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CONTEMPORARY IDEAS FOR BUSINESS MANAGEMENT FALL/WINTER 2021

HST Input Tax Credits (ITCs) Explained

Canada has a multi-layer system when it comes to sales tax; luckily, in Ontario we are harmonized. Harmonized sales tax means the Federal component, being the GST at 5%, is combined with the Provincial component, being 8%, to form our 13% HST sales tax. Both the Federal and Provincial components are handled by the Canada Revenue Agency (CRA); unlike some other provinces, such as British Columbia.

When a business provides taxable supplies or services and is registered with the CRA, they are able to claim back HST paid in order to provide those taxable supplies or services; this HST claimed back is referred to as input tax credits or (ITCs). ITCs reduce the amount of HST that is due to the CRA from HST collected on sales. Some businesses are surprised to learn that, prior to claiming ITCs, there are certain rules in the Excise Tax Act (ETA) that are required to be met. The onus is on the business claiming ITCs to ensure these requirements are met. If CRA were to audit a business, ITCs are one of the easiest ways for CRA to assess an amount owing, as a large number of businesses do not ensure their ITC documentation requirements are met.

Section 169 of the ETA outlines the documentation requirements to claim an ITC. To start, the supporting document must be an invoice, receipt, a credit card receipt, a debt note, a written contract or agreement, or any other document issued or signed by the supplier. The information required on the supporting document varies depending on the total amount paid or payable.

The 2021 Federal Budget has proposed to change the total amount paid or payable thresholds noted below.

Total Amount Paid or Payable Under $30 (Proposal Increase to $100)

The supporting document is required to contain the following information:

i. The legal name or operating name of the supplier;

ii. The date of the invoice for supplies or services;

iii. The date when the HST is payable; and,

iv. The total amount paid or payable for the supplies or services.

Total Amount Paid or Payable is Between $30 – $149.99 (Proposal Increase to $100 – $500)

The supporting document is required to contain the information noted for under $30 above, along with the following:

i. The HST business number of the supplier; and

ii. The amount of HST charged.

Total Amount Paid or Payable is $150 or more (Proposal Increase to $500 or more)

The supporting document is required to contain the information noted for $30 – $149.99 above and following:

i. The legal name or operating name of the recipient;

ii. Payment terms; and,

iii. A description of the property or service provided.

The proposals included in the 2021 Federal Budget are expected to receive Royal Assent.

Businesses should be aware of the documentation requirements to claim ITCs or may have an amount assessed by CRA if a review or audit were to occur. If you have further questions about GST/HST (aka Commodity Tax), please don't hesitate to contact me.

Article written by: **Cory Prince** CPA, CA

Considerations for Usings a Spousal RRSP

For a number of years the government has given taxpayers the ability to split certain pension income with their spouse when filing their tax returns. Taxpayers can also contact Service Canada and ask them to split their monthly Canada Pension Plan payments. As a result, many people wonder if there are still advantages of contributing to a spousal Registered Retirement Savings Plan (RRSP). Let us look at some reasons why spousal RRSPs still do make sense.

To refresh your memory, spousal RRSPs were originally designed to allow the high-earning individuals to contribute to their spouse's RRSP but claim the deduction themselves. When it comes time to withdraw the funds from the RRSP, the money will be taxed in the hands of the spouse. However, there is one key item of note. The last contribution must remain in the plan for at least two calendar years after the year in which it was deposited.

Here are some reasons a spousal RRSP may make sense for you:

- **Greater immediate tax savings**. Let us assume that the higher earning spouse is in the 50% tax bracket and the lower earning spouse is in the 30% bracket. If the lower earning spouse contributed $1,000 to their own RRSP, they would only realize tax savings of $300. Conversely, a spousal RRSP contribution by the higher earning spouse of $1,000 would save $500 in taxes, an increase of $200.
- **Your goal is to retire before the age of 65.** The pensions splitting rules do not allow you to split RRSP income before the age of 65. Therefore, if you take money out of your RRSP before the age of 65 you cannot move half of it to your spouse's tax return. Taking money out of a spousal RRSP ensures the income is taxed 100% in the hands of your spouse. The same principle applies if you expect that one spouse will have significantly more income from non-pension sources during retirement. (Remember the waiting period.)
- **One spouse is older than 71.** The year after you turn 71, you can no longer contribute to your RRSP. However if you have a younger spouse, you can contribute to their RRSP as long as you have the contribution room. This could produce significant tax savings, and depending on your situation, the avoidance of having to pay back your Old Age Security.
- **You are saving to purchase your first home.** Under the Home Buyer's plan, a first-time buyer can withdraw up to $25,000 from their RRSP to aid in the purchase. A spousal RRSP can allow access to a second $25,000. This is the case even if one spouse does not work outside the home.
- **You know the lower earning spouse's income will decrease.** Perhaps there is the consideration of having a family, or returning to school, or starting a business that will not be profitable in the early years. Perhaps one spouse is planning to retire earlier than the other does. These are all good reasons for the higher earning spouse to contribute to a spousal RRSP that can then be withdrawn and taxed at a lower rate when the time comes. (Again, remember the waiting period.)
- **Contributions after Death.** No contributions can be made to a deceased individual's RRSP after the date of death. However, the deceased individual's legal representative can contribute to a spousal RRSP in the year of death or during the first 60 days after the end of that year.

