IMPACT

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Proposed Change to the CGIR in Jeopardy?

The 2024 Federal Budget proposed changes to the capital gains inclusion rate (CGIR) that will affect corporations, individuals and most trusts for capital gains realized on or after June 25, 2024. For individuals, the inclusion rate will increase to 66.67% for capital gains above $250,000 each year. For corporations, the inclusion rate will be 66.67% for all capital gains, with no lower rate on the first $250,000.

CRA has indicated that it plans to administer the proposed change to the CGIR announced in the budget and that all forms for individuals, trusts and corporations will be updated and released in early 2025.

However, the proposed changes have not yet been passed into legislation. And, as we all know, the political situation in Ottawa is fluid. This creates uncertainty going forward.

If the current government is defeated by a vote of non-confidence or if an early election is called, any bill that did not reach Royal Assent (e.g. was not passed into legislation) is deemed to have 'died on the Order Paper'. This means that the proposed CGIR legislation would not become law.

To add to the fun, in both scenarios noted above, defeat by non-confidence or early election call, it will be a while before any clarity is provided in terms of the legislation, as Federal election campaigns must be at minimum 36 days long.

Parliament reconvenes January 27 and a non-confidence motion could soon follow, setting the stage for a possible election in March.

Compounding the turbidity of the situation, if the Conservatives were to win the next election, it is highly doubtful that they would race to replace the proposed CGIR legislation, as they did not support the changes to CGIR in the first place.

Or the Liberals might hit the pause button and prorogue parliament.

That's the current state of affairs: uncertainty. ★

The Gong Show

By any measure, Monday December 16, 2024, a.k.a. "Fall Economic Statement day", a.k.a. "Chrystia Freeland I quit day", a.k.a. "just an fyi, the government added $61.9B to the deficit during fiscal 2023-24" etc., was a complete gong show. The economic statement was not even read in the House of Commons, it was simply "tabled". Basically a "here you go, Canada, happy reading".

Well, we read it, and of note in the statement was a lengthy list of previously announced measures and legislative proposals that the government indicated they intend to proceed on, including the changes to the capital gains inclusion rate.

It also provided detailed insight into the desired expansion of automatic tax filing. A summary follows.

<u>Automatic Tax Filing</u>
In recent Federal Budgets, the government reiterated its commitment to provide a level of automatic tax filing for a subset of Canadians. The program, launched in 2018 and initially named File My Return (FMR), was a phone-based system similar to the CRA's TeleFile system that ran from 1995 to 2012.

Last year FMR was rebranded as SimpleFile and the offerings expanded. There are now three SimpleFile offerings: by phone, by paper and digital.

Fast forward to the December 2024 Fall Economic Statement which laid out CRA's intentions going forward. The text from the FES is replicated below.

While these Simple File programs have seen initial success, it is time for Canada to accelerate modernization of how Canadians file their taxes and make needlessly complicated and costly tax filing services a thing of the past. Many countries have already pursued full-scale automatic tax filing and the federal government is launching the second phase of its work to move Canada towards broad-based automatic tax filing.

To implement automatic tax filing, the 2024 Fall Economic Statement announces that the government is:

- *Developing legislation to allow the CRA to automatically file a tax return on behalf of certain lower-income Canadians using the information it has available, beginning as soon as the 2025 tax year. Eligible Canadians would receive a pre-filled tax return based on CRA data, and be invited to review and modify their information as necessary, or to opt-out of the automated filing process. If eligible Canadians do not opt out, the tax return would be filed on their behalf by the CRA, thereby helping more Canadians receive their benefits. Every effort will be taken to ensure that people have the opportunity to modify or opt-out as they choose.*

- *Exploring expanding automatic tax filing to middle class Canadians with simple tax situations. This could include, for example, non-filers or those with a gap in their filing history and who do not claim most deductions and credits. It could also include a modest-income family which does not have the funds for a paid tax filing service.*

- *Considering options for improving the availability of free online tax software for Canadians, as it is often not necessary to pay a tax preparer or an online service to file taxes, especially for those with simple and straightforward tax situations.*

- *Proposing to amend the Canada Revenue Agency Act to provide that the Minister of National Revenue's responsibilities include advancing the simplification and automation of individual tax filing in Canada.*

Other items in the Fall Economic Statement included information on:

Tax Status of the Canada Disability Benefit
This new program which provides a $200 a month benefit will begin in July 2025. The benefit is tax exempt. The exempt tax treatment ensures that recipients are not subject to clawback of any social benefits or refundable credits.

