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

YEAR-END TAX PLANNING

December 31, 2024 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.

1) **NEW!** As of June 25, 2024, **2/3s** of **capital gains in excess of $250,000 per year** are proposed to be **taxable.** Capital gains of **$250,000 or less** will effectively continue to be included at a **50% rate** due to a new deduction.

   If you anticipate that annual net capital gains will not exceed the $250,000 threshold, the changes will not affect you. However, if you **expect annual capital gains to exceed $250,000**, you may be **impacted** by the changes.

   If you expect to realize annual capital **gains over $250,000** in the **near term**, consider **triggering gains** at the end of 2024 to utilize the full $250,000 in capital gains that are protected from the 2/3 inclusion rate. Any unused limit cannot be carried forward; however, a new $250,000 limit will become available next year. Triggering gains can be useful if your portfolio has significant accrued gains that you would like to realize in the near future. Spreading the gains over a few years to maximize access to the effective 50% inclusion rate can reduce the overall tax cost. However, if you **don't foresee exceeding $250,000** in gains in a single year, **deferring gains** may be better to avoid paying tax earlier than necessary.

   That is, **determining** whether to **trigger capital gains** should be considered in light of expected **future capital gains** and the expected **time horizon** of holding the investment.

2) Consider **triggering capital losses** at year-end to offset capital gains.

   NEW! Capital losses carried forward and **claimed in 2024** will be **applied** at the **blended capital gains** inclusion rate for **2024**. This rate considers capital gains realized at both the 50% and 2/3 inclusion rate in 2024. That is, a capital loss of prior years claimed in 2024 cannot be applied only to capital gains included at the 2/3 rate if capital gains were also realized at the 50% rate (i.e. before June 25, 2024).

Net capital losses that cannot be used in the current year can be **carried back three years or forward indefinitely**. Capital losses carried forward or back are **adjusted** to **align** with the **inclusion rate** for the year in which they are claimed. For example, a capital loss carried forward to 2025 would be deducted at a 2/3 rate if it offsets capital gains in excess of the $250,000 threshold eligible for the effective 50% inclusion rate. By contrast, a capital loss carried back to 2023 would be applied at the 50% rate. Capital losses claimed in years subject to the 2/3 rate are more valuable than losses claimed in years subject to the 50% rate.

3) Certain expenditures made by individuals by December 31, 2024 will be eligible for **tax deductions or credits,** including digital news subscriptions, moving expenses, multigenerational home renovation expenditures, child care expenses, charitable donations, political contributions, registered journalism organization 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.

4) A senior whose 2024 net income exceeds $90,997 will lose all or part of their **old age security** pension. Senior citizens will also begin to lose their age credit if their net income exceeds $44,325. Consider limiting income over 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) If you own a **business or rental property**, consider making a **capital asset purchase** by the end of the year. Many capital assets purchased and made available for use in 2024 will be eligible for a **100% CCA write-off** under the immediate expensing rules.

6) **NEW!** Looking to **sell your business**? **Several new** tax-efficient **options** exist or will be available shortly. They include the Canadian entrepreneurs' incentive, the use of an employee ownership trust for sales to employees, the use of the updated intergenerational business transfer rules for sales to children, as well as the ability to shelter up to $1.25 million in capital gains under the lifetime capital gains exemption. The effective date of these incentives varies.

7) **UPDATE!** The **alternative minimum tax** (AMT) applies a minimum tax to individuals who would otherwise be subject to low regular taxes due to claiming various legitimate tax incentives, such as the capital gains exemption. **Starting in 2024**, the **mechanism** by which **AMT** is calculated has **changed**. Broadly, the changes **target higher-income individuals**, with lower and mid-income individuals generally at reduced risk of AMT exposure. Individuals who have paid AMT in recent years may pay less regular tax than expected due to the ability to offset previously paid AMT against current-year tax liabilities.

8) 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.

9) If you have equity investments or loans to a Canadian small business that has become insolvent or bankrupt, an **allowable business investment loss** (ABIL) may be available. For loans to corporations to be eligible, the borrower must act at arm's length. ABILs can offset income beyond capital gains, such as interest, business or employment income.

10) If a **commercial debt** you owe (generally a business loan) has **been forgiven**, special rules apply that may result in additional taxes or other adjustments to the tax return.

11) You have until **Thursday, March 3, 2025**, to make tax-deductible **registered retirement savings plan (RRSP)** contributions for the 2024 year. Consider having the higher income earning individual contribute to their spouse's RRSP via a spousal RRSP for greater tax savings.

