TaxTalk

2024 YEAR-END TAX PLANNING

As the end of 2024 approaches, this TaxTalk is a reminder to evaluate your finances and contemplate ways to improve your tax position. Personal tax planning is important to the management of your financial affairs and should be considered throughout the year - not just late in the year. However, we issue this TaxTalk towards the end of every year to help remind you of the potential tax planning opportunities that exist.

This TaxTalk will assist you to take advantage of planning opportunities available before the end of this year to ensure you are dealing with these changes in a tax effective manner.

Below, we have included a checklist of year-end tax issues to help you make the most of your potential tax savings opportunities as 2024 draws to an end. The checklist is broken down into sections that look at some key deadlines, your investments, your retirement and estate planning, and some employee planning matters. Keep these in mind to save taxes in 2024.

A. IMPORTANT DATES AND DEADLINES

Many deductions and credits are available only if payments are made by December 31, 2024 or early in 2025.

Important dates are summarized below:

Before December 15, 2024

- Do you make quarterly tax instalments? Make your final payment to the CRA on or before December 15 to avoid late interest charges.

December 30, 2024

- Final trading day for Canadian exchanges for those wishing to have trades settled in 2024.
- If you have capital gains this year and you are holding securities with unrealized capital losses - consider selling those securities to realize losses and offset the capital gains.

December 31, 2024

Last opportunity to make a payment for the following items to utilize any applicable credit or deduction on your 2024 return:

- Investment counsel fees.
- Carrying charges on investments.
- Interest expenses.
- Professional membership and union dues.
- Charitable donations.
- Political contributions.
- Medical expenses.
- Moving expenses.
- Alimony and support payments.
- Child care expenses.
- Certain legal, tax and accounting fees.
- Tuition fees and interest on student loans.
- Payments to employer to reduce stand-by charge.
- Contributions to Registered Education Savings Plans to qualify for 2024 Canada Education Savings Grant.
- Contributions to Registered Retirement Savings Plans (RRSP) for those reaching 71 years of age in 2024.

January 30, 2025

- Interest owing on loans from family members (including loans to trusts) so that the income attribution rules will not apply for 2024 and subsequent years.
- Interest owing by an employee to their employer, in order to reduce the interest benefit on a low-interest or interest-free loan for 2024.

February 14, 2025

- An employee can reduce or avoid an operating cost benefit related to an employer provided automobile if they reimburse the employer for personal-use operating costs.

February 28, 2025

- Last day to file T4, T4A, T5 Summary and Supplemental forms.

March 3, 2025

- Deductible contributions to an individual's RRSP or a spousal RRSP (for 2024).
- Repayments of RRSP Home Buyers Plan and Lifelong Learning Plan (for 2024).

March 15, 2025

- First quarterly personal income tax instalment due for 2025.
- Employer Health Tax Annual Return (EHT).
- Employer Health Tax allocation agreement to be filed by associated companies.

April 30, 2025

- Balance outstanding on 2024 personal taxes payable.
- Personal T1 return to be filed (however, returns for *self-employed persons* are due on June 16, 2025, but any tax owing is still due April 30, 2025).

B. HIGHLIGHTS OF PERSONAL TAX IN 2024

There have been no changes to the federal and Ontario personal tax rates. The following table summarizes the marginal tax rates (on regular income, i.e., salary, interest, etc.) that apply to the income tax brackets for 2024:

Taxable Income *(See Note)*	**Combined Federal and Ontario Rate (%)**
$ 23,727 to $ 51,446	20.05
$ 51,447 to $ 55,867	24.15
$ 55,868 to $ 90,595	29.65
$ 90,596 to $ 102,894	31.48
$ 102,895 to $ 106,735	33.89
$ 106,736 to $ 111,733	37.91
$ 111,734 to $ 150,000	43.41
$ 150,001 to $ 173,205	44.97
$ 173,206 to $ 220,000	48.29
$ 220,001 to $ 246,752	49.85
Over $246,752	53.53

Note: These are the combined Federal and Ontario tax brackets.

C. NEW TAX MEASURES

Capital Gains Inclusion Rate

Currently, one half of capital gains are included in a taxpayer's income. Budget 2024 proposed to increase this inclusion rate to two thirds of the actual gain, effective for capital gains realized on or after June 25, 2024. Even though the legislation on this change has not been passed by Parliament, taxpayers will be required to file as though it has passed. If the change never passes, taxpayers will be entitled to retroactive recovery of the tax paid.

