

Income Tax News

2023-2024

It is income tax season again.

Here are the main tax changes for 2023-2024.

You can also find our 2023-2024 tax planning Guide on our website at <https://www.paulrioux.ca/blogue/impots/saison-des-impots-2/>

In order to make it easier for you to read and target topics that may be of interest to you or your family, the Guide is presented by themes and important concepts are highlighted.

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PAUL RIOUX CPA inc.

*Planification financière
et fiscale*

Electronic remittances or payments over \$10,000

As of January 1, 2024, federal and Quebec payments over \$10,000 must be made online (e.g., Internet, your financial institution's website). Penalties may apply unless special circumstances make it impossible to pay online.

Canadian Dental Care Plan (CDCP)

The federal government plan is gradually introducing the CDCP with a **net family income of less than \$90,000** who do not already have private dental insurance through their employer or a professional association for example.

The following eligible people could will gradually be able to join the program:

- Person age 65 by May 2024
- Children under 18 by June 2024
- Disabled people by June 2024

Dentists will be able to enroll voluntarily in the program, which will be administered by the Sun Life company. Dentists will receive reimbursements directly.

The program will be phased in by fall 2024.

Reimbursements or allowances received under the federal dental insurance plan will reduce the amount of dental expenses that can be claimed on personal tax returns.

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Tax credit for Home-Support for Seniors (70 years old and more)

The credit rate which was 35% in 2021 is increased to 37% in 2023 and by 1% per year thereafter up to 40% in 2026.

Tax credit for Home-Support for Seniors					
%					
2021	2022	2023	2024	2025	2026
35	36	37	38	39	40

Tax Credit for Seniors Activities (age 70 and over)

The credit is abolished in 2023.

Teleworking

In 2023, the simplified method for claiming a deduction (\$2/day) for teleworking expenses incurred as a result of Covid-19 will be abolished.

It is still possible to claim certain expenses using the detailed method (as described in our tax guide), if the employer provides the usual forms (T2200 at the federal level and TP-64.3 in Quebec).

Digital news subscription credit

This federal credit of up to \$63 for a maximum expenses of \$500 ends in 2024.

Alternative Minimum Tax (AMT)

The AMT concept was introduced in 1986. It is a personal tax calculation that runs parallel to the regular tax calculation on schedules T691 (federal) and TP-762.42 (Quebec).

At the time, the government's main objective was to limit the use of tax shelters (e.g. flow-through shares, films, REA, etc.), which were very popular in the 80s.

Very few clients have been affected by the AMT in recent years. Those who have, often because of an exceptional year (e.g., large capital gain, tax shelter), have generally been able to recapture the AMT surplus the following year, as their situation returned to normal.

The governments announced changes to the AMT calculation that will apply starting in 2024. The main ones are the following:

- Increase in the capital gains inclusion rate from 80% to 100%;
- Inclusion of 30% of capital gains on gifts of publicly listed shares (currently fully excluded);
- 50% reduction in several personal credits;
- Increase in AMT tax rate from 26.5% to 36.1%. It should be noted that the AMT tax rate is a flat rate and not a progressive rate like in the case of regular income tax;
- Increase in the standard deduction from \$40,000 to approximately \$175,000.

Under the new AMT rules, individuals realizing large capital gains would be most affected.

For an individual who had no other income, the AMT could apply starting at a capital gain (100%) of \$334,000 or \$ 595,000 in the case of a capital gain eligible for the small business capital gains deduction.

The additional AMT created in a year over the regular tax may be recaptured in the following seven years up to the amount by which the regular tax exceeds the minimum tax in those years.

The AMT calculation does not apply in the year of death.

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Retirees

Increased RRSP and TFSA limits

	Year		
	2023	2024	2025
	\$	\$	\$
RRSP - Limit	-	31,560	32,490
Required earned income	175,333	180,500	-
TFSA	6,500	7,000	

Workers who participate in an employer-sponsored pension plan must take into account a reduction in their maximum contribution corresponding to the pension adjustment (PA) shown in box 52 of the T4. The RRSP limit for incorporated professionals participating in an Individual Pension Plan (IPP) is \$600.

Quebec Labour Funds (FTQ and Fondaction)

High-income individuals

The government had announced that starting in 2024, individuals with a net income of more than \$112,655 would no longer be entitled to the 30% tax credit associated with labour-sponsored funds. **However, on March 1, 2024, the Quebec government announced that this new measure would be postponed until 2027.**

Extended maximum holding period

The minimum holding period to qualify for the tax credit is gradually extended from 2 to 5 years for shares acquired from June 1, 2024, 2025 and 2026.

Possible return of lump-sum contributions to the FTQ Fund

Since the pandemic, it has no longer been possible to make lump-sum contributions (max. \$5,000) to the FTQ Fund or directly through monthly bank withdrawals, unless transfers had already been set up.

Only contributions deducted from salary following an agreement with the employer were permitted.

The FTQ Fund has announced the return of lump-sum contributions (max \$ 5,000) during 2024. Although negotiations between the Fund and the government are still underway, a representative of the FTQ Fund told us that lump-sum contributions and bank withdrawals could once again be permitted as of May 2024.

Lump-sum contributions or by monthly transfer are permitted by the Fondaction.

Québec Pension Plan (QPP)

A number of changes have recently been made to the QPP.

