

## ***CONTACT US***

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### Send Documents via Sendsafely here:

<https://smllp.sendsafely.com/dropzone/info>

## ***UPCOMING DEADLINES***

March 15 - First 2023 Personal Tax  
Instalment.

March 31 - Trust (T3) returns due.

April 18 - US tax payments due, 1st  
estimated tax payment due.

May 1 - Personal tax returns due and  
payments for outstanding tax is due.

June 15 - Personal tax returns for sole  
proprietors due, US returns due (unless  
extension filed to October 15), 2nd 2023  
Personal tax instalment / estimated tax  
payment due)

## **SMLLP Tax Season Update**

Another year has passed and now it is time for the 2022 tax filing season. As many of you have noticed, our firm has now shifted to a fully remote practice. While we do still have an office in Downtown Vancouver most staff are working from their homes now and likely going forward. As a result we have invested heavily in technology to make our service offerings even better and smoother. We hope that you have noticed these changes and they have been positive. However, don't worry, we are still available for in person meetings they just need to be arranged ahead of time. If you want to book a meeting please just reach out to your Partner.

While not tax related specifically, the Federal government got in to the housing world with a new Underused Housing Tax (UHT) that has broad implications making many people file even though they are not required to pay. Penalties for not filing are huge at \$5,000 for individuals and \$10,000 for others, and the rules are confusing and not well defined. If you own real estate personally (with no other entities involved) and you are a Canadian Citizen, PR, or Charity you are generally EXEMPT from filing, everyone else should file.

While some tax credits were increased or broadened the only new one of note is the Ontario the 'Staycation tax credit'. There is also a new First Home Savings Account being launched in 2023 so if you, or any family members are in the market for a home it may be worth checking out.

There was also an expected change to Trust reporting for the year, but for the second year in a row it was pushed off again to 2023 tax year with filings due in March 2024.

Finally, we have noticed a pickup in CRA audits where they are looking at COVID related benefits (CEWS, CEBA, CERB etcetra), travel, Flow through shares, personasl service businesses and others.

Well - here is to another tax season... see you all soon.

# KEY CHANGES

## CANADA

- **TFSA** increased from \$6,000 to \$6,500
- 2022 **Average FX** rate with US was \$1.3013
- For 2022 year, sole proprietors can take advantage of the **IMMEDIATE EXPENSING** of most capital assets (excluded generally is intangibles, land and building)
- **CEBA** loan due date extended to December 31, 2023
- **Home accessibility expenses can be claimed up to \$20,000** (up from \$10,000) for eligible expenses you incurred for work done or goods acquired for an eligible dwelling.
- Underused Housing Tax (UHT) launched - if you own property indirectly or are NOT a Canadian citizen / PR you may have an obligation to file with significant penalties if not filed.
- **Tax rates** have not changed, but tax brackets have been adjusted for inflation. The top rate for 2022 in BC is 53.5%, Alberta is 48%. Manitoba is 50.4% and Ontario is 53.53%
- In 2022, **CPP** contribution rate increased to 5.70% (11.4% for employer and employee). This will go up to 5.95% for 2023 (11.9% for employer and employee). For 2023 the contributions are required until your income is \$66,600.
- **Ontario residents** can claim 20% of their eligible 2022 accommodation expenses, for example, for a stay at a hotel, cottage or campground, up to \$1,000 as an individual or \$2,000 if you have a spouse, common-law partner or eligible children.
- In 2023 a new **First Home Savings Account** is being launched which is a blend of a RRSP (deductible) and a TFSA (tax free on withdrawal) focused on purchasing a new home. This can be used in conjunction with a Home Buyer Plan withdrawal under a RRSP. You can read more [here on CPA website](#).

## USA

- COVID supports are gone including the **enhanced child tax credit** and the EIP Covid payments.
- The **standard deduction** for a single taxpayer (or a Married filing separately taxpayer) is now \$12,950. A married filing jointly taxpayer has a deduction of \$25,900. As a result, for many taxpayers, itemized deductions are no longer necessary.
- The itemized deductions (if you choose not to use the standard deduction) include.
  - Medical expenses only need to exceed 7.5% of your income opposed to 10% previously.
  - State and property tax deductions are available up to \$10,000 (\$5,000 if Married filing separately)
  - Home Mortgage or HELOC interest is only deductible if the proceeds was used to purchase/renovate a home. Interest is only deductible on loans of up to \$750,000 (\$375,000 if married filing separately) that were entered in to after December 15, 2017. Previously it was \$1,000,000 (\$500,000).
  - Charitable contributions can now be deducted up to 60% of your income opposed 50%.
  - Various federal deductions have been eliminated including: job-related expenses, union dues, tax preparation fees, investment expenses, moving expenses and safe deposit box fees. However, if you are filing state returns these may still be relevant.

