of 2018).
- 15) A number of employment insurance (EI) changes have been enacted. These include:
 - A new caregiving benefit for up to 15 weeks for those who are temporarily away from work to support or care for a critically ill or injured family member.
 - The option to extend parental benefits up to 18 months (from the current 12 months) at a lower rate.
 - The ability to claim EI benefits up to 12 weeks before a mother's due date (from the current 8 weeks).
 - A new parental sharing benefit which will increase the total EI parental leave available to both parents by up to five weeks, to 40 weeks. This will require each parent agree to take a minimum of 5 weeks of the combined 40 weeks available. This assumes the standard parental option (55% of earnings for 12 months). Families opting for extended parental leave at 33% of earnings for up to 61 weeks can access up to 8 additional weeks, provided each take at least 8 weeks. The benefit will commence in March of 2019.
 - The prior EI Working While on Claim pilot project is now permanent. This allow claimants to keep \$0.50 of their EI benefits for every dollar they earn, up to a maximum of 90% of the weekly insurable earnings. This is available for those receiving most types of EI benefits, including maternity and sickness (both effective August 12, 2018).
- 16) If EI premiums were paid in error in respect of certain non-arm's length employees, a refund may be available upon application to CRA.
- 17) Effective July 1, 2017, self-employed commercial ride-sharing drivers (such as Uber drivers), have been required to register for (regardless of their total annual revenues), collect, report and remit GST/HST.
- 18) Employers of eligible apprentices are entitled to an investment tax credit. Also, a \$1,000 Incentive Grant per year is available for the first and second year as apprentices. A \$2,000 Apprenticeship Completion Grant may also be available.
- 19) If income, forms, or elections have been missed in the past, a Voluntary Disclosure to CRA may be available to avoid penalties.

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- 20) Are you a U.S. Resident, Citizen or Green Card Holder? Consider U.S. filing obligations with regards to income and financial asset holdings. Filing obligations may also apply if you were born in the U.S.

Information exchange agreements have increased the flow of information between CRA and the IRS. Collection agreements enable CRA to collect amounts on behalf of the IRS.

2018 REMUNERATION

Higher levels of personal income 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 receipts of OAS, GIS, GST/HST credit and other provincial/ territorial programs.

There are a variety of different ways to legally smooth income over a number of years to ensure an individual is maximizing access to the lowest marginal tax rates. For example,

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

Note that for the 2018 year, the tax cost of dividends paid out to shareholders of a corporation that do not "meaningfully contribute" to the business may increase.

Also note that the tax cost of any non-eligible dividend will increase in 2019. As such, some may consider declaring non-eligible dividends in 2018 to access current tax rates. Changes in provincial/ territorial rates may also impact the above decision.

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

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- 1) 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 which may limit access to the small business deduction where significant corporate passive investment income is earned should be reviewed.
- 2) Consider paying taxable dividends to obtain a refund from the "Refundable Dividend Tax on Hand" account in the corporation.
- 3) Individuals that wish to contribute to the CPP or a RRSP may require a salary to generate "earned income". RRSP contribution room increases by 18% of the previous years' "earned income" up to a yearly prescribed maximum (\$26,230 for 2018; \$26,500 for 2019).
- 4) Dividend income, as opposed to a salary, will reduce an individual's cumulative net investment loss balance thereby potentially providing greater access to the capital gain exemption.
- 5) Recent tax changes may make it costlier 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.
- 6) Proposed changes to the tax regime will likely require more careful tracking of an individual shareholder's labour and capital contribution to the business, as well as risk assumed in respect of the business. Inputs should be tracked in a permanent file.
- 7) If you are providing services to a small number of clients through a corporation (which would otherwise be considered your employer), CRA could classify the corporation as a Personal Services Business. There are significant negative tax implications of such a classification. In such scenarios, consider discussing risk and exposure minimization strategies (such as paying a salary to the incorporated employee) with your professional advisor.

UPDATE: BC EMPLOYER HEALTH TAX EFFECTIVE — JANUARY 1, 2019

On November 8, 2018, British Columbia (BC) passed Bill 44: Budget Measures implementation (Employer Health Tax) Act, 2018. Effective January 1, 2019, there will be a new employer tax of 1.95% that applies to the taxable remuneration of BC employees. The government has estimated that 15% of employers in BC will be required to pay this tax.

Details of the change:

Employer Health Tax (EHT) is a tax equal to 1.95% of BC remuneration paid.

- If BC remuneration is not greater than \$500,000, no tax is payable.
- If BC remuneration is greater than \$500,000 but not greater than \$1,500,000, the tax payable is equal to 2.925% of the amount by which the BC remuneration paid exceeds \$500,000.

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This tax is unique. Although BC EHT has a notch structure similar to Manitoba's Health & Post-Secondary Education Levy Tax, it is calculated and remitted differently than all other Canadian health-related payroll taxes.

BC is giving employers (who are subject to quarterly instalment payments) the option to calculate and pay EHT based on 25% of their prior year's 2018 BC remuneration OR the current year's 2019 estimated tax.

Using either method, the employer is to divide the tax payable by 4. The payment expectations around BC EHT are similar to corporate tax. In contrast, other payroll taxes in Canada base the payment obligation on current-year remuneration, as it is paid.

Charities and part-year employers are subject to different requirements.

Want more details?

Additional information is available at the following link:

[Legislative Assembly of British Columbia: Bill 44](#)
[Employer Health Tax Calculator](#)
[British Columbia Government website](#)

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For any questions... give us a call.