For more information on using a spousal RRSP, contact me.

Article written by: **Don Knechtel,** CPA, CA

Non-residents of Canada Renting and Selling Canadian Real Property

Introduction

This article summarizes the compliance requirements and beneficial forms to be filed for non-residents of Canada who rent Canadian real property or are looking to sell Canadian real property. The Canada Revenue Agency ("CRA") requires non-residents of Canada who rent Canadian real property to comply with a number of additional regulations than that of a Canadian resident. The reporting requirements for a non-resident of Canada can be very onerous and we are here to assist you through the process from start to finish. Please see the requirements below at each major milestone of owning and eventually disposing of Canadian real property as a non-resident of Canada.

Purchase of Canadian Real Property

Beginning on April 21, 2017, the Ontario government implemented the Non-Resident Speculation Tax ("NRST") which is a 15% tax on the purchase price of real property located in the Greater Golden Horseshoe Region of Ontario by individuals who are neither citizens nor permanent residents of Canada. The list of geographical areas which are subject to the NRST can be found at the following website: https://www.fin.gov.on.ca/en/bulletins/nrst/. Your purchase of Canadian real property may be subject to NRST if certain criteria are met. It should also be noted that certain other provinces may have similar measures and prior to agreeing to any purchase, the rules for the specific location should be considered so there are no unpleasant surprises on closing.

Your purchase of Canadian real property may be subject to Goods and Services Tax or Harmonized Sales Tax ("GST/HST") if certain conditions apply. GST/HST is a sales tax (13% in Ontario) that may apply to the sale price of Canadian real property if you are purchasing real property from an entity that is in the business of building or restoring real property such as a residential home builder. The GST/HST is most commonly applied to real property that has never been occupied (i.e. new building construction).

Rental Operations

The Canadian income tax on rental income is calculated as 25% of the gross rental revenue and is required to be withheld by a "Canadian Agent" of the non-resident. However, the CRA will allow the non-resident to pay tax on the net rental income if they file a tax return within the prescribed time. As we find most clients benefit from claiming deductions, the rest of this article will outline their approach and procedures.

As noted above, there is a 25% withholding tax that is required to be submitted to CRA when receiving rental revenue as a non-resident of Canada. A Canadian Agent must be designated by the non-resident and the Canadian Agent's responsibility is to administer the remittance of the appropriate withholding tax to CRA. The Canadian Agent is often a Canadian friend or family member of the non-resident, a long-term tenant of the non-resident or someone who is considered to work in a "professional" capacity such as a lawyer or accountant.

A form called an "NR6" – Undertaking to File an Income Tax Return by a Non-Resident Receiving Rent from Real Property is available to be filed prior to receiving your first rental payment for a particular tax year. The completion of this form will allow your Canadian Agent to remit a reduced amount of withholding tax to CRA which is calculated as 25% of your expected net rental income (expected revenue minus expected expenses) as opposed to the standard requirement of 25% of the actual gross rental revenue (actual rent payments received). As noted below, the filing of this form for a particular taxation year tightens the filing deadline for the Canadian personal income tax return to six months after the end of the year as opposed to the standard two-year filing deadline. Before March 31 of the following year, a form "NR4" – Amounts paid to Non-

Residents must be filed with CRA by the Canadian Agent. This form reports the amount of gross rental revenue received by the non-resident and the amount of taxes that were withheld (and subsequently sent to CRA) from the non-resident for the preceding tax year. The non-resident, along with their accountant, will then use this form to assist them with completing their Canadian personal income tax return for that year.

To be taxed on the net rental income, you will be responsible for filing a Canadian personal income tax return for each year in which you receive rental revenue from the Canadian real property. This tax return is due no later than two years after the end of the year in which you receive the rental revenue. If the form "NR6" (discussed above) is filed for a particular tax year then the deadline to file is only six months after the end of the year in which you receive the rental revenue. Form "T1261" – Application for a CRA Individual Tax Number ("ITN") for Non-Residents may be applicable to you if you do not have a valid Social Insurance Number ("SIN") on file with CRA. Form T1261 is required to be completed along with your first Canadian personal income tax return. You will be assigned a Canadian ITN upon CRA's assessment of this form that will be used to identify you with CRA going forward.

This return, filed under Section 216 of the Income Tax Act, will not report any other income sources as it is limited to the reporting of the rental property operations such as rental revenue received, rental expenses incurred (examples include, but are not limited to, insurance, utilities, property taxes, repairs, maintenance, mortgage interest, and property management fees) and tax withheld on rental revenue. There may be a refund or balance owing from this tax return depending on the calculated amount of tax and the withholding tax already remitted to CRA.

