



# 2020 year end tax tips: COVID-19 edition

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Jamie Golombek

Managing Director, Tax and Estate Planning, CIBC Private Wealth Management

Tax planning should be a year-round affair. But as year-end approaches, now is a particularly good time to review your personal finances and take advantage of any tax planning opportunities that may be available to you before the December 31<sup>st</sup> deadline. As we enter the final weeks of 2020, here are some tax tips you may wish to consider for:

- Individuals affected by COVID-19
- Investors
- Families with students
- Family members with disabilities
- Individuals making gifts
- Individuals with changes to tax rates; and
- Business owners and employers.

## Individuals affected by COVID-19

The government introduced a number of measures in 2020 to assist individuals who have been affected by COVID-19. Full details are available in our report, [Personal tax measures: Canada's COVID-19 response plan](#).<sup>1</sup> Here are some year end considerations to take into mind if you've received any of these benefits in 2020.

### Canada Emergency Response Benefit (CERB)

If you lost your job, were working reduced hours due to the COVID-19 pandemic, or were sick, quarantined or forced to stay home to care for children or other relatives in 2020, the CERB provided income support of \$500 per week (or \$2,000 per four-week eligibility period) for up to 28 weeks, with a maximum claim of \$14,000. The CERB was available until September 26, 2020 and the last date to apply retroactively is December 2, 2020.

The government will be issuing a T4A tax reporting slip for 2020 showing the total amount of CERB you received, and you must report this amount as income when filing your 2020 income tax return. No tax was deducted at source from your CERB payments, so you may need to pay tax on the CERB amounts you received when you file your 2020 income tax return. The amount of tax that you will owe on your CERB will depend on your 2020 marginal tax rate, taking into account all other income you may have earned in 2020. Before year end, you may wish to estimate your total income from all sources so you can set aside funds to pay any potential taxes you may owe on the CERB come tax filing season next April.

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<sup>1</sup> The report "Personal tax measures: Canada's COVID-19 response plan" is available online at [cibc.com/content/dam/personal\\_banking/advice\\_centre/tax-savings/covid-tax-en.pdf](https://www.cibc.com/content/dam/personal_banking/advice_centre/tax-savings/covid-tax-en.pdf).

## Canada Recovery Benefit (CRB)

If you are not eligible for EI, perhaps because you are self-employed, you may qualify for the CRB, which began on September 27, 2020 and runs until September 25, 2021. You can receive a taxable benefit amount of \$500 per week, for up to 26 weeks. You are required to apply after every two-week period for which you need support and the deadline for applying for any two-week period is 60 days after the end of that period.

While the government has indicated that, unlike the CERB, it will be withholding 10% in taxes on any CRB payments, this may be insufficient to cover your tax liability on the CRB, which will be taxable at your 2020 marginal tax rates. In addition, if your total income (excluding the CRB) was over \$38,000 in 2020, you may be required to pay back the CRB at a rate of \$0.50 for each dollar of CRB received for income over this amount.

As we approach year end, it's a good idea to estimate any additional tax you may owe on the CRB as well as plan for potential repayment of the CRB if you estimate that your 2020 income could be over \$38,000 this year.

## Canada Recovery Sickness Benefit (CRSB)

If you are (self-)employed and don't have a paid sick leave program, the CRSB may provide a \$500 per week taxable benefit, for up to two weeks, if you cannot work either because you are ill or because you must self-isolate due to COVID-19, or you are more susceptible to COVID-19. This benefit is available from September 27, 2020 to September 25, 2021. Applications can be made after the specific claim week ends. The deadline for applying for any one-week period is 60 days after the end of that period.

Like the CRB, the amount is taxable and is subject to 10% withholding tax, so you could end up owing some extra tax on the CRSB for 2020 come next spring.