# Important Reminders

## CANADA

- You can **elect to Stop CPP Contributions if you are 65 and 70 years old**. The form CPT30 needs to be filed with your employer and the CRA. You may also wish to defer your CPP or OAS until you are 70 to gain larger future payments. If you started collected OAS, but it makes sense to defer it because of claw back and you are under age 71, you can retroactively defer it within 6 months of starting. If you apply for your OAS pension after you become eligible for it, you may be eligible for a retroactive payment. OAS Clawback begins when income exceeds \$81,761 for 2022.
- The **Sale of a Principal Residence must be reported**, along with any principal residence designation. The CRA is collecting the information to aide them in enforcement programs.
- Do not forget to **file your Vacancy Tax / Speculation Tax / Underused Housing Tax** (if applicable) documents. If you are subject to these taxes please let us know to consider if the amount is deductible.
- Do you ever **wonder if your business expenses are within the range?** Check out this resource from the Government of Canada - <https://www.ic.gc.ca/eic/site/cis-sic.nsf/eng/home>
- Capital Gains (Losses) on **Foreign Currency** changes in excess of \$200 needs to be reported on your tax return. The gain is reportable once it is triggered by either converting to another currency or purchasing goods in the foreign currency. Tracking can be difficult, please speak to us if you have gains or losses to report.
- Since 2018, dividends and distributions from privately held related corporations, trusts and partnership which you are not actively involved may be considered **split income (TOSI)** and be subject to top marginal rates. If you are concerned that you may have this type of income, please let us know upon providing your tax documents.
- **Cryptocurrency (Bitcoin)** gains may occur when you sell or use the currency in transactions. This will be treated as taxable income and needs to be reported. CRA and other countries are increasing the enforcement on the use of Cryptocurrencies and have been requesting information from crypto wallet companies, and once they have the customer identities, they will be able to review all the transactions in the customer's history as it is on the public ledger. The CRA puts the onus on the taxpayer to track their transactions during the year and we do not expect much forgiveness on not reporting gains.
- Form T1135 – **Foreign Income Verification Statement is required with your tax filing** if at any time in the year the total cumulative cost amount of all 'specified foreign property' (generally comprised of non-Canadian investments, including foreign stocks held at a Canadian securities dealers) you owned or held a beneficial interest in was more than \$100,000 CDN. If this applies to you, you may need to file a completed T1135.

# Important Reminders

## CANADA (cont'd)

- **Make sure you file on time as the CRA has been strictly assessing penalties.** It is your responsibility to sign the documents and get them back to us. We cannot file your returns without the signed documents.
- Are you at risk because of the amount of time you spend in the US? Both the Canadian and the United States government have been tracking how much time you spend in each country. **Spending too much time in the US could result in adverse tax consequences, such as, US taxation on worldwide income, US information return filing requirements, and potentially a Canadian exit tax.** The determination of whether your time in the US is considered substantial presence is determined based on a formula which factors in the number of days in the US over the last three years.
- **Dying with US Assets such as real estate located in the U.S., Tangible personal property located in U.S. or owning Stock of corporations organized in or under U.S. law, may result in filing a US Estate Tax Return.** Ensure you plan to not own these in your personal name or ensure you are below the threshold for US tax, but note that filing is still required even if you do not owe the tax.
- United States Personal Income Tax Return – **Are you a US citizen, resident, green card holder or other US Person?** If you answered yes, let us know and we can assist in determining your US filing obligations and preparing your US filing requirements.
- In order to minimize your costs, we suggest that the information provided be organized and complete. **Our minimum fee is \$400.00 plus GST.**



# Important Reminders

## USA

- Statement of Specified Foreign Financial Assets - Form 8938 is required if you have certain foreign (non-US resident) financial assets including stocks, bank accounts, and interests in foreign financial contracts or instruments. Non-resident individuals are required to file if their aggregate foreign investments are over \$200,000 as of December 31, 2022 or \$300,000 at any time in 2022. US residents are required to file at lower thresholds.
- **Report of Foreign Bank and Financial Accounts (FBAR) – Form FinCEN 114** is required if a US person has a financial interest in or signature authority over at least one financial account located outside the United States; and the aggregate value of all foreign financial accounts exceeded \$10,000 at any time during the calendar year to be reported. We recommend our clients prepare and submit these forms themselves. If you would like our office to prepare these forms on your behalf, please advise us in a timely manner. For your convenience, we have enclosed an excel sheet outlining the information we will require to prepare and file this form on your behalf. **THIS FORM IS DUE APRIL 18th WITH AN AUTOMATIC EXTENSION AVAILABLE TO OCTOBER 15th.**
- **Information Return of US Persons with Respect to Certain Foreign Corporations – Form 5471** is required by a US person who is an officer, director or greater than 10% shareholder in certain non-US corporations. A separate form must be completed for each company.

