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Dear Clients:

We enclose a copy of our 2023 personal income tax checklist. It is designed for use by the majority of individuals and especially by employees who incur automobile and other expenses in the course of their employment, self employed individuals or those with rental properties. It will assist with identifying the various types of deductions that are available.

This checklist outlines most of the major categories of expenses incurred and records most of the information, such as percentage use of automobile, to ensure an accurate income tax return is prepared. In order to assist us in preparing your return, please complete the relevant sections of the checklist to the best of your ability and bring it with you when you drop off your information slips for preparation of your income tax return. If you already prepare your financial information in another similar format, there is no requirement to use this checklist.

If you are unsure about whether an expense is deductible, just note the item down for discussion. We do not require original receipts or automobile log books but you should save them for seven years in case CRA wants to view them.

What's new

The biggest change for 2023 are the new trust reporting rules. First proposed in 2018, and after many delays, the rules are now finalized. These new rules were supposed to try and stop money laundering and terrorists from hiding themselves using trusts. Firstly all formal trusts, mainly family trusts created by formal trust deeds, must file a return, whether or not there has been any activity during the year. The trust return requires additional information regarding the settlors and beneficiaries and if applicable we will obtain this information from you.

Secondly and much more concerning is the new rules include require filings for bare trusts. Very simply a bare trust situation occurs when the person named on title to an asset does not have beneficial ownership of the asset. There generally is no formal trust document prepared by a lawyer and parties involved generally will not even realize that they have any type of trust arrangement. Some of the more common examples of bare trust arrangements are as follows (this is not an all inclusive listing)

- Child on title on elderly parents principal residence for probate planning purposes
- Parent on title to a child’s property (1% interest) to help them with mortgage financing
- Child on title to parents bank or investment accounts for probate planning purposes
- Parent on title to child’s bank or investment accounts or parents holding these accounts in trust for a child
- Joint owners on accounts but only one individual beneficially owns and reports the income and expense
- Shareholders holding assets in trust for a corporation
- Nominee corporations holding assets for joint ventures, partnerships or other corporations

There are exemptions from filing in situations where a trust holds just cash or publicly traded securities and the amount is less than $50,000 at all times during the 2023 year.

Failure to file the returns will result in penalties or $25 per day to a maximum of $2,500. For bare trusts filings and only for the 2023 filing year, CRA will not impose penalties for late filings except in the most egregious cases of gross negligence. In future there could be a possible loss of the principal residence exemption if a child does not disclose their bare trust relationship on a parents principal residence. It seems to be a pattern with this government in going after the "low hanging fruit". Similar to the UHT legislation last year, this government has created legislation that is way broader than trying to stop money laundering and terrorist activities. This braod legislation has penalties and they will be collecting a lot of private information. They will need these penalties along with all other taxes they have brought in now or in the future if the budget is going to balance itself.

The province of BC introduced a $400 refundable tax credit for tenants. In order to claim the rebate, tenants will enter the address of the rental property, amount of rent paid and to whom the rental payments were made. This provides CRA with lots of information to pursue rental tax return matching. Whether they actually do it or not is another issue. It appears landlords should ensure that rental income is correctly reported.

The simplified method of computing home office expenses has been discontinued. If you are required to work from home, you can still claim a deduction but must have an employer certified T2200 form and use a detailed calculation method.

Starting January 1, 2023, any gain from the disposition of a housing unit (houses or condos, including rental properties) owned or held for less than 365 consecutive days before its disposition is deemed to be business income and not capital gain.

For those of you who filed underused housing tax (UHT) returns for the 2022 year, you are most likely no longer required to file these returns for 2023 onwards. On October 31, 2023, the government realized that the previous UHT legislation required an overly broad class of taxpayers to file returns. They have essentially added exemptions for corporations, partnerships and trusts for whom the eventual owners are Canadian citizens or permanent residents. This leaves mainly nonresident individuals who must file the returns going forward.

The First Home Savings Account "FHSA" was introduced in 2023 and starting April 1, 2023, contributions to an FHSA are generally deductible and qualifying withdrawals made from an FHSA to purchase a qualifying home are tax free. You can only create participation room if you have opened a FHSA. You could open an account, accrue the deduction limit or room but not contribute until later years when income is higher.

Business assets purchased by individuals and partnerships where all members are individuals are eligible for immediate expensing. They have until December 31, 2024 to purchase the assets.

