

Business Matters

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TAX

Changes to federal COVID-19 support for individuals and businesses



With much of Canada returning to a modified lockdown due to the spread of the Omicron variant of COVID-19, the federal government has enhanced and extended some of its support programs for individuals and businesses.

Here are the highlights of the changes announced from fall 2021 through to January 12, 2022.

Support for individuals

Canada Worker Lockdown Benefit

On October 21, 2021, the federal government introduced the Canada Worker Lockdown Benefit (CWLB). This new benefit provides \$300 per week to eligible workers who are unable to work as a result of a temporary local lockdown. It covers the period between October 24, 2021 and May 7, 2022.

To be eligible, workers must:

- be Canadian residents who are at least 15 years old
- have earned at least \$5,000 in 2020, 2021 or in the 12 months before they applied for the CWLB from:
 - employment income
 - net self-employment income
 - Employment Insurance benefits (including maternity and paternal benefits), or
 - COVID-19 benefits
- have not received other government benefits for the period for which they are applying
- have filed a 2020 tax return
- have either lost their job or were unable to continue their self-employment work, or had their average weekly income reduced by 50% as compared to the previous year

The CWLB will *not* be available to those who:

- leave their job voluntarily
- turn down reasonable work
- were laid off because they refused to get vaccinated against COVID-19

On December 22, 2021, the government announced that the CWLB would be extended beyond a complete lockdown to support eligible individuals affected by capacity-limiting public health restrictions of more than 50%.

Canada Recovery Sickness Benefit and Canada Recovery Caregiving Benefit

The October announcement also extended these two benefits until May 7, 2022, and increased the maximum duration of these benefits to six weeks and 44 weeks, respectively.

Employee home office deduction calculation method

In the December 14, 2021 federal Economic and Fiscal Update (economic statement), the government announced that the optional simplified method of calculating an employee's home office deduction, introduced in 2020, will be extended for 2021 and 2022. This method is available to employees who were required to work from home due to the COVID-19 pandemic and are not claiming any other employment-related expenses (such as the use of a car, or paying for a substitute or supplies, etc.).

The deduction is calculated as a flat rate of \$2 per day worked at home. The maximum deduction under the simplified method has also been increased from \$400 in 2020 to \$500 for 2021 and 2022. Employees who claim other employment-related expenses may continue to use the detailed method to calculate their home office expense deduction.

You can read more about this calculation method in the December 14, 2021 [*Economic and Fiscal Update*](#) (economic statement).

Educator school supplies tax credit

The economic statement also enhanced the refundable eligible educator school supplies tax credit by increasing the tax credit rate from 15% to 25%, expanding the list of eligible expenses to include certain electronic devices, and eliminating the requirement that the supplies be used in a school or childcare facility.

Support for businesses

New targeted wage and commercial rent support programs

In October, the government announced two new programs to replace the Canada Emergency Wage Subsidy and the Canada Emergency Rent Subsidy, both of which ended on October 23, 2021. These programs, the Tourism and Hospitality Recovery Program and the Hardest-Hit Business Recovery Program, are both available until May 7, 2022.

The government also announced that the Canada Recovery Hiring Program would be extended to the same date. Eligible employers can claim whichever of these programs gives them the highest amount for each claim period.

Local Lockdown Program

The October announcement also introduced the Local Lockdown Program (LLP). It is available to businesses that experienced both of the following:

- a complete lockdown for at least seven days of at least one location that accounted for at least 25% of their total revenue
- a decline in revenue of 40% or more in the current month

On December 21, 2021, the government announced the expansion of the LLP to also cover businesses that have capacity-limiting public health restrictions of 50% or more. They also reduced the minimum decline in revenue threshold to 25%. Eligible businesses will be entitled to receive wage and commercial rent subsidies from 25% up to a maximum of 75%.

New tax credits

The December 14 economic statement also introduced two new tax credits for businesses. The first is a new 25% refundable tax credit for small businesses that meet these conditions:

- They incurred expenses for air quality improvements in qualifying locations between September 1, 2021 and December 31, 2022.
- Eligible expenses are limited to \$10,000 per location, and \$50,000 across all locations for affiliated businesses.
- The credit is available to unincorporated sole proprietors and Canadian-controlled private corporations with taxable capital of less than \$15 million employed in Canada in the preceding year.
- Partners who meet these same requirements can also claim the tax credit for their share of a partnership's eligible expenses.

The second is a refundable tax credit for farmers in provinces without federally-approved carbon pricing systems. This credit will return the federal fuel charge proceeds directly to farmers based on their eligible farming expenses. To be eligible for the credit, farms must incur farming expenses of at least \$25,000.

