

# The TaxLetter®

Vol. 37, No. 9

Your Guide to Tax-Saving Strategies

September 2019

## TAXSTRATEGY

# Q4 Tax Planning Tips

Samantha Prasad LL.B.

The summer is officially over and school has started. Before you know it, the end of the year will be in sight. With that in mind, it might make sense to think about what you can do for the last part of the year to ensure that your 2019 tax bill is kept as low as possible.

### Employees

Some may think that as an employee, the ability to tax plan and reduce your taxes is somewhat restricted. However, where there is a will, there is a way.

**Reducing your source deductions:** For employees, one unlikely source of cash could be the source deductions withheld on your paycheque. Many people regularly get tax refunds because of deductions such as support payments, carrying

charges on investments, and so on. If you're one of them, call the payroll division of your local tax office. Tell them you want to apply for a reduction of source deductions under section 153(1.1) of the Income Tax Act (if you cite the section number, they'll know you mean business). They'll send you a form and ask you for some info to back up your application. If you do, they'll probably cut your withholding so you can pocket the money. Most tax offices are quite cooperative when it comes to this procedure.

According to the CRA, there is no specific minimum amount below which they will not consider an application. Although, technically, you are supposed to show that without a reduction you're a hardship case, the CRA seems to be pretty easy on this requirement.

One item that may get you a source-deduction slash is an early 2020 RRSP contribution. Contributing early in the year also

means your earnings will compound on a tax-sheltered basis sooner rather than later.

Warning: if you are basing your application on a tax shelter, questionable deduction or other aggressive tax planning, an application for reduced source deductions could bring unwanted scrutiny. Better to leave well enough alone.

### Other Tips:

- If possible, you should defer the receipt of employment income if your tax bracket will be lower in 2020.

- Employees are entitled to claim tax depreciation (called Capital Cost Allowance - CCA) on automobiles, aircraft and musical instruments, depending on the circumstances. If you're entitled to deduct CCA and you're considering purchasing a new asset, you should do so prior to the end of the year. This will accelerate capital cost allowance claims by one year. The asset must actually be available for your use to qualify for a CCA claim.

- Reduce "operating cost" tax. If personal use of a company-owned car is less than 50 per cent, consider notifying your employer by December 31 if you want the taxable, operating cost benefit based on one half of the standby charge, less any reimbursements you paid. Other ways of reducing your operating benefit include reimbursing your employer for operating costs, reimbursing your employer for 100 per cent of the

Samantha Prasad, LL.B., is a tax partner with the Toronto-based law firm Minden Gross LLP, a member of Meritas Law Firms Worldwide, and a Contributing Editor of The TaxLetter, published by MPL Communications.  
[sprasad@mindengross.com](mailto:sprasad@mindengross.com)

personal use portion of actual operating costs, and minimizing your personal driving.

• Reduce “standby charge” tax. Standby charges are calculated using the vehicle’s original cost. After a few years, when the vehicle is worth less, consider buying it from your employer to avoid the high standby charge. Alternatively, have your employer sell the automobile and repurchase it or lease it back or choose a less expensive car.

### **Business owners**

#### **File a Tax Return**

Many new businesses experience start-up losses in the first few years. If you personally carry on a business, you should file a return for every year, even the loss years. That’s because your business’s loss can be used to reduce income from other sources in the current year, or it can be carried back three years and forward 20 years. The loss will reduce income from any source – be it the business itself, from employment – even from investment income. But to claim the loss, you must file a tax return for the year.

The year-end of an individual who is a sole proprietor or an active partner in a partnership created since 1995 is December 31. Self-employed taxpayers and their spouses (if not separated) have until June 15 to file a return, although any taxes owing must be paid by April 30.

#### **Lower Your Tax Instalments**

If you pay taxes on an instalment basis, you’ve probably received several notices from CanRev informing you of how much your tax instalments should be. If your income has gone down in the last couple of years, think twice

before you send in your cheque.

CanRev’s instalment calculations are based partly on your income tax position two years ago and partly on last year’s. Instead of using CanRev’s method, you are legally entitled to base your instalments on last year’s tax position. You can even base your instalments on the current year’s estimated tax position, if lower. But in this case be careful - penalties may apply if you underestimate your taxes and your instalments turn out to be lower than the other two options required.

If your income has gone down in the last couple of years, using one of the other two options can mean that you can reduce your quarterly instalments without suffering interest penalties. But if you under-install, CanRev will start to charge you interest. The interest rate is currently 5 per cent. However, this rate is compounded daily - worse still, it’s non-deductible. So, this is an expensive way to enhance your cash position. For seriously delinquent instalments, there is a 50 per cent interest surcharge slapped on.

If, during the year, it becomes apparent that you have paid more instalments than you need to, you might consider the possibility of purposely not following the instalment schedule by paying deficient or late instalments. Actually, this is quite “legal.”

By the way, if you’ve over-installed or paid early, CanRev gives you a credit (known as offset or contra-interest) against interest on late or deficient instalments for the year. Very basically, the rule works as if you had deposited the instalment in a bank account and earned interest (at CanRev’s prescribed rates – currently 3% for individuals and 1% for corpora-

tions) to the extent that the instalment is early or excessive. These “credits” can then be used to apply against interest penalties on deficient or late instalments. The flip side of this, of course, is that you can reduce interest charges on a late or deficient tax instalment by overpaying other instalments, or paying them before their due date.

#### **Deductions**

Deductions for most normal business expenses are based on whether the expense has been incurred by year end, rather than whether the item has actually been paid for, e.g., office supplies, auto and other repairs, etc. Exceptions include compound interest charges - regular (“simple”) business interest can be expensed when payable, site investigation and utility service connection charges, and disability-related equipment and building modifications.

Consider accelerating purchases of equipment, capital and other expenditures before year end. Examples include auto and equipment purchases (half of the normal depreciation can be claimed this year - next year, you claim the full depreciation rate), auto repairs, and so on. Note: even though the depreciation rules restrict the write off on capital purchases, you can claim a full GST credit for the year of purchase. So if you buy by the end of the year, the credit will allow you to reduce the GST you owe.

If you “accrue” a salary to family members (this must be reasonable in relation to the business service they perform) you can claim a deduction as long as you actually pay the expense within 179 days of your business’s year. This may allow the recipient to defer tax on the amount until next year. □