You may also be required to register for a GST/HST account if your total gross rental revenue over four consecutive calendar quarters totals more than $30,000 and this revenue was derived from rental periods of less than one month each (i.e. short-term rentals). You must then charge GST/HST (13% in Ontario) on your rental revenue once you are registered for GST/HST. You are also permitted to claim Input Tax Credits ("ITCs") for GST/HST that you pay on the expenses that you incur in the course of your rental operations. These ITCs will lower the GST/HST payable to CRA upon the filing of your GST/HST return. You are required to file a GST/HST return at least once annually depending on your annual revenues and desired filing frequency.

Sale of Canadian Real Property

With the 2020-2021 Canada-US border closures and the increase in housing, prices in Ontario, we have seen a significant increase in Canadian real estate sales by non-residents of Canada. As a non-resident of Canada, the sale of your Canadian real property will be subject to a non-resident withholding tax of 25% of the sale price. These funds will be held by the purchaser's lawyer in trust for CRA until the lawyer receives further instruction from CRA. A form "T2062" – Request by a Non-Resident of Canada for a Certificate of Compliance Related to the Disposition of Taxable Canadian Property (and if applicable, form T2062A) should be filed which allows a reduction of the non-resident withholding tax upon the eventual sale of the real property. This form can be completed as early as the date in which the Agreement of Purchase and Sale is signed by both the buyer and seller but must be filed with CRA no later than ten days after the date of closing to avoid penalties. The completion of this form allows CRA to accept non-resident withholding tax in the amount of 25% of the capital gain (sale proceeds less original purchase price of the property and capital outlays incurred during ownership) as opposed to the standard withholding calculation of 25% of the sale proceeds which could lead to a significant decrease in withholding tax allowing the non-resident access to most of the sale proceeds much sooner. CRA will notify the lawyer holding the funds in trust once form T2062 has been approved by CRA. At this point, the lawyer would remit the required withholding tax to CRA and any remaining funds will be returned to the non-resident once all other required outlays are distributed (such as commissions, mortgage discharge, legal fees, etc.). CRA will then issue a final Certificate of Compliance to the non-resident which they, along with their accountant, will use to assist them in filing a Canadian personal income tax return (under Part I of the Income Tax Act which is different than the tax return filed under Section 216 [reporting rental income] of the Income Tax Act mentioned above) which will report the disposition of the Canadian real property. Typically, a further refund of non-resident withholding tax will result from the filing of this tax return as selling costs (i.e. legal fees, accounting fees and commissions) can be considered to reduce the capital gain. Please note that if no form T2062 is filed, the lawyer must remit 25% of the sale price to CRA within 30 days of the end of the month in which the property closes and the non-resident may face a fine up to $2,500.

Conclusion

As shown above, the compliance requirements and administrative burden for non-residents of Canada who rent Canadian real property are extensive, however, following the procedures for net rental taxation can be beneficial for non-resident landlords. In addition, obtaining a Certificate of Compliance from CRA when planning to sell Canadian real property will allow you to have earlier access to sale proceeds.

Please contact me, or any other of the DJB Tax Professionals, for assistance through this process. We can help you manage cash flow and avoid potential interest and penalties assessed by CRA for any non-compliance.

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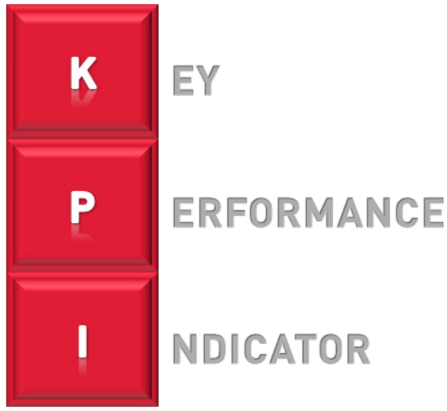
KPIS Help Keep Companies on Track



After years of experience, owners often know in their gut how their company is doing at any given time. But this vague notion of performance really isn't enough. As management gurus will tell you, "You can only manage what you measure."

The best way to take the pulse of your business is by using Key Performance Indicators, or KPIs. Unique to each company, KPIs might include things like average transaction value, customer satisfaction, quality rejection rate, or productivity vs. capacity.

KPIs give you precise measurements of the things that matter most to your business. Armed with these numbers, you can compare performance over time, set goals, and constantly correct course.

Getting started: What can you measure? Consider every area of the company. Each functional area will have its own indicators. Once you start brainstorming, you're sure to think of many KPIs that would be good to track.

Create a benchmark: To measure improvement or decline, you need a benchmark. Some of these "starter" numbers can be gleaned from the books — sales numbers, for example, are easy to find in the accounting system. Others may require some outreach. For example, an initial customer satisfaction survey will give you a benchmark for future years.

Dig in: Once you start tracking KPIs, the fun begins. Why are the numbers the way they are? What can you do differently to change them? People are often surprised to find that KPIs tell a different story than what they assumed.

Keep in mind that you don't need to measure everything right away. You may want to start with just a few KPIs and build from there. Even a little bit of measurement will help you manage more effectively.

What are your KPIs? The Business Transition & Family Enterprise Advisory Services team can help identify them. Give your DJB Advisor a call to arrange to get the process started.

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