

KEY TAX CHANGES FOR 2019
PERSONAL

Canada Pension Plan

Beginning in 2019, CPP contributions are increasing both due to inflation (2.3%) and in percentage terms. The government is attempting to eventually increase the pension entitlement from 25% of an employee's average pensionable earnings to 33%. The percentages for required contributions are scheduled to continue increasing annually through 2023.

- Maximum pensionable earnings for CPP – \$57,400 (\$55,900 – 2018)
- Employee & Employer contribution rate - 5.1% (4.95% - 2018)
- Maximum contribution - \$2,748.90 (\$2,593.80 – 2018) or \$5,497.80 for self-employed (\$5,187.60 – 2018)
- Maximum retirement benefit per month - \$1,154.58 (\$1,134.17 - 2018), or \$13,854.96/year (\$13,610.04 - 2018)

Employment Insurance

- Maximum insurable earnings - \$53,100 (\$51,700 – 2018)
- Employee contribution rate per \$100 of insurable earnings - \$1.62 (\$1.66 – 2018)
- Employer contribution rate per \$100 of insurable earnings (1.4x employee rate) - \$2.268 (\$2.324 – 2018)
- Maximum employee contribution - \$860.22 (\$858.22 - 2018)
- Maximum employer contribution - \$1,204.31 (\$1,686.03 - 2018)

Old Age Security

- Clawback begins at \$77,580 (\$75,910 – 2018)
- Clawback ends at \$123,386 (\$121,314 – 2018)

Registered Accounts

- RRSP limit - \$26,500 (\$26,230 – 2018)
- Earned income required to maximize RRSP contributions - \$147,222.22 (\$145,722.22 – 2018)
- TFSA limit - \$6,000 (\$5,500 – 2018)
- Immediate family members of those who qualify for RDSP's can be planholders even if they aren't yet designated as the person's legal representative. This is a temporary measure that expires at the end of 2023. Anyone named a planholder by the end of 2023 can remain a planholder after the expiry date.

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Dividends

Tax rates on non-eligible dividends have increased for 2019. The gross-up fell by 1%, but the dividend tax credit also shrunk, causing an overall increase in the tax rate on non-eligible dividends.

- Gross-up on non-eligible dividends – 15% (16% - 2018)
- Federal dividend tax credit on actual non-eligible dividends – 10.3846% (11.6363% - 2018)
- Ontario dividend tax credit on actual non-eligible dividends – 3.779% (3.812% - 2018)
- Maximum eligible dividends before personal tax, excluding Ontario Health Tax - \$56,050
- Maximum non-eligible dividends before personal tax, excluding Ontario Health Tax - \$26,370

Ontario Marginal Tax Rates

2019		<u>Ordinary</u>	<u>Capital</u>	<u>Eligible</u>	<u>Non-Eligible</u>
<u>From</u>	<u>To</u>	<u>Income</u>	<u>Gains</u>	<u>Dividends</u>	<u>Dividends</u>
\$ -	\$ 43,906	20.05%	10.03%	-6.86%	8.89%
\$ 43,907	\$ 47,630	24.15%	12.08%	-1.20%	13.61%
\$ 47,631	\$ 77,313	29.65%	14.83%	6.39%	19.93%
\$ 77,314	\$ 87,813	31.48%	15.74%	8.92%	22.04%
\$ 87,814	\$ 91,101	33.89%	16.95%	12.24%	24.81%
\$ 91,102	\$ 95,259	37.91%	18.96%	17.79%	29.43%
\$ 95,260	\$147,667	43.41%	21.71%	25.38%	35.76%
\$147,668	\$150,000	46.41%	23.21%	29.52%	39.21%
\$150,001	\$210,371	47.97%	23.99%	31.67%	41.00%
\$210,372	\$220,000	51.97%	25.99%	37.19%	45.60%
\$220,001	and up	53.53%	26.77%	39.34%	47.40%

