WELCH TIMES

WINTER 2024

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Welch LLP's 2024 Promotions

The partners of Welch LLP congratulate our recent promotions

Our newest Principals:

Dean Anderson
Divya Agarwal
Bethany Yli-Renko
Daniel Creighton
Suzette Salvador
Katie Leach
Alex Mitrovic

Our newest Senior Manager:

Rebecca Pullen

Our newest Managers:

Jacqueline Adams
Cathy Chen
Ashley Lantos
JF Martel
Liliana Wong Mak
Jillian Ribich

Thank you for your continued hard work and positive impact on Welch and our clients!

Navigating the Road to Homeownership

WITH TAX-FREE SAVINGS

Are you or someone you know dreaming of purchasing your first home? This is exhilarating, yet the practical challenges of saving for a down payment and navigating the intricate real estate landscape can be overwhelming. The journey to home ownership got a little smoother with the introduction of the First Home Savings Account (FHSA) by the Canadian government.

WHAT IS AN FHSA?

The FHSA is a revolutionary registered savings account designed to assist first-time homebuyers in Canada. As of April 1, 2023, Canadians can take advantage of this account which combines elements of Registered Retirement Savings Plans (RRSPs) and Tax-Free Savings Accounts (TFSAs), offering unique advantages for those saving towards their first home.

CONTRIBUTION DETAILS

Annual Limit: Contribute up to $8,000 per year.

Lifetime Limit: The maximum lifetime contribution is $40,000.

Unused Room: Carry forward up to $8,000 of unused contribution room annually, allowing flexibility in your savings strategy.

Contribution Deadline: The deadline for contributions is December 31 of the tax year. Deduct contributions on your tax return for the year made or choose to benefit from the deduction in a future year.

TRANSFERS AND FHSA WITHDRAWALS

Tax-Free RRSP to FHSA Transition: Transition your savings from RRSP to FHSA without taxation, offering a versatile strategy for your financial goals.

Qualifying Withdrawals: Withdrawals for purchasing a qualifying home are tax-free. Ensure you meet the criteria, including having a written agreement and the intention to occupy the home.

15-Year Lifespan: Valid until December 31 of the year when the earliest of the following happens: the 15th anniversary of opening, the year you turn 71, or the year after your first qualifying withdrawal. Non-qualifying withdrawals are taxable. If you don't purchase a home, withdrawn funds become taxable income. Alternatively, the remaining balance can be transferred to an RRSP or RRIF on a non-taxable basis.

MAKING THE MOST OF YOUR FHSA

Invest Wisely: FHSAs can hold various investments, providing an opportunity to grow your money faster than traditional savings accounts.

Use with Other Incentives: You can leverage FHSAs alongside other homebuyer incentives, such as the Home Buyer's Plan (HBP) and the First-Time Home Buyer Incentive.

Author: Isaac Perreault, CPA, Manager

TAX-DEDUCTIBLE CONTRIBUTIONS:

Enjoy the benefit of tax-deductible contributions, reducing your taxable income for the current or future years.

TAX-FREE EARNINGS:

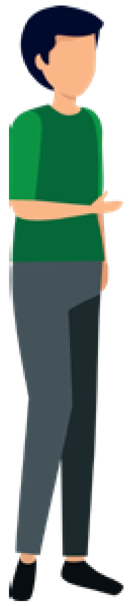
Investment income earned within the FHSA is tax-free, providing an opportunity for accelerated savings.

TAX-FREE WITHDRAWALS:

When you're ready to purchase your first home, a qualifying withdrawal of your savings from the FHSA is tax-free.

The FHSA is a powerful tool for individuals and families working towards their first home. Whether you're just starting to save or reevaluating your existing strategies, consider the advantages of the FHSA in your homeownership journey. Even if you don't currently have available funds to contribute, you should still consider opening an account before the end of 2023. By initiating the account, you establish eligibility and can carry forward the unused 2023 contribution room into future years. Owning your first home is within reach, and the FHSA will help you take that significant step towards achieving your homeownership goals. Happy saving!

READ THE FHSA FAQs



To open an FHSA, you must meet the following criteria:

- Be a Canadian resident.
- Be 18 years or older.
- Qualify as a first-time homebuyer.
- Not have owned a primary residence in the current year or the previous four calendar years.

NEW T3 TRUST REPORTING REQUIREMENTS

THE NEW TRUST REPORTING AND DISCLOSURE REQUIREMENTS HAVE BEEN A HOT TOPIC FOR TAX ADVISORS FOR SEVERAL YEARS.

After much anticipation, the new legislation is finally effective and applies to trusts with taxation years ending on or after December 31, 2023.

The filing deadline for trusts with a December 31, 2023 year-end is April 2, 2024 (i.e., the first business day after March 30, 2024).

