Year-end tax planner / November 2, 2020
Helping individuals and owner-managed businesses save tax

Checklist: Owner-managed businesses

Year-end tax planning checklists

Working with your PwC adviser is essential when considering the following year-end tax planning tactics. In addition to tax considerations, your financial plan should reflect investment philosophies, sound business practices and motivational goals. Owner-managers should ensure that sufficient funds are retained to meet business objectives; given the uncertainty in the economic environment, cash flow management is especially important.

In response to the COVID-19 pandemic, federal, provincial and territorial governments have introduced many financial incentive programs to help individuals and businesses, as well as extending many filing deadlines for certain income, sales and capital tax and other returns; certain payment deadlines were also deferred, including those for instalments and final balances. This checklist highlights only some of these incentives and deadline extensions.

Contact your PwC adviser to discuss your eligibility for available incentive programs and extensions. To keep current on the federal, provincial and territorial governments' continuing response to the constantly changing COVID-19 economic landscape, read our *Government economic response to COVID-19 updates* at www.pwc.com/ca/tax/covid-19.

- [ ] **Salary/dividend mix** – Determine the preferred mix of salary and dividends for you and other family members for 2020.
  - [ ] Salaries to family members – Pay a reasonable salary to a spouse or child who is in a lower tax bracket and provides services to your business. This also allows family members to have earned income for CPP, RRSP and childcare expense purposes. You must be able to substantiate that the family member has actually performed services that are commensurate with his or her remuneration.
  - [ ] Dividends to family members – Consider paying dividends to adult family members who are shareholders in your company and in a lower tax bracket, but be mindful of the "tax on split income" (TOSI) rules (see the **Appendix** on page 12), which will affect this strategy. Individuals with no other income can receive up to approximately $53,000 in dividends without triggering any income tax, depending on the individual's province or territory of residence and the ability of the corporation to pay eligible dividends. Note that this strategy may increase the dividend recipient's alternative minimum tax (AMT) exposure.
  - [ ] "Income sprinkling" and "tax on split income" (TOSI) – Income sprinkling among family members through the use of a private corporation is subject to the TOSI rules, which can cause income to be taxed at the highest marginal tax rate. You must consider whether non-salary amounts received by your family members are subject to TOSI. See the **Appendix** (on page 12) for more information on TOSI and our TOSI planning checklist. Consult your PwC adviser to discuss strategies to ensure amounts received by a family member will not be subject to TOSI.
  - [ ] Consider all relevant factors, including the owner-manager's marginal tax rate, the corporation's tax rate, provincial health and/or payroll taxes, RRSP contribution room ($154,611 of earned income in 2020 is required to maximize RRSP contribution in 2021), CPP contributions and other deductions and credits (e.g. for child care expenses and donations).
  - [ ] If you do not need cash, consider retaining income in the corporation.
    - Tax is deferred if the corporation retains income when its tax rate is less than the individual owner-manager's rate. See **Table 1** on page 9 if the owner-manager is at the top marginal tax rate. However, also consider the rules that can reduce the small business deduction if a passive investment portfolio is accumulated within a private company (see "Passive investments" on page 2), which can reduce the benefits of this strategy.
    - In times of economic uncertainty, retaining income in the corporation will help its cash flow and allow the corporation to have income and pay corporate tax that may be recovered by possible future business losses.
    - Consider the effect of retaining income in the corporation on corporate share value for estate and shareholder agreement purposes, as well as possible exposure of retained funds to ongoing business risks.

- All provinces and territories
  - Be aware that distributing dividends that trigger a refund of "eligible refundable dividend tax on hand" (ERDTOH) or "non-eligible refundable dividend tax on hand" (NRDTOH) may not be a cash-positive transaction, if you are subject to the top personal tax rate and live in:
    - Alberta, British Columbia, Manitoba, New Brunswick, Prince Edward Island, Saskatchewan or Yukon – for non-eligible dividends
    - Newfoundland and Labrador, Nova Scotia, Ontario or Quebec – for eligible and non-eligible dividends

    This is because the dividend refund rate (i.e. 38-1/3%) is less than or equal to the top personal tax rate on the dividends (see **Table 3** on page 10). However, also consider the rules that target tax advantages achieved if a passive investment portfolio is accumulated within a private company (see "Passive investments" below).
- Alberta residents – When planning your dividend strategy, keep in mind that Alberta personal income tax rates on eligible dividends will increase after 2020.
- British Columbia residents – Be aware that British Columbia has a new 20.5% top personal income tax rate that applies to taxable income exceeding $220,000, starting 2020. Where possible, plan to minimize your income below this new top threshold.
- Prince Edward Island, Quebec and Yukon residents – Be aware that Prince Edward Island, Quebec and Yukon personal income tax rates on non-eligible dividends are increasing after 2020. Consider accelerating discretionary non-eligible dividends to 2020. However, note that the TOSI rules (see the **Appendix** on page 12) may affect this strategy, and the income acceleration strategy may increase your AMT exposure, will hasten the payment of tax, and may not be a cash-positive transaction, as discussed above.

Passive investments – Be aware that the small business deduction (SBD) for a year of a Canadian-controlled private corporation (CCPC) that (together with associated CCPCs) earns more than $50,000 of passive investment income in the previous year will be reduced by $5 for every $1 of that investment income over $50,000 (it is eliminated at $150,000 of investment income). As a result, the tax advantages of accumulating a passive investment portfolio within an active private corporation have been reduced. Contact your PwC adviser to discuss how these rules affect you and how you can plan to minimize their effects on your business.

- To minimize the impact of these passive investment rules, consider:
  - ensuring that passive investment income within your associated corporate group does not exceed $50,000 in a year
  - deferring the sale of portfolio investments with accrued capital gains if passive investment income approaches the $50,000 threshold in a given year
  - investing in alternative investment vehicles (i.e. certain life insurance policies and individual pension plans, which should not be subject to these rules)
  - structuring your operations to earn more income in New Brunswick or Ontario, to benefit from those provinces' small business tax rate (New Brunswick and Ontario do not parallel the federal rules on passive investment income)

Dividend tax regime – Understand how the dividend tax rules affect dividend distributions.

