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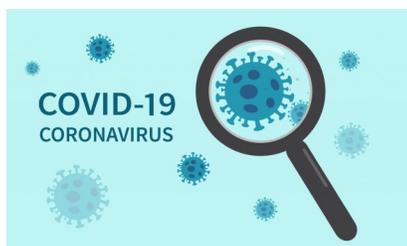
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CANADA PENSION PLAN:

Costs are Increasing in 2021

The maximum pensionable earnings and contribution rate for 2021 have now been released and are a surprise to many; the cost of CPP is significantly increasing.



TAX TICKLERS:

Some Points to Consider

- In **2021**, four special payments to recipients of the **Canada Child Benefit**, totaling **up to \$1,200 per child under age six**, will be made.
- The **Canada Emergency Wage Subsidy** has been **extended to June 2021**. Details are still pending for periods after March 2021.
- CRA has required **Coinsquare**, a cryptocurrency trading platform, to provide the identity of **every client** (which is over 200,000 accounts) to help address perceived risks of non-compliance.
- For the **first 9 months in 2020**, **6,045** individuals **renounced** their **U.S. citizenship** representing a significant increase as compared to only 1,811 for the same period in 2019. 2020 surpassed the highest previous year on record of 5,411 in 2016.

Year	Max. Pensionable Earnings (\$)	Employer/ee Contribution Rate (%)	Max. Annual Employer/ee Contribution (\$)	Max. Annual Self-Employed Contribution (\$)
2019	57,400	5.10	2,749	5,498
2020	58,700	5.25	2,898	5,796
2021	61,600	5.45	3,166	6,333

For example, a **self-employed person** earning \$61,600 or more will pay **\$537 more this year** (as compared to last year's increase of \$298), for a total of **\$6,333**. Or, looked at another way, an employer with ten employees earning \$61,600 or more will pay a total of \$31,660 of CPP premiums in 2021 (an increase of \$2,680 from 2020 contributions).

So, why the increase?

The maximum pensionable earnings are based on the **average weekly wages** and salaries in Canada for the 12-month period as of June 30. Due to the **disproportionately large job losses of lower income earners** resulting from the pandemic in the first half of 2020, the average weekly **wage** for this period is much **higher** than would be **typical**. While the increase from 2019 to 2020 was only \$1,300, it increased by \$2,900 in 2021 to \$61,600.

In addition, the CPP contribution rate has also increased to 5.45%, up from 5.25% in 2020, and 5.10% in 2019. While these increases were planned as part of a seven-year gradual enhancement to the plan which commenced in 2019, they nonetheless represent an increase to the cost of CPP.

ACTION ITEM: Budget for higher CPP costs in 2021.

CANADA EMERGENCY BUSINESS ACCOUNT: Program Expanded

The Canada Emergency Business Account (CEBA) program is intended to **support businesses** incurring non-deferrable expenses by providing partially forgivable **interest-free loans**. Originally, applicants could receive a loan of up to \$40,000, with 25% of it being forgivable if the other 75% was repaid by December 31, 2022. On December 4, 2020, CEBA loans for eligible businesses **increased to \$60,000**.

Those who previously received a CEBA loan of up to \$40,000, may now apply for the **\$20,000 expansion**. New applicants can **apply for the full \$60,000** CEBA loan provided they meet the previous eligibility criteria under one of the two possible application streams: they must have had at least \$20,000 in payroll in 2019, or at least \$40,000 in eligible non-deferrable expenses in 2020. Applications must be submitted by March 31, 2021, and a new loan agreement and attestation must be signed.

Prior to applying for the additional amount, there are four major issues that must be considered:

- an assertion that the business has been negatively affected is required;
- the new loan agreement may change the required use of funds;
- there are changes to the way the debt forgiveness is calculated; and
- the forgivable portion of the loan is taxable when received.

Negatively affected by COVID-19

Business owners must **attest** that COVID-19 has **negatively impacted** the business and that it:

- is facing ongoing financial hardship (including, for example, a continued decline in revenue or cash reserves, or an increase in operating costs);
- intends to continue to operate; and
- has made all reasonable efforts to reduce its costs and to otherwise adapt.