Similarly, the deduction available for some employee stock option benefits will be reduced from one half to one third of the benefit.

This adjustment to the inclusion rate will also apply to capital losses applied to offset capital gains.

Only half of the first $250,000 of capital gains (net of gains offset by capital losses, the lifetime capital gains exemption and the proposed employee ownership trust exemption and Canadian entrepreneurs' incentive) realized by an individual will be included in their income each year. Two thirds of capital gains in excess of this amount will also be included in their income.

Other taxpayers, such as trusts and corporations, will be required to include two thirds of all capital gains realized on or after June 25, 2024 as income.

For taxation years that straddle June 25, 2024 (calendar 2024 for individuals), capital gains will be segregated between gains realized on or before June 24, 2024 (one half included in income) and gains realized on or after June 25, 2024 (two thirds will be income).

For individuals, only half of the first $250,000 realized on or after June 25, 2024 will be included in their income.

Lifetime Capital Gains Exemption

Individuals are eligible to offset up to $1,016,836 (2024; indexed for inflation annually) of capital gains on qualified small business corporation shares and qualified farm or fishing property.

Budget 2024 proposed to increase this lifetime limit to $1,250,000 for dispositions taking place on or after June 25, 2024. This amount would be indexed for inflation commencing in 2026.

Canadian Entrepreneurs' Incentive

Budget 2024 proposed an incentive, which reduces the capital gains inclusion rate on capital gains realized on the disposition of qualifying shares by an eligible individual. The new inclusion rate of two thirds would be halved, resulting in one third of such gains being taxable under the inclusion rates proposed in Budget 2024.

This reduced inclusion rate would apply to gains not offset by the lifetime capital gains exemption.

There would be a lifetime limit on gains eligible for this reduced rate, set at $400,000 commencing in 2025, and increasing by $400,000 annually until it reaches a total of $2 million in 2029.

To be eligible for this reduced inclusion rate, several conditions would be required to be met, including the following:

- the shares were directly owned by the taxpayer at the time of sale;
- the shares meet the asset tests required to be qualified small business corporation shares (generally, at the time of sale, all or substantially all assets were used in an active business carried on in Canada, and throughout the 24 months preceding the sale, more than 50% of the assets were so used);
- the shares were held by the taxpayer for a minimum of 24 months prior to the sale;
- at all times from the initial share subscription until immediately before the sale, the taxpayer directly owned shares accounting for more than 5% of the votes and 5% of the fair market value of the corporation;
- preceding the sale, the taxpayer was actively engaged on a regular, continuous and substantial basis in the activities of the business at least three years; and
- the shares were acquired for fair market value consideration.

This incentive would not be available where the shares sold represented a direct or indirect interest in any of the following types of corporations:

- a professional corporation (that is, a corporation that carries on the professional practice of an accountant, dentist, lawyer, medical doctor, veterinarian, or chiropractor);
- a corporation whose principal asset is the reputation or skill of one or more employees;
- a corporation that carries on a business operating in the financial, insurance, real estate, food and accommodation, arts, recreation, or entertainment sector; or
- a corporation providing consulting or personal care services.

Alternative Minimum Tax (AMT)

Individuals will owe AMT if the tax amount calculated under the AMT regime is greater than the tax calculated under the ordinary progressive tax rate regime.

Under the legislated rules, the calculation of AMT allows fewer deductions, exemptions and tax credits than under the ordinary income tax rules.

In 2023, the government proposed changes to AMT that would focus on high-income individuals and certain trusts by amending the following:

- the AMT rate would be increased from 15% to 20.5%;
- the exemption would be increased from $40,000 to the start of the fourth tax bracket (for 2024, this is $173,205); and
- the AMT base would be broadened by further limiting tax preferences (i.e., exemptions, deductions and credits).

Budget 2024 proposed to make further changes to the AMT regime, such as the following:

- to allow 80% of the donation tax credit (the 2023 proposals only provided for a 50% claim);
- to fully allow deductions for the guaranteed income supplement, social assistance, and workers' compensation payments;
- to fully exempt employee ownership trusts from the AMT; and
- to allow certain disallowed credits under the AMT to be eligible for the AMT carry-forward (i.e., the federal political contribution tax credit, investment tax credits, and labour-sponsored funds tax credit).