12) **NEW!** Consider using the **home buyers' plan** (HBP) to **withdraw up to $60,000** (for withdrawals after April 16, 2024, $35,000 previously) from your RRSP to fund the purchase of your first home. Taxpayers must **repay** the amounts withdrawn under the HBP over a **15-year period**. For withdrawals between January 1, 2022 and December 31, 2025, the **15-year period** has been **temporarily deferred**, such that it now starts with the fifth year following the year the first withdrawal was made.

13) Consider making a contribution to a tax-free **first home savings account (FHSA)**. Eligible contributions are deductible, and withdrawals to purchase a first home are not taxable. Up to $8,000 can be contributed annually, to a maximum lifetime limit of $40,000. Contributions made in 2024 and unused contributions from 2023 can be deducted against 2024 income.

14) Individuals should consider contributing to their **tax-free savings account (TFSA)**. An additional $7,000 may be contributed starting on January 1, 2025. Consider a catch-up contribution if you have not contributed the maximum amount for prior years.

15) 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 the Canada learning bond.

16) A **registered disability savings plan (RDSP)** may be established for a person under 60 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.

17) **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).

18) Are you a **U.S. resident, citizen or green card holder**? Consider U.S. filing obligations concerning 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.

19) If income, forms or elections have been missed in the past, a **voluntary disclosure** to CRA may be available to avoid penalties.

20) **Interest-free loans** of up to **$40,000** are available to homeowners and landlords who undertake **retrofits** identified through an authorized **EnerGuide energy assessment** (Canada Greener Homes Loan).

21) **NEW!** The **Canadian dental care plan** is available to individuals and their spouse or common-law partner (if applicable) who have an **adjusted family net income** (AFNI) of **less than $90,000**; are **Canadian resident** for tax purposes; have **filed their tax return** in the previous year; and do **not have access to dental insurance** (e.g. through an employer, pension or group plan). A co-payment is required if AFNI is between $70,000 and $89,999.

22) **NEW!** As of **January 1, 2024,** expenses incurred to earn **short-term rental income** will not be deductible for tax purposes when the rental **operation** is **not compliant** with the applicable provincial or municipal **licensing**, **permitting** or **registration requirements**. If the operation is compliant for only a portion of the rental period, deductions will generally be denied on a pro-rata basis. However, if the operation is compliant by December 31, 2024, the operation will be considered compliant for all of 2024.

2024 REMUNERATION

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

There are various ways to **smooth income over several years** to ensure an individual is maximizing access to the lowest marginal tax rates.

- Taking more or less **earnings out of the corporation** (in respect of owner-managed companies).
- **Realizing capital gains**/losses by selling investments.
- Deciding **whether to claim RRSP** contributions made in the current year or carry forward the contributions.
- **Withdrawing funds from an RRSP** to increase income. However, care should be given to the loss in the RRSP room based on the withdrawal.
- Deciding **whether or not to claim CCA** on assets used to earn rental/business income.

Note that dividends paid to shareholders of a corporation that do not meaningfully contribute to the business may result in higher taxes due to the "tax on split income" rules.

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

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 that may limit access to the small business deduction where significant corporate passive investment income is earned should be reviewed.

2) If dividends are paid out of a struggling business with a tax debt that cannot be paid, the recipient could be held **liable for a portion of the corporation's tax debt**, not exceeding the value of the dividend.

3) Individuals who wish to contribute to the **CPP or an RRSP** may require a salary to generate earned income. RRSP contribution room increases by 18% of the previous year's earned income up to a yearly prescribed maximum ($31,560 for 2024).

4) Consider paying taxable dividends to obtain a refund from the **refundable dividend tax on hand** account in the corporation. The refund amount may be restricted if eligible dividends are paid. Eligible dividends are subject to lower personal tax rates.

5) Access to the corporate federal small business deduction is reduced where **more than $50,000 of passive income** is earned in the corporation. Consider whether it is appropriate to remove passive income-generating assets from the corporation and whether a shift in the types of passive assets held is appropriate. In some provinces, it may actually be beneficial to have access to the federal small business deduction reduced. As many variables affect these decisions, consultation with a professional advisor is suggested.

6) If you provide services to a small number of clients through a corporation (that would otherwise be considered your employer), CRA could classify the business as a **personal services business**. There are significant negative tax implications of such a classification. Consider discussing risk and exposure minimization strategies (such as paying a salary to the incorporated worker) with a professional advisor in such scenarios.

The preceding information is for educational purposes only. As it is impossible to include all situations, circumstances and exceptions in a newsletter such as this, a further review should be done by a qualified professional.

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If you have any questions, give us a call! **780-349-3355**