

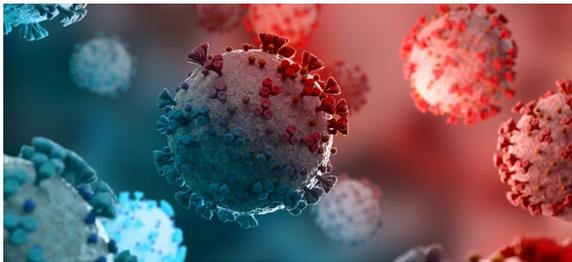
# Business Matters

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TAXATION - CANADIAN

## Federal government support related to COVID-19: Tax implications you can expect in 2020



The COVID-19 pandemic is imposing unprecedented strains on our economy and on our personal financial situations. The federal government continues to modify its programs that offer targeted support for individuals, businesses and other organizations. If you have received any of these benefits, there may be personal and corporate tax implications to you. Here is an update as of October 9 on these programs and what they might mean to your 2020 income tax return.

### For individuals

#### *Some programs ended*

The Canada Emergency Response Benefit (CERB) provided financial support to employed and self-employed Canadians who were directly affected by COVID-19. It covered the period from March 15 to September 26, 2020. The benefit was \$2,000 per four-week period, with a maximum of seven four-week periods.

The Canada Emergency Student Benefit (CESB) was available to post-secondary students and recent graduates of high school, college and university programs. Applicants received \$1,250 for each four-week period to a maximum of four four-week periods between May 10 and August 29, 2020. Disabled students and those with dependants received an additional \$750 per period.

Both the CERB and the CESB payments will be included in the individual's taxable income for 2020 and, unlike income from employment and Employment Insurance (EI) payments, no income tax was withheld at source from these payments.

#### *New programs now available*

These programs have ended and were replaced by three new benefit programs that are also taxable but, unlike the CERB and the CESB, income tax is being withheld from these payments at a rate of 10%.

The Canada Recovery Benefit (CRB) is for those who are unable to work and who are not eligible for EI. Payments are \$1,000 every two weeks, with \$100 withheld for income tax, for a maximum of 13 two-week periods between September 27, 2020 and September 25, 2021. In addition, if your total income for 2020 (excluding the CRB) exceeds \$38,000, you will be required to pay back \$0.50 of the CRB for every dollar by which other income exceeds the \$38,000 threshold.

The Canada Recovering Caregiving Benefit (CRCB) is designed to support those who are unable to work because they must care for their child under 12 years old or a family member who needs supervised care if their school, regular program or facility is closed because of COVID-19 or because they are sick, self-isolating or at risk of serious health complications due to COVID-19. Payments are \$500 per week, with \$50 withheld for income taxes, for a maximum of 26 weeks between September 27, 2020 and September 25, 2021.

The Canada Recovery Sickness Benefit supports those who are unable to work because they are sick or need to self-isolate due to COVID-19. Payments are \$500 per week, with \$50 withheld for income taxes, for a maximum of two weeks between September 27, 2020 and September 25, 2021.

### ***You can calculate your owings in advance***

In the absence of income tax withholding on the CERB and the CESB, as well as relatively low withholding rates on the three new benefits, any EI payments or any withdrawals from Registered Retirement Savings Plans (RRSPs) may lead to some unexpected and unpleasant news when the 2020 tax returns are prepared.

You can estimate what you owe by first adding up all your sources of income in 2020, including pre-COVID-19 employment income, the CERB and other COVID-19 related benefits, EI payments and any other sources of income, then you estimate the income taxes that are owed on that amount, and compare that to the total income tax that was withheld from your employment income, EI or the newer COVID-19 benefits.

Tools such as the [EY online personal tax calculator](#) can be very useful to estimate the taxes payable in your province or territory (assuming that you only qualify for the basic personal amount credit).

Certain COVID-19-related benefits are not taxable and do not have to be reported on your tax return. These include the doubling of the Goods and Services tax credit and the one-time payments to seniors and individuals with disabilities. Seniors received \$300 in September 2020; those who received the Guaranteed Income Supplement received an additional \$200 for a total of \$500. Individuals with disabilities, other than seniors, will receive one-time payments of \$600 at the end of October 2020. Disabled seniors will receive "top-up" payments of either \$300 or \$100 to bring their one-time senior benefits noted above up to the total of \$600.

## **For businesses**

### ***Programs still available, new ones proposed***

The Canada Emergency Wage Subsidy (CEWS) covers a portion of an employee's wages for eligible employees to allow employers to re-hire their employees or avoid layoffs. It is available to Canadian employers who have seen a decrease in revenue due to COVID-19 and is taxable for the qualifying period to which it relates, not when it is received. On October 9, it was proposed that the CEWS will be extended through June 2021.

