



# MOORE Canadian Overview

## THIRD QUARTER 2020

*The quarterly Canadian Overview is a newsletter produced by the Canadian member firms of Moore North America. These articles are meant to inspire conversation and collaboration throughout Canada and beyond.*

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Marcil Lavallée



### COVID-19: STAYING FOCUSED ON YOUR EMPLOYEES

CONTRIBUTED BY [NATALIE BEAUDOIN](#) FROM [DEMERS BEAULNE](#)

**Keeping all staff members employed is one of the biggest preoccupations for companies these days.**

The combination of labor shortages and COVID-19 makes it clear that we can't afford to lose our valuable teams. Here are a few reminders of best practices you can implement to keep your colleagues on the job.

#### **FOR TEAMS WORKING ONSITE**

##### **Keep hygiene measures in place and promote them.**

Your workers may be worried about getting COVID-19 or spreading it to their families because of exposure at work. You are required to implement all the necessary measures recommended and mandated by public health authorities in order to protect the health, safety and integrity of your employees. (Requiring hand washing, cleaning work spaces more often, providing flexible hours, implementing social distancing measures, etc.)

##### **Take advantage of business slowdowns to train your employees and increase competitiveness.**

Now's the right time to improve your team's skills with training on topics like working remotely, customer service, organizational strategy and remote management.

##### **Cover your backside.**

Some workers might be upset about restrictive measures or changes to their routine due to your new obligations related to COVID-19 and they might be tempted to express themselves publicly. We recommend reminding everyone about your policies and best practices when using internal communication tools and interacting on your social media pages.

#### **FOR TEAMS WORKING REMOTELY**

##### **If you haven't already, develop and communicate your remote working policy.**

For most organizations, full weeks of working remotely weren't common practice before COVID-19. So it's definitely relevant to outline some best practices around working conditions, time management, tech tools, communication mechanisms and tools, confidentiality, etc.

##### **Communicate early, communicate often.**

It's a good idea to keep holding regular meetings by phone or, better yet, via your videoconference platform. This way you can get a feel for the team atmosphere, track projects and maintain engagement and motivation.

##### **Guide your managers.**

Whether management is a science or an art in your organization, it's sure to be a significant challenge in the middle of an unplanned remote work situation. Communicate your expectations to your managers and give them the tools and training that will help them to keep their team motivated and performing as well as possible given the circumstances.

##### **Use your HR team's skills to reassure and mobilize employees.**

Now's the time to communicate often about your team's new reality to help them manage time and stress, balance work and family, deal with isolation and set up ergonomic home offices. People need tools to adapt to working 40 hours per week in a completely new environment.

# ADDRESSING EMERGENCY FUNDS

BY [NICOLAS DÉZIEL BELLEVILLE](#) FROM [MARCIL LAVALLÉE](#)

## COVID-19

Since the onset of the crises, the Canadian government has implemented many easing measures to mitigate the effects of COVID-19 on the economy. Several months later, it's time to take stock of the situation now that "measures madness" has calmed down.

### **Canada Emergency Response Benefit (CERB)**

The CERB is available from March 15, 2020 to October 3, 2020. You may have to repay the CERB if you return to work earlier than expected (and also if you receive retroactive pay) or if you applied for the CERB but later realize that you're not eligible.

Please note that if you applied for the CERB but are not eligible, you can return the excess payments received in one of the following ways:

- by returning the check by mail
- by using online banking with your financial institution
- by using your CRA "My Account"

[More details are available here.](#)

### **Canada Emergency Wage Subsidy (CEWS) – 75%**

The CEWS is available for a total of six claim periods from March 15, 2020 to August 29, 2020. You can change a previously submitted wage subsidy claim by using one of these services:

- My Business Account
- Represent a Client

You can also call the business enquiries phone number if you had applied using the Web Forms application.

[More details are available here.](#)

### **Working from home**

During the COVID-19 pandemic, Canadians working from home may have used their home as an office and incurred additional costs. Due to existing rules, many employees cannot claim home office deduction. However, at the time of writing this article, the CRA has not yet indicated whether it plans to relax these rules in various ways for people working from home during the COVID-19 crisis. Be on the lookout for a possible announcement this fall.