The new legislation now requires that most Canadian resident trusts file a T3 return, regardless of the activity for the year. Some examples of trusts that have not previously been obligated to file a T3 return, but are now subject to these new reporting requirements are as follows:

- Trusts that hold personal-use property (i.e., principal residence, cottage, vacation home); and
- Trusts holding shares of a private company, which have not reported dividends or capital gains.

Perhaps even more significant, however, is that the legislation now specifically imposes a new filing requirement for some arrangements where there may be no formal trust agreement. These arrangements are known as bare trusts which, as discussed in more detail below, may result in filing obligations for many unsuspecting taxpayers.

! TRUSTS THAT FAIL TO COMPLY WITH THE NEW REPORTING REQUIREMENTS AND/OR MANDATORY INFORMATION DISCLOSURES MAY BE SUBJECT TO PUNITIVE PENALTIES.

SUMMARY OF THE NEW T3 REPORTING REQUIREMENTS

The 2023 T3 return now includes increased information disclosure which is to be documented on the new Schedule 15 – Beneficial Ownership Information of a Trust. Schedule 15 asks for details with respect to each and every settlor, trustee, beneficiary, or any person that can exert influence over trustee decisions (collectively referred to as "reportable entities"). Accordingly, the following will need to be disclosed for each "reportable entity":

- NAME
- ADDRESS
- DATE OF BIRTH
- JURISDICTION OF RESIDENCE
- TAXPAYER IDENTIFICATION NUMBER

In addition to the standard failure to file penalty (up to $2,500), a new penalty has been introduced that may apply in circumstances where it is determined that a false statement or omission has been made knowingly, or in circumstances of gross negligence. **This penalty ranges from a minimum of $2,500 to 5% of the highest fair market value of all properties held by the trust in the year.**

Read More on Reporting Requirements and Exceptions

Author: Tricia MacPherson, CPA, CA, Senior Manager

RECENT WEBINAR

CANADA'S INSTITUTIONAL CAPACITY

EXPLORING IMPLICATIONS IN A COMPLEX WORLD

View our webinar recording on, "Canada's Institutional Capacity: Exploring Implications in a Complex World," as we delve into the dynamics of Canada's political and business institutions and their impact on the state of the economy.

In this engaging discussion, Goldy Hyder, President and CEO of the Business Council of Canada, and Chris Meyers, Partner at Welch LLP, will explore:

- The current state of Canadian political and business institutions;
- Their influence on Canadians' faith in our economy;
- Practical steps we can take to make positive change.

LOOKING AHEAD, WHAT POLICIES CAN THE BUSINESS COMMUNITY EXPECT FROM THE FEDERAL GOVERNMENT OVER THE NEXT YEAR?

"All eyes are on Minister Freeland with her budget to respond to the competitiveness disadvantage for Canada. If we cannot offer investment support for businesses to settle in Canada, to employ in Canada, to pay their taxes in Canada, all of these things will have repercussions. We're watching carefully at what the opportunity is for Canada to be a magnet for both capital and talent. We need to have a clear response to that.

"Much of that is about the transition to a cleaner, greener economy over a period of decades that will require a heavy investment in innovation and technology as we go forward. Both are strong suits of the Ottawa business community. In particular, I think about the tech sector, the government research institutes here and the post-secondary institutions. All these can play a very key role in turning the ship around."

- Goldy Hyder; 2023
Welch LLP Business Growth Survey

Watch the Recording

Capital vs Inventory

When selling real estate, you must determine whether the property is treated as capital or inventory, impacting applicable taxes on the income earned from the disposal. The primary factor in this assessment is your intent regarding the property, requiring you to conduct an overall evaluation.

DETERMINATION - INTENT

Your plans for the property, often categorized as investment or development, drive the intent:

INVESTMENT OR DEVELOPMENT

Intent is determined by you at the time of purchase, but a property may have both a primary and secondary intent.

DETERMINATION - OTHER FACTORS

In addition to intent, which is subjective, you should consider the following other factors:

- The length of time during which the real estate was held (i.e., if you rent a property for a short period and then sell the property for a large profit, this may lead to a development determination based on the inherent intention for the property).
- The nature of your business (i.e., if you operate in the construction industry, this may lead to a development determination if the property undergoes substantial renovations, even if the intent is to ultimately rent the property).
- Evidence that you have dealt extensively in real estate (i.e., if you have developed properties in the past and now the stated intention is to rent a new property, this may lead to a development determination based on your historical activity).

TAXES

In general, overall taxes are lower when treating the property as capital rather than inventory:

CORPORATION

- **Capital**: Taxable capital gain (50% of profit on disposal) taxed at passive income rates.
- **Inventory**: Business income (100% of profit on disposal) taxed at active income rates.

PERSONAL

- **Capital**: Taxable capital gain (50% of profit on disposal) taxed at marginal tax rates.
- **Inventory**: Business income (100% of profit on disposal) taxed at marginal tax rates.