- To the extent possible, designate dividends (or any portion of a dividend) as eligible dividends. Private companies must make the designation at the same time as, or before, payment of the eligible dividend. Late eligible dividend designations may be accepted in certain cases if made within three years after the day the designation was first required to be made.
- Consider electing to treat all, or part of, any excess eligible dividend designation as a separate non-eligible dividend, to avoid the 20% penalty tax on the excess.
- **Canadian-controlled private corporations (CCPCs)**
  - Determine the CCPC's ability to pay eligible dividends in the year by estimating its general rate income pool (GRIP) as at its year end.
  - Consider distributing dividends in the following order:[a]
    1. Eligible dividends that trigger an ERDTOH refund, to the extent the corporation has an ERDTOH balance).[b]
    2. Non-eligible dividends that trigger an NRDTOH refund.[b]
    3. Eligible dividends that do not trigger an ERDTOH refund.
    4. Non-eligible dividends that do not trigger an NRDTOH refund.

a. However, depending on the jurisdiction of residence, paying non-taxable capital dividends should be the first, second or third preference.

b. Distributing dividends that trigger a refund of ERDTOH or NRDTOH may not be a cash-positive transaction. See above for more information.

- Consider making the election that permits a CCPC to be treated as a non-CCPC for purposes of the dividend tax regime. For a newly incorporated CCPC that is expected to earn only active business income and will not benefit from the small business deduction, this would eliminate the need to calculate and monitor its GRIP before paying eligible dividends.
- A CCPC that will become a non-CCPC (i.e. planning to go public or become controlled by non-residents) should consider the effect of the federal dividend tax rules, as well as the deemed year-end rules.

Non-CCPCs

- Determine whether the non-CCPC must pay non-eligible dividends before it can pay eligible dividends, by computing its low-rate income pool (LRIP) immediately before payment of the dividend.
- A non-CCPC that will become a CCPC should consider the effect of the federal dividend tax rules, as well as the deemed year-end rules.

Qualifying small business corporation share status

- Structure the business so that corporate shares become or remain eligible for the $883,384 (to be indexed for 2021) lifetime capital gains exemption (LCGE), which is available to all individuals. Note that the LCGE is $1,000,000 for dispositions of qualified farm or fishing property. Discuss the complexities with your PwC adviser.
- Recognize that forgoing bonus and/or dividend payments and stockpiling passive investments could cast doubt on whether substantially all of the assets of a CCPC are used in an active business, in turn jeopardizing the ability to claim the LCGE, among other things. Consider restructuring to allow excess funds to be moved on a tax-deferred basis out of the operating company to preserve access to the LCGE.
- Consider crystallizing the LCGE and/or restructuring to multiply access to this exemption with other family members. This may be of particular interest if your business is expanding and becoming successful outside of Canada. Contact your PwC adviser to discuss if this would benefit you.
- A cumulative net investment loss (CNIL) may reduce your ability to use your remaining LCGE. To reduce or eliminate any CNIL, consider receiving dividends and interest income, instead of salary, from your company.
- Transfer of family business in Quebec – Be mindful that, for share dispositions to a corporation with which you are not dealing at arm's length, you can receive non-share proceeds and claim the LCGE (for Quebec tax purposes only) if, among other things, the shares are qualified small business corporation (QSBC) shares and seven criteria are met. If you might be eligible, contact your PwC adviser to discuss this complex Quebec tax rule.

Cash flow management – Recognize that managing your business cash flow is critical, especially in times of economic uncertainty. For example, to reduce working capital cash outflows, reduce or defer tax instalments (if lower taxable income is expected), maximize federal and provincial refundable and non-refundable tax credits (e.g. SR&ED investment tax credits [ITCs] and film, media and digital incentives), trigger capital losses to recover tax paid on capital gains in previous years, and recover any income, sales or customs tax overpayments from previous years.

COVID-19 federal wage subsidies –

- Canada Emergency Wage Subsidy (CEWS) –
  - If your business has experienced a decrease in revenues after March 14, 2020, as compared to the same period in 2019 or to January and February 2020 revenues, contact your PwC adviser to discuss your eligibility for this wage subsidy program. The program subsidizes a percentage of eligible remuneration paid to eligible employees by an eligible employer; it is expected to be available until June 2021. For more information, refer to the Canada Revenue Agency's (CRA) web page "Canada Emergency Wage Subsidy" at www.canada.ca/en/revenue-agency/services/subsidy/emergency-wage-subsidy.
  - If your business is already receiving the CEWS, be aware that the CRA has begun to actively audit CEWS claims. Your business should be ready to manage these potentially time-consuming audits. For more information, see our *Tax Insights* "Canada Emergency Wage Subsidy audits underway – Are you prepared?" at www.pwc.com/ca/taxinsights.
- Temporary Wage Subsidy (TWS) – If your business was eligible for, and did not claim, the 10% TWS that was available on eligible remuneration paid from March 18, 2020 to June 19, 2020 (maximum of $25,000 per employer), calculate your eligible TWS, which is generally claimed by reducing future payroll remittances. However, note that amounts claimed under the TWS reduce amounts available under the CEWS (see above).

Remuneration accruals – Accrue reasonable salary and bonuses before your business's year end. Ensure accrued amounts are properly documented as being legally payable at the business's year end and are paid within 179 days after the business's year end, and that appropriate source deductions and payroll taxes are remitted on time following payment of the remuneration.