Repayment deadlines extended

On January 12, 2022, the government announced that they were extending the repayment deadlines for the Canada Emergency Business Account and the Regional Relief and Recovery Fund from December 31, 2022 to December 31, 2023 for eligible businesses. Loans repaid by that date may be eligible for forgiveness of up to one third of the value of the loan.

As government assistance to respond to COVID-19 emerges and evolves, we will continue to keep you informed so that you and your business can get all the benefits to which you are entitled.

TAX

Why a rental unit in your home is not as simple as it sounds



Find out about some of the legal and tax implications of a rental unit before you sign on a tenant.

For people currently renting or considering renting a portion of the home they own, the tax considerations can be complex and the fallout costly if you don't do it right. In fact, earning income from renting a portion of your home can be subject to different rules and reporting requirements to the Canada Revenue Agency.

"Once you start to go through all the considerations, small rentals can get quite complicated," says CPA Fabio Bonanno,

principal, taxation with CPA Canada.

The following are some basic guidelines for renting out a unit in your home.

Step 1: Set up a legal rental

While it might seem simple to just rent out your basement area or a room in your home, there are some ground rules you have to consider first, says Nathaniel Brettle, managing lawyer with Malo Pilley Lehman Brettle in Toronto.

"There's more to it than just renting out a basement space for example," he says. "Residential leasing is very regulated. You need to make sure that the apartment you are renting is an entirely separate living space, with a bathroom and kitchen, and meets the required municipal and fire codes. If it's in your basement for example, windows have to be large enough to extricate a person."

Typically, you will have a lease arrangement outlining rent and basic services such as heat, light, parking and laundry facilities. As for drafting a lease, don't take the do-it-yourself approach. There are standard lease forms the government wants everyone to use. "Otherwise, you could run afoul of the Landlord and Tenant Board," says Brettle.

He also suggests that if a potential renter is a student, "It's a good idea to put parents on the lease as guarantors."

Step 2: Understand what's involved with rental income

An important thing to consider is whether the income you earn from the space in your home will be reported as business or rental income on your personal income tax return. "This will affect how you claim expenses, among other considerations," explains Bonanno. "The tax treatment and filings are different for each."

If the homeowner is providing additional services such as cleaning, security or meals for example, then it may be classified as business income. This will likely be more of an issue if some or all of the property is offered on a short-term basis (similar to a bed and breakfast).

Step 3: Know your change in use rules

Any time you rent a space in your home, you may have a [change in use](#) of that space, which could result in a deemed sale, says Bonanno.

“That could be problematic in terms of cash flow and having the funds to pay the tax liability,” he says. “Unlike a regular disposition, you do not get cash proceeds. You therefore have to pay tax on a gain for which you have received no cash proceeds.”

The government will usually not consider it a change in use if **three conditions are met**: The space is small relative to your home, you aren’t making any structural changes and you are not claiming tax depreciation known as capital cost allowance (CCA) on your rental income.

“Generally, if you fit those criteria, there will be no deemed disposition and no sale needs to be reported on your T1. Going forward, if you are earning rental income you will need to report the income and expenses in your **T1 Personal Tax Return on Form T776**,” says Bonanno. “Also, when you do eventually sell your home and meet these three conditions, then the whole property usually qualifies for the principal residence exemption.”

Step 4: Consider the income and expense claims on your T1

Your annual rental income for tax purposes will include all the rent payments received and deductions of allowable expenses. It is critical to ensure that deducted expenses are reasonable. The key question to ask yourself is, was the expense incurred to generate rental income specifically? Some examples of reasonable expenses include a pro-rated portion of the interest on your mortgage as well as utilities and property taxes.

Once you determine that the expense is allowable, you then have to decide whether it’s a current or capital expense. For example, repairs and maintenance such as replacing light bulbs are usually a current expense and are fully deducted. A capital expense is one that would improve the property significantly and have a lasting benefit, such as a structural renovation needed to get the portion of your home rental-ready, and is deducted over time by claiming CCA. [For further information on the criteria for determining whether something is a capital or current expense, you can visit the [CRA website](#) directly.]

Be careful not to claim CCA as it will put you offside one of those three conditions the CRA looks at to determine whether a change of use took place, cautions Bonanno. “If you are claiming CCA, you will generally have had a deemed disposition of the space you are renting. In that case, you may not be able to designate the principal residence exemption on the entire home when it is sold.”

Note that GST/HST is not charged on long-term residential rentals. It is important to note that GST/HST will need to be collected on short-term or occasional rentals where the portion of your home is rented for less than 30 continuous days.