CONCLUSION

When assessing the taxability of a property's sale, you must conclude on capital versus inventory treatment based on an analysis of the intent, while considering other factors that could impact the outcome. The determination will lead to the profit from the sale being treated as a capital gain (capital) or as business income (inventory).

Author: Dean Anderson, CPA, Principal

2023 OTTAWA OFFICE

Welch in the Community

76
Sponsorships

5
Charity Donations

ENHANCED GST RENTAL REBATE FOR PURPOSE BUILT RENTAL HOUSING

The Department of Finance has released a Backgrounder which provides additional details further to the Prime Minister's announcement which was made on September 14th, 2023 indicating the government's intention to remove the GST from purpose built rental housing. We now have draft legislation contained in Bill C-56, short titled the Affordable Housing and Groceries Act. The stated purpose of the enhanced GST rental rebate is to incentivize the construction of rental homes for Canadians.

The enhanced rebate will apply to new purpose-built rental housing construction projects that began on or after Sept 14, 2023, and on or before Dec 31, 2030. The project would need to be complete by Dec 31, 2035.

The current GST rental rebate provides a rebate to residential landlords of 36% of the 5% GST applicable to the purchase price of new residential housing. However, under the current system, the rebate amount is reduced proportionately when the value of the residential property is between $350,000 and $450,000. The rebate is totally eliminated for property values in excess of $450,000.

The new enhanced rebate will be equal to 100% of the 5% GST and will not be subject to any reduction regardless of the value of the property.

Author: Mona Tessier, CPA, CA, Partner

According to the Backgrounder
Qualifying new residential units would be those that qualify for the existing GST Rental Rebate and are in buildings with at least:

1. **Four private apartment units** (i.e., a unit with a private kitchen, bathroom, and living areas)**, or at least 10 private rooms or suites** (e.g., a 10-unit residence for students, seniors, or people with disabilities)**; and,**

2. **Ninety per cent of residential units designated for long-term rental.**

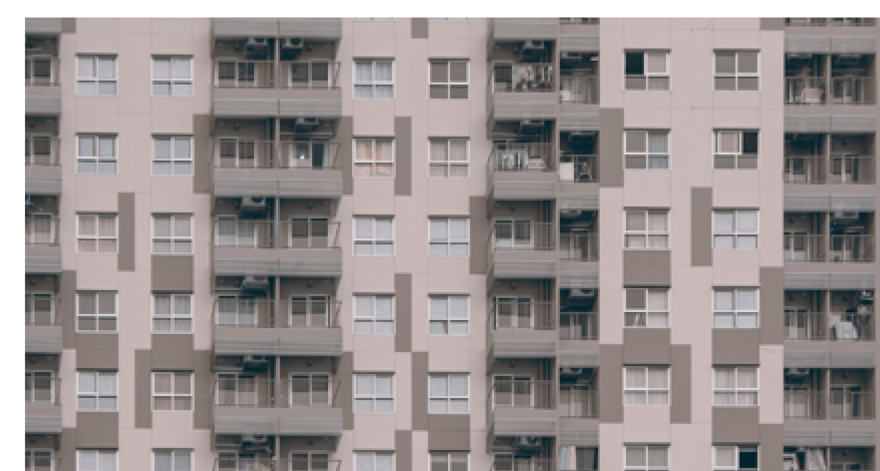
The Backgrounder makes it clear that individually-owned condominium units, single-unit housing, duplexes, triplexes, housing co-ops and owned houses situated on leased land and sites in residential trailer parks will not be eligible for the enhanced rebate.

However, the existing rebate will continue to be available for properties not eligible for the enhanced rebate as long as the conditions for that rebate have been met.

Furthermore, substantial renovations of existing residential complexes are specifically ineligible for the enhanced rebate in order to de-incentivize "renovictions".

The value of the enhanced rebate will be substantially reduced for residential properties located in HST provinces that do not offer a similar rebate in respect of the provincial portion of the HST or Quebec since it is only the 5% GST that is eligible for the enhanced rebate. Quebec has indicated that it can't afford to offer the same deal as the Feds. Although Ontario, PEI and Nova Scotia have announced they will harmonize their position with the federal government, it's not clear whether their intention is to provide a full refund of the provincial portion of the HST or just a partial rebate. We'll have to wait and see what the future will bring.

Although the enhanced GST Rental Rebate for purpose-built rental housing will be effective as of September 14, 2023, it is subject to the passage of implementing legislation.



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Is Ottawa making the grade?
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our CLIENTS IN THE NEWS

BUSHBALM SET SIGHTS ON SHOPPERS DRUG MART, TARGET, AS CEO DAVID GAYLORD TOUTS IN-PERSON RETAIL

RELOGIX
ACQUIRED BY GLOBAL COMPANY HUBSTAR

LITTLE VICTORIES COFFEE
OPENS SECOND "DESTINATION-DRIVEN" LOCATION IN DOWNTOWN OTTAWA


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