- [ ] **Retirement compensation arrangements (RCAs)** – Consider setting up an RCA to help fund your retirement.
- [ ] **Employee profit sharing plans (EPSPs)** – Consider setting up an EPSP as an alternative to paying a bonus.
- [ ] **Retirement income**
  - [ ] If you are retaining funds in your company to save for your retirement, consider other saving options (e.g. RRSPs, TFSAs) to manage the negative implications of the passive investment rules that target the accumulation of passive investment income within a private company (see "Passive investments" on page 2).
  - [ ] Consider setting up an individual pension plan (IPP) as a means of enhancing retirement income.
- [ ] **Employee stock options** – Be aware that only the employer or employee (not both) can claim a tax deduction for cashed-out stock options. The company must file an election if it chooses to forgo the tax deduction.
- [ ] **Remote workforce** – In light of the COVID-19 pandemic, and related travel restrictions and potential business closures, consider and discuss with your PwC adviser the implications that a remote workforce may have on the structure of compensation, taxable benefits, payroll and payroll tax, corporate tax and immigration.
- [ ] **Donations** – Make charitable donations and provincial political contributions (subject to certain limits) before year end. (Also, see "Charitable donations" on page 2 in the **Investors** checklist.)
- [ ] **Employment insurance (EI) premium rebate** – Determine if your business qualifies for a reduction in the employer EI premium rate. To be eligible, the business must offer its employees a wage-loss replacement plan for short-term disability.
- [ ] **EI premiums for owners or related persons** – Consider whether owners or those related to the owners are engaged in insurable employment. If they are not, they may not be required to make EI premium payments.
- [ ] **Corporate withdrawals** – Make tax-effective withdrawals of cash from your corporation (e.g. by paying tax-effective dividends or non-taxable capital dividends, returning share capital or repaying shareholder loans).
  - [ ] Consider strategies to reduce the effective rate of tax on corporate withdrawals. Contact your PwC adviser to discuss these strategies.
  - [ ] Capital dividend account – If your company has a capital dividend account balance, consider paying non-taxable capital dividends, and pay them before triggering any accrued capital losses on the sale of corporate assets.
- [ ] **Corporate income**
  - [ ] General and M&P tax rate – If your company is subject to the general and M&P tax rate in Alberta or Nova Scotia, consider deferring income to after 2020 by maximizing discretionary deductions in 2020, because:
    - Alberta's general and M&P tax rate decreased from 10% to 8% on July 1, 2020
    - Nova Scotia's general and M&P tax rate decreased from 16% to 14% on April 1, 2020
  - [ ] Small business rate
    - If your company is entitled to the small business rate in Nova Scotia, Prince Edward Island, Quebec or Yukon, consider deferring income to after 2020 by maximizing discretionary deductions in 2020, because:
      - Nova Scotia's small business tax rate decreased from 3% to 2.5% on April 1, 2020
      - Prince Edward Island's small business tax rate will decrease from 3% to 2% on January 1, 2021
      - Quebec's regular small business tax rate will decrease from 5% to 4% on January 1, 2021
      - Yukon's small business non-M&P and M&P rates will decrease to 0% (from 2% and 1.5%, respectively) on January 1, 2021
    - Quebec CCPCs should review the eligibility criteria to ensure they qualify for Quebec's regular CCPC tax rate and consider how to minimize this rate. Quebec CCPCs are required to meet the "activities" test or "hours paid" test to be eligible for the province's regular CCPC rate. See footnote 5 of **Table 4** on page 11 for more information.
    - Quebec CCPCs should consider structuring their operations to increase the percentage of activities attributable to M&P and the primary sector (based on M&P and primary sector labour costs). The M&P and primary sector rate of 4% applies to all active business income up to $500,000 if 50% or more of the CCPC's activities are attributable to M&P and primary sector activities. See footnote 6 of **Table 4** on page 11 if the percentage of activities is under 50%.
- [ ] **Final corporate tax balances** – Pay final corporate income tax balances and all other corporate taxes imposed under the *Income Tax Act* within two months after year end (three months for certain CCPCs), to avoid non-deductible interest charges. Consider whether COVID-19 payment extensions are available to your business.

For more information, see the CRA's web page "CRA and COVID-19 Income tax filing and payment deadlines" at www.canada.ca/en/revenue-agency/campaigns/covid-19-update/covid-19-filing-payment-dates. (For Quebec, see Revenu Québec's web pages "COVID-19: FAQ for Businesses" and "Relief measures for individuals and businesses" at www.revenuquebec.ca/en/coronavirus-disease-covid-19.)

- ☐ **Information returns and assessments** – Be aware that, in response to the COVID-19 pandemic, many filing deadlines for income reporting, information returns, notices of objection and elections, as well as payment deadlines and timelines for minister assessments and reassessments, have been administratively extended. See the CRA's web pages:
  - ☐ "CRA and COVID-19 Income tax filing and payment deadlines" at www.canada.ca/en/revenue-agency/campaigns/covid-19-update/covid-19-filing-payment-dates
  - ☐ "Time Limits and Other Periods Act (COVID-19)" at www.canada.ca/en/revenue-agency/services/covid-19-ministerial-orders/time-period-other-limits-faq

  (For Quebec, see Revenu Québec's web pages "COVID-19: FAQ for Businesses" and "Relief measures for individuals and businesses" at www.revenuquebec.ca/en/coronavirus-disease-covid-19.)

- ☐ **Avoidance transactions** – Be aware that an "avoidance transaction" meeting certain conditions is a "reportable transaction" that must be reported to the CRA. Certain provinces also require disclosure of certain aggressive tax avoidance transactions.

- ☐ **Beneficial ownership registries** – Be aware that privately-held companies may be required to maintain a "transparency register" of individuals with significant control over the company, if they are incorporated:
  - ☐ federally, under the *Canada Business Corporations Act,* or
  - ☐ provincially in British Columbia, Manitoba and Prince Edward Island; Nova Scotia and Saskatchewan have enacted legislation, but have not proclaimed an effective date, and Quebec plans to require businesses to declare information on beneficial owners to the Registraire des entreprises du Québec

  See our *Insights* at www.pwc.com/ca/tax-law-publications:
  - ☐ "New shareholder register requirements for private CBCA corporations – Ensure you comply"
  - ☐ "New shareholder register requirements for private British Columbia-incorporated corporations – Ensure you comply"
  - ☐ "New register requirements for Nova Scotia limited and unlimited companies – Nova Scotia ULCs in multinational structures will be affected"

  Also, see our *Tax Insights* "Consultation on measures that strengthen corporate transparency to better protect the integrity and fairness of Quebec's tax system" at www.pwc.com/ca/taxinsights.