The Canada Emergency Business Account (CEBA) provides interest-free loans of up to \$40,000 to small business and not-for-profit organizations. Repaying the balance of the loan on or before the end of 2022 will result in 25% of the loan being forgiven. On October 9, the federal government proposed that an additional \$20,000 interest-free loan would be available, with half this amount being forgivable if the loan is repaid by the end of 2022. The Canada Revenue Agency has confirmed that the forgivable portion of the CEBA must be included in taxable income in the year that it is received. If the forgivable portion has to be repaid (e.g., if the loan is not repaid by the end of 2022) the forgivable portion can be deducted when the loan is repaid.

The Canada Emergency Commercial Rent Assistance (CECRA) provided relief for small businesses experiencing financial hardship due to COVID-19. Over the course of the program, property owners reduced rent by at least 75% for the months of April through September for their small business tenants. The CECRA provided a forgivable loan for 50% of the rent otherwise payable, with the tenant paying up to 25% and the property owner forgiving at least 25%. As with the CEBA, the CECRA should be included in taxable income when it is received, with an offsetting deduction if and when it is repaid.

On October 9, the federal government proposed a new Canada Emergency Rent Subsidy (CERS). This will provide rent and mortgage support directly to tenants, unlike the CECRA which provided forgivable loans to landlords. It will be available to businesses, charities and non-profit organizations that have experienced drops in revenue by subsidizing rent and mortgage expenses from September 27 to December 19, 2020, on a sliding scale up to a maximum of 65% of eligible expenses. There is also a top-up available for organizations that are temporarily closed by a mandatory public health order.

It is anticipated that these payments would be taxable for the qualifying period to which they relate, similar to the treatment of the CEWS.

These government benefits have played a critical role in supporting individuals and corporations through the challenges posed by the pandemic, and it is important to understand the tax treatment of these benefits so that you are not unpleasantly surprised when you file your 2020 tax returns.

## TAXATION – U.S.

# Things you need to know when it comes to U.S. taxes for individuals: General filing requirements

**A U.S. filing requirement generally applies to individuals who are U.S. citizens, U.S. lawful permanent residents, and other individuals who earn income from U.S. sources. Do you fall into any of these categories? If yes, you'll want to read this third article in our series on U.S. tax filing obligations.**

## Filing requirements

Many people are now aware that the United States is one of the few countries in the world that taxes are based on citizenship rather than strictly on residency. This means that if someone is a U.S. citizen, they will have a U.S. filing requirement, regardless of whether they are physically residing in the United States.

Individuals who hold U.S. lawful permanent residency status, also known as “green card holders,” will have a filing requirement, regardless of whether they are physically residing in the United States.

Other situations where individuals may have a U.S. filing requirement would include:

- those who spend a significant amount of time physically in the United States and meet the U.S. substantial presence test
- those who are not physically in the United States but generate income from the United States. This income can include rental of U.S. real estate, wages in the United States or substantial investment income from the United States.

## Common U.S. tax forms

There is a substantial number of forms and supporting schedules that you could be required to file when it comes to your U.S. individual tax filing. Some of the more common ones include the following:

- Form 1040
  - This form is filed by U.S. citizens, U.S. lawful permanent residents / green card holders, and those considered to be U.S. tax residents by virtue of the substantial presence test.

Worldwide income needs to be reported on Form 1040 and its supporting schedules. Mechanisms such as treaty-based filing positions and foreign tax credits are tools that minimize any double taxation issues with income from other countries that you have reported on the U.S. return.
- Form 1040NR
  - This form is filed by U.S. non-residents who have income from the United States. You would only report income earned from the United States on this return.
- Form 8840
  - This form is frequently filed by “snowbirds”: people who travel to the U.S. for extended periods but do not meet the U.S. tax residency requirements. This form verifies to the Internal Revenue Service that the individual filing the form has substantial residential ties to one or more other countries and does not meet the U.S. tax residency requirements.

- FinCEN Form 114 – FBAR
  - This filing is required when an individual’s non-U.S. financial accounts that are physically located outside of the United States meet the filing threshold for the form.

The filing threshold is US\$10,000. To calculate whether you meet this threshold, you would determine the maximum value for each individual account, convert that value to the U.S. dollar equivalent, and then add each of those values together.

- Form 5471, Subpart F and GILTI taxes
  - If you are a U.S. citizen or U.S. tax resident who owns shares in a non-U.S. private corporation, you may also have a Form 5471 filing requirement and/or be subject to Subpart F and/or Global Intangible Low-Taxed Income (GILTI) taxes.