Budget 2024 also proposed to provide exemptions for certain trusts established for the benefit for various Indigenous groups. Interested parties can send comments to the Department of Finance Canada, Tax Policy Branch at consultation.legislation@fin.gc.ca by June 28, 2024.

All proposed AMT amendments would apply to taxation years that begin on or after January 1, 2024 (that is, the same day as the 2023 AMT amendments).

There were no broad-based changes to address concerns that many smaller trusts would be subject to AMT under the 2023 proposals. There was also no change to the 2023 proposal that only 50% of interest and financing costs incurred to earn income from property would be deductible for AMT purposes.

Taxpayers are able to carry forward the difference between the AMT that they pay and their regular tax for seven years. This carry forward amount can be applied to reduce their regular tax that is in excess of the AMT amount in the next seven years or until the carry forward is fully applied.

Strengthening the Intergenerational Business Transfer Framework

Historically where parents transferred shares of their corporation to a corporation owned by their children, deemed dividends rather than capital gains would arise on the disposition.

In 2021, legislation was passed to provide an exception from this deemed dividend treatment to facilitate the transfer of family businesses to the next generation. This exception allowed parents to utilize the lifetime capital gains exemption or simply receive capital gain treatment on the disposition, and enjoy the same tax benefits available on a sale to unrelated third parties.

However, the government was concerned that this exception contained insufficient safeguards and may have provided an inappropriate tax advantage where there was no transfer of a business to the next generation.

More specifically, this exception did not require that:

- the parent cease to control the underlying business of the corporation whose shares are transferred,
- the child(ren) purchasing the shares have any involvement in the business,
- the interest in the purchaser corporation held by the child(ren) continue to have value, or
- the child(ren) retain an interest in the business after the transfer.

Budget 2023 proposed to amend these rules to ensure that they apply only where a genuine intergenerational business transfer (IBT) takes place.

A genuine IBT under the current law would be a transfer of shares of a corporation (the Transferred Corporation) by an individual shareholder (the Transferor) to another corporation (the Purchaser Corporation) where both of the following conditions are satisfied:

1. each share of the Transferred Corporation must be a “qualified small business corporation share” or a “share of the capital stock of a family farm or fishing corporation” (both as defined in the Income Tax Act), at the time of the transfer (in general terms, this requires that all or substantially all of its assets be used in an active business carried on in Canada); and

2. the Purchaser Corporation must be controlled by one or more persons each of whom is an adult child of the Transferor (the meaning of “child” for these purposes would include grandchildren, stepchildren, children-in-law, nieces and nephews, and grandnieces and grandnephews).

To ensure that only genuine IBTs are excluded from the deemed dividend rules, additional conditions were added to provide flexibility. Thus, taxpayers who wish to undertake a genuine IBT may choose to rely on one of two transfer options:

1. an immediate business transfer (three-year test) based on arm’s length sale terms; or

2. a gradual business transfer (five-to-ten-year test) based on traditional estate freeze characteristics (an estate freeze typically involves a parent crystalizing the value of their economic interest in a corporation into shares that no longer share in growth in the corporate value to allow future growth to accrue to their children while the parent’s fixed economic interest is then gradually diminished by the corporation repurchasing the parent’s shares).

The immediate transfer rule would provide finality earlier in the process, though with more stringent conditions. In recognition that not all business transfers are immediate, the gradual transfer rule would provide additional flexibility for those who choose that approach.

Budget 2023 also proposed to provide a ten-year capital gains reserve for genuine intergenerational share transfers that satisfy the above proposed conditions, which would allow capital gains to be brought into income over a period of up to ten years, in proportion to proceeds received. The normal limit for such reserves is five years.

These rules would apply to share sales occurring on or after January 1, 2024.

Underused Housing Tax (UHT)

On June 9, 2022 the Underused Housing Tax (UHT) came into law.

The UHT is an annual 1% tax on the value of residential real estate that is considered vacant or unused and owned by a non-resident who is not a Canadian citizen.

This UHT applies at the rate of 1% to the residential property's taxable value. It is modelled to some extent on the speculation and vacancy tax imposed by British Columbia for 2018 and later calendar years.

Beginning in 2022, the UHT applies on a calendar year basis to a person who is the owner of residential property in Canada on December 31 of the year, if the owner is not considered an "excluded owner" or not eligible to claim an exemption in respect of their interest in the property.