CCA Accelerated Investment Incentive (AII) and Immediate Expensing Extended
The AII provides for an enhanced first-year deduction for depreciable capital property acquired after November 20, 2018 and available for use before 2028. Property that would normally be subject to half year rules under the capital cost allowance (CCA) provisions, will instead qualify for three times the normal first year deduction under this provision. Now, qualifying property acquired on or after January 1, 2025, and becoming available for use before 2030, will qualify for the full AII; with a phase-out period that extends to 2033.

Under the Immediate Expensing Measures for manufacturing or processing machinery and equipment under CCA Class 53 or clean energy generation and energy conservation equipment under Class 43.1 and Class 43.2, as well as zero-emission vehicles under Classes 54, 55 and 56, the 100% immediate write off will be extended for property acquired on or after January 1, 2025 and available for use before 2030, after which there will be a phase-out of the provision until 2033. ★

More Recommendations from the CRA Ombudsperson to Expand the CVITP

In 2023, over one million T1 returns (1,065,640 to be precise) were prepared by the Community Volunteer

Income Tax Program (CVITP) and the Income Tax Assistance – Volunteer Program (ITAVP) in Quebec.

CVITP prepared 869,660 T1 returns, while 195,980 federal returns were prepared by the ITAVP in Quebec.

To be eligible to use the volunteer tax preparation system, individuals must have a modest income and a simple tax situation, which generally means their information slips are already on file with the CRA. However, the criteria are likely to change and be expanded to allow for tax situations that include self-employed individuals.

In its 2024 Annual Report, the Office of the Ombudsperson is recommending that the CRA define the eligibility criteria for the CVITP and the ITAVP to allow self-employed individuals with a modest income and simple expenses to access the free tax clinics.

What's propelling the change? During its engagement with the non-profit sector, the Ombudsperson heard about the continued challenges faced by individuals with modest incomes who work in the gig economy (e.g. as food delivery or rideshare drivers, etc.). They were also advised that these workers are often newcomers to Canada.

Income earned from the gig economy is self-employment income. This means that when a worker earns an income from the gig economy, they do not qualify to have their tax returns prepared for free under the CVITP and ITAVP, even though their income level would otherwise make them eligible for the program.

The Ombudsperson has previously reported that individuals who are self-employed, especially those working multiple part-time jobs, may be among those most in need of the CVITP and ITAVP.

So, recommendations in the annual report that were made to the Minister of National Revenue and the Chair of CRA's Board of Management include the following:

<u>Recommendation 1</u>
The Taxpayers' Ombudsperson recommends that the CRA actively work to harmonize the operating hours of the services it provides so that residents across the country receive equal hours of service during the same operating hours depending on the various time zones in the country, to ensure equal availability of services to residents across the country.

<u>Recommendation 2</u>
The Taxpayers' Ombudsperson recommends that the CRA define the eligibility criteria for the CVITP and the ITAVP in Quebec <u>to allow self-employed individuals with a modest income and simple expenses access to free tax clinics</u> where such a service can be made available.

<u>Recommendation 3</u>
The Taxpayers' Ombudsperson recommends that the CRA:

- Provide a permanent grant program for organizations participating in the CVITP and the ITAVP;

- Continue to provide supplemental grant amounts to those that serve Indigenous communities and those organizations that operate in northern, rural and remote communities.

The end result is that we can expect the reach of the CVITP / ITAVP to continue to expand. ★

Bare Trust Filing Requirements - Update

A bare trust is a type of trust that is essentially a principal-agent relationship. In a bare trust, the beneficiary controls the trust property, and the trustee does not have any power or discretion over the property. The trustee is merely holding legal title of the property for the beneficiary.

Notwithstanding the simple nature of a bare trust, as we saw with the 2024 tax season, identifying whether a bare trust relationship exists can be challenging. In part, this is what led to CRA's last minute about face for bare trust filing requirements on March 28, 2024.