## Canada Recovery Caregiving Benefit (CRCB)

The CRCB provides a \$500 per week taxable benefit, for up to 26 weeks, if you miss work to care for a family member in certain circumstances due to COVID-19. This benefit is also available from September 27, 2020 to September 25, 2021. Similar to the CRSB, applications can be made after the particular claim period ends and the deadline for applying for any one-week period is 60 days after then end of that period.

As with the CRB and the CRSB, the CRCB is taxable and subject to the 10% withholding tax, which may be insufficient. Accordingly, if you receive the CRCB, you may want to set aside some funds at year end to cover any additional tax that could be owing next April.

## Investors

### Tax-loss selling

Tax-loss selling involves selling investments with accrued losses at year end to offset capital gains realized elsewhere in your portfolio. Any net capital losses that cannot be used currently may either be carried back three years or carried forward indefinitely to offset net capital gains in other years.

In order for your loss to be immediately available for 2020 (or one of the prior three years), the settlement must take place in 2020. The trade date must be no later than December 29, 2020 to complete settlement by December 31<sup>st</sup>.

If you purchased securities in a foreign currency, the gain or loss may be larger or smaller than you anticipated once you take the foreign exchange component into account. For example, Jake bought 1,000 shares of a U.S. company in November 2012 when the price was US\$10/share and the U.S. dollar was at par with the Canadian dollar. Today, the price of the shares has fallen to US\$9 and Jake decides he wants to do some tax loss harvesting, to use the US\$1,000 [(US\$10 — US\$9) X 1,000] accrued capital loss against gains he realized earlier this year.

Well, before knowing if this strategy will work, he'll need to convert the potential U.S. dollar proceeds back into Canadian dollars. If the exchange rate is \$1 U.S. = \$1.33 CDN, selling the U.S. shares for US\$9,000 yields \$12,000 CDN. So, what initially appeared to be an accrued capital loss of US\$1,000 (US\$10,000 minus US\$9,000) turns out to be a capital gain of \$2,000 (\$12,000 minus \$10,000) for Canadian tax purposes. If Jake had gone ahead and sold the U.S. stock, he would actually be doing the opposite of tax loss selling and accelerating his tax bill by crystallizing the accrued capital gain in 2020!

### Gifts to family members

If you have assets that have declined in value and wish to gift assets to family members, gifting when asset values are lower may result in a reduced capital gain (or increased capital loss) in your hands. When you gift property, the tax treatment is the same as if you sold the property at its fair market value (FMV). The difference between the FMV and your adjusted cost base (ACB) or tax cost of the assets will be a capital gain (or loss). Capital losses may be used to offset your capital gains and you'll pay tax on 50% of any net capital gains. Net capital losses may be carried back three years or forward to the future to offset net capital gains of other years. The family members receiving the property from you will have an ACB equal to the FMV at the time of the transfer, with any future change in value taxed in their hands.

Prior to gifting any assets, you should be comfortable that you won't need those assets to cover expenses during your lifetime. You should also take into account that you will lose control of any property that is transferred to others. For instance, if you transfer ownership of a family cottage to your adult children, you generally won't be able to use that cottage without your children's consent!

### Superficial loss

If you plan to repurchase a security you sold at a loss, beware of the "superficial loss" rules that apply when you sell property for a loss and buy it back within 30 days before or after the sale date. The rules apply if property is repurchased within 30 days and is still held on the 30<sup>th</sup> day by you or an "affiliated person", including your spouse or partner, a corporation controlled by you or your spouse or partner, or a trust of which you or your spouse or partner are a majority beneficiary (such as your RRSP or TFSA). Under the rules, your capital loss will be denied and added to the adjusted cost base (tax cost) of the repurchased security. That means any benefit of the capital loss could only be obtained when the repurchased security is ultimately sold.

### Transfers and swaps

While it may be tempting to transfer an investment with an accrued loss to your RRSP or TFSA to realize the loss without actually disposing of the investment, such a loss is specifically denied under our tax rules. There are also harsh penalties for "swapping" an investment from a non-registered account to a registered account for cash or other consideration.

