Strength in Numbers™

Kemp Harvey Group

Chartered professional accountants

2025-2 Newsletter

inside

STRENGTH IN NUMBERS

REVIEW OF ELECTION PROMISES

When the Liberal party was campaigning this spring, many promises were included in their election platform.

The first of these promises to become reality was the reduction of the tax rate in the lowest tax bracket. The federal tax rate on income in this bracket was reduced from 15% to 14%.

Because this decrease was not introduced until halfway through the year, the effective federal tax rate for 2025 will be 14.5%.

When combined with the provincial tax rate, the tax rate on income in the lowest tax bracket will be 19.56% in 2025, and 19.06% in 2026.

The lowest federal tax bracket includes income up to $57,375 in 2025. The lowest federal bracket for 2026 will be announced this fall.

The federal government will also be releasing its first economic update under its new leadership this fall. At that time, they may be presenting some of their other campaign promises. These included the following:

1) Introducing a new refundable "Health Care Workers Hero Tax Credit", valued at up to $1,100 a year for Personal Support Workers.

2) Reducing the minimum amount that must be withdrawn from a Registered Retirement Income Fund (RRIF) by 25% for a period of one year.

3) Increasing GIS payments to low income seniors by 5%.

4) Expanding eligibility requirements so that additional taxpayers may qualify for the Disability Tax credit. The government also promised to make the application process more efficient for taxpayers.

5) Expanding the tax deduction for workers travelling more than 120 kilometers from their home to a job site, by significantly increasing the per-year tax deduction limit.

6) Eliminating GST on home heating bills.

7) Delivering automatic tax filing starting with low-income households and seniors.

CRA DELAYS AND ERRORS HIGHLIGHT TAX SEASON

CRA processing delays and errors were common through much of tax season this year.

Many of the delays can be attributed to the federal government's failed attempts to increase the capital gains inclusion rate, which caused delays in the CRA's ability to design the required tax slips. Organizations received extensions from the CRA to file tax slips that were affected by this process.

At the same time, the CRA was also introducing changes to how organizations filed tax slips. Businesses were given filing extensions in order for them to meet these new requirements, as many of them had difficulty implementing these changes.

Many individuals ended up filed incomplete tax returns while they waited for delayed tax slips. As a result, a significant number of amended tax returns have been filed this summer to report these additional slips.

The CRA is currently stating that it may take up to 50 weeks for them to process these adjustments because of the backlog that has been created.

There were also many taxpayers affected by errors in the CRA's assessment of tax returns in which the taxpayer had claimed the Lifetime Capital Gains Exemption (LCGE) as part of their tax filing.

On multiple occasions, the CRA discovered that there were errors in how they were processing tax returns which had claimed this exemption. These errors resulted in affected taxpayers being assessed additional tax when their tax returns were processed.

The CRA has stated that they are actively correcting these assessments and have indicated that it is not necessary for taxpayers to notify them of their error. However, it is unclear how long it will take for them to correct these returns.

CRA NOT YET ENFORCING ELECTRONIC PAYMENTS

As first discussed in our Fall 2023 newsletter, legislation was passed making it mandatory for all payments to the CRA over $10,000 to be paid electronically, effective January 1, 2024.

Any payments greater than $10,000 that were not paid electronically would be assessed a $100 penalty.

The CRA recently provided a statement clarifying how they will be proceeding with the assessment of penalties on payments that are not made electronically.

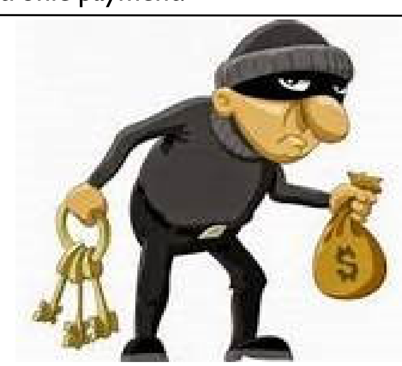
They have indicated that at this time they will not be enforcing these rules. They will provide sufficient advance notice if and when they will be changing their approach.

In the meantime, they will continue to educate taxpayers about making payments electronically.

A payment will be considered to be an electronic payment if it is made directly at a bank or credit union, or through their online banking services. A payment made through CRA's "My Payment" will also qualify as an electronic payment.

DID YOU KNOW...

The CRA recently confirmed that no tax deductions are available to taxpayers who suffer a loss through a personal scam, such as a "grandparent" or "phishing" scam. Any money lost through these scams is considered to be a loss of a personal asset, and there is nothing in the tax act allowing taxpayers to claim a loss on personal assets. Depending on the circumstances, losses from investment schemes may also be non-deductible, if there is no business related to the investment.