Use of the funds

An **amended agreement** which certifies that **all expenditures** under the program are “**eligible non-deferrable expenses**” is required to be signed. Some earlier agreements may not have had such a restriction; this provision **could effectively change the original agreement**. Therefore, signing the amended agreement may put certain applicants **offside** if they had not spent the funds on those eligible non-deferrable expenditures initially. When the program was originally launched, only the payroll stream was available, and the term “eligible non-deferrable expenses” was not specifically used to define what amounts could be spent on.

Debt forgiveness

If the outstanding principal, other than the amount of potential debt forgiveness, is **repaid by December 31, 2022**, the remaining principal amount will be forgiven, provided that no default under the loan agreement has occurred. If the full non

-forgivable portion is **not repaid** by December 31, 2022, **no portion of the debt will be forgiven**.

Both the original and additional **loans are combined**. If the total is **up to \$40,000**, 25% is forgiven if the applicant pays back the other 75% by December 31, 2022. If the total is above \$40,000, **repaying \$30,000, plus 50% of the portion exceeding \$40,000 by December 31, 2022**, will result in **the remainder being forgiven**. If the applicant **already repaid** the original \$40,000 loan, claimed forgiveness and then borrowed the additional \$20,000, the remainder will be forgiven if they repaid **50% of the loan**.

Timing of Taxation

In two recent Technical Interpretations, CRA reiterated its position that the forgivable portion of the loan is taxable in the **year in which the borrowed amount is received**, regardless of whether all conditions have been met to allow forgiveness. This applies to both the original version of CEBA and the additional \$20,000.

In some cases, an **election** may be made to **defer the income** inclusion from the year of receipt, to the following year. This income will be offset by the related expenditure.

ACTION ITEM: Before applying for the additional CEBA loan, ensure that you have, and will be able to, comply with the new loan agreement and attestation.



CANADA EMERGENCY WAGE SUBSIDY:

Public Listing of Applicants

On December 21, 2020, CRA launched the Canada Emergency Wage Subsidy (CEWS) Employer Search, which allows users to search a listing of 340,000 CEWS applicants. The results, which are updated daily, **display the legal name, operating/trade name, or business number** of corporations (other types of entities are not listed) that have been **approved** for the CEWS. It does not include the amount received or the periods for which CEWS was received. The search database can be found at <https://apps.cra-arc.gc.ca/ebsci/hacc/cews/srch>.

ACTION ITEM: Before applying for the CEWS, ensure that you fully consider the implications of being included on this publicly searchable database.

EMPLOYEES WORKING FROM HOME: Personal Tax Deductions

Due to the **COVID-19** pandemic, many employees **worked from home during** a portion of **2020**. On December 15, 2020, CRA released **guidance on two new options** available for employees claiming expenses related to working from home on their personal tax return.

While this will clearly impact an employee's personal tax filing, it should also be considered by employers. A key question employers need to answer is whether they should **provide an employer certification** in respect of these employees. If so, they should consider what certification should be issued, and how they should be completed in an efficient, correct, and complete manner.

To help address these issues, we must understand the claims that employees can make.

Temporary flat rate method – no employer certification required
Employees can **claim \$2/day**, to a **maximum of \$400**, for days **worked from home** either full or part-time. This is available if:

- the employee worked from home more than 50% of the time for a period of at least four consecutive weeks in 2020 due to the COVID-19 pandemic;
- the employee is not claiming any other employment expenses; and
- the employer did not reimburse all of the employee's home office expenses.

Detailed method – employer certification required

As an alternative to the above, eligible employees may also use a **detailed method** to claim **reasonable amounts** paid for **expenses** incurred **related to working from home**.

This is a **more complex** option which requires that the employee retain **detailed support** (receipts and invoices) for the expenses, as well as obtain an **employer certification**. CRA allows for a **simpler certification** (T2200S Declaration of Conditions of Employment for Working at Home Due to COVID-19) if there are **no other employment expenses** being claimed, otherwise, the more extensive T2200 (Declaration of Conditions of Employment) must be obtained.

For expenses related to working from home to be **deductible** under this method, **one** of the **following** has to be **met**:

- the **home** was where the **individual mainly** (more than 50% of the time) **did their work** for a period of at least **four consecutive weeks**; or
- the individual used the space **exclusively to earn income**, and used it on a **regular and ongoing** basis for **meeting clients, customers or other people** in respect of the employment.

If one of these tests are **met**, even for a **portion of the year**, a **reasonable claim** can be made. Such eligible expenses include

amounts paid for **rent, utilities, internet access fees** and **office supplies**.