Canadian citizens and permanent residents are considered "excluded owners", as well as, companies listed on a public Canadian stock exchange; registered Canadian charities; Canadian cooperative housing corporations; hospital authorities; municipalities; public colleges; school authorities and universities; and Indigenous governing bodies.

The government is proposing to make the following "Excluded Owners" for UHT purposes:

1. Specified Canadian corporations (Canadian corporations where less than 10% of the voting shares and equity value are owned by non-Canadian individuals or corporations);
2. Partners of specified Canadian partnerships (partnerships each member of which is an excluded owner or a specified Canadian corporation); and
3. Trustees of specified Canadian trusts (trusts under which each beneficiary having a beneficial interest in the residential property is an excluded owner or a specified Canadian corporation).

These new excluded owners will no longer have to file a UHT return.

An owner that is not an excluded owner is required to pay the tax, unless the owner qualifies for one of the exemptions in the calendar year. The numerous exemptions available are detailed further in our TaxTalk on new Underused Housing Tax (UHT).

Trusts that Need to File for the First Time

The new filing requirements are far-reaching. They impact trusts you know about, but also situations where a trust might be considered to exist, such as "in trust" bank accounts. Under the new rules, most trusts are now required to file an annual Trust return, as further explained below. Moreover, subject to limited exceptions, all trusts that have a filing obligation must now report extensive information on all persons involved in the trust.

Before the new reporting requirements, a trust that did not earn income, dispose of capital property, or make distributions of income or capital in a year was not required to file a T3 return.

Trusts that would already have been subject to the obligation to file a tax return under the existing rules, such as trusts having tax payable or having allocated income or capital to beneficiaries during the year, remain subject to the annual filing requirements. The new filing requirement supplements the existing filing requirement.

Bare Trusts

The new reporting rules will not apply to bare trusts for 2024, however, CRA has not indicated that the new reporting rules will apply not apply to any future years. A bare trust is a common law concept and it generally means a trust arrangement under which the trustee can reasonably be considered to act as an agent for all the beneficiaries under the trust with respect to all dealings with all the trust's property. The trustee cannot act without instructions from the beneficiary and the trustee's only function is to hold legal title to the property.

D. OWNER-MANAGER COMPENSATION

With the introduction of the income splitting and passive income rules a few years ago, it is important to re-evaluate how money is being taken out of the corporation by an owner-manager. While some of the traditional income splitting planning has been eliminated, there are still opportunities available.

Reach out to your MG contact to review your overall structure to identify any compensation, estate or income splitting planning that can be undertaken to reduce your tax bill.

E. INVESTMENTS

Tax Free Savings Account (TFSA) Contributions

Canadian residents age 18 and over are eligible to open a TFSA. Income (interest, dividends, capital gains, etc.) earned in a TFSA is ***not taxable*** as it is earned, nor is it taxable when withdrawn from the account.

Contributions to a TFSA are ***not tax deductible***. For 2024, the maximum contribution is $7,000 plus any outstanding contribution room carried forward. If no contribution has been made to a TFSA, the 2024 contribution limit will be $95,000. You are able to contact CRA by phone or online to confirm your contribution room. Contribution limits are not affected by income (although annual tax returns must be filed with CRA in order to generate contribution room) and any unused TFSA contribution room may be carried forward indefinitely.

You can withdraw funds at any time and for any purpose without incurring any tax liability. The funds withdrawn will not affect your eligibility for income tested benefits such as Old Age Supplement, Canada Child Tax Benefit or Guaranteed Income Supplement. If you need to withdraw funds from your TFSA, consider withdrawing funds in 2024 rather than deferring to early 2025 because withdrawals from a TFSA are not added back to your TFSA contribution limit until the beginning of the year following the year you made the withdrawal.

It should be noted that the attribution rules do not apply to funds you gift to your spouse to invest in a TFSA, which makes the TFSA ideal to split income with a lower-earning spouse, common-law partner or adult child.

Interest on money borrowed and fees incurred to invest in the TFSA are not tax-deductible. Capital losses realized within the TFSA can be applied to capital gains within the TFSA but cannot be applied against capital gains realized outside the TFSA. Unlike an RRSP, the TFSA may be used as loan collateral.

The maximum contribution for 2025 is to remain at $7,000 and this contribution can be made as earlier as January 1, 2025.