We wish to bring to your attention common and **important differences between Canadian and US taxes:**

- Private Corporations – **Owning a non-US private corporation** can have significant tax implications, make sure you consult with us prior to contemplating owning a non-US corporation or if you currently own one.
- **Gift Tax – US filers are required file a gift tax return (and potentially pay a tax) on gifts made during the year that are greater than \$16,000 unless certain exemptions apply (i.e. gifts to US spouses are unlimited and up to \$155,000 in gifts to non-US spouses are exempt from tax).** Please let us know if you have made, or are planning to make, gifts that are above the US Gift Exemption. A gift may include loaning funds to a child to help them purchase a home. Gifts above the exemption reduce your Estate Tax Exemption which is currently at \$12,600,000. Consider making gifts before they are potentially decreased by the new Biden administration. Note that the higher estate tax is temporary and expires in 2025.
- **Capital Dividends** – Under US tax law the concept of capital dividends does not exist; these dividends are taxable just like any other dividend received. Please let us know if you received any capital dividends during the year.
- **Principal Residence Exemption** – US tax rules limit the amount of a tax exemption on proceeds from the sale of your home. Please provide all information related to any 2022 sale of your principal residence.

# Important Reminders

## USA (cont'd)

- **Tax Free Savings Accounts (TFSA)** – A TFSA account is considered a foreign trust by some and is subject to extensive reporting, as well, transactions inside a TFSA is taxable for US tax purposes and are subject to onerous reporting and potential significant tax rates.
- **Income earned in a TFSA, RESP and RDSP are required to be reported for US filing purposes and needs to be provided to our firm.**
- **Mutual Funds and Exchange Traded Funds investments** – Due to significant reporting requirements by the IRS under their Passive Foreign Investment Corporation rules and punitive tax rates, we recommend that **US clients avoid investments in non-US based Mutual Funds or ETF investments.** If you hold any mutual funds with Canadian financial institutions, please provide us with copies of the Qualified Electing Fund (QEF) statements issued.
- **Mortgage Interest Deductibility** – US filers may be able to deduct interest incurred on a qualified home mortgage. Please provide us your annual mortgage statement and/or any tax slips received indicating the amount of interest payments you will be claiming, if any. Please also let us know the original amount of the loan.
- **Estate Tax – US filers that passed away in 2022 with estates greater than \$12,600,000 are liable for estate taxes on the fair market value of the estate.** Please let us know if you require assistance with estate returns or would like help planning for estate tax consequences.
- **Lifetime Capital Gains Deduction** – **The US does not recognize the lifetime capital gains exemption** available to Canadians who sell shares Qualified Small Business Corporations.
- **Lottery and Gambling Winnings** – Lottery and gambling winnings are fully taxable as ordinary income in the US. However, gambling losses may be able to offset winnings. Please provide us any relevant information.
- **Alimony payments are not deductible** if the divorce/separate agreement was entered in to after December 31, 2018.
- **Child Tax Credit's in the US require that the child have a US Social Security Number.** Note that choosing not to register your child for a Social Security Number may not necessarily prevent them being considered a US taxpayer. Please ensure you perform proper consultations prior to taking a position that your child is not a US citizen.
- **Tuition and fees deduction not available.** The tuition and fees deduction is not available after 2020. Instead, there is a lifetime learning credit available.
- If, in 2022, you engaged in a transaction involving **virtual currency** you will need to fill in specific disclosures. Please let us know if this is the case.
- **Did you receive more than \$100,000 gift or bequest from a nonresident alien individual** or a foreign estate (including foreign persons related to that nonresident alien individual or foreign estate) that you treated as gifts or bequests? If so, you may need to file a 3520 return.

Our fee for the preparation of tax return(s) is based on time spent calculated at our hourly rate. In order to minimize your costs, we suggest that the information provided be organized and complete. Our minimum fee per tax return is **\$750 plus GST** for 2022 for US filings.