To avoid these problems, consider selling the investment with the accrued loss and, if you have the contribution room, contributing the cash from the sale into your RRSP or TFSA. If you want, your RRSP or TFSA can then "buy back" the investment after the 30-day superficial loss period.

### Make RRSP contributions

Although you have until March 1, 2021, to make RRSP contributions for the 2020 tax year, contributions made as early as possible will maximize tax-deferred growth. Your 2020 RRSP deduction is limited to 18% of income earned in 2019, to a maximum of \$27,230, less any pension adjustment plus any previous unused RRSP contribution room and any pension adjustment reversal.

## **Delay RRSP withdrawals under the HBP or LLP**

You can withdraw funds from an RRSP without immediate tax under the Home Buyer's Plan (up to \$35,000 for first-time home buyers) or the Lifelong Learning Plan (up to \$20,000 for post-secondary education). With each plan, you must repay the funds in future annual instalments, based on the year in which funds were withdrawn. If you are contemplating withdrawing RRSP funds under one of these plans, you can delay repayment by one year if you withdraw funds early in 2021, rather than late in 2020.

## **Make TFSA contributions**

The TFSA dollar limit for 2020 is \$6,000 but there is no deadline for making a TFSA contribution. If you have been at least 18 years old and resident in Canada since 2009, you can contribute up to \$69,500 in 2020 if you haven't previously contributed to a TFSA.

## **Take TFSA withdrawals**

If you withdraw funds from a TFSA, an equivalent amount of TFSA contribution room will be reinstated in the following calendar year, assuming the withdrawal was not made to correct an over-contribution.

Be careful, however, because if you withdraw funds from a TFSA and then re-contribute in the same year without having the necessary contribution room, overcontribution penalties can result. If you wish to transfer funds or securities from one TFSA to another, you should do so by way of a direct transfer, rather than a withdrawal and recontribution, to avoid an overcontribution problem.

If you are planning a TFSA withdrawal in early 2021, consider withdrawing the funds by December 31, 2020, so you would not have to wait until 2022 to re-contribute that amount.

## **Pay investment expenses**

Certain expenses must be paid by year end to claim a tax deduction or credit in 2020. This includes investment-related expenses, such as interest paid on money borrowed for investing and investment counseling fees for non-registered accounts.

## **Convert your RRSP to a RRIF by age 71**

If you turned age 71 in 2020, you have until December 31 to make any final contributions to your RRSP before converting it into a RRIF or registered annuity.

It may be beneficial to make a one-time overcontribution to your RRSP in December before conversion if you have earned income in 2020 that will generate RRSP contribution room for 2021. While you will pay a penalty tax of 1% on the overcontribution (above the \$2,000 permitted overcontribution limit) for December 2020, new RRSP room will open up on January 1, 2021 so the penalty tax will cease in January 2021. You can then choose to deduct the overcontributed amount on your 2021 (or a future year's) return.

This may not be necessary, however, if you have a younger spouse or partner, since you can still use your contribution room after 2020 to make contributions to a spousal RRSP until the end of the year your spouse or partner turns 71.

## **Take advantage of lower RRIF minimum amounts**

You have to take minimum withdrawals from your RRIF starting from the year after the RRIF is established. Minimum withdrawals are calculated as a percentage of the fair market value of your RRIF assets at the beginning of the year, and the percentage is based on your age.

For 2020 (only), the required minimum withdrawals were reduced by 25%. Further information on the changes to RRIF minimum amounts may be found in our report, "[Lower RRIF minimum withdrawals for 2020: Canada's COVID-19 response plan](#)."<sup>2</sup>

## Use a prescribed rate loan to split investment income

If you are in a high tax bracket, you may wish to have some investment income taxed in the hands of family members (such as your spouse, common-law partner or children) who are in a lower tax bracket; however, if you simply give funds to family members for investment, the income from the invested funds may be attributed back to you and taxed in your hands, at your high marginal tax rate.