Tax-Free First Home Savings Account (FHSA)

The 2022 Federal Budget proposed the introduction of the Tax-Free First Home Savings Account (FHSA). This new registered plan would give prospective first-time home buyers the ability to save $40,000 on a tax-free basis.

Like an RRSP, contributions would be tax-deductible, and withdrawals to purchase a first home - including the investment income earned - would be non-taxable, similar to a TFSA.

The tax-deductible contribution is limited to $8,000 per year up to a lifetime contribution maximum of $40,000. This contribution is in addition to any RRSP contribution and does not impact the RRSP deduction limit.

The plan must be closed after 15 years and funds, if not used for a first home, can be transferred to RRSP or RRIF account on tax-free basis. However, any funds transferred to an RRSP or RRIF will ultimately be taxed when withdrawn.

To open a FHSA account, you must be:

- a Canadian resident,
- at least 18 years old, and
- a first time home buyer, which means you or your spouse did not own a home in which you lived at any time during the year or at any time in the preceding four calendar years before the FHSA was opened.

For additional information refer to our more detailed TaxTalk on Tax-Free First Home Savings Account (FHSA).

Crystalizing Capital Losses

When you are deciding which investments to sell, you should consider selling investments with accrued losses before the end of 2024 to offset your taxable capital gains realized in 2024 or any of the three preceding years.

If you realize a capital loss in 2024, there are special rules that will deny you your loss. This denied loss will happen if you, or a person who is affiliated with you, purchase the same investment within 30 days before or after the date you sold the investment.

The denied loss is added to the cost of the investment acquired by you or the affiliated person and reduces the gain or increases the loss on a subsequent disposition of the investment. This rule effectively defers the recognition of the loss until the investment is sold to a non-affiliated person.

F. RETIREMENT AND ESTATE PLANNING

Maximizing RRSP Contributions

Three factors limit the amount you can contribute to an RRSP.

- Unused contribution room;
- The lessor of
    - A dollar limit maximum of $31,560 for 2024 (2025 will be $32,490); or
    - 18% of your 2023 earned income for 2024 contribution; and
- Your pension adjustment (which represents the value of pension contributions made by you and your employer in the year).

CRA includes a “2024 RRSP Deduction Limit Statement” as part of the 2023 Notice of Assessment. This statement indicates the maximum amount deductible on the 2024 tax return and any RRSP contributions made in prior years that you have not claimed a tax deduction for. You should verify these amounts prior to making any RRSP contributions.

Please feel free to contact us if you require assistance in confirming your RRSP contribution limit.

Spousal RRSP Contributions

You can contribute all or part of your RRSP deduction limit to a "spousal" RRSP in which your spouse[1] is the annuitant. Your ability to contribute to a spousal RRSP is limited by your own RRSP deduction limit, not by your spouse's RRSP deduction limit or RRSP contributions. Advantages of a spousal RRSP include income splitting and, where your spouse is younger than you, a longer tax-deferral period for income earned in the RRSP.

Generally, RRSP withdrawals from a spousal RRSP are taxed in the hands of the recipient spouse. However, if your spouse withdraws funds from a spousal plan in the same calendar year as your contribution or in the two subsequent calendar years following your contribution to a spousal plan, the withdrawal will be taxed in your hands. Finally, if you can no longer contribute to your own RRSP based on age, you can still contribute to a spousal RRSP for which you will receive a deduction, provided you have a deduction limit and your spouse is 71 or younger at the end of the year.

Timing of RRSP Contributions

RRSP contributions you make by March 3, 2025 may be deducted on your 2024 tax return, subject to your 2024 RRSP deduction limit. Any unused RRSP contributions can be carried forward indefinitely to age 71 and deducted when you have additional RRSP deduction limit, however, undeducted RRSP contributions in excess of $2,000 will be subject to a penalty. If you expect a spike in your 2025 income, it may be more beneficial to carry the RRSP contributions to 2025 instead of claiming on your 2024 tax return.

The maximum age for holding an RRSP is 71. If you turn 71 in 2024, you must convert your RRSP to a RRIF no later than December 31, 2024. Once your RRSP has been converted to a RRIF you will not be able to contribute to the RRIF in 2025.

However, you may have 2024 earned income which will generate additional RRSP contribution room on January 1, 2025. You will not be able to contribute to your own RRSP since you have converted it to a RRIF, but you may be able to contribute to a spousal RRSP if your spouse has not yet turned 71 in 2024 or converted their RRSP to a RRIF.