- ☐ **Depreciable assets**
  - ☐ Accelerate purchases of depreciable assets and ensure that they are available for use at year end.
  - ☐ Take advantage of the Accelerated Investment Incentive, which allows an increased first-year capital cost allowance (CCA) deduction for eligible depreciable assets acquired after November 20, 2018 and available for use before 2028 – generally applies to all capital property subject to the CCA rules, except M&P and specified clean energy equipment, which are subject to their own enhanced CCA deduction.
  - ☐ Purchase eligible M&P and specified clean energy equipment and take advantage of an immediate write-off (i.e. 100% CCA deduction) in the year it becomes available for use (available for equipment acquired after November 20, 2018 and available for use before 2024, subject to a gradual phase-out if the equipment is available for use after 2023 and before 2028). (Also, note that provincial M&P investment tax credits may apply to your purchase.)
  - ☐ Purchase eligible zero-emission vehicles and take advantage of an immediate write-off (i.e. 100% CCA deduction) available for purchases after March 18, 2019, in the year the vehicles first become available for use (subject to a gradual phase-out if the vehicles are available for use after 2023 and before 2028). Note that the CCA rules above have been extended to eligible zero-emission automotive vehicles (i.e. off-road vehicles) and equipment acquired after March 1, 2020.
  - ☐ Quebec CCA – Note that Quebec generally parallels the federal measures that provide increased first-year CCA deductions on eligible depreciable property, as described in the three points above. In addition, qualified intellectual property and computer equipment acquired after December 3, 2018 is eligible for a 100% CCA deduction (Quebec only) in the first year that it becomes available for use.
  - ☐ Quebec additional CCA – Note that businesses that acquire new M&P equipment in class 53, clean energy generation equipment, computer equipment or qualified intellectual property after December 3, 2018, can claim an additional 30% of the CCA

deducted in the previous year in respect of the property, if certain conditions are met.

- ☐ Consider delaying the sale of a depreciable asset that will result in recaptured depreciation until after your 2020 taxation year end.
- ☐ Consider making a special election to treat leased fixed assets as purchased under a financing arrangement.

☐ **Reserves** – Identify and claim specific reserves for doubtful accounts receivable or inventory obsolescence.

☐ **Business income reserve** – If you sold goods or real property inventory in 2020 and proceeds are payable after the end of the year, you may be able to defer tax on related profits by claiming a reserve over a maximum of three years.

☐ **Intangibles** – If capital losses are available, consider recognizing capital gains on intangible assets to use these losses. A portion of the increased cost base of the intangible asset may be deducted in the future in determining taxable income.

☐ **Dispositions** – Consider deferring, until after year end, planned dispositions that will result in income.

☐ **Intercompany charges**

- ☐ Ensure charges are reasonable given changes in the economy and in the facts or circumstances related to the transactions.
- ☐ Consider adjustments to intercompany charges to reduce overall taxes paid by the related group. For example, charge reasonable mark-ups for services provided by related corporations.

☐ **Capital gains reserve** – If you sold or will sell capital property in 2020 and received proceeds that include debt, you may be able to defer tax on part of the capital gain by claiming a capital gains reserve over a maximum of four years, which results in the capital gain being included in income over a maximum of five years.

☐ **Foreign exchange** – Consider triggering a foreign exchange loss that is on account of capital before year end, to offset capital gains in the current or previous three years.

☐ **Shareholder loans to your corporation** – Determine whether your corporation would benefit from deductible interest on shareholder loans made to the corporation, rather than additional salary or bonus payments that may be subject to payroll taxes.

☐ **Shareholder loans from your corporation** – Repay shareholder loans from your corporation no later than the end of the corporation's tax year after the one in which the amount was borrowed, to avoid a personal tax income inclusion (exceptions apply).

☐ **Taxable capital** – If your CCPC's taxable capital for federal tax purposes in 2020 exceeds $10 million, together with all associated companies, it will start losing access to the small business deduction and the enhanced 35% SR&ED ITC rate in 2021. Monitor your taxable capital and discuss with your PwC adviser ways to reduce taxable capital before your company's year end.

☐ **Scientific research and experimental development (SR&ED)**

- ☐ Ensure claims in respect of SR&ED expenditures or ITCs are filed by the deadline, which is ordinarily 18 months after the corporation's year end. In response to the COVID-19 pandemic, federal SR&ED claim filing deadlines that would ordinarily fall in the period from March 13, 2020 to December 30, 2020, have been extended to the earlier of six months after the standard deadline, and December 31, 2020. (For Quebec, SR&ED claim deadlines that would ordinarily fall in the period March 17, 2020 to December 30, 2020, have been postponed to December 31, 2020.)
- ☐ If you have an interest in a partnership, file SR&ED claims (Form T661) with the partnership information return no later than 12 months after the earliest of all filing due-dates for the return of income of the members for the tax years in which the partnership's fiscal period ends (see above for extended filing deadlines in 2020 due to the COVID-19 pandemic). ITCs allocated to corporations by the partnership must be supported by a partnership information slip (T5013).

☐ **Capital gains rollover** – If you sold, or will sell, eligible small business corporation shares in 2020, invest the proceeds in other eligible small business corporation shares by April 30, 2021, to be eligible to defer all or part of the capital gain. (Applies to individuals only.)

☐ **GST/HST and QST**

- ☐ QST registration — If your business makes digital and certain other supplies to "specified Quebec consumers," even if it is not resident in Quebec and has no physical or significant presence in the province, consider whether it is required to register under the simplified QST regime.
- ☐ Ensure that GST/HST (and QST, if applicable) has been correctly charged, collected and remitted on taxable supplies and that input tax credits/input tax refunds have been claimed on eligible expenses throughout the year.
- ☐ Filing a closely related election – If your business is a member of a closely related group of Canadian corporations and/or partnerships, the group members should consider filing form RC4616 to treat certain

taxable supplies as having been made for nil consideration. The election would allow GST/HST and/or QST to not apply to certain taxable inter-company transactions if specific conditions are met and generally gives the group a cash flow benefit.

- [ ] Recaptured input tax credits (GST/HST) – If your business is a large business (i.e. has annual sales of $10 million or more on an associated group basis) or is a specified financial institution, it is required to report and recapture the provincial portion of Prince Edward Island HST claimed as input tax credits in respect of specified goods and services. This effectively reduces the amount of input tax credits claimed. Be aware that the requirement to recapture the provincial portion of the HST is being phased out, from a 50% recapture rate to 25% on April 1, 2020, and nil on April 1, 2021.