## CRA TO START REVIEW OF U.S. REAL ESTATE TRANSACTIONS BY CANADIANS

BY [HOWARD WASSERMAN, CPA, CA, CFP, TEP](#), FROM [SEGAL LLP](#)

On June 25, 2020, the CRA posted a tender notice asking for assistance so that CRA would be able to mine the data of Canadian residents who purchase, sell or transfer U.S. real estate. The goal for CRA is the ability to sort through bulk information including historical records, mortgage transactions, property taxes, real property records and deeds. The CRA wants to “enhance the CRA's ability to administer tax programs, to enforce the various tax acts in order to protect Canada's revenue basis, and to support the CRA's business and research processes.”

This is a significant event that all taxpayers must be aware of. This means that CRA is actively planning to obtain information to determine if Canadian residents have properly recorded the U.S. transactions on their Canadian tax returns.

There are several issues that Canadians should be aware of when they have U.S. or foreign real estate property:

1. T1135 – Foreign Reporting;
2. Reporting rental income;
3. Reporting the sale of the property;
4. Voluntary Disclosure

### **T1135- Foreign Reporting**

Where a Canadian owns foreign property costing more than CDN \$100,000, a Canadian taxpayer is required to report the foreign property on a form T1135. If the property is completely personal and / or has a cost base of CDN \$100,000 or less, then there is no need to report.

If the property should have been reported and it was not, there is a penalty of \$25 per day up to a maximum amount of \$2,500. This would apply for each year that the property has not been reported on the T1135. There are harsher penalties which could apply, for example, a penalty of 5% of the cost of the foreign property if it has not been reported for 24 months.

### **Reporting Rental Income**

A Canadian resident taxpayer is required to report its world-wide income. This means that any income earned on the rental of a property located outside of Canada needs to be reported in Canada. If there are foreign income taxes payable, then the Canadian taxpayer would get credit for those foreign income taxes. However, the fact that there may be no Canadian taxes because there were foreign taxes paid does not negate the fact that the rental income must be reported along with the foreign tax credit. Generally, there are Canadian taxes over and above foreign income taxes because of Canada's high tax rates.

For U.S. rental properties, the U.S. tax rules on depreciation and deductible expenses are not the same as the Canadian rules. Therefore, it is possible that there would be no taxable income in the U.S. but that there would be taxable income and taxes in Canada. Again, a taxpayer cannot assume that because there is no income or taxes in the U.S. that there is nothing to report in Canada.

### **Reporting Sale of U.S. Real Property**

In the United States, a taxpayer must report the disposition of U.S. situs property such as U.S. real estate. There are certain exemptions which may reduce the taxes payable in the United States. However, as a Canadian resident, the taxpayer must report this disposition in Canada as well. The U.S. tax rate on capital gains is slightly less than the capital gains tax rate in Canada. Therefore, there likely is additional Canadian tax payable on the disposition of the property. Moreover, there will be instances where there may be little or no gain in the U.S., but because of foreign exchange adjustments, there would be a capital gain in Canada. The capital gain in Canada is based on the foreign exchange rate at the time of the purchase and the foreign exchange rate at the time of the sale. In 2007, the Canada / U.S. foreign exchange rate was par. At present, it is close to 1.40. Therefore, a property that did not go up in value in U.S. dollars would have a 40% capital gain in Canada.

### **Voluntary Disclosure**

If any of the above situations apply, taxpayers can avail themselves of the voluntary disclosure process if they meet certain conditions. In very general terms, the conditions would be that CRA has not asked about any of the above items and has made no communication as to whether these items have been reported. Once a taxpayer receives any kind of correspondence from CRA, it is very difficult to get into the voluntary disclosure program. The benefit of the voluntary disclosure program is that no penalties would be assessed. If there are taxes owing, there would still be the taxes owing and interest. For the foreign reporting, especially, the voluntary disclosure program ensures that there is no tax cost to filing the unreported T1135 forms for the prior years.