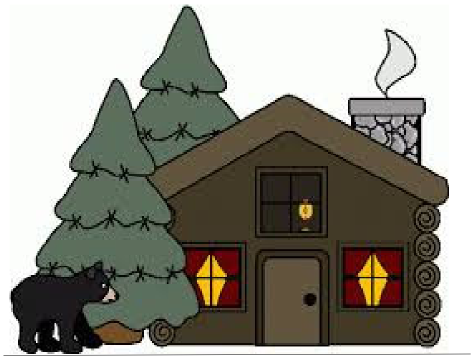
GST ASSESSED ON SALE OF SHORT TERM RENTAL PROPERTY

The Federal Court of Appeal recently confirmed a lower court ruling that GST/HST should be charged on the disposition of properties that are leased as short term rental properties on online rental platforms.

The case in question involved a taxpayer who had purchased a used condominium. The condominium was rented on long term leases of at least 60 days for the first 9 years of ownership.

However, from February 2017 to April 2018, it was listed and rented through an online short term rental portal. All of these leases were for less than 60 days.

The property was sold in April 2018, while it was still being used as a short term rental property. The CRA assessed the taxpayer $77,080 for unpaid HST on the sale. The courts have found that the CRA was correct in reassessing the HST on this disposition.



The courts determined that at the time of sale, the property was not considered to be a “residential complex”, which would have made the sale exempt from GST/HST.

The definition of a residential complex excludes "a building, or that part of a building, that is a hotel, a motel, an inn, a boarding house, a lodging house or other similar premises… and all or substantially all of the leases… under which residential units in the building or part are supplied, provide, or are expected to provide, for periods of continuous possession or use of less than 60 days."

There was no consideration given to the fact that the property previously met the definition of “residential complex” at a previous date.

The only consideration was whether it met the definition at the time of sale.

The taxation of short term rental properties is evolving rapidly, so it is important to be aware that there may be serious income tax and GST consequences on the sale of these types of properties.

ADMINISTRATIVE COMPLICATIONS FROM INTEREST DEFERRAL

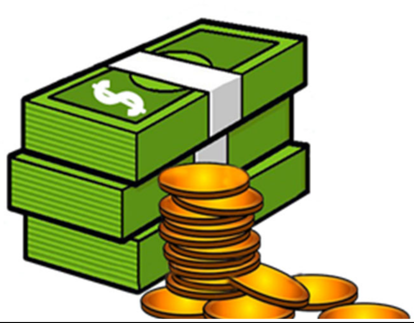
In the early spring, the federal government announced a deferral of interest charges on outstanding GST and corporate tax liabilities.

This deferral applied to both installment and arrears interest. No interest would be charged on these unpaid amounts for the period from April 2 to June 30, 2025.

Problems arose from this deferral because the CRA’s systems could not easily be adjusted to take into account this change, and interest was being charged inaccurately to many taxpayers.

Although this interest will eventually be reversed, further issues have arisen because the CRA’s automatic systems has been transferring refunds from other accounts to pay for these phantom interest charges.

Unsuspecting taxpayers who were not aware of this deferral may have also been making payments on these non-existent interest charges, which has further exacerbated the problem.



DID YOU KNOW…

The Canada Disability Benefit was introduced this summer for eligible taxpayers who qualify for the disability tax credit and are between the ages of 18 and 64. Applicants can receive up to $200 per month from the benefit. Claimants must have filed their 2024 tax returns in order to qualify. The amount of the benefit will be reduced depending on how much adjusted family net income is above the threshold of $23,000 for a single person and $32,500 for a couple.

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INFORMATION RETURNS FOR DIGITAL PLATFORMS

Filing requirements were recently introduced for online digital platforms.

These platforms must now provide the CRA with information regarding the amount that a seller receives from the platform, as well as the fees that are charged by the platform operator. If the platform involves the rental of real estate, the platform operator must also inform the CRA of the address of the property, the number of days the property was rented, the type of property listing, and the land registration number.

If a seller has less than 30 relevant activies **and** received consideration of less than $2,800 in a calendar year, the platform operator is not required to submit this information to the CRA.

It is expected that the CRA will soon undertake audit activities to ensure that the information that they receive from these online platforms matches the information filed by a seller.

SPECULATION AND VACANCY TAX RATE INCREASING

As part of the BC Budget this spring, it was announced that the provincial government plans on increasing speculation and vacancy tax rates.

Effective January 1, 2026, the tax rate for Canadian citizens and permanent residents who are not untaxed worldwide earners will double, from .5% of the value of the property to 1% of the value. For untaxed worldwide earners and foreign residents, the rate will increase from 2% to 3%.

Most of the revenue generated from this tax comes from the second pool of homeowners. The provincial government has stated that in 2023, 83% of the revenue from this tax was received from these taxpayers.

MORE INDIVIDUALS MOVING TO ONLINE CRA MAIL

If a taxpayer is an individual registered for a CRA account who currently receives paper mail, they may find that the CRA is automatically moving them to online mail.

Effective July 3, 2025, the CRA has announced that they will be changing the method of delivery of mail for approximately 500,000 taxpayers, moving from paper delivery to online delivery.

If a taxpayer is one of those affected by this change, they will receive an email notification and, in some cases, a letter from the CRA with more information on what is changing.

If a taxpayer has been receiving benefit cheques by mail from the CRA, there will be no change to how they receive these funds. It is only the delivery of other correspondence that will be changing.