- [ ] Restricted input tax refunds (QST) – If your business is registered for QST and is a large business (i.e. has annual sales of $10 million or more on an associated group basis) or a financial institution, it is restricted from claiming input tax refunds (ITRs) to recover QST paid or payable in respect of specified goods and services. This restriction is being phased out. Note that large businesses can claim the following percentages of QST payable as ITRs, in respect of specified goods and services:

  - 75% for 2020
  - 100% after 2020

  See our *Tax Insights* "The Québec government is phasing out restrictions on input tax refunds (ITRs) for large businesses" at www.pwc.com/ca/taxinsights.

- [ ] Determine if the following common GST/HST and QST traps apply to your business:

  - Management/intercompany fees – Ensure that GST/HST and QST is charged on management and inter-company fees billed within your corporate group. An election to avoid having to charge GST/HST and/or QST may be available (see "Filing a closely related election" above).
  - Place of supply rules – If your company sells to customers in different Canadian provinces, be aware of the various place of supply rules, to ensure that the GST/HST is being correctly applied.
  - Input tax credit documentation – Ensure your company has obtained all required written documentation to support input tax credit claims. You can check the CRA and Revenu Québec websites to verify the GST/HST and QST registration numbers of the suppliers from which your company made purchases.
  - Taxable benefits – Determine if your company is required to remit GST/HST and QST on amounts reported as taxable benefits for employees and shareholders.

- [ ] **PST**

  - [ ] If your business is registered for PST in British Columbia, Saskatchewan and/or Manitoba, ensure that PST is charged in addition to 5% GST on the sale of taxable goods, software and services, unless the customer claims an exemption and provides either a PST registration number or an exemption certificate. Note that the proposed decrease in Manitoba's PST rate from 7% to 6% has been postponed until further notice.

  - [ ] File PST returns on time so that eligible commissions in British Columbia and Manitoba can be claimed; this reduces the amount of tax to remit.

  - [ ] Note that if PST was not paid on supplier invoices for taxable goods and services, the company may be required to self-assess the tax on the PST return and remit it to the provincial government.

  - [ ] If you operate in British Columbia, determine if you can claim the B.C. PST rebate, which is available to certain incorporated businesses leasing or purchasing select machinery and equipment between September 17, 2020 and September 30, 2021.

  - [ ] Be aware that British Columbia intends to require Canadian sellers of goods, and Canadian and foreign sellers of software and telecommunication services, with specified BC revenues exceeding $10,000 on an annual basis, to collect and remit PST; the original implementation date of July 1, 2020 has been delayed to April 1, 2021 due to the COVID-19 pandemic.

  - [ ] If you have customers in Saskatchewan who purchase taxable goods and services for their own use and are an (in-province or out-of-province) operator of an electronic distribution platform, on-line accommodation platform, or are an on-line marketplace facilitator, you are required to collect and remit Saskatchewan PST.

  For more information on the new PST registration requirements in British Columbia and Saskatchewan, see our *Tax Insights* "Indirect tax hot topics: Do they impact your business" (November 2, 2020) at www.pwc.com/ca/taxinsights.

- **Provincial or territorial tax incentives** – Benefit from provincial or territorial tax incentives and enhancements to these incentives. For example, determine whether your company qualifies for:
  - Manufacturing and processing (M&P) investment tax credits – available in Manitoba, Nova Scotia, Prince Edward Island, Quebec and Saskatchewan. Note that Quebec replaced its tax credit for investments in M&P equipment with the tax credit for investments and innovation (available for specified property generally acquired after March 10, 2020), but a corporation may, under certain conditions, elect to receive the previous tax credit for investments in M&P equipment.
  - SR&ED tax credits – available in all provinces (except Alberta and Prince Edward Island) and the Yukon. Note that for:
    - Alberta, starting January 1, 2021, small and medium-sized businesses can qualify for an innovation employment grant of up to 20% of eligible research and development expenditures (see our upcoming *Tax Insights* "Alberta introduces the Innovation Employment Grant to support research and development for small and medium-sized businesses" at www.pwc.com/ca/taxinsights)
    - Quebec, for qualified expenditures incurred for a taxation year beginning after March 10, 2020, the expenditure exclusion threshold will only apply to Quebec's R&D wage tax credit
    - Yukon, for eligible R&D expenditures incurred in taxation years ending after December 31, 2020 (pro-rated for taxation years straddling January 1, 2021), the SR&ED tax credit rate for corporations will decrease to 12% (from 15%)
  - Media (film, digital and animation) tax incentives – available in all provinces and territories.
  - Apprenticeship tax credits – available in some provinces (e.g. British Columbia – training tax credits; Manitoba – paid work experience tax credit; Ontario – graduated apprenticeship grant).
  - COVID-19 wage subsidies – available in some provinces for certain industries (e.g. British Columbia – B.C. increased employment incentive; Manitoba – Back to Work Manitoba Initiative)
  - Quebec's incentive deduction for the commercialization of innovations (IDCI) – for taxation years beginning after December 31, 2020, a corporation that commercializes a qualified intellectual property asset developed in Quebec can benefit from an effective tax rate of 2% on the qualified portion of its taxable income attributed to that qualified intellectual property asset. See our *Tax Insights* "Quebec introduces an incentive deduction for developing and commercializing intellectual property in Quebec" at www.pwc.com/ca/taxinsights.

Table 1: Integration – Active business income ($)

(twelve-month taxation year ended December 31, 2020, and $10,000 of active business income)

This table shows:[1]

- the income tax deferral if active business income is earned and retained in a corporation, as opposed to being paid out of the corporation as salary to the shareholder
- the tax saving (cost) if, instead of being paid out of the corporation as salary, the after-tax corporate income is paid out as a dividend to the shareholder in the same year

		Eligible for small business deduction[3]		No small business deduction[3]	
		Deferral	**Saving/(cost)**	**Deferral**	**Saving/(cost)**
Alberta[4]		3,700	(65)	2,401	(9)
British Columbia[5]		4,339	(12)	2,739	71
Manitoba		4,244	(3)	2,444	(314)
New Brunswick[6]		4,180	(46)	2,430	51
Newfoundland and Labrador		4,025	101	2,225	(758)
Northwest Territories		3,605	401	2,255	173
Nova Scotia		4,238	(29)	2,450	(481)
Nunavut		3,450	125	1,950	(465)
Ontario[7, 8]	General	4,222	30	2,792	(100)
	M&P			2,942	(9)
Prince Edward Island		3,937	(43)	2,037	(324)
Quebec	General	4,122[9]	68[9]	2,872	(76)
	M&P	4,222[9]	120[9]		
Saskatchewan	General	3,650	57	2,050	(114)
	M&P			2,250	27
Yukon[10]	General	3,700	(53)	2,100	(12)
	M&P	3,750	(24)	3,050	664