The Department of Finance subsequently announced draft legislation on August 12, 2024, which proposed removing the 2024 tax year filing requirements for bare trusts. Specifically, new legislation will repeal the existing bare trust legislation and replace it with updated legislation applicable to the 2025 and subsequent taxation years.

What about tax year 2024? On October 29, 2024, the CRA confirmed the continuation of the administrative exemption announced by the CRA for the 2023 taxation year, that bare trusts are not required to file a 2024 T3 return and Schedule 15 unless specifically requested by CRA.

Essentially the whole issue was punted ahead one year to 2025.

<u>Proposed legislation: new definitions and exemptions</u>
The August draft legislation includes exemptions (carve outs) for bare trusts from the trust reporting requirements starting with the year ending December 31, 2025. Some of the bare trusts that may be exempt going forward include:

- circumstances that result in a person holding property both for themselves and another person (e.g., such as a joint bank account);

- situations where real property is held by an owner for a related person and the property could be designated as the principal residence of the owner (e.g. such as a parent being on title so their child can obtain a mortgage); and

- situations where two spouses occupy a home, but only one of them is on title who could designate the home as the principal residence.

The current legislation also provides exceptions for small trusts holding assets with an aggregate fair market value ("FMV") that does not exceed $50,000 holding money, certain debt obligations, interests in mutual funds or segregated funds, and publicly listed securities. The proposed new legislation expands the small trust exceptions to:

- trusts holding assets with an aggregate FMV that does not exceed $50,000 <u>regardless</u> of the nature of the assets;

- trusts with individuals as trustees where each beneficiary is an individual related to each trustee and the aggregate FMV of the trust assets does not exceed $250,000 with assets limited to money, GICs, certain debt obligations, publicly listed securities, and personal-use property.

We can also expect more on the bare trust fiasco in the new year, as the Taxpayers' Ombudsperson is in the final stages of drafting a report on its examination into the CRA's administration of the 2023 bare trust filing requirements. The report is expected to be released in early 2025. ★

Filing and Payment Deadline

The EFILE and REFILE system for T1 returns will shut down for annual maintenance on Friday, January 31st, 2025 (11:00PM ET) and we expect will re-open on Monday, February 24th, 2025 (8:30AM ET) for the electronic filing of 2017, 2018, 2019, 2020, 2021, 2022, 2023 and 2024 T1 returns and ReFILE of 2021, 2022, 2023, and 2024 amended T1 returns.

The EFILE system for T3 transmissions also closes for maintenance on Friday, January 31, 2025.

Note that while the acknowledgment of an electronically filed return is issued in Eastern Time, a return is considered filed on time if the CRA receives it on or before April 30 in the respective Canadian time zone.

Payments to the CRA are considered on time if the CRA receives it, or a Canadian financial institution processes it, on or before April 30th, 2025.

Self-employed taxpayers and their spouse or common-law partner have until Monday June 16, 2025, to file their income tax return (as June 15, 2025, falls on a Sunday). ★

Business Authorizations - Update

We reached out again to the CRA to clarify the protocol for authorizing a representative. It seems the information we were provided with last September was inaccurate.

We are advised that the protocol for call center agents is as follows:

Your client should call the CRA's business enquiry line (1-800-959-5525) shortly after the authorization request has been submitted. They must then state why they are unable to access their business account online (e.g. due to religious reasons) and that they want to confirm the authorization request from you. Your client's call to the CRA does not immediately or automatically confirm the authorization over the phone.

The CRA agent will note the request and refer it to an operations section for review. This process does not confirm the authorization. The CRA will look for an alternate approval process and will connect with your client in a "timely manner".

The actual timeline was not specified by the CRA. ★

CPP Amendments Impact Benefits

The Federal government along with the provinces announced in Budget 2024 certain amendments to the Canada Pension Plan (CPP) that take effect on Jan 1, 2025.

The changes are not expected to impact CPP contribution rates. Budget 2024 did not provide an estimate of each amendment's financial impact.

The four main changes include doubling the death benefit for some contributors, introducing a partial child benefit for part-time students, extending the eligibility for the disabled contributors children's benefit beyond a parent's 65th birthday, and ending eligibility for survivor pensions if a couple is legally separated.