Issues for employers

While **no certification** is required for an employee to claim the **temporary flat rate** method, a **certification** (T2200S or T2200) **is required** for those using the detailed method.

T2200

The T2200 is the **existing** and **extensive form** required if an employee is claiming **expenses beyond** those simply related to **working from home**.

This document requires the employer to answer **multiple detailed questions**, many of which require **additional information**. It also requires **specific employee information** such as their **SIN**.

T2200S

The **T2200S** is a **much simpler** form as compared to the historical T2200. There are **three simple questions** the employer will need to answer on the form for each employee:

Did this employee work from home due to COVID-19?

Did you or will you reimburse this employee for any of their home office expenses? The amount of any reimbursement or allowance is not required to be included on the T2200S.

Was the amount included on this employee's T4 slip?

In contrast to the T2200, the employee's SIN is not required to be provided by the employer. If CRA asks to see it, the employee can add their SIN to the form at that time.

The form also requires the employer to certify "that this employee worked from home in 2020 due to COVID-19, and was required to pay some or all their own home office expenses used directly in their work while carrying out their duties of employment during that period."

ACTION ITEM: Consider whether you will provide employees with a T2200, T2200S, or no certification.



UNDERGROUND ECONOMY: Areas of Focus

CRA recently discussed one of their **top priorities**; **identifying** those involved in the **underground economy** and ensuring that they are satisfying their tax obligations.

They specifically noted that they are using **data analytics** to predict **industry sectors** where **tax evasion** or non-compliance is **more likely**. **Further, they will send unnamed person requests for information** (to sources such as cheque-cashing companies), and also request information from suppliers (e.g. construction and liquor suppliers), to determine if income has been appropriately reported.

They are also trying to **reduce** the **social acceptability** of participating in the **underground economy**, focusing on the **demand** side to **reduce consumer willingness** to accept services such as **cash-only home renovations**. From an enforcement perspective, there are now **35 underground economy specialist teams** across Canada who have **advanced training** to identify **unreported income**.

Which sectors have the highest rates of underground economy activities?

An October 23, 2020 **Statistics Canada** release (**Residential construction** remained the **top contributor** to underground activity in 2018) reported the following related to the underground economy in **2017 to 2018**:

- **Four industries** accounted for **over half** of the underground economy: **residential construction** (26.2%); **retail trade** (12.3%); **finance, insurance, real estate, rental and leasing and holding companies** (10.3%); and **accommodation and food services** (9.1%). CRA's stated that they will focus on these sectors.
- Undeclared **wages and tips** were the **largest share** of **unreported income** (42.4%). Business owners, both **unincorporated** (28.6%) and **incorporated** (26.1%), accounted for most of the remainder.
- Household **final consumption** expenditures account for 66% of the underground economy. Significant sub-categories include **alcohol, tobacco and cannabis** (29.2%); **food, beverages and accommodation** services (20.6%); and **housing, water, electricity, gas** and other fuels (17.2%).
- **Underground economy** activity as a percentage of GDP is **highest** in **British Columbia** (3.7%) and **lowest** in **Nunavut** (0.5%).

ACTION ITEM: *If you operate in one of the sectors identified as being at higher risk of underground economy activity, do not be surprised if your operations attract more CRA attention.*

ONLINE ACTIVITY:

CRA Focus on Video Game Streamers and Online Influencers

It has recently been reported that **CRA** is **re-viewing social media accounts** to see whether **video game streamers' and online influencers' income** is **consistent** with paid **endorsements** and **other signs of income** online.

Video game streamers earn money by playing video games online.

Influencers are those who have built a reputation online for their expertise in a certain area.

CRA has stated they have conducted some initial research and will finalize a broader enforcement plan. They also specifically notes that they have been looking at influencers with **incomes in excess of \$ 500,000**.

An individual from CRA also specifically notes that the content that individuals post on their **Facebook** pages and **Twitter** feeds provides a lot of surprising open-source intelligence. As well, they notes that many video game streamers have millions of followers on **YouTube** or **Twitch**. As an example, an online video game commentator and musician with a YouTube channel earned US\$ \$17 million in 2018 (according to a Google spokesperson).

ACTION ITEM: *Be aware of your online activity as it can inform CRA of compliance activity.*

The preceding information is for educational purposes only. As it is impossible to include all situations, circumstances and exceptions in a newsletter such as this, a further review should be done by a qualified professional.

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