



## 2020 PERSONAL INCOME TAX CHANGES

Outlined below are a number of items which may affect your 2020 personal income tax return.

1. **RRSP Contribution Limit:** Your RRSP contribution must be made by **March 1, 2021** to allow for a tax deduction on your 2020 tax return. The RRSP deduction limit for 2020 is \$27,230 (assuming maximum 2019 qualifying earnings and no pension adjustment from company pension plans) plus, unused RRSP room carried forward from prior years. You should review your 2019 notice of assessment to verify your limit and to ensure you do not over-contribute.

The 2021 deduction limit is \$27,830 which requires earned income of \$154,611 in 2020.

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 2021 is \$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 2021 of \$75,500 (assuming no contributions have been made).
3. **Repayment of Old Age Security (“OAS”):** If your 2020 net income on line 23600 of your personal income tax return exceeds \$79,054, you will be required to repay some or all of your OAS on your 2020 personal income tax return and, you will receive a reduced amount of OAS in 2021. Full repayment of OAS is required when 2020 net income reaches approximately \$125,000. If this applied to you in prior years, part or all of your OAS may have already been withheld.
4. **Personal Income Tax Rates:** There have been no changes to the personal income tax rates in Ontario for 2020. The top Ontario personal income tax rates for 2020 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 47.40%
5. **Charitable Donations Credits:** For an individual 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 \$214,368 (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.

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6. **Eligible vs. Other Than Eligible Taxable Dividends:** What is the difference between these two types of taxable dividends which you will see on T5 and other income tax slips? ‘Eligible’ taxable dividends are eligible for an enhanced dividend tax credit on your personal tax return resulting in lower personal income tax compared to ‘Other than eligible’ taxable dividends. Taxable dividends qualify as Eligible if the corporate income from which they were generated was taxed at higher corporate tax rates, that is, the income was not taxed at preferential small business rates.
7. **Child Care Expenses:** The maximum deduction per child is as follows:
- \$8,000 for a child aged under 7 at December 31, 2020.
  - \$5,000 for a child aged 7 to 16 at December 31, 2020.
  - \$11,000 for a child eligible for the disability tax credit, with no age limit.
  - There are weekly limits for a child attending an overnight camp.
  - Child care expenses must be claimed by the lower income spouse except in specific circumstances.
8. **Medical Expenses:** Medical expenses (*which have not been reimbursed or covered by a medical insurance plan*) can be claimed if they exceed the threshold of 3% of your net income or \$2,397, whichever is less. In Ontario, the claim results in a tax credit of approximately 20% of the amount claimed in excess of the threshold. Taxpayers can refer to the CRA Income Tax Folio S1-F1-C1 which lists eligible expenses. As a reminder, most pharmacies can provide an annual list of prescriptions paid instead of you accumulating receipts for each purchase.
9. **Automobile Limits:** The following limits are effective for 2021 for residents of Ontario:
- Automobile allowance rates: 59 cents/km for the first 5,000 km, then 53 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.}
  - Other limits may apply for zero-emission vehicles.
10. **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.

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- ii. **Foreign Reporting Form:** 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 income 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 can only be claimed as a credit towards *Federal* income taxes; they are no longer claimable against Ontario provincial income taxes except for Ontario tuition credits carried forward from prior years. Most schools no longer mail tuition tax receipts. If you have paid post-secondary tuition, please visit the school’s website to download the official T2202 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 – only form T2202 and TL11A are acceptable.

## **11. COVID-19 Tax Measures:**

- i. **Canada Emergency Response Benefit (“CERB”):** This is a reminder that CERB and certain other benefits received will be taxable on your 2020 personal income tax return. Recipients should receive a T4A slip. If no tax or insufficient tax was withheld from some of these payments when they were paid to you, tax will be calculated and payable on your 2020 personal income tax return.

If you received the Canada Recovery Benefit (“CRB”), repayment is required if your net income exceeds \$38,000. The repayment amount is calculated at the rate of .50 for every dollar of net income above \$38,000 to a maximum of the CRB received. This does not apply to CERB payments received. Repayments of certain Employment Insurance receipts may also have to be repaid depending on net income.

- ii. **\$500 Work from Home Reimbursement:** As many employees have been required to work from home in 2020 as a result of COVID-19, CRA has announced that up to \$500 received by employees from their employer/company as a reimbursement for home office equipment to enable the employee to carry out their employment duties will not be taxable. Note, this is not a payment from the government of Canada; this is a payment from your employer/company to employees for the personal purchase of home office equipment. If your employer or company purchased the equipment, then no reimbursement is applicable.



iii. **Home Office Deduction:** CRA has announced two *temporary* options for deducting home office expenses for those employees working from home in 2020. These temporary measures apply only to ‘employees’, not self-employed individuals. The pre-existing regular detailed method for claiming home office expenses continues to be available.

- **Regular Detailed Method:** Under the pre-existing rules which also continue to apply in 2020 and subsequent years, employees have to meet certain conditions (as described below) to claim home office expenses, track eligible expenses, calculate the deductible portion, then claim the allowable portion on Form T777. [The conditions under the pre-existing rules require the employer to complete and sign “Form 2200, Declaration of Conditions of Employment” indicating that the requirement to work from home is part of the employee’s contract and the work space is either (1) the place where the employee principally (> 50%) performs their employment or (2) the employee uses the work space exclusively on a regular and continuous basis for meeting clients or customers.]
- **COVID-19 Temporary Detailed Method:** For 2020, if an employee does not satisfy either of the two conditions above, employees may still be eligible to claim actual detailed home office expenses if *the employee worked from home more than 50% of the time for at least four consecutive weeks in 2020 due to COVID-19*. The employer must complete and sign the simplified “Form T2200S(Short), Declaration of Conditions of Employment for Working at Home During COVID-19”. Note: If the employee is also claiming automobile expenses, the employee will also need Form T2200 as in prior years.
- **COVID-19 Temporary Flat Rate Method:** This method is available if *the employee worked from home more than 50% of the time for at least four consecutive weeks in 2020 due to COVID-19*. The rate is \$2 for each day the employee worked from home in 2020 due to COVID-19 (excluding sick days, vacation days, and leave of absence days), to a maximum of 200 full or part-time working days (\$400 maximum tax deduction per employee). {For a taxpayer in the top tax bracket in Ontario, this results in a savings of \$214.} No supporting receipts are required and no form is required to be completed by your employer. **Note: This temporary flat rate method is ONLY available if the employee is not claiming any other employment expenses.**

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

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