

NetWorth



Summary of Federal 2020 Fall Economic Statement

On November 30, 2020 the Federal government released a 2020 Fall Economic Statement entitled, "Supporting Canadians and Fighting COVID-19."

In addition to updating the fiscal cost of the ongoing COVID-19 pandemic, the release also extended some pandemic relief programs and introduced several tax proposals as follows:

- Increasing the maximum Canada Emergency Wage Subsidy ("CEWS") rate to 75 per cent for the period beginning December 20, 2020, and extending this rate until March 13, 2021;
- Extending the current subsidy rates of the Canada Emergency Rent Subsidy ("CERS") to March 13, 2021, to provide greater certainty to businesses;
- Extending the deadline to apply for a Canada Emergency Business Account ("CEBA") loan to March 31, 2021;
- Creating the Highly Affected Sectors Credit Availability Program for the hardest hit businesses in sectors like tourism and hospitality, hotels, the arts and entertainment;
- Clarifying the proposed (new) rules for the taxation of employee stock options, to be effective for stock options granted after June 30, 2021;
- Enhancing the Canada Child Benefit for eligible families with children under the age of 6;
- Taking steps over the coming year to target the unproductive use of domestic housing that is owned by non-residents through a national, tax-based measure;
- Allocating additional resources to allow the Canada Revenue Agency ("CRA") to fund new initiatives and extend existing programs targeting international tax evasion and aggressive tax avoidance;
- Launching consultations to modernize the General Anti-Avoidance Rule ("GAAR") to maintain the integrity of the tax system;

 Let's connect

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- Simplifying the Home Office Expense Deduction for 2020 for employees by providing a standard, flat rate of \$2 per day worked at home in 2020 due to COVID-19, to a maximum \$400 expense claim;
- Broadening the scope of the Goods and Services Tax/Harmonized Sales Tax (“GST/HST”) for Cross-Border Digital Products and Cross-Border Services, Goods Supplied through Fulfillment Warehouses and Platform-based Short-Term Accommodation; and

- Implementing a new proposed Digital Services Tax on certain corporations providing digital services in Canada, effective January 1, 2022 (with details to be announced in the 2021 Federal budget).

For more information regarding these proposals, speak with a BMO Private Wealth professional. You may also ask them for a copy of our publication, *Update on Canada’s COVID-19 Economic Response Plan*, for more details on the Federal government’s economic response to COVID-19.

Financial and Tax Planning Resolutions for 2021

To help you prepare for the year ahead, the following provides some tips and updates for ensuring you keep your financial resolutions for 2021.

It’s important to take the time now to get advice and information from your BMO Private Wealth professional, to help you with important financial decisions and your overall wealth management plan for the year ahead. As you consider your financial priorities for the coming year, here are some financial and tax planning resolutions that could help you save taxes, protect your portfolio, and position you for financial success in 2021.

Start tax planning for 2021

Many investors wait until year end before thinking about how to reduce their annual tax bill; often missing out on available tax planning opportunities. Tax planning should be a year-round activity in order to maximize the savings opportunities available to you. Ask your BMO Private Wealth professional for a copy of our *2021 Personal Tax Calendar*, which summarizes important tax deadlines and provides tax planning tips for you to consider throughout the coming year.

Meet with your BMO Private Wealth professional to review your financial plan and investment portfolio. Ongoing conversations with your Private Wealth professional are important to ensure your financial plan remains on track and your investment portfolio is properly positioned to meet your financial goals and objectives. A discussion with your Private Wealth professional will help identify areas of your financial plan that may require updating due to changes in your personal situation that either happened in 2020, or will take place in 2021. A regular review of key planning areas such as retirement, estate and insurance will ensure your financial plan continues to address your personal priorities.

It’s also important to review your investment portfolio regularly to determine whether your risk tolerance has changed, reconfirm your investment objectives and discuss rebalancing your asset mix, if needed.

Make your RRSP and TFSA contributions

Making regular **Registered Retirement Savings Plan (“RRSP”)** contributions is one of the best ways to ensure you save enough

for your retirement. The deadline for making your 2020 RRSP contribution is March 1, 2021. If you’ve already made your 2020 RRSP contribution, consider making your 2021 RRSP contribution early, instead of waiting until 2022, in order to maximize the tax deferred compounding inside your RRSP. The maximum RRSP contribution available for 2020 is \$27,230, and \$27,830 for 2021.

The benefits and flexibility provided by a **Tax-Free Savings Account (“TFSA”)** make it ideal for saving for multiple financial goals. The TFSA contribution limit for 2021 is \$6,000. Unused contribution room from previous years carries forward and can be used in any future year.

You may want to consider gifting funds to your spouse or common-law partner, and/or adult children to allow them to contribute to their own TFSA (subject to their personal TFSA contribution limit). Income earned within their TFSA will not be attributed back to you.

Reduce tax with income-splitting

Under our tax system, the more you earn, the more you pay in income taxes on incremental dollars earned. The 2021 personal Federal income tax brackets and rates are reflected in the table on the following page. With this in mind, it may make sense to spread income among family members who are taxed at lower marginal rates in order to lower your family’s overall tax burden, subject to the income attribution rules. Some of the more common income-splitting strategies include:

- An interest-bearing loan at the CRA’s prescribed interest rate to family members in a lower tax bracket;
- Pension income-splitting between spouses (or common-law partners);
- Gifts to adult children or other adult family members (other than a spouse or common-law partner); and
- Gifts to a minor child – directly or through a trust structure – to acquire investments that generate only capital gains.