Increase in pensionable salary

Over the next two years, the maximum salary on which contributions and pensions are calculated will increase significantly.

	Maximum salary for QPP purposes \$
2023	66,600
2024	73,200
2025	80,000 (estimate)

Gradual increase in pension percentage

Over a period of approximately 40 years, workers would gradually see their pension percentage increase from 25% to 33.33% of pensionable earnings.

The maximum QPP pension could then reach approximately \$26,600 (33.33% x \$80,000) in today's dollars.

Option to stop QPP contributions at age 65

A worker age 65 or over who receives a QPP pension may elect to stop contributing to the QPP as of 2024. The choice may be modified thereafter.

Election period to defer pension extended to age 72

The period for choosing when to start receiving your pension has been extended from age 70 to 72.

Pension protection after age 65

A retiree who choose to defer his or her pension after age 65 could be adversely penalized by the fact that he or she earned little or no income during the deferral period, and would not benefit from the full annual pension increase of 7.2% when electing to differ pension after age 65.

As of January 1st, 2024, years of low or zero earnings during the deferral period will no longer adversely affect the pension calculation. The retiree will therefore be able to benefit from the full annual increase of 8.4% per year of pension deferral after age 65.

Cessation of contributions at age 73

Contributions cease automatically on January 1st of the year in which an employee reaches the age of 73.

Owners and Futur Owners

Tax-Free First Home Saving Account (TFFHSA)

Among the new measures announced by the governments, this is certainly the most interesting one.

The TFFHSA plan came into effect on April 1, 2023. Its purpose is to enable future homeowners to save for the purchase of their first home.

- The maximum annual contribution is \$8,000 with a maximum cumulative amount of \$40,000.
- Contributions are tax deductible while withdrawals for the purchase of a first home will not be taxable.

Moreover, contrary to what was initially announced, it will be possible to use both the TFFHSA and the Home Buyer's Plan (HBP) for the purchase of a first home.

The savings potential for a couple for a first home is \$150,000:

- \$80,000 for TFFHSA (2 x \$40,000)
- \$70,000 for the HBP (2 x \$35,000).

Most financial institutions are now able to offer the plan.

Multi-generational Home Renovation Tax Credit

As of January 1st 2023, renovations to allow an eligible family member to live in a second independent unit within a home will result in a maximum tax credit of \$6,265 for up to \$50,000 in eligible expenses. (12.5% x \$50,000).

Generally, an eligible family member is a relative over 65 or aged over 18 and disabled.

A second unit must have a separate entrance, a kitchen, a bathroom and a sleeping area. It may be a new facility or one within the existing home.

Quick resale of a real estate property (*real estate flip*)

Under this new rule, the profit on resale of a real estate property that has been held for a period of less than one year will be deemed to be business income.

This new measure applies to real estate properties sold after January 1st, 2023 (e.g. home, cottage, income property).

If a residence or cottage owned for less than one year is sold, the profit will be taxable as business income. The principal residence capital gain exemption will not be allowed.

The profit on the sale of an income property within the same year will not be considered as a capital gain (generally taxed at 25% of the gain), but rather as business income (generally taxed at 50%).

There are several exceptions to this rule. For example, if the property is sold following a divorce, death or insolvency.

Non-conforming short-term rentals

In an effort to curb real estate speculation, the federal government announced in its economic statement in the fall of 2023 its intention to disallow rental expenses starting 2024 (e.g., mortgage interest, property taxes, insurance, condominium fees) when short-term rentals:

- is prohibited in the province or municipality;
- does not meet provincial or municipal licensing or registration requirements.

Tax credit for upgrading waste water treatment systems

The period to claim a tax credit for expenditures incurred for construction or renovation of a sewage disposal facility (**e.g., septic tank, sewage fields**) is extended by five years, until March 31st, 2027. The maximum credit is \$5,500, or 20% of the \$30,000 eligible expenses (the first \$2,500 is not eligible).

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Owners and Futur Owners

Ownership of residential properties by non-Canadians

In order to reduce real estate speculation, the federal government prohibits non-Canadians from acquiring residential buildings of less than four units.

The ban, initially scheduled to run for 2 years from 2022 and 2024, **has been extended for a further two years, up to and including 2026.**

Non-Canadians who would purchase a property despite the prohibition and anyone who assists or advises them (e.g. notary, real estate broker) are subject to a maximum penalty of \$10,000. In addition, the property may be subject to a forced resale.

Taxes on unused dwellings

With the same objective, the federal government has announced in 2022 a new annual tax of 1% of the value of a vacant residential building (less than four units). This new tax applies to vacant residential properties in Canada held by a non-Canadian on December 31, 2023.

Form UTH-2900F must be filed for each residential property owned on December 31, 2023.

Individuals who are Canadian citizens are considered excluded owners and do not have to file the form

Although this new tax was aimed primarily at non-Canadian landlords, companies holding residential properties with fewer than 4 units on December 31, 2022 had to file an annual declaration (form UTH-2900E), even if the shareholders were Canadian citizens and the properties were not vacant.

Relief for Canadian companies from 2023 onwards

Fortunately, in her economic statement of November 21, 2023, the Minister of Finance, the Honorable Chrystia Freeland, announced a relief measure whereby companies with less than 10% of their shares held by non-Canadians **would no longer have to file the form as of 2023.**

In 2022, this measure affected more than a hundred customers holding residential properties through their companies.

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