## COMING SOON: TAXING THE PANDEMIC

BY [BRAD BERRY CPA, CA](#), FROM [MOWBREY GIL](#)

As reported on CBC.ca:

*"The federal government's latest projection of how much it will spend on direct support for Canadians to get through the COVID-19 crisis have risen to more than \$152.7 billion as of May 28 ... Ottawa estimates that overall total — including measures to protect Canadians health and safety and to provide business and tax liquidity support as well as the direct support for individuals, businesses and sectors — amounts to more than \$929.7 billion".*

These numbers are astronomical and makes the cost of the recent SpaceX launch look as cheap as a Yugo.

Statistics Canada estimates our population at 37,894,799<sup>1</sup>. That is direct support of \$4,030 a person and total support of \$24,534 per person. Based on the number of taxpayers, a different story unfolds. Based on the 2017<sup>2</sup> year with number of taxpayers per income threshold, the costs per taxpayer would be:

Year-2017	# of Taxpayers	Cost per Taxpayer	Cost per Taxpayer
		Direct COVID support	Overall COVID Support
If paid only by taxpayers with income over \$15K	22,027,650	6,932	42,206
If paid only by taxpayers with income over \$50K	9,499,850	16,074	97,865
If paid only by taxpayers with income over \$150K	851,830	179,261	1,091,415

How will this be paid for?

In the UK it has been reported that:

*"...COVID-19 could create a gulf of almost £300 billion (US\$367 billion) in the UK's public finances ..., according to a leaked report seen by UK daily The Telegraph.*

*The report ... reportedly recommends that the Government could look to a multi-year plan to increase taxes that could include a combination of a one to five per cent hike in personal income tax rates, changes to pension tax rules, a value-added tax increase, and a hike in social security contributions, among other measures... "3.*

In Finland:

*"...the Finnish Government published a report ... and considers what taxes could be increased to help restore the public finances. ... the report identifies certain taxes where there is scope for revenue increases without threatening the economy. These are:*

- *Property taxes...;*
- *Corporate tax...;*
- *Environmental taxes, with the taxation of fossil fuels increased further;*
- *Value-added tax"*

(Continued on next page.)

1. Statistics Canada <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1710000901> Table 17-10-0009-01 Population estimates, quarterly

2. Statistics Canada <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1110000801> Table 11-10-0008-01 Tax filers and dependents with income by total income, sex and age

3. CCH Tax Topics May 26, 2020 Number 2516

## COMING SOON: TAXING THE PANDEMIC, CONTINUED

While other countries are looking at funding the COVID crisis, **SO IS CANADA!**

What will this look like? Will there be more tax increases for the wealthy? For the business owners? In the current governments' name of fairness, you only need to look at their record where they have:

- Increased the highest personal tax rate 13.8%;
- Expanded the scope of the tax on split income (kiddie tax);
- Penalized business owners for investing corporate profits within a corporation;
- Restricted access to the recovery of refundable taxes;
- Accelerated the taxation of work in progress of professionals; and
- Invested of over half a billion dollars to increase audit activity, increasing the cost of compliance for business owners.

Time will tell how wealthy is defined by our government as the gap to fill will and should include more than the top 1% of Canadians as in the past. Will competitive and skilled labor emigrate as a result of any changes; keeping in mind that since 2016 the marginal income tax rate on income of \$150,000 would be subject to lower taxes in all US states when compared to all Canadian provinces.

What about the GST? When the Harper government lowered the rate from 7% to 5% the opposition parties were anything but supportive.

What about the capital gains inclusion rate? For years now the inclusion rate has been 50%. There have been rumors this will increase - is now the time?

Another proposal is the taxation of the gain on your principal residence over a certain threshold.

While we do not have a crystal ball to predict what changes are coming, we can predict with confidence that tax changes are coming and coming soon! The Federal Budget for 2020 was scheduled for March 30, 2020 but has been postponed indefinitely. Why is this being deferred? Are new tax changes being considered for this next budget?

Owner managers of Canadian corporations may bear the weight to pay for the Pandemic. Now is the time to protect what may be targeted in the next budget.

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