Talk to a professional

There are so many nuances when renting a space in your home, it’s easy to get blindsided when filing your tax returns. Bonanno advises clients to always keep supporting documentation for rental income and expenses and review them with a qualified tax professional before filing to ensure no unwarranted expenses are claimed.

“The rules around renting are complicated and even more so in the year of a potential **change of use** or when the property is sold. A qualified professional can walk you through all that,” says Bonanno.

This story first appeared on CPA Canada's online news site.

WEALTH MANAGEMENT

Helpful ways seniors can save money and stretch their budget



Taking advantage of senior discounts isn't the only way to have more funds once you've retired.

Those retirement savings you've squirreled away have to last for an unknown amount of time. But that doesn't mean you have to give up on dreams of enjoying new experiences. Here are some ways you can stretch every dollar of those savings.

Keep tabs on your credit card debt

Credit card debt is expensive so "you're better off getting a line of credit," notes CPA Stan Swartz, principal at Infomoney Solutions Inc. While **bank interest rates** are in the low single digits, credit cards still charge 20 per cent or more if you don't pay them off each month. The cards do have their benefits though, as there may be purchase insurance or extended warranties or waiving of international currency transaction fees attached. Look for a low interest option or a cashback card, which offers the added bonus of rebates on your purchases. But treat them as debit cards and don't carry a balance.

Look to your home for options

If you need to increase your cash flow, you could ask about a reverse mortgage, says CPA Michael Massoud, principal, operations and corporate citizenship with CPA Canada. This option allows qualified homeowners (who are 55 or older) to receive up to 55 per cent of the value of their home in cash.

"The decision to access a reverse mortgage depends on everyone's own facts and circumstances. While a reverse mortgage might not make sense for someone who is flush with cash in a non-registered or tax-free savings account and has no specific liquidity needs, another person whose retirement savings are mainly held within a RRIF might be able to optimize taxes by accessing money through a reverse mortgage," says Massoud.

Depending on the housing market where you live – and where you'd like to live, if you did move – downsizing your home is another way to increase your cash flow. Bear in mind, however, that housing prices are sky-high right now, so be sure the sale of your current home can cover the residence you'd like to live in, whether you'll be buying something smaller or renting.

If the plan is to stay in your home, look for ways to make the costs more manageable. "Repair and maintenance can be expensive, especially when it comes to things like heating and air conditioning," says Swartz. To keep costs more predictable, he suggests a maintenance contract. Taking another approach, "how about taking in a

student who can help with yard work for reduced rent,” says Anne Arbour, education manager at the Credit Counselling Society.

Check what your insurance policies include

Before you buy travel insurance or extended warranties or purchase protection, have a look at the insurance policies you already have, Swartz recommends. They may offer additions to coverage that could save you a bundle. For example, some home insurance policies come with emergency travel medical insurance for trips of up to four days, as well as coverage for some legal matters, at no charge, and some credit cards offer extended warranty protection for purchases. This is helpful for two reasons: You can look to see if there are any savings to be had, but also ensure that you don’t pay for something twice.

Seek out government benefits

Arbour suggests checking out provincial and federal government benefits for seniors. You may be eligible for prescription drug coverage or other services, and you may also have free access to vaccinations for things like pneumococcal pneumonia and shingles, which provinces would otherwise charge for.

Swartz agrees and also suggests “applying for the benefits that you’re entitled to, or those you think you may be close to being eligible for,” such as [Old Age Security](#), [Guaranteed Income Supplement](#) or property tax credits in some provinces. The CRA will tell you if you’re not eligible, he adds, so there’s no harm in applying.

Ask for senior discounts

You’d be surprised how many places offer senior’s discounts and how the definition of “senior” can vary. The [Canadian Association of Retired Persons](#) (C.A.R.P) is open to those aged 50 and above and members receive discounts or benefits from dozens of companies and services, from cell phones to insurance, for an annual fee. Arbour recommends checking out what organizations like this can offer.

Everything from attractions and museums to your local transit system will offer senior’s tickets at a discount. Banks also have senior’s plans that cut or eliminate fees and many stores have “senior’s days”. Even professional services such as dentists and veterinarians may cut their fees.

The bottom line, “ask for a discount,” says Swartz. Even if it’s not advertised that there’s a senior’s discount, you may be pleasantly surprised.

Get creative

Swartz says that, if you haven’t done any comparison shopping for insurance, phone or internet services, or TV in a couple of years, you can often save simply by examining what you’re paying for and determining whether you still need it.

Anything that is charged directly to a credit card or is paid by direct debit tends to get forgotten when people are looking at their spending and it can be an expensive memory lapse. While pre-authorized is a convenient way to make payments, be sure to check your list of payments from time to time.