To avoid attribution, you can lend funds to family members, provided the rate of interest on the loan is at least equal to the government's "prescribed rate," which is 1% until at least December 31, 2020.<sup>3</sup> If you implement a loan before that date, the 1% interest rate will be locked in and will remain in effect for the duration of the loan, regardless of whether the prescribed rate increases in the future. If you previously entered into a prescribed rate loan at a higher interest rate, our report, "[Prescribed rate loans: The one per cent solution](#)"<sup>4</sup> provides some tips (as well as some cautions) that may allow you to take advantage of the current 1% rate while it is in effect. Note that interest for each calendar year must be paid annually by January 30<sup>th</sup> of the following year to avoid attribution of income for the year and all future years.

When a family member invests the loaned funds, the choice of investments will affect the tax that is paid by that family member. It may be worthwhile to consider investments that yield Canadian dividends, since a dividend tax credit can be claimed by individuals to reduce the tax that is payable. When the dividend tax credit is claimed along with the basic personal amount, a certain amount of dividends can be received entirely tax-free by family members who have no other income.

For example, an individual who has no other income and who claims the basic personal amount can receive about \$53,000 of eligible dividends in 2020 without paying any tax, other than in the provinces of Manitoba, Newfoundland and Labrador, Nova Scotia, P.E.I. and Quebec, where the amount of eligible dividends that can be received is lower.

You should consult with tax and legal advisors to make arrangements to implement a prescribed rate loan. By putting a loan into place before the end of the year, you could benefit from income splitting throughout the upcoming year and for many years to come.

## Families with students

### Make RESP contributions

RESPs allow for tax-efficient savings for children's post-secondary education. The federal government will pay into an RESP a Canada Education Savings Grant (CESG) equal to 20% of the first \$2,500 of annual RESP contributions per child or \$500 annually. While unused CESG room is carried forward to the year the beneficiary turns 17, there are a couple of situations in which it may be beneficial to make an RESP contribution by December 31.

Each beneficiary who has unused CESG carry-forward room can have up to \$1,000 of CESGs paid into an RESP annually, with a \$7,200 lifetime limit, up to and including the year in which the beneficiary turns 17. If enhanced catch-up contributions of \$5,000 (i.e. \$2,500 x 2) are made for just over seven years, the maximum total CESGs of \$7,200 will be obtained. If you have less than seven years before your (grand)child turns 17 and haven't maximized RESP contributions, consider making a contribution by December 31.

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<sup>2</sup> The report "Lower RRIF minimum withdrawals for 2020: Canada's COVID-19 response plan" is available online at [cibc.com/content/dam/personal\\_banking/advice\\_centre/tax-savings/covid-rrif-en.pdf](https://cibc.com/content/dam/personal_banking/advice_centre/tax-savings/covid-rrif-en.pdf).

<sup>3</sup> Quarterly prescribed interest rates are available online at [canada.ca/en/revenue-agency/services/tax/prescribed-interest-rates.html](https://canada.ca/en/revenue-agency/services/tax/prescribed-interest-rates.html).

<sup>4</sup> The report "Prescribed rate loans: The one per cent solution" is available online at [cibc.com/content/dam/personal\\_banking/advice\\_centre/tax-savings/prescribed-rate-loans-en.pdf](https://cibc.com/content/dam/personal_banking/advice_centre/tax-savings/prescribed-rate-loans-en.pdf).



Also, if your (grand)child turned 15 this year and has never been a beneficiary of an RESP, no CESG can be claimed in future years unless at least \$2,000 is contributed to an RESP by the end of the year. Consider making your contribution by December 31 to receive the current year's CESG and create CESG eligibility for 2021 and 2022.

### **Take RESP withdrawals for students**

If your (grand)child is an RESP beneficiary and attended a post-secondary educational institution in 2020, consider having Educational Assistance Payments (EAPs) made from the RESPs before the end of the year. Although the amount of the EAP will be included in the income of the student, if the student has sufficient personal tax credits, the EAP income will be effectively tax-free.