Form 5471 has multiple parts. The parts that must be filed depend on the percentage of shareholdings you have as well as whether or not there have been changes to the shareholdings during the year.

Subpart F taxes apply when the non-U.S. private corporation does not have active business activities. Passive business activities, such as earning only investment income, will be subject to Subpart F taxes. Typically, holding companies will meet the Subpart F filing requirements.

Global Intangible Low-Taxed Income (GILTI) taxes will apply to non-Subpart F income, or the active business income of the company each year. GILTI taxes will only apply if the U.S. person owns at least 10% of the shares of the company, and the company is a Controlled Foreign Corporation (CFC). A Controlled Foreign Corporation is one where more than 50% of the votes and/or value of the shares are owned by U.S. persons.

The area of Form 5471 filing, including Subpart F and GILTI taxes, is an extremely complex filing requirement. As such, please seek the assistance of a U.S. tax professional that is versed in these areas to assist you with these filings.

## General deadlines

Generally speaking, U.S. individual income tax filings (Form 1040 and Form 1040NR) are due **April 15** of the year following the taxation year being filed. However, several extensions are available to you if needed.

If you are a U.S. citizen physically outside of the U.S., or a U.S. non-resident filer that did not earn W-2 wages (which only apply to employees who have federal, state and other taxes withheld from their pay), you have an automatic **extension to June 15**.

Depending on your filing circumstances, you can also file Form 4868 to request an automatic **extension to October 15** and a further **extension to December 15**.

These brief descriptions intend to give you the overview of the key requirements for U.S. tax filings, but each individual and situation are different. To ensure that you meet the requirements and deadlines, it is a good idea to seek advice from a tax professional who specializes in U.S. filings, especially if you are new to meeting these obligations.

## WEALTH MANAGEMENT

# GIC versus GIC ... What's the difference? Time and money!



**Confused? You would not be the first person to mix up these two GIC investment vehicles: guaranteed investment certificates and guaranteed interest contracts. Although their acronym is the same, the differences between these GICs could have material implications for your money, especially when it comes to transferring wealth to the next generation.**

Individuals often find themselves holding a large portion of their wealth in non-registered investments. This may have been a result of an inheritance, shrewd saving, recent downsizing to a condo or the sale of a business. Whatever the scenario, the risk to the non-registered money if you pass away is that your estate and this money will be subject to

probate – along with the delays and fees that come with it.

## The perils of probate

Let's first review this key concept: Probate is the legal process where a judge reviews the deceased's will for validity and authenticity, and appoints the executor of the estate. It comes with a cost that is levied to the estate.

Each province has its own set of probate fees. For example, in Ontario on an estate worth \$200,000, the probate costs would be about \$2,250, or close to 1.1% of the estate's value.

Moreover, in Ontario the probate process will delay the release of estate funds by six to nine months. In the meantime, while your estate's funds are tied up in the courts, your surviving loved ones may be required to pay the cost for certain final expenses, such as funeral and burial costs, and the additional professional service fees that accompany the administration of the deceased's estate, including accounting, legal and executor fees. In the end, for a \$200,000 estate, these costs may subtract another \$3,900: for a combined estate cost of \$6,150, or close to 3% of your estate.

## The GIC that protects more of your assets

So, why does this matter to your non-registered GIC portfolio? Well, if you would like to ensure a smooth, cost-effective transfer of your wealth to the next generation, then choosing the right type of GIC is important.

Although both bank and insurance GICs operate in much the same manner while an individual is alive, it is the treatment of the GICs within the estate that shows the important difference between the two.

If you hold an *insurance* GIC, it will help protect your non-registered assets from these influences, as you can elect a beneficiary to your insurance GIC that allows the non-registered assets to flow directly to them – and bypass probate. Holding a traditional bank GIC will expose your non-registered assets to the probate, potential delay and additional fees discussed above.

## More information to help you plan

The table below expands on these similarities and differences between the two investment vehicles. Use this information as part of your overall investment planning, for a clearer picture that helps you make a more informed choice to fit your goals.