Swartz also suggests shopping around, then calling providers and negotiating better rates. He notes that, if you tell them someone else has offered a better deal, they will usually transfer you to a retention specialist who's authorized to offer deals.

Lastly, Arbour points out that sometimes you can get goods and services in exchange for volunteering – for example, free rounds of golf if you do volunteer work at the club.

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WEALTH MANAGEMENT

Don't pay the same for less: how to stay on top of shrinkflation



Notice packages and products are getting smaller, with no reduction in prices? Here are three tips for keeping your bills for groceries and other products in check.

If you're seeing fewer chips in the bag, smaller toilet paper rolls or a different shape to your usual jug of orange juice, you're not imagining things.

Shrinkflation – a term used to describe the practice of selling products with less quantity or volume at the same price by reducing their size or packaging – is having an impact on store shelves.

And Canadians are catching on. According to a recent [report from Dalhousie University's](#) Agri-Food Analytics Lab, three out of four of us have noticed food products have shrunk, while prices have remained the same. And while [personal care and other items are affected](#) by shrinkflation, it's groceries, meat products and bakery goods that are among the most obvious examples of the phenomenon.

Here are three ways to stay one step ahead of shrinkflation when browsing the aisles.

1. Understand how shrinkflation works

Shrinkflation comes down to some basic economics, explains Sridhar Moorthy, Manny Rotman Chair and professor of marketing at the Rotman School of Management, University of Toronto.

As manufacturing costs go up, product prices tend to rise, he says. Currently, for example, supply chain bottlenecks, labour shortages and COVID-related challenges are all contributing to rising prices.

In order to sustain their profit margins in such an environment, manufacturers have to decide what's more attractive: to increase the price of the product or shrink the size of the package, Moorthy says.

Manufacturers often opt for the latter, as research shows it is less noticeable. A [2014 Journal of Retailing study](#) were four times more likely to purchase a product if the packaging was downsized than they were if the price increased and packaging stayed the same.

“People are more conditioned to look at prices than package sizes. Unit prices are posted precisely for that reason. However, many people don’t check unit prices and get misled as a result,” says Moorthy.

The true impact of shrinkflation is seen gradually, over months or even years, so it’s less noticeable to the consumer, adds Sylvain Charlebois, senior director of Dalhousie’s Agri-Food Analytics Lab and professor of food distribution and food policy.

“We’ll see cookies go from 15 to 17 [in a package], but smaller. Then they’ll go back to 15, but they won’t increase the size,” he says. “[Manufacturers] want to be subtle.”

2. Shop proactively

Canadian shopping habits are changing as food prices rise, indicates the Dalhousie report, with more than 40 per cent of respondents saying they’ve altered behaviours to save money, including focusing more on sales and deals, reading flyers and cutting coupons.

This same awareness can be applied to shrinking products, say experts. In addition to checking packaging, product size and weight, consumers can compare unit pricing on display shelves. “In an inflationary environment, you should be more alert to the use of unit prices,” says Moorthy.

Using a mobile phone to check competitor pricing and calculate spending while shopping can also be useful – especially in view of the rise in e-commerce and click-and-collect grocery shopping. In those cases, products aren’t viewed in-person.

While shrinkflation is often perceived as sneaky, Charlebois argues that most grocery retailers provide pricing information, including unit pricing, to the consumer. Meanwhile, on a positive note, he adds that the practice reduces food and packaging waste in the long run.

“There is nothing hidden,” he says. In fact, “shrinkflation was designed based on our own expectations as consumers seeking cheap food all the time.”

3. Adjust your preferences

If you notice you’re paying the same price for less product, it’s also worth reviewing your own shopping habits, says CPA Jamie Smith, co-founder and CFO of Calgary-based Amplify Advisors.

Ask yourself if you need to buy that brand with a higher mark-up or if a more generic brand for a similar product will suffice. Also, if you’re committed to a brand, is there a different size – perhaps in bulk – that gives you a better unit price point? Can you reduce or cut out certain products altogether?

“Items of a particular quality or brand that [have been] your preference, may not be now that there’s a difference in price. There could be alternatives that are less costly,” she says.



When it comes to preferences, Canadians are reacting accordingly, says the Dalhousie study, with 49 per cent of participants reducing their meat product purchases in the past six months due to higher prices and 37.5 per cent buying more private – or house brand – labels compared to 2020. Discounted products near their expiry dates or “enjoy tonight” labels are also gaining in popularity.

These adjustments should be weighed against your budget and financial plan, adds Smith. “Start thinking a little harder about how you can make the most of your dollar,” she says.

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