2018		<u>Ordinary</u>	<u>Capital</u>	<u>Eligible</u>	<u>Non-Eligible</u>
<u>From</u>	<u>To</u>	<u>Income</u>	<u>Gains</u>	<u>Dividends</u>	<u>Dividends</u>
\$ -	\$ 42,960	20.05%	10.03%	-6.86%	7.81%
\$ 42,961	\$ 46,605	24.15%	12.08%	-1.20%	12.57%
\$ 46,606	\$ 75,657	29.65%	14.83%	6.39%	18.95%
\$ 75,658	\$ 85,923	31.48%	15.74%	8.92%	21.07%
\$ 85,924	\$ 89,131	33.89%	16.95%	12.24%	23.87%
\$ 89,132	\$ 93,208	37.91%	18.96%	17.79%	28.53%
\$ 93,209	\$144,489	43.41%	21.71%	25.38%	34.91%
\$144,490	\$150,000	46.41%	23.21%	29.52%	38.39%
\$150,001	\$205,842	47.97%	23.99%	31.67%	40.20%
\$205,843	\$220,000	51.97%	25.99%	37.19%	44.84%
\$220,001	and up	53.53%	26.77%	39.34%	46.65%

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Federal Tax Credits & Brackets

- Credits and brackets have been indexed by 2.2% for 2019.

Capital Gains Exemption

- Lifetime exemption - \$866,912 (\$848,252 – 2018)

Prescribed Interest Rate

- Currently 2% for Q1 2019 - amounts owing from CRA
- Currently 6% for Q1 2019 – amounts owing to CRA

Working Income Tax Benefit

- Being renamed “Canada Workers Benefit”
- Maximum benefit for individuals - \$1,355 (\$1,192 – 2018)
- Maximum benefit for couples/single parents - \$2,335 (\$2,165 – 2018)

Donations

New for 2019, donations to universities outside Canada qualify as charitable donations. Previously the universities outside Canada needed to be listed in the *Income Tax Regulations*.

Medical Expenses

- Expenses relating to psychiatric service dogs now qualify as eligible medical expenses.

Tax On Split Income (“TOSI”)

2018 saw the introduction of the new dreaded Tax On Split Income, or TOSI rules. These rules cause income earned and capital gains triggered from many private companies, partnerships that derive income from a business, and trusts that earn income from either of these sources to be taxed at the highest marginal rate in effect unless there is an exception to the TOSI rules. The following is a high-level summary of how the TOSI rules flow:

1. **Specified Individuals** are subject to TOSI.
 - a. Adult resident in Canada
 - b. Individual under 18 with a parent resident in Canada
2. **Split Income** is subject to TOSI.
 - a. Private company taxable dividends, shareholder benefits
 - b. Partnership income from a **related business**, or rental business where a **related person** is involved.
 - i. **Related business: related person** is involved directly or indirectly, or owns 10% or more
3. **Related person:** spouse, common-law partner, lineal relatives including in-laws, siblings, siblings-in-law
 - a. Trust income from a. or b.
 - b. Interest income from a private corporation, partnership or trust.
 - c. Income or capital gains from dispositions of private company shares or other capital property with historical TOSI.

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4. For those 18+, if income or gain is not derived from a **Related Business**, it is not subject to TOSI.
5. For those under 18 who sell shares:
 - a. Sale to a non-arm's length party causes capital gain to be deemed a non-eligible dividend subject to the top marginal tax rate in effect.
 - b. Sale to an arm's length party subject to TOSI, meaning capital gain is taxed at the top marginal rate.
6. If **split income** is from an **Excluded Business**, TOSI does not apply.
 - a. **Excluded Business** is one where you are actively engaged on a regular, continuous and substantial basis in the business in the current or any five preceding years, either on a factual basis or by meeting a threshold of an average of 20 hours per week.
7. If **split income** is earned or gains relate to **Excluded Shares**, TOSI does not apply.
Excluded Shares:
 - a. Less than 90% of the corporation's business income for the last year was from providing services
 - b. The corporation is not a Professional Corporation
 - c. You own shares in aggregate that give you at least 10% of votes and value AND less than 10% of the income of the corporation in the prior year was derived from a **related business**
8. Those 18-24 may earn a **Safe Harbour Capital Return**, which is equal to the prescribed rate multiplied by the fair market value of the property contributed.
9. Those 25+ may earn a **Reasonable Return**, which is based on the relative contributions from you and each **related person** considering:
 - a. The work performed
 - b. The property contributed directly or indirectly
 - c. The risks assumed
 - d. The total amounts already paid to or for the benefit of the individual
 - e. Any other factors that may be relevant
10. Those 18-24 may earn a Reasonable Return in Respect of Arm's Length Capital, which is based on the relative contributions from you and each related person, but considering only your contribution of arm's length capital.