Old Age Security (OAS) Claw back

If your net income in 2024 is over $90,997 you will have to repay 15% of the excess over this amount, to a maximum of the total amount of OAS received. The OAS claw back is calculated solely on your net income and is not affected by your spouse's income.

Individual Pension Plan (IPP)

An Individual Pension Plan (IPP) is an employer-sponsored defined benefit pension plan to provide enhanced retirement benefits and important tax advantages. An IPP offers several key benefits, including:

- Making a one time lump sum contribution for past years of employment;
- May provide higher contributions than permitted by RRSPs;
- IPP investments grow on a tax-deferred basis;
- IPP contributions are tax-deductible to your corporation as a plan sponsor;
- Employer contributions are not considered a taxable benefit for the employee;
- Fees to set up and administer the IPP are tax deductible by the employer;
- Potential tax deferral via transfer to younger generation.

An IPP could be ideal if you are:

- an incorporated self-employed business owner or professional;
- between the ages of 40 and 71 with annual T4 income greater than $100,000;
- an employer looking to enhance retirement benefits for a key employee;
- maximizing your RRSP contributions every year; and
- IPPs can provides for guaranteed payment periods that can allow for the IPP to be transferred to the next generation.

Personal Pension Plan (PPP)

The Personal Pension Plan (PPP) is similar to the IPP and offers many of the same benefits.

A PPP differs from an IPP since it allows a plan member to switch between a defined benefit plan, a defined contribution plan and an additional voluntary contribution

[1] "Spouse" includes a spouse by marriage or a common-law partner.

sub account. A PPP also allows for a Corporate Trustee which can shield the individual trustees from taking on legal liability and potential risks of non-compliance.

The fees associated with a PPP may be higher than an IPP due to the additional flexibility that allows the plan members to switch between a defined benefit plan and a defined contribution plan and also provides additional fiduciary oversight.

Planning for Taxes on Death

A person is deemed to dispose of all capital property at fair market value immediately before death for income tax purposes. As the income from that property will generally be taxed as part of the deceased's estate, the taxes will ultimately affect the size of the estate that is passed on to the beneficiaries. You may wish to look at ways to pass property outside of the estate to reduce the value of your estate for probate fee/tax purposes.

If you own property jointly with another person, such as your spouse or common-law partner, that property will pass outside of your estate to the other owner. It is common for spouses to own property jointly. Insurance and RRSP proceeds go to the beneficiary designated in the policy at the time of death so they too will pass outside of your estate unless you make the estate your beneficiary. If your RRSP proceeds go to a person other than your spouse or common-law partner, those proceeds may be taxable.

Estate planning can be complex and evolves over time. There are various estate planning strategies your MG advisor can assist with.

G. EMPLOYEES

1. Employee Benefits

Taxable Benefits for Employer-Provided Vehicles

Where your employer provides an automobile for personal or employment use, you will be taxed on the following:

a) The **stand-by charge** is a notional benefit based on the cost of the automobile, or lease payments, for providing the automobile to you, the employee.

   The stand-by charge is 2% per month[2] (whole or partial) of the original cost of the vehicle. Where your employer leases an automobile for employee use, the stand-by charge is 2/3 of the lease payments.

   The stand-by charge is reduced if both:

   (i) your total personal use of the automobile, in a calendar year, is less than 20,004 kilometres, **and**

   (ii) your personal use is less than 50% of total use.

   It is important to note that the stand-by charge is calculated on the original purchase price or lease payment and not the depreciated value. When the value is less than the original cost, it may be prudent for you to purchase the vehicle from your employer and your employer can reimburse you for your employment use of the vehicle as discussed below[3].

b) The **operating cost benefit** relates to your personal use of your employer's automobile.

   If your annual employment-related use exceeds 50% of total use, the operating cost benefit can be calculated as one-half of the stand-by charge, less reimbursements made by you to your employer. You must notify your employer in writing by December 31, 2024 if you wish to have the operating cost benefit calculated as one-half of the stand-by charge.

   If your employment-related use is less than 50%, or you choose not to have the operating cost benefit calculated as one-half of the stand-by charge, the operating cost benefit is calculated at 33 cents per kilometre of personal use.

   You can reduce or eliminate the operating cost benefit if you reimburse your employer for personal-use operating costs. The reimbursement must be made by February 14, 2025.

