BUSINESS PATHWAYS

MNP LLP


# A physician's guide to tax season


Presented by:

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# Agenda

- Personal tax update
- Underused Housing Tax
- Coping with high inflation and interest

# What is new for 2022?

- Residential Property Flipping Rule
- Tax-Free First Home Savings Account (FHSA)
- Luxury tax
- Other updates

# Residential Property Flipping Rule

- New deeming rule proposed in Budget 2022 to ensure profits from flipping residential properties are subject to full taxation
- Profits arising from dispositions of residential property (including rental property) owned for less than 12 months or from an assignment sale would be deemed to be business income
- Exemptions for Canadians who sell their home due to certain life circumstances, such as a death, disability, the birth of a child, a new job, or a divorce
- Principal residence exemption not available if the deeming rule applies
- Enacted December 15, 2022; measure applies in respect of transactions occurring on or after January 1, 2023

# Tax-Free First Home Savings Account (FHSA)

- Budget 2022 proposed to create the Tax-Free FHSA for prospective first-time home buyers
- Eligible individuals can contribute up to $8,000 annually ($40,000 lifetime limit on contributions); full annual contribution limit will be available effective 2023
- Contributions will be deductible and income earned will not be subject to tax
- Qualifying withdrawals (including investment income earned) made to purchase a first home will be non-taxable
- The Home Buyers' Plan (HBP) will continue to be available; withdrawals can be made under both an FHSA or HBP for the same qualifying home purchase
- Rules enacted December 15, 2022

# Luxury Tax

- A Luxury Tax applies on the sales of these items for personal use:
  - Luxury cars (exceeding $100,000)
  - Personal aircraft (exceeding $100,000)
  - Boats (exceeding $250,000)
- Tax calculated at the lesser of:
  (i) 10% of the total price
  (ii) 20% of the total price exceeding the price threshold
- Luxury Tax rules are effective September 1, 2022
- Exceptions available for aircraft and boats used in qualifying activities

# Other updates and reminders

- Home Buyers' Tax Credit – Increased to $10,000 ($1,500 of tax)
- Multigenerational Home Renovation Tax Credit
- Home office expense deduction reminder
- TFSA contribution limits - $6,000 for 2022 and $6,500 for 2023

- Foreign asset declaration forms
- Change in use of property

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# Underused Housing Tax

- Targets vacant or underused residential properties owned by **non-resident non-Canadians**
- Annual tax of 1% on the value of such residential properties
- **Applies to properties owned at December 31, 2022**
- Administration and enforcement is unclear at this time

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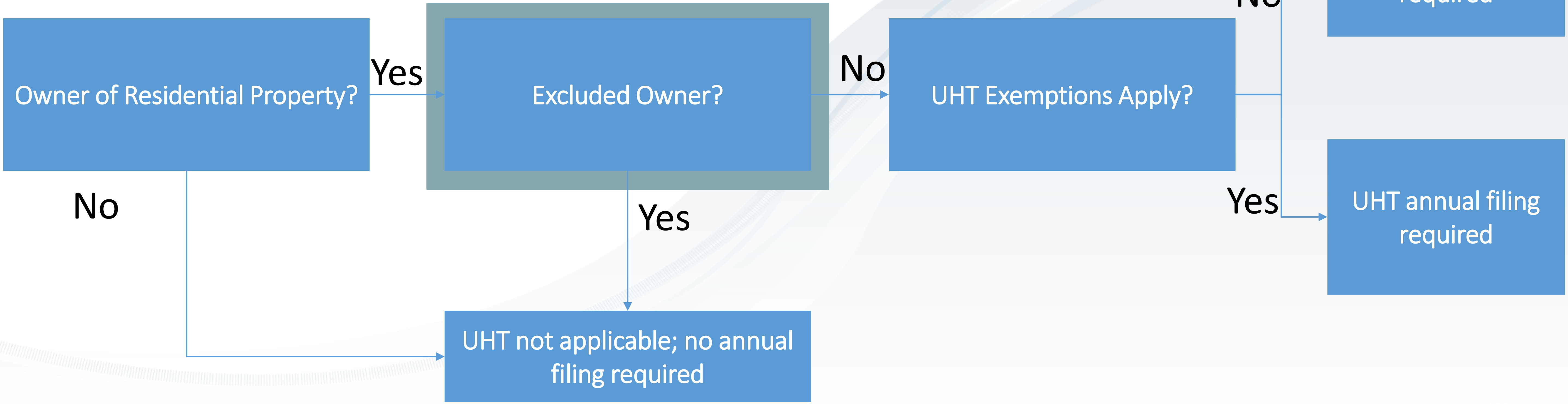
# Key Definitions - Owner

- Person identified as an owner under the land registration system applicable where the property is located
- Can include certain persons with life interest or long-term lease interest (20+ years) in a particular residential property or the land it is situated on
- **Person** includes individuals, corporations, trusts, and partnerships

# Key Definitions – Residential Properties

- Detached houses, containing no more than three **dwelling units**
  - A **dwelling unit** is a residential unit that contains a private kitchen, a private bath and a private living area
- Semi-detached homes, rowhouse units, residential condominium units, or any other similar premises intended to be owned as a separate unit or parcel
- Includes proportion of land subjacent reasonably necessary for its use and enjoyment

# UHT: Recommended Approach

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# Key Definitions – Excluded Owner