Purchases of zero emission vehicles after March 18, 2020 and prior to January 1, 2024 used in a business are eligible for enhanced capital cost allowances (depreciation).

The non refundable tax credit for eligible home renovation or alteration expenses for seniors and persons with disabilities to gain access to a dwelling or to reduce the risk of harm in a dwelling or accessing a dwelling is increased to $20,000. In addition the 10% B.C. refundable seniors' and persons with disabilities home renovation tax credit applicable on up to $10,000 of annual eligible expenditures incurred after March 31, 2012 remains in effect.

The contribution limit for the tax free savings account ("TFSA") is increased to $7,000 annually and for 2024 is now at an $95,000 cumulative total, assuming you are aged 18 or over since 2009. Unused contribution room can be carried forward year to year, and all Canadian residents age 18 and over are eligible to contribute to a TFSA. All earnings inside a TFSA are tax free, while losses if any are non deductible. Given the increasing limits, everyone should review the merits of opening a TFSA. US citizens and green card holders need to be very careful as TFSA are not tax free for US income tax purposes and may include additional compliance requirements.

Beginning in October 2016, the sale of your principal residence must now be reported on schedule 3. In the past, it was always the CRA's administrative position that you did not have to report a sale of a principal residence if it was all tax free. A late reporting can be made but it may be subject to penalties. It is imperative if you have sold your principal residence home during 2023 that you let us know so that it can be reported.

Other items

If you have many prescription receipts, it will be beneficial for you to ask your pharmacist to print out a listing of all your prescription costs for the year. That way you ensure that all of the prescriptions are accounted for and you do not have to deal with those tiny receipts.

Canada Revenue Agency ("CRA") Activities

One very disturbing trend we have noticed with CRA, beginning about 2015 is that it seems they are assessing for trivial amounts without doing detail reviews or doing incorrect reviews or requesting ridiculous justification for the deductions. This slowed down during 2021 due to covid but towards the end of 2022 we have noticed an increase in collections activity and audit activity, especially desk audits. CRA has commented that these types of audits where they send letters to request information generate much more inflow per dollar spent than having auditors physically visit clients. Some current initiatives include:

1. Disallowance of foreign tax credits because insufficient information was submitted to support the payment of foreign taxes. They are requesting account transcripts to show proof of the foreign taxes paid. This is a huge burden especially for those clients of ours who are taxed in the USA as IRS is slow to assess and then an account transcript must be requested. Worse for those in the UK or Australia which do not follow a calendar year tax system. In our view this is guilty until proven innocent. If they want to disallow the foreign tax credit claim they should also remove the foreign income which you have so honestly reported!
2. Disallowance of deductions (especially medical and donations) because taxpayers cannot show proof of "payment" of medical expenses.
3. Review of corporate income tax returns for travel and automobile expenses, and foreign tax paid.
4. Automobile and employee expenses audits resumed during 2022. Auditors continue to disallow auto repair expenses if you do not show evidence of payment. When was the last time you got

your car back from the mechanic without paying the invoice? In many cases they also want to see electronic mileage logs.

5. Generally allowing taxpayers anywhere form 15 days to 30 days to respond to CRA reviews. But if CRA wants to reassess or collect they are very quick. Adjustments can take years to process.

In many cases the amounts payable can range from one hundred to a few thousand dollars, nothing outrageous and it almost seems that the government is hoping that taxpayers will pay the amounts instead of seeking professional advice (low hanging fruit analogy). If its incorrect we can usually reverse the reassessments. But we have noticed that even that is taking a long time, a minimum of several months to years to get adjustments made. We have noticed some clients have paid such reassessments without informing us. If you get notices from CRA and if the reassessment is not plainly obvious please let us review it.

Something else that is happening much more frequently is for CRA to arbitrarily assess unfiled GST or income tax returns. They have become much faster at doing this over the past several years. Once they have the arbitrary assessment in place the collections department can decide to issue garnishee orders against your income sources or assets.

CRA has made changes to the represent a client site and there are now many more actions that can be handled electronically. However CRA has instituted a new authorization process that requires all taxpayers to have a personal "My account" in order to authorize accountants to access their account.

If you have any further questions, please do not hesitate to contact us.

Yours truly,

Hirji, Lum & Orr

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