

TAX HIGHLIGHTS FOR THE 2018 PERSONAL TAX SEASON

Canada Revenue Agency Payment Options

Given recent news and experience with the Canada Revenue Agency (CRA) losing or misapplying cheque payments, we are finding that paying tax balances by cheque is no longer a practical payment option. Given that the CRA cannot provide a payment receipt and the likelihood of a lost or misapplied payment, we are no longer recommending cheque payments for our clients. Beginning this year, Hendry Warren will no longer be submitting cheque payments to the CRA. If you still wish to make a payment to the CRA by cheque, we ask that you send your payment directly to the CRA. We have summarized the recommended payment methods below.

CRA My Payment

Our top recommendation for paying any tax balance is through CRA's "My Payment" function that allows you to pay online with your debit card or online banking. You can access the My Payment function on CRA's website at: <https://www.canada.ca/en/revenue-agency/services/e-services/payment-save-time-pay-online.html>. Select the "Pay Now" button to start the payment process. My Payment allows you to make a payment in one simple online transaction using your financial institution's secure online banking service. You can use this service if you have a debit card or access to online banking (available for most large banks and credit unions). You can easily select the year to which the payment relates, and you will be provided with an automatic online confirmation that the payment has been accepted.

Financial Institution

Alternatively, you can contact your financial institution or visit the institution's website to see the services offered to make a payment online or over the telephone. Most financial institutions allow you to select the CRA as a payee in their online bill payment section using your Social Insurance Number. You can often schedule future dated payments. You may also make your payment in person at your financial institution free of charge. You will be asked to present your remittance voucher (T7DR(A)) with your payment to the teller. The teller will return the top part to you as a receipt. You can find your remittance voucher included in your Hendry Warren final tax package. For more information please contact your financial institution or visit the CRA's website at <https://www.canada.ca/en/revenue-agency/services/make-a-payment-canada-revenue-agency/make-payment/general-payment.html> and click on "Pay by online banking".

Phased Out and Eliminated Tax Credits

The Children's Fitness Credit and Children's Arts Credit were eliminated for 2017 and future years. Previously, these credits were available for a taxpayer who paid for fitness and arts related expenses for their children.

The federal Public Transit Tax Credit was eliminated in 2017. There is an Ontario tax credit available for seniors over the age of 65. See below for more information.

The federal Education and Textbooks Tax Credits were eliminated in 2017. However, actual tuition fees paid remain eligible for the Federal Tuition Tax Credit. The federal Education and

Textbooks Tax Credits were available for all students attending post-secondary education on a full or part-time basis.

The Ontario Tuition and Education Tax Credits were completely eliminated in 2017. The Ontario Tuition and Education Tax Credits were available for all students attending post-secondary education on a full or part-time basis.

The First-Time Donor's Super Credit was eliminated in 2017. The First-Time Donor's Super Credit supplemented the value of the Charitable Donations Tax Credit by 25% on donations made by a "first-time donor".

New Tax Changes

Climate Action Incentive (CAI)

The CAI is a refundable tax credit that was introduced for the 2018 tax year and later. This credit was introduced as a way for the Government of Canada to return all direct proceeds under the federal carbon pollution pricing backstop system to families in the participating provinces of Ontario, Manitoba, New Brunswick and Saskatchewan. This credit is only available to individuals residing in these participating provinces on December 31. The credit for 2018 can range from \$128 to \$305 for single adults depending on the province. There is a 10% supplement for residents of small and rural communities and the credit is increased for couples and parents with children.

Accelerated Capital Cost Allowance Rates

An accelerated write-off of capital equipment through capital cost allowance (tax depreciation) (CCA) will be available for self-employed Canadians or those with rental properties on any capital property acquired by the taxpayer after November 20, 2018. The acceleration of CCA claims will be accomplished by removing the general requirement to claim only 50% of the amount of CCA in the year of acquisition and by introducing a gross-up of the basis upon which CCA is determined for the year of acquisition. The gross-up rates and accelerated CCA rates will vary by class.

Child Care Expense Deduction

Child care expenses can be claimed as a deduction if they are incurred for the purpose of enabling the taxpayer to perform employment duties or carry on a business. When thinking about what qualifies as an eligible child care expense, costs for daycare, nursery school, before and after school programs, or costs for a nanny come to mind. In limited circumstances other costs such as tutoring classes, chess programs, ski classes or other classes could qualify. If you incur these other child care costs and they allow you to work full time or run your business, they may qualify as child care expenses.

Ontario Seniors' Public Transit Tax Credit (SPTTC)

The SPTTC is a refundable tax credit to help seniors in Ontario with public transit costs. Transit service fares paid to Ontario or municipally-operated public transit services are eligible for the SPTTC. Seniors age 65 or over can claim up to \$3,000 in qualifying transit expenses in 2018 resulting in a maximum tax credit of \$450 (\$3,000 x 15%).

Ontario Low-Income Individuals and Families Tax (LIFT) Credit

The Ontario government recently proposed the LIFT credit to benefit low-income workers. The LIFT credit will be effective for the 2019 tax year. Taxpayers with employment income are eligible for the LIFT credit. The credit is reduced for individuals and families when their income

exceeds \$30,000 and \$60,000, respectively. The credit is completely eliminated when individual and family incomes exceed \$38,500 and \$68,500, respectively.