- Includes:
  - **An individual who is a <u>Canadian citizen</u> or <u>Canadian permanent resident</u> (but does not include those with title only as trustee or partner)**
  - A publicly-traded corporation listed on a Canadian stock exchange
  - Owners with title to property in capacity as a trustee of certain widely-held trusts arrangements (i.e. mutual fund trust, REIT, SIFT – for Canadian income tax purposes)
  - Cooperative housing corporations
  - Registered charities
  - Municipal organizations
  - Other public institutions and government bodies

An excluded owner is not subject to the UHT or the related annual reporting

# Key Definitions – Affected Owner

- If you are an owner of a residential property in Canada on December 31 of a calendar year and you are not an excluded owner of the residential property on that date, the CRA refers to you as an **affected owner** of the residential property for the calendar year.
- All **affected owners** of residential property have to file an annual return.
- If you are an **affected owner** of a residential property on December 31 of a calendar year, you have to pay the underused housing tax for the residential property for the calendar year, unless your ownership of the residential property is exempt from the tax for the calendar year.

# Exemptions

- **Ownership of a residential property may be exempt from the underused housing tax if the property is any of the following:**
  - Primary place of residence
  - Qualifying occupancy
  - Limited seasonal access
  - Disaster / hazardous condition
  - Renovation or construction
  - Year of acquisition
  - Death of owner
  - Specified Canadian Corporation
  - Partner of Specified Canadian Partnership
  - Trustee of Specified Canadian Trust
  - Vacation Property that is located in an eligible area of Canada (CRA online tool). Only affected owners who are individuals qualify for this exemption

# Exemptions

## Specified Canadian Corporation

No tax will be payable on residential properties:

- Owned by a corporation incorporated under the laws of Canada, except where:
  - Ownership shares representing 10% or more of the votes and value are held by
    a) An individual who is neither a Canadian citizen nor permanent resident
    b) A corporation that is incorporated or continued outside of Canada
    c) Any combination of (a) and (b).
  - For corporations without share capital:
    a) A chairperson or other presiding officer is neither a citizen nor a permanent resident, or
    b) 10% or more of its directors are neither citizens nor permanent residents.

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# Exemptions

## Specified Canadian Trust

No tax will be payable on residential properties:

- Owned by a trustee of a trust, where each beneficiary with an interest in the residential property owned by the trust is on December 31:
    - An **excluded owner** or
    - A **specified Canadian corporation**

# Exemptions

## Specified Canadian Partnership

No tax will be payable on residential properties:

- Owned by a partner of a partnership, where each member of the partnership is on December 31:
    - An **excluded owner** or
    - A **specified Canadian corporation**

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# Application of Tax

## Tax Amount

Every person that is, on December 31 of a calendar year, an owner (other than **an excluded owner**) of a residential property must pay tax in respect of that property for the year in an amount determined by the formula:

**A x B x C**

**Taxable value** of property: the greater of

(i) the assessed value for property tax purposes, and

(ii) the most recent sale price during the year

**or**

FMV of property (election required)

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# Returns and Payments

## Annual Return / Payment of Tax

- Must be filed by an owner with the CRA for **each** residential property owned on December 31 of a calendar year
  - An **excluded owner** does not need to file
  - All other owners must file even if claiming an exemption
- Due April 30 of the following calendar year
- Return must indicate amount of tax, if any, determined by the required formula
- **Prescribed form and manner has not yet been determined (UHT-2900)**

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# Returns and Payments

Penalties

- Every person who fails to file a return as required, is liable to penalty equal to the **greater** of

  a. $5,000 for individuals , or $10,000 if not an individual and

  b. The amount that is the total of

     i. 5% of tax payable by person in respect of residential property for calendar year

     ii. Product obtained when 3% of the tax owing is multiplied by the number of complete months from the due date of the required return that the balance remains outstanding

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# UHT: Recommended Approach

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Yes → Excluded Owner?

No → UHT not applicable; no annual filing required

### Excluded Owner?

- An individual who is a **Canadian citizen** or **Canadian permanent resident** (excluding those with title only as trustee or partner)
- A publicly-traded corporation listed on a Canadian stock exchange
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No → UHT Exemptions Apply?

Yes → UHT not applicable; no annual filing required

### UHT Exemptions Apply?

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- Limited seasonal access
- Disaster / hazardous condition
- Renovation or construction
- Year of acquisition
- Death of owner
- Specified Canadian Corporation
- Partner of Specified Canadian Partnership
- Trustee of Specified Canadian Trust
- Vacation property that is located in an eligible area

No → UHT payment & annual filing required

Yes → UHT annual filing required

### UHT not applicable; no annual filing required

# Inflation and interest

- How are you investing the cash you have on hand?
- Can your personal spending habits be adjusted to reflect the new reality of inflation?
- Have you reviewed your tax situation to spot opportunities for lower, or deferred, tax?
- How can you manage your debt?
  - Fixed vs. variable?
  - Pay off your debt?
- Review your practice related expenses?  Can anything be reduced or tightened?

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# Questions

- GST filing and collection.   When is GST applicable?
- Please advise re: GST applicability to stipends, meetings and leadership services
- I am now able to do only part time work 14.5 hours a week yet am incorporated. Should I dissolve my incorporation? Any benefits?
- Self-employed deductions
- Are accountant fees counted as an expense (in non incorporated individuals?)
- Is T4A from Doctor of BC included in professional income?

# Questions?


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