TAX HIGHLIGHTS FOR THE 2024 PERSONAL TAX SEASON

The landscape of Canadian income tax continues to evolve, bringing new developments and adjustments each year. As reporting requirements for taxpayers grow increasingly complex, keeping up with the latest changes is more important than ever. Below, we've outlined some of the key updates for 2024 to help you navigate these shifts with confidence.

Capital Gains Inclusion Rate Changes

On January 31, 2025, the Department of Finance announced that the implementation date of the proposed legislation regarding the increase in the capital gains inclusion rate from 50% to 66.67% would be deferred. Originally scheduled for implementation on June 25, 2024, it will now take effect on January 1, 2026 and will not impact 2024 income tax filings.

Assuming the capital gain inclusion rate is implemented, the inclusion rate would remain at 50% for capital gains realized by individuals up to $250,000. However, any capital gains exceeding this threshold would be taxed at a higher inclusion rate of 66.67%. This means a larger portion of capital gains may be included in taxable income, potentially resulting in higher tax liabilities for those realizing significant capital gains. For more information about the capital gains inclusion rate changes, please see this post on our website.

CRA is Going Paperless for Businesses

Starting in May 2025, the CRA will transition to online mail as the default method of delivering correspondence for any business number accounts. This applies to all business accounts, including corporations and sole-proprietorship businesses that are registered for GST/HST. If this applies to you, you should start receiving all CRA correspondence through CRA's secure online portal (My Business Account) even if you were previously registered for mail delivery. We strongly recommend ensuring you have online access to your online My Business Account and your email address in your account is up to date to get notified when new correspondence is uploaded by the CRA. For more information on these changes and how to prepare for them, please see this post on CRA's website.

Short-Term Rental Properties

Starting January 1, 2024, short-term rental properties (rentals for less than 90 consecutive days) that are "non-compliant" cannot claim an income tax deduction for expenses incurred to earn the rental income (i.e. mortgage interest, property taxes, repairs, etc.) during the period in which they are non-compliant. A short-term rental property is deemed non-compliant if it violates municipal/provincial laws that restrict/prohibit short-term rentals, or fails to meet local registration, licensing or permitting requirements. There is a transitional rule for the 2024 tax year which deems a property to be compliant for the full year if the local requirements are met by December 31, 2024.

Furthermore, there can be significant GST/HST implications when changing the length of rental periods from short-term to long-term rental, or vice versa. For GST/HST purposes, a rental is considered short-term if rented for less than 60 consecutive days. A change in rental use may trigger the GST/HST change-in-use rules which can result in a deemed disposition of the property and may require you to self-assess GST/HST on the fair market value of the property at the time of conversion which could result in a significant non-recoverable GST/HST liability. For more information, please see this post on our website.

Expanded Trust Reporting

Expanded trust reporting became law effective for the 2023 taxation year, with recent updates in 2024 to the reporting rules for bare trusts. Bare trusts have been exempted from filing trust income tax returns for the 2024 taxation year but will need to begin filing again in 2025, subject to new exemptions. Included below are some examples of arrangements that could be considered a bare trust:

1. A parent who adds an adult child on legal title of a property. In these circumstances, there may be no change in beneficial ownership from the parent to the child if the child is holding the property in favour of the parent and there was no intention to gift. There are certain filing exemptions if personal-use properties.
2. Bare trustee arrangements where the legal title owner of property does not also hold beneficial ownership.
3. Shares of private corporations held "in trust" by a parent or other individual. These arrangements are common where minor children are shareholders in private corporations, particularly professional corporations where only individuals are permitted as shareholders.
4. Bank or investment accounts held "in trust" by a parent or other individual. These accounts may have been created to hold the funds of a minor child. There are certain filing exemptions for accounts under certain thresholds.

Even if there was no activity in the trust for the year, if the trust income tax return is not filed by the deadline, a penalty of up to $2,500 or 5% of the trust assets per year can apply. For more information about the new trust reporting rules, please see this post on our website.

Changes to the Alternative Minimum Tax (AMT)

AMT is not a new concept in Canadian income tax system; however, many taxpayers are not aware of AMT as it does not generally impact them. Every year a calculation is performed "behind the scenes" to determine if the AMT is applicable. AMT applies when a taxpayer claims certain tax-preferred deductions or credits such as the lifetime capital gains exemption. Effective January 1, 2024, the rules for AMT will be changing and may affect more Canadians, particularly for those who have the following situation(s):

- Capital gains
- Lifetime Capital Gains Exemption
- Stock option deduction
- Donated publicly listed securities
- Large donations

For more information about the proposed changes to the AMT, please see this post on our website.

CRA's Interest Rates on Unpaid Taxes

After a couple of years of rising interest rates, the CRA's prescribed interest rate on unpaid or outstanding overdue taxes has slowly begun declining. The rate had climbed steadily from 5% in 2021 to 10% in 2024 but has now declined to 8% as of January 1, 2025. The interest rate is published every quarter. We always encourage our clients to file on time and pay their income tax instalments and amounts owing on time to avoid what can be significant non-deductible interest and penalties charges.

First Home Savings Account (FHSA)

Beginning with the 2023 taxation year, a new registered account called the FHSA offers first-time Canadian resident home buyers the ability to save up to $40,000 tax-free. Like RRSPs, contributions to an FHSA will be tax deductible. Like TFSAs, income and gains inside an FHSA as well as qualifying withdrawals will also be tax-free. To open an FHSA, you must be a Canadian resident of at least 18 years of age, and be a first-time home buyer, which means you or your spouse did not own a qualifying home that you lived in as a principal place of residence at any time in the year the account is opened or the preceding four calendar years.

You can contribute up to $40,000 over your lifetime and up to $8,000 in any one year, including 2023. You may carry forward up to $8,000 of your unused annual contribution amount to use in a later year (subject to the $40,000 lifetime contribution limit). For example, if you open an FHSA in 2023 and contribute $5,000, you can contribute up to $11,000 in 2024. **Carryforward amounts do not start accumulating until after you open an FHSA.** Like TFSAs and RRSPs, the CRA charges a tax of 1% per month on excess contributions to FHSAs, so it is important to confirm your annual contribution limit before making a contribution to an FHSA.

Increases to the TFSA and RRSP Contribution Limits

Canadian resident taxpayers saw their TFSA contribution limit increased by $7,000 effective January 1, 2024, and an additional $7,000 effective January 1, 2025.

The maximum RRSP annual dollar limit for the 2024 tax year is $31,560, however your RRSP deduction room will ultimately depend on a number of factors and should be reviewed prior to making a contribution.

Extension for 2024 Charitable Donations

The Department of Finance intends to extend the deadline for making donations eligible to be claimed in the 2024 tax year up to February 28, 2025. Taxpayers who donate to charities within the period of January 1, 2024 – February 28, 2025, may be eligible to claim these donations on their 2024 personal tax return. The extension is intended to mitigate the impacts of the four-week Canada Post mail stoppage by providing donors with ample time to ensure their contributions are received and processed.

This change has not yet received royal assent and remains draft legislation. CRA has confirmed that they plan to allow taxpayers to claim donations on this basis for their 2024 tax filing.