Increased death benefit for some

A $5,000 death benefit will be payable to contributors who have no survivors and have never collected CPP payments. The standard $2,500 death benefit to all other eligible contributors will continue. The death benefit has not been increased from the $2,500 level since 1998.

Part time students

The government also introduced a partial survival child benefit for part-time students under 25 and attending a recognized post-secondary institution. The CPP surviving child benefit is currently only payable if the child was under 18, or under age 25 and attending a post-secondary school full-time.

The flat rate benefit is worth $147.06 per month for 2024, or half of the $294.12 benefit payable to dependent children in the same age range in full-time education.

Extend eligibility

The amendments will extend eligibility for the disabled contributor's children's benefit to children until age 18, or 25 if they are attending a recognized post-secondary school, regardless of the parent's age. The benefit currently ends when the disabled parent reaches age 65.

Legally separated

The amendment to the CPP will end eligibility for survivor pensions as soon as a couple legally separates. Under the current rules, couples who are legally separated but still legally married or in a common-law relationship may be eligible for survivor pensions when their partner dies. ★

2025 EAC Efiler's Resource Guide

The 2025 EFiler's Resource Guide (for tax year 2024) is currently in production and will be distributed to all EAC members in early February.

We are always looking for feedback, so if there is anything you would like included in the next edition, or if you would like to purchase additional copies, please let us know.

Feedback and requests for additional copies (while they last) can be sent to members@efile.ca. ★

32nd EFile Association of Canada Annual General Meeting set for Wednesday, September 17, 2025

Save the date for the 32nd Annual General Meeting of the *EFILE Association of Canada / Association de TED du Canada* to be held **on Wednesday, September 17, 2025,** in Ottawa, Ontario.

Registration for the meeting is not required and there is no cost to attend. Senior CRA managers are expected to attend and take questions after the meeting, so this is your chance to share your views and get some answers.

Full details will be provided in the July 2025 *IMPACT* Newsletter. ★

Welcome New Members

We dedicate this section to all our new members. Welcome to the EAC/ATC!

Outlined below is an overview of the work the EAC/ATC completes on your behalf and how it is reported back to you.

The EAC/ATC has been representing tax professionals from all regions of Canada to senior management of the CRA for over thirty years. Formed in 1993, the EAC/ATC is a federally registered non-profit corporation with a membership that fully represents the EFILE industry: from sole proprietors to large nationwide firms.

One of the primary goals of the EAC/ATC is to facilitate the operation of a tax practice. Running a successful tax practice takes more than strong management and excellent technical skills; it requires coordination between the CRA and front-line administrators of Canadian tax policy, i.e. tax preparers.

The EAC/ATC is governed by **a national 15-member Board of Directors** elected by the membership of the EAC/ATC at the Annual General Meeting (AGM). Members of the Board of Directors serve renewable three-year terms.

The AGM is held during the 3rd week of September. The location of the AGM alternates east and west across Canada to facilitate our membership in attending.

Our primary method of communication with the membership is through our ***IMPACT* newsletter**. The **newsletter is published three times a year** in January, July and November, and provides important updates on developments within the tax and EFILE service industry. It is e-mailed as a PDF to all members. Back editions of the newsletter can be found in our online Library (www.efile.ca).

The membership package, mailed out every January, includes your annual **EAC/ATC Membership Certificate,** ready for framing and displaying to your clients. Membership with the EAC/ATC shows your commitment to excellence in tax preparation and your affiliation with a professional organization.

The membership package also includes a copy of the custom **EAC/ATC Desktop Calendar**, as well as the indispensable annual **EFiler's Resource Guide.**

In July every year, we survey our members via email and document the issues and irritants that hinder their work. This information forms the basis of the **EAC/ATC Annual Submission** to the CRA and subsequent meetings with senior management of the CRA. Through the EAC/ATC, **you have a voice** with the CRA.

The July newsletter includes a summary of the issues and irritants submitted to the CRA. It also contains official notice of the upcoming AGM, as well as the **EAC/ATC Nomination form for the election of Directors** at the upcoming AGM. At every AGM five vacancies are filled.

Our November newsletter provides a detailed summary of our AGM and subsequent meetings with senior management of the CRA. This includes a **summary of new enhancements to the EFILE system for the upcoming tax season**. You will have advance notice of the changes to come. ★