You should review your personal use of your employer-provided automobile before December 31 to determine how close you are to the 50% threshold. It may help to reduce personal use between now and year-end to reduce the stand-by charge or operating cost benefits.

In addition to your taxable benefits, an employer-provided automobile creates a HST liability for your employer. The HST liability is 13/113 of the stand-by charge plus 9% of the operating-cost benefit. Your employer is required to compute and self-assess HST on the benefits.

[2] *For employees principally employed in selling or leasing automobiles, the stand-by charge is decreased.*

[3] *Alternatively, the stand-by charge would be reduced if your employer sells the car and repurchases it at current value.*

Employee-Owned Vehicles

As indicated above, an allowance received by you for an employee-owned or leased vehicle can be received tax-free if the allowance is computed based solely on employment related kilometres and not more than 70 cents for the first 5,000 kilometres and 64 cents for any additional kilometres.

In addition to paying the prescribed rates, you should keep a logbook for the employment related kilometres. Each entry in the logbook should include the starting point, the destination, the total kilometres travelled, and the purpose of the travel. Also note that kilometres travelled between your home and your office is not considered business travel.

An allowance received for employment-related use of your (owned or leased) automobile, which is not based on a per kilometre rate, is not considered reasonable and must be included in your income. If an allowance is included in your income, then you may deduct the portion of your automobile expenses that relates to employment use[4] to reduce or eliminate the impact of the income inclusion.

Employee Loans

The taxable benefit that arises in 2024 from a low-interest loan by your employer to you is reduced by interest paid by you to your employer by January 30, 2025. You can claim an interest deduction to offset the taxable benefit for the imputed interest benefits, to the extent you used the funds to earn income from a business or property.

2. Employee Deductions

Employment Expenses

Certain expenses incurred by you to earn employment income are deductible against that employment income. It is important to retain receipts and document the expenses in your records, noting date, purpose and HST paid in order to substantiate the deductions. Employees are not entitled to claim capital cost allowance (CCA - depreciation for tax purposes), with the exception of CCA with respect to an automobile, airplane or musical instrument used to perform their employment duties. More types of expenses are eligible for deduction if you earn commission income from your employment.

If you are a non-commission employee, you are restricted to deducting employment-related items, such as travel costs, automobile expenses, supplies, office rent, and salary paid to an assistant.

If you are a commission employee and certain conditions are met, you are not restricted to the expenses noted above for non-commissioned employees. You are entitled to deduct a greater variety of expenses to the extent they are incurred to earn commission income. Cellular phones, computers and fax machines should be leased in order to obtain tax deductions for the lease expenses since CCA on these capital expenditures is not deductible. For any year, the amount of expenses deductible is limited to the amount of commission income earned.

Office in Home Eligibility

Under normal circumstances, if you are required by your employer to maintain a home office, you may be able to deduct some expenses related to the office space[5]. For home office expenses to be deductible, you must either:

- perform more than 50% of your employment duties at home; or
- use the area exclusively in respect of earning income from your office or employment and use it on a regular and continuous basis for meeting customers, clients, patients, etc.

To deduct office in home and other employment expenses from income, form *T2200 - Declaration of Conditions of Employment* must be completed and signed by your employer and retained by you with your records.

Employee meet the following criteria in order to claim home office expenses:

- The employee was required by his or her employer to work from home during the year; and either:
  - The work at home space is where the individual mainly (more than 50% of the time) did their work during the year; or
  - The individual must use the work space to earn employment income and must use it on a regular and continuous basis for meeting clients, customers, or other people in the course of their employment duties.

[4] *To deduct automobile expenses on your tax return, you must receive a duly-completed form T2200 - Declaration of Conditions of Employment from your employer.*

[5] *Home office expenses that are deductible for employees include a prorated portion of rent, utilities, repairs, and cleaning materials. CCA, insurance, property taxes and mortgage interest are **not** deductible. However, if you earn commission income you may also deduct a prorated amount of insurance and property taxes.*

The employee must also obtain from their employer a completed and signed Form T2200 – Declaration of Conditions of Employment, certifying the work from home arrangement and the fact that the employee is responsible for paying the costs associated with such arrangement. The T2200(S) will no longer be issued by employers.

Also, employees will need to retain the documents necessary to support the deduction using the detailed method.

We Can Help

Your MG advisor can help you review your personal or business tax situation and help you decide which steps you can take before the year-end to help you with the taxes you will pay for 2024.

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