Table 2: Integration – Investment income ($)

(twelve-month taxation year ended December 31, 2020, and $10,000 of investment income)

This table shows:[2]

- the income tax deferral (prepayment) if investment income is earned and retained in a corporation, as opposed to being earned directly by an individual
- the tax saving (cost) if the after-tax corporate income is paid out as a dividend to the shareholder in the same year

	Portfolio dividends		Capital gains		Interest	
	Deferral/ (prepayment)	**(Cost)**	**Deferral/ (prepayment)**	**(Cost)**	**Deferral/ (prepayment)**	**(Cost)**
Alberta[4]	(662)	Nil	17	(206)	34	(411)
British Columbia[5]	(179)	Nil	142	(280)	283	(561)
Manitoba	(55)	Nil	(13)	(347)	(27)	(694)
New Brunswick	(482)	Nil	32	(297)	63	(594)
Newfoundland and Labrador	428	Nil	(118)	(302)	(237)	(603)
Northwest Territories	(1,000)	Nil	(155)	(104)	(312)	(209)
Nova Scotia	325	Nil	42	(296)	84	(591)
Nunavut	(525)	Nil	(308)	(287)	(617)	(573)
Ontario[7]	101	Nil	168	(221)	336	(440)
Prince Edward Island	(411)	Nil	(164)	(350)	(330)	(700)
Quebec	178	Nil	157	(208)	314	(414)
Saskatchewan	(869)	Nil	(158)	(240)	(317)	(480)
Yukon[10]	(940)	Nil	(133)	(287)	(267)	(574)

Notes to Tables 1 and 2:

1. Table 1 assumes that:
   - the individual is taxed at the top marginal income tax rate (only federal and provincial/territorial income tax, the employer portion of provincial health tax and the employee portion of Northwest Territories and Nunavut payroll taxes are considered)
   - when there is no small business deduction, the after-tax corporate income is paid out as an eligible dividend

   Different results may arise in special circumstances (e.g. for credit unions).
2. Table 2 assumes that:
   - the individual is taxed at the top marginal income tax rate
   - portfolio dividends received are designated as eligible dividends
   - no capital gains deductions are available
   - the non-taxable portion of the corporation's capital gain is distributed as a tax-free capital dividend
   - the taxable dividend paid (eligible for portfolio dividends, non-eligible for capital gains and interest) is sufficient to generate a full refund of refundable tax
3. The federal small business threshold of $500,000 applies in all provinces and territories, except for Saskatchewan, where the threshold is $600,000 (the figures in the table do not apply to income between $500,000 and $600,000).
4. For Alberta, the figures assume that the individual is taxed at Alberta's personal income tax rate on incomes over $314,928. If the individual's income is $314,928 or less, but over $214,368, the figures are as follows:
   - Table 1: Eligible for small business deduction [deferral: 3,600, cost: (63)]; No small business deduction [deferral: 2,301, cost: (5)]
   - Table 2: Portfolio dividends [prepayment: (800), cost: nil]; Capital gains [prepayment: (33), cost: (208)]; Interest [prepayment: (66), cost: (416)]
5. For British Columbia, the figures assume that the individual is taxed at British Columbia's personal income tax rate on incomes over $220,000. If the individual's income is $220,000 or less, but over $214,368, the figures are as follows:
   - Table 1: Eligible for small business deduction [deferral: 3,976, saving: 4]; No small business deduction [deferral: 2,376, saving: 81]
   - Table 2: Portfolio dividends [prepayment: (689), cost: nil]; Capital gains [prepayment: (43), cost: (295)]; Interest [prepayment: (87), cost: (591)]

6. For New Brunswick, the figures in Table 1 do not apply to situations in which a Canadian-controlled private corporation (CCPC) is not eligible for the federal small business deduction (SBD), but is eligible for the New Brunswick SBD. This situation occurs because New Brunswick will not parallel the federal rules that phase-out the $500,000 SBD for CCPCs that earn between $50,000 and $150,000 of passive investment income in a previous taxation year. This mismatch in the federal/New Brunswick SBD results in a lower integrated tax rate on active business income.
7. For Ontario, the figures assume that the individual is taxed at Ontario's personal income tax rate on incomes over $220,000. If the individual's income is $220,000 or less, but over $214,368, the figures are as follows:
   - Table 1: Eligible for small business deduction [deferral: 4,069, saving: 35]; No small business deduction [General – deferral: 2,639, cost: (95); M&P – deferral: 2,789, cost: nil]
   - Table 2: Portfolio dividends [prepayment: (114), cost: nil]; Capital gains [deferral: 90, cost: (226)]; Interest [deferral: 180, cost: (452)]
8. For Ontario, the figures in Table 1 and in note 7 do not apply to situations in which a CCPC is not eligible for the federal SBD, but is eligible for the Ontario SBD. This situation occurs because Ontario will not parallel the federal rules that phase-out the $500,000 SBD for CCPCs that earn between $50,000 and $150,000 of passive investment income in a previous taxation year. This mismatch in the federal/Ontario SBD results in a lower integrated tax rate on active business income.
9. For Quebec, the figures assume that the income is eligible for either Quebec's small business income tax rate of 5%; or Quebec's small business M&P income tax rate of 4%. See notes 5 and 6 of **Table 4** for more information.
10. For Yukon, the figures assume that the individual is taxed at Yukon's personal income tax rate on incomes over $500,000. If the individual's income is $500,000 or less, but over $214,368, the figures are as follows:
    - Table 1: Eligible for small business deduction [No M&P – deferral: 3,480, cost: (48); M&P – deferral: 3,530, cost: (18)]; No small business deduction [General – deferral: 1,880, cost: (10); M&P – deferral: 2,830, saving: 694]
    - Table 2: Portfolio dividends [prepayment: (1,244), cost: nil]; Capital gains [prepayment: (243), cost: (296)]; Interest [prepayment: (487), cost: (591)]