If your (grand)child is an RESP beneficiary and stopped attending a post-secondary educational institution in 2020, EAPs can only be paid out for up to six months after the student has left the school. You may, therefore, wish to consider having final EAPs made from RESPs of which the student is a beneficiary.

### **Pay interest on student loans**

You can claim a non-refundable tax credit in 2020 for the amount of interest paid by December 31 on student loans received under the *Canada Student Loans Act*, the *Canada Student Financial Assistance Act*, the *Apprentice Loans Act* or a similar provincial or territorial government law. Note that while only the student can claim the student loan interest credit, the interest on the loan itself can be paid either by the student or by someone related to the student, such as a (grand)parent.

## **Family members with disabilities**

### **One-time COVID-19 payment to persons with disabilities**

A one-time, non-taxable payment of up to \$600 is available to eligible individuals with disabilities, in recognition of the extraordinary expenses incurred by these individuals during the COVID-19 pandemic.

You should automatically receive this one-time payment if you:

- Have an existing, valid Disability Tax Credit (DTC) certificate,
- Are eligible and apply for the DTC by December 31, 2020,
- Were a beneficiary as of July 1, 2020 of the Canada Pension Plan Disability (CPPD), Quebec Pension Plan Disability Pension (QPPD), or certain disability supports provided by Veterans Affairs Canada (VAC).<sup>5</sup>

If you are not eligible for the OAS pension, the one-time payment will be \$600. If you are the parent of a child under age 18 with disabilities, you should receive the \$600 on behalf of the eligible child.

If you were eligible for the OAS pension (but not the GIS) in June 2020, you should have received a special COVID-19 one-time OAS pension payment of \$300 in July 2020 and the payment to persons with disabilities will be \$300, for a combined total of \$600.

If you had low income and were eligible for both the OAS pension and the GIS in June 2020, you should have received a special COVID-19 one-time OAS pension payment of \$500 in July 2020 and the payment to persons with disabilities will be \$100, for a combined total of \$600.

If the CRA was able to confirm your eligibility for the payment to persons with disabilities by September 30, 2020, you should automatically receive the payment on October 30, 2020; otherwise, your payment may be delayed until January 2021 (if you are approved by Nov. 30) or Spring 2021 (if you are confirmed to be eligible by the end of February 2021).<sup>6</sup>

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<sup>5</sup> Qualifying VAC disability supports are the Disability Pension, Disability Award, Pain and Suffering Compensation, Critical Injury Benefit, Rehabilitation Services and Vocational Assistance Program, Income Replacement Benefit, and Canadian Forces Income Support.

<sup>6</sup> Additional information is available at [canada.ca/en/services/benefits/covid19-emergency-benefits/one-time-payment-persons-disabilities.html](https://canada.ca/en/services/benefits/covid19-emergency-benefits/one-time-payment-persons-disabilities.html).

If have yet to apply for a DTC to be eligible for the payment to persons with disabilities, make sure to submit your application by the deadline of December 31, 2020. To get your payment, it's also important to ensure the government has your current personal information, including your marital status, direct deposit details and mailing address.

### **Make renovations for home accessibility**

The non-refundable Home Accessibility Tax Credit (HATC) assists seniors and those eligible for the disability tax credit with certain home renovations.

The tax credit is equal to 15% of up to \$10,000 of expenses per year towards renovations that permit these individuals to gain access to, or to be more mobile or functional within, their home, or reduce their risk of harm within their home or from entering their home.

The HATC will apply in respect of payments made by December 31<sup>st</sup> for work performed or goods acquired in 2020. A single expenditure may qualify for both the HATC and the medical expense tax credit, and both may be claimed.