Factors	Guaranteed investment certificate (Bank GIC)	Guaranteed interest contract (Insurance GIC)	Comment
<b>Issuer</b>	Bank	Insurance company	Bank GIC is structured as a traditional savings vehicle, while the insurance GIC is set up as a standard insurance contract
<b>Interest rate</b>	Yes	Yes	Difference is ~+15% in favour of Bank GIC
<b>Term</b>	1 to 5 years	1 to 10+ years	More maturity options are available for the insurance GIC
<b>Guarantee</b>	Canadian Deposit Insurance Corporation (CDIC) – up to \$100,000	Assuris – up to \$100,000	Different providers insure these investments, but they both offer similar coverage
<b>Pension tax credit</b>	No	Yes	Insurance GIC income qualifies for the pension income tax credit
<b>Legacy provided</b>	No	Yes	You are able to designate a beneficiary for a non-registered Insurance GIC
<b>Avoids probate / estate administration</b>	No	Yes	Money transfers directly to your beneficiary and avoids probate costs and public record of your estate disposition
<b>Protected from creditors</b>	No	Yes	Insurance GICs held in a non-registered account are protected from creditors (in most provinces)

# Why is Bay Street soaring, while Main Street suffers?



**Despite one million Canadians being out of work since the pandemic took hold and while small businesses struggle to pay the rent and stay in business, how is it that Canadian stocks almost broke even for 2020?**

The answer is “easy money.” Monetary authorities around the world, including the Bank of Canada, have cut interest rates and enhanced liquidity to financial markets to support economic activity and stem further economic impacts related to COVID-19.

While the rhetoric of Bank of Canada officials and politicians has focused on how these actions will support small businesses and Canadian workers, the reality is that a big chunk of the provided liquidity has found its way into financial markets, and financial assets have grown as a result. The outcome is a bifurcation between the real economy (Main Street) and financial markets (Bay Street).

## Stock markets

Canadian and U.S. stocks rallied back strong from the depths of the pandemic in March (all data to Oct 30, 2020, total returns, in Canadian dollars). Canadian stocks rose 49% from trough to peak (meaning from their lowest level reached to their highest, which took place during the timespan from late March to mid-August) and ended down 9% overall for 2020, to date. In the U.S., stocks rose 40% from trough to peak and are positive 4% for 2020, to date.

Markets will likely continue to be volatile amid ongoing concerns related to COVID-19. Nevertheless, companies in North America have begun to report their third quarter 2020 operating performance, and the vast majority of companies are doing much better than expected.

In addition, the economy in both Canada and the United States is recovering from shutdowns in early 2020 at a much faster rate than most market participants expected. This strong performance should provide a supportive backstop to any continued uncertainty stemming from COVID-19 in the months to come.

## Bond markets

Bonds were flat in the third quarter of 2020. Policymakers in Canada and in most other developed market economies have eased monetary policy in response to COVID-19, to combat concerns about financial market liquidity and credit. Credit spreads, an indicator of investor risk sentiment, have recently decreased, signalling that investors are becoming more comfortable with corporate lending despite the ongoing economic headwinds posed by COVID-19.

Credit conditions should continue to improve as policymakers spare no expense to talk down interest rates and use their central bank accounts to enhance market liquidity.

## Canadian dollar

The Canadian loonie has been on quite a rollercoaster ride this year so far. In the first quarter of 2020, the loonie depreciated about 9% versus the U.S. greenback, with the perceived safety of the American dollar attracting investors in the face of COVID-19 uncertainty. Since the end of March, with its exposure to economically sensitive commodity prices (such as energy), the loonie has come roaring back. This is in part because investors became more aggressive on seeing economic impacts of COVID-19 becoming less dire.

**Market performance** (as of October 30, 2020, total returns in CAD\$, rounded. Data source: Refinitiv Eikon)

Market	Decline % (Feb 20 to Mar 23)	Recovery % (Mar 23 to Aug 26)	Q3 2020 % (Jul to Sep)	2020 Year to Date % (to Oct 30)
<b>Canadian Equity</b> (S&P/TSX Composite Index via XIC ETF)	-37	+49	+4	-9
<b>U.S. Equity</b> (S&P 500 Index via XUS ETF)	-27	+40	+7	+4
<b>International Equity</b> (MSCI EAFE Index via XEF ETF)	-26	+29	+4	-6
<b>Canadian Fixed Income</b> (FTSE TMX Canada Universe Bond Index via XBB ETF)	-7	+11	0	+5
<b>U.S. Fixed Income</b> (Bloomberg Barclays U.S. Aggregate Bond Index TR Index via AGG ETF in C\$)	+7	-4	0	+7
<b>Currency Exchange Rate</b> (USD\$ in CAD\$)	-9	+10	+2	-3

## Investing wisely during these market conditions

With COVID-19 entering its second wave, elevated uncertainty continues to weigh on financial markets. Although we cannot control financial market fluctuations, we can control your financial plan and individual investment strategy. By focusing on this plan and strategy long term, you will see a materially larger impact on your financial success than you would by worrying and speculating on short-term market events.

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