Table 3: Top combined federal and provincial/territorial marginal personal income tax rates (%)

In 2020, top rates apply to taxable income above $214,368 in all jurisdictions except:
- $314,928 in Alberta
- $220,000 in British Columbia and Ontario
- $500,000 in Yukon

	Interest & ordinary income 2020	Interest & ordinary income 2021	Capital gains 2020	Capital gains 2021	Canadian dividends (eligible) 2020	Canadian dividends (eligible) 2021	Canadian dividends (non-eligible) 2020	Canadian dividends (non-eligible) 2021
Federal only	**33.00**		16.50		24.81		27.57	
Alberta[1]	**48.00**		24.00		31.71	34.31	42.31	
British Columbia[2]	**53.50**		26.75		36.54		48.89	
Manitoba	**50.40**		25.20		37.78		46.67	
New Brunswick	**53.30**		26.65		33.51		47.75	
Newfoundland and Labrador	**51.30**		25.65		42.61		44.59	
Northwest Territories	**47.05**		23.53		28.33		36.82	
Nova Scotia	**54.00**		27.00		41.58		48.28	
Nunavut	**44.50**		22.25		33.08		37.79	
Ontario[3]	**53.53**		26.76		39.34		47.74	
Prince Edward Island	**51.37**		25.69		34.22		45.22	46.21
Quebec	**53.31**		26.65		40.11		47.14	48.02
Saskatchewan	**47.50**		23.75		29.64		40.37	
Yukon[4]	**48.00**		24.00		28.93		42.17	44.04
Non-resident	**48.84**[5]		24.42		36.72[5]		40.80[5]	

1. For Alberta, the rates assume that the individual is taxed at Alberta's personal income tax rate on income over $314,928 in 2020 and 2021. If the individual's income is $314,928 or less, but over $214,368 (to be indexed for 2021), the figures for 2020 and 2021 are as follows: Interest & ordinary income [47.00%]; Capital gains [23.50%]; Canadian dividends (eligible) [30.33% (2020); 32.93% (2021)]; Canadian dividends (non-eligible) [41.16%].
2. For British Columbia, the rates assume that the individual is taxed at British Columbia's personal income tax rate on income over $220,000 (to be indexed for 2021). If the individual's income is $220,000 (to be indexed for 2021) or less, but over $214,368 (to be indexed for 2021), the figures for 2020 and 2021 are as follows: Interest & ordinary income [49.80%]; Capital gains [24.90%]; Canadian dividends (eligible) [31.44%]; Canadian dividends (non-eligible) [44.63%].
3. For Ontario, the rates assume that the individual is taxed at Ontario's personal income tax rate on income over $220,000 in 2020 and 2021. If the individual's income is $220,000 or less, but over $214,368 (to be indexed for 2021), the figures for 2020 and 2021 are as follows: Interest & ordinary income [51.97%]; Capital gains [25.98%]; Canadian dividends (eligible) [37.19%]; Canadian dividends (non-eligible) [45.95%].
4. For the Yukon, the rates assume that the individual is taxed at Yukon's personal income tax rate on income over $500,000 in 2020 and 2021. If the individual's income is $500,000 or less, but over $214,368 (to be indexed for 2021), the figures for 2020 and 2021 are as follows: Interest & ordinary income [45.80%]; Capital gains [22.90%]; Canadian dividends (eligible) [25.89%]; Canadian dividends (non-eligible) [39.64% (2020); 41.51% (2021)].
5. Non-resident rates for interest and dividends apply only in certain circumstances. Generally, interest (other than most interest paid to arm's length non-residents) and dividends paid to non-residents are subject to Part XIII withholding tax.

Table 4: Combined federal and provincial/territorial corporate income tax rates (%)[1]

(twelve-month taxation year ended December 31)

		2020 and 2021					
		General and Manufacturing and processing (M&P)		Canadian-controlled private corporations (CCPCs) – Active business income (ABI) earned in Canada to $500,000[2, 3]		Canadian-controlled private corporations (CCPCs) – Investment income[4]	
		2020	2021	2020	2021	2020	2021
Federal		15.00		9.00		38.67	
Alberta		23.99	23.00	11.00		47.66	46.67
British Columbia		27.00		11.00		50.67	
Manitoba		27.00		9.00		50.67	
New Brunswick		29.00		11.50		52.67	
Newfoundland and Labrador		30.00		12.00		53.67	
Northwest Territories		26.50		13.00		50.17	
Nova Scotia		29.50	29.00	11.62	11.50	53.16	52.67
Nunavut		27.00		12.00		50.67	
Ontario	General	26.50		12.20[4]		50.17	
	M&P	25.00				n/a	
Prince Edward Island		31.00		12.00	11.00	54.67	
Quebec	General	26.50		14.00[5, 6]	13.00[5, 6]	50.17	
	M&P			13.00[6]		n/a	
Saskatchewan	General	27.00		11.00[2]		50.67	
	M&P	25.00				n/a	
Yukon	General	27.00		11.00	9.00	50.67	
	M&P	17.50		10.50	9.00	n/a	

1. Different rates may apply in special circumstances (e.g. for credit unions).
2. The CCPC threshold is $500,000, except in Saskatchewan, where the CCPC threshold is $600,000 (the rate that applies to active business income from $500,000 to $600,000 is 17%).
3. The $500,000 CCPC threshold ($600,000 in Saskatchewan) is shared by associated CCPCs. It is reduced by the greater of:
   - $0.10 ($0.12 in Saskatchewan) for every $1 of a CCPC's previous year's taxable capital employed in Canada (on an associated basis) over $10 million (so that it is eliminated at $15 million for taxable capital); this clawback also applies to all provincial and territorial small business deductions, except that for Quebec, the $10 million and $15 million thresholds are based on paid-up capital (on an associated basis)
   - $5 ($6 in Saskatchewan) for every $1 of a CCPC's previous year's passive investment income (on an associated basis) over $50,000 (so that the threshold is eliminated at $150,000 of investment income); this reduction also applies to all provincial and territorial small business deductions, except for New Brunswick and Ontario
4. Rates on investment income are 23.67% higher than the general rates (see above) because:
   - CCPC investment income does not benefit from the 13% federal general rate reduction
   - the rates on investment income include a 10-2/3% tax that is refundable when the CCPC pays taxable dividends

   Generally, 30-2/3% of a CCPC's aggregate investment income is added to its "non-eligible refundable dividend tax on hand (NRDTOH) account." This amount is refundable at a rate of 38-1/3% of taxable non-eligible dividends paid by the CCPC.

