2018 PERSONAL INCOME TAX CHANGES

Outlined below are a number of items which may affect your 2018 personal income tax return. Recent proposals affecting private corporations are also briefly explained.

1. **RRSP Contribution Limit:** Your RRSP contribution must be made by **March 1, 2019** to allow for a tax deduction on your 2018 tax return. The RRSP deduction limit for 2018 is $26,230 (assuming maximum 2017 qualifying earnings) plus, unused RRSP room carried forward from prior years. You should review your 2017 notice of assessment to verify your limit and to ensure you do not over-contribute.

   The 2019 deduction limit is $26,500 which requires earned income of $147,222 in 2018.

   A *non-deductible* over-contribution is also allowed up to $2,000. Monthly penalties and interest will apply if over-contributions exceed $2,000 so it is important that these limits are not exceeded *at any time during the year*.

2. **Tax-Free Savings Account ("TFSA"):** The annual contribution limit for 2019 has been increased to $6,000. An individual who was at least 18 in 2009 (the year that TFSA were introduced) has *cumulative* TFSA contribution room from 2009 to 2019 of $63,500 (assuming no contributions have been made).

3. **Repayment of Old Age Security ("OAS"):** If your 2018 net income on line 236 of your personal tax return exceeds *$75,910,* you will be required to repay some or all of your OAS on your 2018 personal income tax return and you will receive a reduced amount of OAS in 2019. Full repayment of OAS is required when 2018 net income reaches $122,843.

4. **2018 Personal Income Tax Rates:** The top Ontario personal income tax rates for 2018 on income in excess of $220,000 {$220,000 is the start of the top bracket for Ontario provincial tax} are:
   - Salary, interest and other income taxed at regular rates 53.53%.
   - Capital gains 26.76%
   - Dividends 'eligible' for the enhanced tax credit 39.34%
   - Non-eligible dividends 46.84%

5. **Charitable Donations Credits:** For individuals resident in Ontario, the tax credit for charitable donations is as follows:
   - 20.0% on the first $200 of charitable donations.
   - 46.4% on charitable donations in excess of $200.
   - 50.4% on charitable donations in excess of $200 to the extent the individual has taxable income exceeding $205,842 (that is, the taxpayer has income subject to the top federal personal income tax rate).

   Instead of cash donations, there is no capital gains tax payable on accrued capital gains if publicly listed securities are donated in-kind to eligible charities.

6. **Automobile Limits:** The following limits are effective for 2019 for residents of Ontario:
   - Automobile allowance rates: 58 cents/km for the first 5,000 km, then 52 cents.
   - Maximum capital cost for capital cost allowance: $30,000.00 plus HST.
   - Deductible lease cost limit: $800.00/month plus HST. {An additional restriction may apply where the value of the vehicle exceeds the $30,000.00 ceiling.}

7. **Important Reminders:**
   i. **Tax Instalments:** CRA will send instalment reminders if your personal tax owing in the prior calendar year (before reflecting instalments paid for that year) exceeded $3,000.00. Instalment reminders are usually sent by CRA in February (for the March 15 and June 15 instalment) and August (for the September 15 and December 15 instalment). Interest (and possibly penalties) will apply if instalments are paid late.

   If you expect your current year's taxes payable to be less than the prior year, you may base your instalments on the estimated tax payable, however, interest will be charged if your estimate is too low.

   ii. **Foreign Reporting Form:** Although this is not new, given the significant penalties for failure to submit these forms on time, this is a reminder that separate tax forms must be filed with CRA at the time of filing your tax return if you own certain foreign property or foreign investments with a combined cost exceeding $100,000 CAD *at any time during the year*.

   iii. **Sale of Principal Residence:** Prior to 2016, CRA's administrative position did not require reporting the sale of a principal residence when there was no gain to include in income. Starting in 2016, you were required to report on Schedule 3 of your personal income tax return the sale of your principal residence, *even if the gain is fully exempt*. Commencing in 2017, certain information is also required to be reported on form T2091 (Designation of a Property as a Principal Residence by an Individual). Taxpayers failing to report this information may not be eligible to claim the principal residence exemption to offset the gain.

   iv. **Tuition Credits:** Tuition fees for the 2018 calendar year can only be claimed as a credit towards *Federal* income taxes; they are no longer claimable against Ontario provincial income taxes. However, tuition credits carried forward from prior years can still be claimed. If you have paid post-secondary tuition for 2018, please visit the school's website to download the official T2202A tuition tax credit form. If you paid tuition to post-secondary schools outside Canada, you will require form TL11A to be completed by that school. Statements of account or other fee receipts cannot be used to claim tuition tax credits.

8. **Private Company Proposals:** A number of proposals affecting private companies and their shareholders were announced in 2017 and 2018 including the following:

    i. Effective January 1, 2018, limitations on paying taxable dividends to shareholders of private companies (dividend sprinkling) by imposing the highest personal tax rate (referred to as 'tax on split income' or "TOSI"). Technical interpretations and comments continue to be released by CRA clarifying the new rules, some aspects of which are still unclear.

    ii. Effective for taxation years beginning in 2019, a reduction of income eligible for the federal low corporate business tax rate where corporate investment income exceeds $50,000 in the prior year (and fully eliminated with $150,000 of investment income in the prior year). Ontario has announced that it will not adopt these federal measures.

    iii. Effective for taxation years beginning in 2019, limitations on triggering refunds of corporate refundable tax with the payment of 'eligible' dividends. ('Eligible dividends' are taxable dividends paid to individuals which are eligible for an enhanced dividend tax credit and therefore, lower personal tax rate, because of higher corporate taxes previously paid.) The new rules will require the payment of non-eligible dividends to receive dividend refunds of certain types of refundable taxes that were previously refundable with the payment of eligible dividends.

    iv. The Employer Health Tax exemption has been increased to $490,000 (previously $450,000) effective January 1, 2019.

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Please contact Gary Aslett at (905) 465-3313 or gary@aslettca.ca *if you require further information on the above.*

The material provided is believed to be accurate as of the date it is written. Tax laws are complex and are subject to continual change. Professional advice should always be sought before implementing any tax planning arrangements.