2021 Personal Federal Income Tax Brackets and Rates

Taxable Income	2021 Rate
Up to \$49,020	15.0%
\$49,020 – \$98,040	20.5%
\$98,040 – \$151,978	26.0%
\$151,978 – \$216,511	29.0%
Over \$216,511	33.0%

¹ Please note that new tax rules which took effect in 2018, seek to limit income-splitting with certain adult family members involving private companies. For more information, please ask your BMO Private Wealth professional for a copy of our publication, *Tax Changes Affecting Private Corporations: Tax on Split Income*.

Make your portfolio tax-efficient

When evaluating an investment for your portfolio you should consider the impact of income taxes, since not all investment income is taxed in the same manner. Despite the wide range of

investments available there are only three basic types of investment income:

- i. Interest income is fully taxable at your marginal tax rate;
- ii. Capital gains receive preferential tax treatment as only 50 per cent of the capital gain is taxed; and
- iii. Canadian dividends also receive special tax treatment through federal and provincial dividend gross-up and tax credit mechanisms.

Because each type of investment income is taxed differently, it's important to look at the after-tax rate of return and not only the stated interest rate, yield or projected growth rate. The table below illustrates the approximate rate of return, by province, for eligible dividends and capital gains that will result in the same after-tax return as an investment that pays interest income at five per cent. For example, a B.C. resident in the top marginal tax bracket who earns a return of five per cent in interest income will keep 2.51 per cent after-tax. The same investor will only need to earn a return of 3.66 per cent in eligible dividends, and 3.34 per cent from capital gains in order to net the same 2.51 per cent after-tax return, as the five per cent interest-paying investment.

Equivalent Gross Yields by Province

(assumes top marginal tax rate for 2021)*

Province/Territory	Interest at 5% After-Tax Return	Equivalent Eligible Dividend	Equivalent Capital Gain
Alberta	2.60%	3.96%	3.42%
British Columbia	2.33%	3.67%	3.17%
Manitoba	2.48%	3.99%	3.32%
New Brunswick	2.34%	3.52%	3.19%
Newfoundland and Labrador	2.44%	4.25%	3.28%
Northwest Territories	2.65%	3.69%	3.46%
Nova Scotia	2.30%	3.94%	3.15%
Nunavut	2.78%	4.15%	3.57%
Ontario	2.32%	3.83%	3.17%
Prince Edward Island	2.43%	3.70%	3.27%
Quebec	2.33%	3.89%	3.18%
Saskatchewan	2.63%	3.74%	3.45%
Yukon	2.60%	3.65%	3.42%

* Current as of December 31, 2020

Build an emergency fund

If you're not prepared, an unexpected expense can have a significant impact on your finances. By setting money aside in an emergency fund, you'll have funds available to meet life's unanticipated expenses – and reduce the need to rely on credit cards, loans

or personal savings; all of which could jeopardize your financial future. While insurance can be helpful for certain emergencies, it's important to have a dedicated source of funding to weather a financial storm.

Consider keeping at least three to six months' worth of living expenses in your emergency fund. It may seem like a daunting goal, especially if you have accumulated debt, such as a mortgage; however, by budgeting a certain amount monthly to emergency fund savings you can work towards your goal over time.

Make your charitable giving tax efficient

The benefits of making a charitable donation are countless, from helping those in need to the personal satisfaction you feel when giving back to a cause you feel passionate about. However, with proper planning you can also reduce your income tax liability and maximize the value of your donation.

A donation of qualifying publicly-traded securities may be preferred over a cash donation of equal value, particularly in cases where you have already decided to dispose of the securities. A charitable tax receipt equal to the fair market value of securities donated to a charity will reduce your taxes through a donation tax credit. In addition, a donation of securities is considered a disposition for tax purposes. However, because of the tax incentives provided on

a donation of qualifying appreciated publicly-traded securities to charity, the capital gain inclusion rate is nil instead of the normal 50 per cent that would otherwise apply.

Further, consider combining all charitable donations for you and your spouse and claim these on one income tax return for maximum tax savings.

If you'd like to be more strategic with your charitable giving, consider establishing a donor advised fund through the BMO Charitable Giving Program. You can make a charitable contribution to your donor advised fund and obtain the tax savings benefits today, while having the flexibility to make disbursements to your designated charitable beneficiaries over time; ensuring a legacy of giving long into the future.

Your BMO Private Wealth professional is dedicated to helping you plan for your financial success in 2021 and can answer any questions you have about the financial and tax planning resolutions discussed in this article.

2021 Top Personal Marginal Income Tax Rates

The table below outlines the 2021 top combined Federal and provincial/territorial marginal personal tax rates. The rates apply to taxable incomes over \$216,511 in all jurisdictions, with the

exception of the following thresholds: \$220,000 in Ontario; \$222,420 in British Columbia; \$314,928 in Alberta; and \$500,000 in Yukon.

2021 Top Federal and Provincial/Territorial Marginal Personal Tax Rates

Province/Territory	Interest & Ordinary Income	Capital Gains	Canadian Dividends	
			(Eligible)	(Non-eligible)
Alberta	48.00%	24.00%	34.31%	42.31%
British Columbia	53.50%	26.75%	36.54%	48.89%
Manitoba	50.40%	25.20%	37.78%	46.67%
New Brunswick	53.30%	26.65%	33.51%	47.75%
Newfoundland and Labrador	51.30%	25.65%	42.61%	44.59%
Northwest Territories	47.05%	23.53%	28.33%	36.82%
Nova Scotia	54.00%	27.00%	41.58%	48.28%
Nunavut	44.50%	22.25%	33.08%	37.79%
Ontario	53.53%	26.76%	39.34%	47.74%
Prince Edward Island	51.37%	25.69%	34.22%	46.21%
Quebec	53.31%	26.65%	40.11%	48.02%
Saskatchewan	47.50%	23.75%	29.64%	40.37%
Yukon	48.00%	24.00%	28.93%	44.04%