### **Contribute to a Registered Disability Savings Plan (RDSP)**

RDSPs are tax-deferred savings plans available for Canadian residents eligible for the Disability Tax Credit. Up to \$200,000 can be contributed to the plan until the beneficiary turns 59, with no annual contribution limits. While RDSP contributions are not tax deductible, all earnings and growth accrue on a tax-deferred basis.

Federal government assistance in the form of Canada Disability Savings Grants (CDSGs), which are based on contributions, and Canada Disability Savings Bonds (CDSBs) may be deposited directly into the plan up until the year the beneficiary turns 49. The government may contribute up to a maximum of \$3,500 CDSG and \$1,000 CDSB per year of eligibility, depending on the net income of the beneficiary's family. Eligible investors may wish to contribute to an RDSP before December 31 to get this year's assistance. There is a 10-year carryforward of CDSG and CDSB entitlements.

RDSP holders with shortened life expectancy can withdraw up to \$10,000 annually from their RDSPs without repaying grants and bonds. A special election must be filed with the Canada Revenue Agency (CRA) by December 31 to make a withdrawal in 2020.

### **Pay family medical expenses**

A tax credit may be claimed when total eligible medical expenses exceed the lower of 3% of your net income or \$2,397 in 2020.

For medical expenses, it may be worthwhile to look for unclaimed expenses prior to 2020 as well. The medical expense tax credit (METC) may be claimed for eligible medical expenses that were paid during any 12-month period that ended within the calendar year (extended to 24 months when an individual died in the year.)

## **Charitable giving**

### **Make charitable donations**

Both the federal and provincial governments offer donations tax credits that, in combination, can result in tax savings of around 50% of the value of your gift in 2020, depending on your province or territory of residence.

With total cash donations up to \$200 in a year, the federal donation credit is 15% of the donation amount. For total donations exceeding \$200 in a year, the federal donation credit jumps to 29% (33% to the extent taxable income exceeds \$214,368) of the donation amount. Provincial donation credits are also available and the total credit may be up to approximately 50% once total annual donations exceed the \$200 in a calendar year.

December 31 is the last day to make a donation and get a tax receipt for 2020. Keep in mind that many charities offer online, internet donations where an electronic tax receipt is generated and emailed to you instantly.

## Gifts “in-kind”

Gifts of publicly-traded securities, including mutual funds and segregated funds, with accrued capital gains “in-kind” to a registered charity or a foundation not only entitles you to a tax receipt for the fair market value of the security being donated, it eliminates capital gains tax too. You should plan gifts in-kind well before year end, to allow for sufficient time to make arrangements.

## Individuals with changes to tax rates

If you anticipate that your income tax rates will be substantially different in 2021, it may be worthwhile to shift income and expenses between 2020 and 2021, where feasible.

For example, you may expect that your tax rate could increase in 2021, perhaps if you plan to return to work, or expect to receive deferred compensation or exercise stock options. If so, you may wish to realize income in 2020 by taking steps such as selling investments with a capital gain, exercising stock options or taking bonuses in 2020 rather than 2021, where feasible. It may also make sense to defer deductible expenses until 2021 where possible.

Conversely, you may anticipate that your tax rate could decrease in 2021, perhaps if you plan to retire or if you received a bonus in 2020 that may not reoccur. There could also be changes to income tax credits that could decrease your taxes in 2021. If you expect your tax rate to be lower in 2021, you may wish to defer income by taking steps such as waiting to sell investments with a capital gain, exercise stock options, take bonuses or distribute dividends to owner-managers from a corporation, where feasible, in 2021 rather than 2020.

## Business owners and employers

### COVID-19 wage subsidy measures for employers

Under the Canada Emergency Wage Subsidy (CEWS) program, you may be able to receive a subsidy of up to 85% of eligible remuneration that you paid between March 15 and December 19, 2020 if you had a decrease in revenue. Applications for the CEWS must be submitted by January 31, 2021.