   Eligible dividends paid by a CCPC produce a refund (at the 38-1/3% rate) only to the extent of its "eligible refundable dividend tax on hand (ERDTOH) account," that includes Part IV tax paid on eligible dividends from non-connected corporations and on taxable dividends from connected corporations to the extent the dividend generated a refund from the connected corporation's ERDTOH account.

   The refundable portion of the CCPC's other investment income, and the portion of Part IV tax on dividends from connected corporations that is not included in the ERDTOH account, is added to its NRDTOH account, which is refunded to the extent of 38-1/3% of non-eligible dividends paid by the CCPC (if this calculated amount exceeds the NRDTOH account, the excess can then recover any remaining ERDTOH account balance).
5. Quebec CCPCs:
   - are required to meet the "activities" test or "hours paid" test to be eligible for the province's regular CCPC rate (5% for 2020 and 4% for 2021)
   - will be subject to a tax rate between the province's regular CCPC rate and its general tax rate (for a December 31 taxation year end – 11.50%) if neither test is met; the maximum combined rate will be 20.50% in 2020 and 2021
6. Eligibility for Quebec's CCPC M&P rate of 4% depends on the percentage of the CCPC's activities attributable to M&P and the primary sector (i.e. agriculture, forestry, fishing and hunting; mining, quarrying, and oil and gas extraction) (based on M&P and primary sector labour costs). If the percentage is:
   - 50% or more, the CCPC M&P rate of 4% applies; the combined rate is 13.00% for 2020 and 2021
   - under 50% and more than 25%, the 4% rate increases proportionately (straight line) to the regular CCPC rate or the general Quebec rate (see note 5), depending on the circumstances; the combined rate will range from 13.00% to 20.50% in 2020 and 2021
   - 25% or less, the rate is between the regular CCPC rate and the general Quebec rate (see note 5); the combined rate will range from 14.00% to 20.50% in 2020 (13.00% to 20.50% in 2021)

Appendix – Tax on split income (TOSI)

"Income sprinkling" (i.e. shifting income that would otherwise be realized by a high-tax rate individual — for example, through dividends or capital gains — to low- or nil-tax rate family members) among family members using private corporations is subject to the "tax on split income" (TOSI) rules, which can cause income to be taxed at the highest marginal tax rate. Before 2018, only amounts received by minors were subject to TOSI. You must now consider whether non-salary amounts received by both your minor and adult family members are subject to TOSI.

Amounts received in a year in the following situations will be excluded from TOSI:

- ☐ amounts received by adults aged 18 or over that are not derived, directly or indirectly, from a business in which a related person is active or has a defined interest
- ☐ amounts received by a business owner's spouse if the owner meaningfully contributed to the business and is aged 65 or over
- ☐ amounts derived from a business by adults aged 18 or over who have made a substantial labour contribution (generally an average of at least 20 hours per week) to the business during:
  - ○ the year (or portion of the year when the business operates), or
  - ○ any five previous years
- ☐ capital gains from qualified small business corporation shares and qualified farm or fishing property (except for gains of a minor from a non-arm's length disposition)
- ☐ capital gains arising on an individual's death
- ☐ income or gains from property received as a settlement upon marriage breakdown
- ☐ income or gains on shares of a corporation held by adults aged 25 or over who own 10% or more of the shares (measured by both votes and value) of the corporation that, in the year:
  - ○ earns less than 90% of its business income from providing services
  - ○ is not a professional corporation, and
  - ○ does not have more than 10% of its business income derived, directly or indirectly, from another business in which a related person is active or has a defined interest,

  in which case the "ownership exclusion" applies

Individuals aged 25 or over who do not meet any of the above exclusions are subject to a reasonableness test to determine how much of the income, if any, is subject to TOSI. Generally, whether an amount paid to an adult family member derived from a particular business is considered reasonable, is determined by comparing the relative contributions to that business by all related individuals, having regard to the following for each:

- ☐ the individual's labour contributions to the business activities
- ☐ assets contributed or risks assumed by the individual in respect of the business
- ☐ any previous returns and remuneration paid to the individual in respect of the business

If the amount is not reasonable, the amount in excess of a reasonable amount is considered "split income," to which the top marginal rate of tax applies.

In certain cases, an adult aged 18 to 24 who contributed to the family business with his or her own capital could use the reasonableness test for the related income; otherwise, TOSI will apply to amounts received by the individual in excess of a prescribed rate of return on any capital contributed to support the business.

In light of the TOSI rules, you should ensure that non-salary amounts received by an adult family member are not subject to TOSI. You should:

- ☐ review the "income sprinkling" rules (see above) to determine the best strategy for you and your business
- ☐ review your dividend compensation strategy for related adults to determine if and when they have made substantial labour contributions to your private company (note that the Canada Revenue Agency (CRA) has indicated that its auditors will take into account timesheets, schedules, logbooks, and payroll records to determine the number of hours an individual worked)
- ☐ for family members aged 25 and older who own shares in a company that is not a professional corporation nor in the business of providing services, ensure that the family member meets the ownership exclusion test (owns at least 10% of its

shares measured by votes and value); note that shares owned by a family trust are not considered to be owned by the beneficiaries for purposes of this test

- ☐ consider delaying dividend payments to family members until they reach 25 years of age if they have made capital contributions to your private corporation (because the reasonableness test can be used to determine how much income, if any, is subject to TOSI; note that the reasonableness test is only available for ages 18 to 24 in certain cases)
- ☐ ensure that a family member under age 25 who works in the business, but does not satisfy the average 20 hours per week test, is paid a reasonable salary and receives dividend compensation only on shares held directly, up to the prescribed rate on their capital contributions
- ☐ review your company's share structure to ensure that family members who are shareholders can receive different amounts of dividends (i.e. by having shareholders own different classes of shares)

Let's talk

For a deeper discussion of how you can benefit from this *Year-end tax planner* checklist, please contact your PwC adviser or:

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