2021 PERSONAL INCOME TAX CHANGES

Outlined below are a number of items which may affect 2021 personal income tax returns. Recurring items with updated limits are listed first, followed by new items for 2021 and 2022.

1. **RRSP Contribution Limit:** Your RRSP contribution must be made by **March 1, 2022** to allow a tax deduction on your 2021 personal tax return. The RRSP deduction limit for 2021 is $27,830 (assuming maximum 2020 qualifying earnings and no pension adjustment from company pension plans) plus, unused RRSP room carried forward from prior years. You should review your 2020 notice of assessment to verify your limit and to ensure you do not over-contribute.

   The 2022 deduction limit is $29,210 which requires earned income of $162,278 in 2021.

   A *non-deductible* over-contribution is 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 2022 is $6,000. An individual who was at least 18 in 2009 (the year that TFSA was introduced) has *cumulative* TFSA contribution room from 2009 to 2022 of $81,500 (assuming no prior contributions).

3. **Repayment of Old Age Security ("OAS"):** If your 2021 net income on line 23600 on your personal income tax return exceeds $79,845, you will be required to repay some or all of your OAS on your 2021 personal income tax return and, you will receive a reduced amount of OAS in 2022. Full repayment of OAS is required when 2021 net income reaches $129,757. 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 2021. The tax brackets have been adjusted for inflation. The top Ontario personal income tax rates for 2021 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 26.77%
   - Dividends 'eligible' for the enhanced tax credit 39.34%
   - Non-eligible dividends 47.74%

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 $216,511 (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. **Medical Expenses:** Medical expenses paid in the year (*which have not been reimbursed or covered by a medical insurance plan*) can be claimed if they exceed the lesser of two amounts: 3% of your net income or, $2,421.00. 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 accumulating receipts for each purchase.

7. **Automobile Limits:** The following limits are effective for 2022 for residents of Ontario:
   - Automobile allowance rates: 61 cents/km for the first 5,000 km, then 55 cents.
   - Maximum capital cost for capital cost allowance: $34,000.00 plus HST for 2022; $30,000.00 plus HST for prior years.
   - Deductible lease cost limit: $900.00/month plus HST. {An additional restriction may apply where the value of the vehicle exceeds the $34,000.00 ceiling.}
   - Other limits may apply for zero-emission vehicles.

8. **Important Reminders**:
   - Tax Instalments: CRA will issue 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.

   - 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*.

   - 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 a 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.

   - Tuition Credits: 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.

9. **Home Office Deduction:** CRA will continue with the two additional temporary options for deducting home office expenses for those employees working from home in 2021. 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 continue to apply, employees have to meet certain conditions (described below) to claim home office expenses, track eligible expenses, calculate the deductible portion, and 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 2021, 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 2021 due to COVID-19 or the employer required you to work from home*. 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 or other employment expenses, the employee will also need the regular 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 2021 due to COVID-19*. The rate is $2 for each day the employee worked from home in 2021 due to COVID-19 (excluding sick days, vacation days, and leave of absence days), to a maximum of 250 full or part-time working days ($500 maximum tax deduction per employee). {For a taxpayer in the top tax bracket in Ontario, this results in a savings of $267.} 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.

10. **Electronic mail:** Commencing in 2022, electronic mail will be the default for CRA 'My Account' users unless a taxpayer has opted through their online account to receive a hard copy by mail. All taxpayers are encouraged to set up 'My Account' on the CRA website to have access to their tax information and online mail.

11. **Tax Payments over $10,000.00:** Commencing in 2022, tax remittances over $10,000.00 must be paid electronically or the payment will be subject to a penalty.

12. **Ontario Seniors Home Safety Tax Credit:** Seniors who make improvements to their residence to improve safety, accessibility or mobility are eligible for a new Ontario refundable tax credit at the rate of 25% up to $10,000 of eligible expenditures (maximum credit $2,500). Taxpayers must obtain receipts from contractors and suppliers to support their tax credit claim. This Ontario credit is similar to the Federal Home Accessibility Tax Credit.

13. **Canada Emergency Business Account ("CEBA") loans:** CRA has extended the date for repayment of loans received under the CEBA program to qualify for partial loan forgiveness for eligible borrowers by one year from December 31, 2022 to December 31, 2023.

14. **Stock Options:** Changes to limit the preferred tax treatment of stock option plans for employees became effective for stock options *granted after June 30, 2021*. For qualifying employees, previous rules allowed a stock option deduction of 50% of the entire stock option taxable benefit which resulted in the benefit being taxed similar to capital gains.

    The new rules limit the amount of stock option grants eligible for the 50% deduction to $200,000 of options that vest (i.e. are exercisable) in a calendar year. The $200,000 is based on the value of the underlying shares when the option is granted. These rules do not apply to Canadian controlled private corporations and other companies with annual consolidated group revenue of $500 million or less.

15. **Luxury Tax:** Effective January 1, 2022, a luxury tax applies on the purchase or lease of personal use vehicles and aircraft in excess of $100,000, and personal use boats in excess of $250,000 (subject to specific exclusions). The tax is the lesser of 10% of the purchase price, or 20% of the purchase price exceeding the above thresholds. The tax is due at the time of sale.

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February 2022

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.