Under the Temporary Wage Subsidy (TWS) program, you may qualify for a subsidy equal to 10% of remuneration that you paid between March 18, 2020 and June 19, 2020, with a maximum of \$1,375 per employee and \$25,000 in total. If you are eligible for TWS but did not reduce your payroll remittances, you can still apply and the CRA will pay the amount of the subsidy to you or transfer it to your next year’s remittance.

More details of these wage subsidy programs are available in our report [Wage subsidy programs for employers: Canada’s COVID-19 response plan](#).<sup>7</sup>

## Corporate loss planning

### Tax-free dividends

If your corporation has unrealized losses in its investment portfolio, it’s worth checking to see if there is a positive balance in your corporation’s capital dividend account (CDA) before engaging in any tax-loss selling, as discussed above. The CDA is a notional account that tracks the non-taxable portion of capital gains, among other things. Dividends may be designated as capital dividends, which are generally tax-free to the shareholder, if they do not exceed the balance of the CDA. Net capital losses will decrease the CDA and will, therefore, reduce (or possibly even eliminate) the capital dividends that may be paid. Prior to realizing any capital losses, consider paying out any capital dividends to eliminate any positive balance in the CDA.

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<sup>7</sup> The report “Wage subsidy programs for employers: Canada’s COVID-19 response plan” is available online at [cibc.com/content/dam/personal\\_banking/advice\\_centre/tax-savings/covid-wage-subsidy-en.pdf](https://cibc.com/content/dam/personal_banking/advice_centre/tax-savings/covid-wage-subsidy-en.pdf).



## Loss consolidation

You may have more than one corporation within a corporate group. One (or more) of these companies may be profitable (“Profitco”), and one (or more) may be suffering losses (“Lossco”) at this time. The CRA has generally permitted the consolidation of losses within a related group through a variety of methods. For example, Profitco may subscribe for shares of Lossco, which in turn makes a loan to Profitco. Interest payments on the loan will reduce the taxable income of Profitco, and the taxable interest income received by Lossco will be offset by its losses.

As corporate reorganizations are complex, tax and legal advisors should be consulted before implementing any loss consolidation transactions.

## Business transition planning

If you’re thinking about transitioning your business to new owners and you believe that your business has recently dropped in value, you may want to explore some of the planning considerations, including an estate freeze or refreeze, that are discussed in our report [Tax and estate planning in uncertain times](#),<sup>8</sup> in advance of the end of the year.

## Income splitting

The “tax on split income” (TOSI) rules can apply where an individual receives dividend or interest income from a corporation, or realizes a capital gain, and a related individual is either actively engaged in the business of the corporation or holds a significant amount of equity (with at least 10% of the value) in the corporation. When the TOSI rules apply, dividends are taxed at the highest marginal rate.

If your private corporation has other shareholders, such as your spouse, partner, children or other relatives as shareholders, review the possible impact of the TOSI rules with your tax and legal advisors before paying dividends to these individuals in 2020.

Planning for the TOSI is more fully described in our report [The CCPC tax rules](#).<sup>9</sup>

## Passive investment income

The first \$500,000 of active business income in a Canadian-controlled Private Corporation (CCPC)<sup>10</sup> generally qualifies for the small business deduction (SBD), which reduces the corporate tax rate by 12.5 to 19.0 percentage points in 2020, depending on the province or territory. This means there may be significantly more after-tax income in your corporation for investment when the SBD is available. The government believed this posed an unfair advantage and, so, new rules were introduced effective in 2019 which affected the amount of income that’s eligible for the federal SBD. The SBD is generally reduced by \$5 for each \$1 of passive income over \$50,000 in the previous year. Once passive income reaches \$150,000 in the previous year, none of the current year’s business income may be eligible for the lower tax rates.