Principal Residence Exemption (PRE)

The PRE allows homeowners to shelter the capital gain on the sale of one personal residence (including a cottage or seasonal home) from tax. You can designate one property per year for this purpose, to the extent that the property has been “ordinarily inhabited” in that year. Generally, when the PRE eliminated the entire gain from the sale of a personal residence, this disposition was not required to be reported on a personal tax return. Effective for 2016 and future taxation years, the sale of a personal residence must be reported on a tax return in order to claim the PRE. A deemed disposition of a personal residence (for example, the change in use from a personal residence to a rental property) is also impacted by this change. If the disposition of a principal residence is not reported you may amend your return at a later time to report the disposition and claim the PRE, however, a late filing penalty may apply, calculated at \$100 for each month the reporting is late or \$8,000, whichever calculation is less. Given the substantial penalties it is important to report all dispositions of PREs.

Home Accessibility Tax Credit (HATC)

Individuals 65 years of age or older (at the end of 2018) or individuals who are eligible to claim the disability tax credit are eligible to claim the HATC which is a federal non-refundable tax credit on eligible home renovations which improve the safety and/or accessibility of their home. A maximum of \$10,000 per year in qualifying expenses can be claimed resulting in a maximum tax credit of \$1,500 ($\$10,000 \times 15\%$).

First-Time Home Buyers' Tax Credit (HBTC)

The HBTC is a federal non-refundable tax credit available to eligible first-time homebuyers and is claimed on your personal tax return. If you or your spouse or common-law partner acquired a home in 2018 that you intend to occupy and did not live in another home owned by you or your spouse or common-law partner in 2018 or in any of the four preceding years you may be eligible for the HBTC. The maximum HBTC is worth \$750 ($\$5,000 \times 15\%$).

Registered Retirement Savings Plan (RRSP):

Your annual RRSP deduction limit is calculated as the lesser of 18% of earned income and the contribution limit for the given year. The maximum RRSP contribution limit for 2017 and 2018 is \$26,230 and \$26,500, respectively. If you did not fully use your RRSP deduction limit for previous years, you can carry forward the unused balance. We recommend that you refer to your personal notice of assessment for the 2018 taxation year once received which outlines what your RRSP room is for 2019. The CRA charges a tax of 1% per month on excess contributions to RRSPs so it is important to confirm your available RRSP contribution room before making contributions.

Tax Free Savings Account (TFSA)

A TFSA is a registered savings account that allows individuals to earn investment income tax-free. Contributions to the account are not deductible for income tax purposes and withdrawals of contributions and earnings from the account are also not taxable. The TFSA contribution room is increased annually on January 1. On January 1, 2019 TFSA contribution room was increased by \$6,000. The CRA charges a tax of 1% per month on excess contributions to TFSAs so it is important to confirm your available TFSA contribution room before making contributions.

ADMINISTRATIVE DETAILS FOR 2018

Hendry Warren's Audit Protection Plan

In response to numerous client concerns about the CRA's intensifying audit activities Hendry Warren implemented a program called the "Audit Protection Plan" in 2017 to assist our personal tax clients. We will continue to offer this plan to help serve to reduce the unanticipated professional fees associated with responding to enquiries received from the CRA following the filing of your personal income tax return.

The CRA continues to select more taxpayers for further review. These reviews generally involve a request for supporting documentation to verify or substantiate claims made on income tax returns. Even if no tax is owing, responding to these CRA requests can be time consuming and expensive. As a result, we have implemented this optional protection plan for our clients to help reduce, or in most instances, fully cover the professional fees associated with responding to CRA.

For more information and how to enroll please refer to our "Audit Protection Plan" information and enrollment form contained in this package.

Hendry Warren Goes Green

Hendry Warren uses software for secure transmission of files between us and our clients called Sharefile. With this software we offer the delivery of your personal tax package electronically by PDF through email instead of the traditional paper copy. This will allow you to download, review and save a PDF of your return on your computer. If you would like the delivery of your personal taxes this year via Sharefile please indicate on the checklist your preference.

Hendry Warren Tax Newsletters

Our tax department issues a monthly newsletter covering a variety of personal and corporate topical tax issues. Please visit our website at <http://www.hwllp.ca/newsletters> for a listing of our newsletters. We would be pleased to discuss any questions that you, the reader, might have in greater detail. If you would like to receive our monthly newsletter directly via email, please email info@hwllp.ca to be added to the mailout list.

Canada Revenue Agency "My Account" and Online Services

CRA's "My Account" is a service that allows taxpayers to access information about their tax account, including status of refunds, access to previously filed returns and notices of assessment, and the ability check benefit and credit payments. The service also provides information about annual RRSP limits, TFSA limits and allows taxpayers to set up direct deposit.

For more information on My Account and instructions on how to register, please visit the CRA website at www.cra-arc.gc.ca, and select "Log-in/Register". Once you have registered for My Account you will be eligible to receive notices of activity on your account via email from the CRA, if you have agreed to supply them with a valid email.

Direct Deposit Requirement

The Government of Canada has begun the phasing out of federal government cheques. Avoid delays in receiving refunds and other payments by registering today. To register for direct deposit, please visit www.cra-arc.gc.ca/directdeposit.

E-Filing (T183):

We cannot E-File without your permission in advance. We will provide an E-file form for signature upon completion of your personal tax return. A copy of the form must be signed by each member of your family for whom we prepare a personal tax return as we are required to maintain one form on file for each return we E-File.

E-filing for Quebec Residents (TP-1000):

If we can electronically file your Quebec tax return, we will provide an E-file form for signature upon completion of your personal tax return. A copy of the form must be signed by each member of your family for whom we prepare a personal tax return as we are required to maintain one form on file for each return we E-File.

Third-Party Civil Penalties:

The federal government has reiterated that it is the taxpayer's responsibility to ensure their tax filings are complete and accurate. We, as a third party to the filing of your tax return, must rely on you for the information contained in your return. Please take care in completing our checklist and feel free to contact us if you are uncertain about how to report your income or deductions. We stress that we will be relying on you to ensure that information you provide us is complete and accurate. We will require you to sign an engagement letter acknowledging this.