the SmallBiz Builder

your monthly newsletter

Padgett

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2024 Year End Planning Considerations

Several significant tax changes happened in 2024 that we wanted to highlight at year end. The legislation for the capital gains inclusion rate change has not yet been passed into law. While it's an understatement to say that we've had a lot of tax legislative uncertainty in the past few years, this latest legislative limbo has far reaching consequences. We have included some tax planning insights should you want to act on the assumption that it passes.

Home Buyer's Plan

- First change: the withdrawal is increased to $60 000 for funds withdrawn on or after April 16, 2024.

- Second change: For withdrawals made from January 1, 2022, through to December 31, 2025, repayments to the RRSP which would normally be required 2 years after the year of withdrawal, will be pushed back to 5 years. So, if you had withdrawn funds from your RRSP under the Home Buyer's Plan in 2022, under the old rules you would have been required to start repayments by the end of 2024. Now the repayments will only start in 2027.

Renting Property for Short Term Periods

- There are new tax rules in effect as of January 1, 2024, regarding the deductibility of expenses on your rental property, if you rent property on a short-term basis, such as on AirBnB and VRBO platforms.
- The expenses will be denied for tax purposes if you are "non-compliant". You are non-compliant if you are renting in a municipality that prohibits short term rentals or if you are not current with permits or licenses on a municipal or provincial level (for example lodging tax registration, zoning regulations, parking, noise and other property standards regulations).
- For any period of non-compliance, the expenses will be denied for tax purposes. However, for 2024, the full amount of expenses will be deductible if you are compliant by December 31.
- You should ensure that you are compliant and depending on your circumstances, there is probably still some time left to correct the situation before the end of the year to benefit from the full deduction of expenses for 2024.

[continued...]

Tax Deferred Plans

- For RRSPs, a contribution made in the first 60 days of 2025 can be deducted against 2024 income. The contribution deadline for 2024 is Monday March 3, 2025, due to the 60th day falling on a Saturday. However, there's no need to wait if the contribution can be made now, to maximize your investment income tax deferral.
- For FHSAs, if you want your contribution to be deductible in 2024, the contribution must be made before the end of the year. There isn't the same 60-day rule that exists for RRSPs.
- All contributions to these tax deferred plans, including TFSAs and RESPs should be made as soon as possible to maximize the tax deferral. Be careful with TFSAs. If you withdrew money from your TFSA this year and you maximized your TFSA contributions, you must wait until next year to recontribute to your TFSA.

Capital Gains

- This year the capital gains inclusion rate, meaning the taxable portion of capital gains that is added to income for tax purposes, has been increased from 1/2 to 2/3. However, individuals, graduated rate estates and qualified disability trusts have a $250 000 annual threshold on which the 1/2 capital gains inclusion rate applies instead of 2/3. We typically defer capital gains where possible. However, there may be some cases where it can make sense for certain non-corporate entities to sell and repurchase investments which have accrued gains if this would prevent upcoming dispositions from exceeding the $250 000 threshold.

- Similarly, you want to think twice before crystallizing capital losses for the benefit of offsetting capital gains in 2024. For a corporation that realized capital gains prior to June 25th, 2024, a current year capital loss may end up offsetting capital gains at the 1/2 inclusion rate. The advantage of saving tax in the short term needs to be weighed against triggering those losses in a future year and offsetting gains that will be subject to the 2/3 inclusion rate.

- A similar thought process should apply to capital loss carrybacks. If your capital losses exceed capital gains in 2024, the net capital loss can be carried back to any one of the three prior years to offset capital gains in those years. It might be preferable to skip the carryback and keep the net capital losses to offset future anticipated gains that effectively are subject to more tax than prior year gains.

- Reserves can be claimed on the sale of capital assets where the collection of a portion of the selling price is deferred to the future. The reserve is a reduction of the gain you are reporting because you didn't receive all the proceeds. Eventually, the entire capital gain gets included in income and subject to tax. However, if your gain was realized prior to June 25th, 2024, then you should evaluate the benefit of deferring tax by claiming the reserve. That's because the reserve you claim in one year is added back the next, and a new lower amount of reserve is claimed if there are still uncollected proceeds. For individuals whose reserve addback will nonetheless be taxed at 1/2 because of the $250 000 allowance, the decision is easy: claim the reserve and defer the tax. It's different for individuals who will exceed that threshold and otherwise be subject to the 2/3 inclusion rate on the addback, and for corporations who don't have such a threshold.

- Donation of publicly traded securities should be made from your corporation rather than personally.

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Padgett Business Services is dedicated to meeting the tax, government compliance, profit & financial reporting and payroll needs of businesses with fewer than 20 employees in the retail and service sector of the economy. This publication suggests general business planning concepts that may be appropriate in certain situations. It is designed to provide complete and accurate information to the reader. However, because of the complexities of the tax law and the necessity of determining whether the material discussed herein is appropriate to your business, it is important you seek advice from your Padgett office before implementing any of the concepts suggested in this newsletter.