If your corporation is approaching the \$50,000 limit for passive income in 2020, consider a “buy and hold” strategy to defer capital gains. Also, consider whether an Individual Pension Plan or corporately-owned exempt life insurance may be appropriate, as income earned within these plans will not be treated as passive income.<sup>11</sup>

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<sup>8</sup> The report “Tax and estate planning in uncertain times” is available online at [cibc.com/content/dam/personal\\_banking/advice\\_centre/tax-savings/tax-planning-uncertain-times-en.pdf](https://www.cibc.com/content/dam/personal_banking/advice_centre/tax-savings/tax-planning-uncertain-times-en.pdf).

<sup>9</sup> The report “The CCPC tax rules” is available online at [cibc.com/content/dam/small\\_business/day\\_to\\_day\\_banking/advice\\_centre/pdfs/business\\_reports/private-corporation-tax-changes-en.pdf](https://www.cibc.com/content/dam/small_business/day_to_day_banking/advice_centre/pdfs/business_reports/private-corporation-tax-changes-en.pdf)

<sup>10</sup> The SBD is available to a CCPC that earns active business income up to the annual limit of \$500,000 federally and provincially or territorially (except in Saskatchewan where it’s \$600,000) in 2020. The SBD must be shared among associated corporations.

<sup>11</sup> A tax advisor should be consulted before investing in an Individual Pension Plan or corporate owned life insurance. You should also consider whether these strategies fit into your overall financial plan.

Ontario and New Brunswick have not followed the federal measure, so the provincial SBD is still available for active business income up to \$500,000 annually in these two provinces. This may lessen the negative tax impact of the federal measure. You should consult a tax advisor prior to year-end to determine how provincial and federal measures may apply.

You may also wish to withdraw sufficient salary from your private corporation by December 31 to maximize contributions to RRSPs and TFSAs. These registered investment plans may offer benefits beyond those available with corporate investments, as outlined in our reports [RRSPs: A smart choice for business owners](#)<sup>12</sup> and [TFSAs for business owners... A smart choice](#)<sup>13</sup>. Receiving salary of at least \$154,611 by December 31, 2020 may allow the maximum RRSP contribution of \$27,830 in 2021. Reasonable salaries may also be paid to family members who work in the business to allow them to make contributions to RRSPs and TFSAs.

Planning for passive investment income is more fully described in our report [CCPC tax planning for passive income](#).<sup>14</sup>

## Conclusion

These tips highlight various ways you can act now to benefit from tax savings when you file your 2020 personal tax return. But keep in mind that tax planning is a year round affair. Be sure to speak to your tax advisor well in advance of tax filing season if you want more information on reducing your taxes.

[jamie.golombek@cibc.com](mailto:jamie.golombek@cibc.com)

Jamie Golombek, CPA, CA, CFP, CLU, TEP is the Managing Director, Tax & Estate Planning with CIBC Private Wealth Management in Toronto.

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<sup>12</sup> The report "RRSPs: A smart choice for business owners" is available online at [cibc.com/content/dam/small\\_business/advice\\_centre/business-reports/RRSPs-for-business-owners-en.pdf](http://cibc.com/content/dam/small_business/advice_centre/business-reports/RRSPs-for-business-owners-en.pdf).

<sup>13</sup> The report "TFSAs for business owners... A smart choice" is available online at [cibc.com/content/dam/small\\_business/day\\_to\\_day\\_banking/advice\\_centre/pdfs/personal\\_finances/tfsas-for-business-owners-en.pdf](http://cibc.com/content/dam/small_business/day_to_day_banking/advice_centre/pdfs/personal_finances/tfsas-for-business-owners-en.pdf).

<sup>14</sup> The report "CCPC Tax Planning for Passive Income" is available at [cibc.com/content/dam/small\\_business/day\\_to\\_day\\_banking/advice\\_centre/pdfs/business\\_reports/ccpc-passive-income-en.pdf](http://cibc.com/content/dam/small_business/day_to_day_banking/advice_centre/pdfs/business_reports/ccpc-passive-income-en.pdf).

As with all planning strategies, you should seek the advice of a qualified tax advisor.

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