Business Matters

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TAXATION

Personal tax changes for 2020 related to COVID-19

The past year brought changes and challenges for Canadians. Many suffered job losses due to the pandemic, and they may have received federal government support payments; others found themselves working from home for all or part of the year; others may have changed how they commuted to work so that they could minimize their exposure to the virus. Any of these scenarios has implications for your 2020 personal tax return.

Home office expenses deductions for employees

Before 2020, employees could deduct home office expenses if their home office was the "place where the individual principally performs the duties of employment," which was interpreted to mean more than 50% of the time, or if the space was used exclusively to earn employment income and was "used on a regular and continuous basis" for meeting customers or clients. Their employer would have to complete Form T2200, *Declaration of Conditions of Employment*. This document certifies both of the following:

- the approximate percentage of the employee's duties performed at a home office
- whether they were reimbursed for any home office expenses

The COVID-19 pandemic required many more employees to be working from home on at least a temporary basis. In response, the government introduced several changes for 2020 to simplify the process for claiming home office expenses for both employees and employers.

If you worked from home at least 50% of the time over a period of at least four consecutive weeks in 2020 due to COVID-19, you are now eligible to claim home office expenses for 2020. Previously, the determination of whether the employee worked principally out of the home office was generally calculated over the full year. This shorter qualifying period will ensure that more employees can claim the deduction.

Two calculation methods available

A temporary flat rate method is available only in 2020 and is calculated at $2 per day worked at home (part-time or full-time), to a maximum of $400 for the year. If you use this simplified method, the employer does not need to certify the conditions of your employment on the T2200 form. This deduction can be claimed for multiple individuals in the same household if the other criteria are met. If you use the simplified method, you cannot claim any other employment expenses such as car expenses.

Alternatively, you can use the detailed method if your employer certifies the conditions of employment using Form T2200 (the original version) or T2200S (a streamlined version for those working at home due to COVID-19). You could then deduct a reasonable portion of eligible expenses that are not reimbursed by your employer. Eligible expenses for all employees include electricity, heat, water, the utilities portion of condominium fees, home internet access fees, maintenance and minor repair costs, and rent paid for the house or apartment where you live. Commissioned employees can also claim home insurance, property taxes and the lease of a cellphone, computer, tablet etc. that could reasonably relate to earning commission income.

To calculate the reasonable portion that you can deduct, you must determine the size of your workspace and divide that by the total square footage of all finished areas in your home. If the workspace has other purposes besides work, you must also prorate the expenses by the number of hours the space was used for business in a week divided by the total number of hours in the week.

For example, if you work in your 144-square-foot dining room for 50 hours per week, and the total finished space in your home is 1,500 square feet, the employment use percentage would be $144/1500 \ x \ 50/168 = 2.9\%$. You can thus deduct 2.9% of the eligible expenses listed above for the period during which you were working from home.

The Canada Revenue Agency (CRA) has created a **calculator** to help employees determine their home office expenses deduction. If you are using the detailed method, the T2200 or T2200S form does not have to be filed with your tax return, but you must keep it for your records.

Other changes for employees

The CRA has also announced additional flexibility in applying rules for determining taxable benefits for employees. An employee will not be considered to have received a taxable benefit if their employer reimburses them for up to $500, supported by receipts, for computer or office equipment to enable the employee to work from home.

The CRA's longstanding position has been that travel from your home to, and parking at, an employer's place of business is normally considered to be a personal expense, and therefore any reimbursement by the employer would be a taxable benefit to you. However, the CRA announced that where an employee incurred commuting expenses over and above their usual commuting costs as a result of the pandemic, they will **not** consider it a taxable benefit if the employer reimburses or makes reasonable allowance for these expenses. This would also apply where an employee is working from home and commuted to their employer's place of business to pick up computer or office equipment.

COVID-19 support payments to individuals

Many of the federal government's support payments for individuals during the COVID-19 must be reported as taxable income on your 2020 personal tax return. These include the:

- Canada Emergency Response Benefit (CERB)
- Canada Emergency Student Benefit
- Canada Recovery Benefit
- Canada Recovery Caregiving Benefit
- Canada Recovery Sickness Benefit

There was some confusion about whether some self-employed individuals actually qualified for the CERB, and especially whether the $5,000 required minimum income in the 12 months before the date of application was based on gross income or net income. Any of the above payments received in 2020 must be included in taxable income in that year. If someone is later found not to be eligible to receive the CERB, they can take a deduction in the year in which they repay the funds.

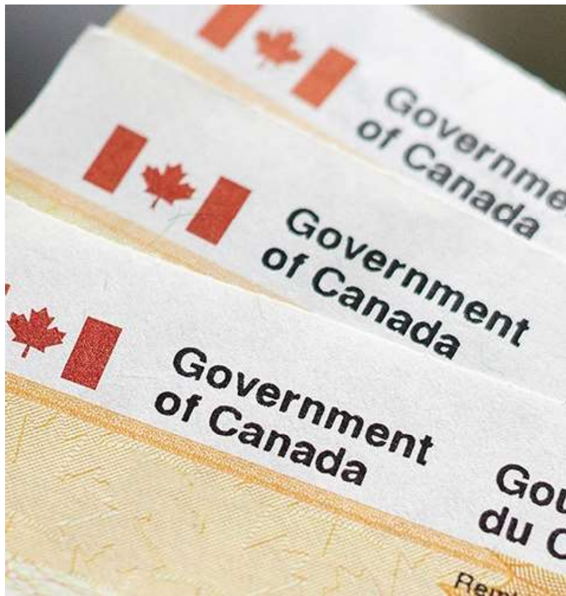
The federal government announced on February 9, 2021 that self-employed individuals who applied for the CERB and would have qualified based on their gross self-employment income (instead of net self-employment

income) in the prior year will not be required to repay the benefit, provided they also met all other eligibility requirements. The CRA and Service Canada will return any amounts to self-employed individuals who may have already voluntarily repaid the CERB to the government.

To see how these changes affect you, it may be useful to meet with your Chartered Professional Accountant (CPA).

TAXATION

Other personal tax changes for 2020/21



In addition to the changes related to COVID-19, other significant changes will take effect that have implications to your 2020 personal tax return.

Tax filing deadline

While the deadline to file your 2019 personal tax return and pay any outstanding balance was extended in 2020, the tax filing deadline for your 2020 tax return remains April 30, 2021. Self-employed individuals and their spouses or common-law partners must file their tax returns by June 15, 2021, but any amount due must still be paid by April 30 to avoid interest charges.

On February 9, 2021, the federal government announced - that individuals with total taxable income of $75,000 or less in 2020 who received COVID-19-related income support or employment insurance benefits in that year, will not be required to pay interest on any outstanding income tax debt for the 2020 tax year until April 30, 2022. The deadline for filing their tax returns remains unchanged.

Enhanced basic personal amount

The basic personal amount (federal amount), which was $12,069 for all taxpayers in 2019, will increase in 2020, and the amount will now depend on your net income:

- If your net income was greater than or equal to $214,368, the level at which the top 33% marginal tax bracket starts, you will be able to claim a basic personal amount of $12,298.
- If your net income was lower than or equal to $150,473, the level at which the 29% tax bracket starts, you will be able to claim an enhanced basic personal amount of $13,229.
- If your net income was between these two amounts, you will have a pro-rated basic personal amount.

This new enhanced system will also apply to the maximum spousal or common-law partner amounts and the maximum amount for an eligible dependant. The graduated tax brackets and other non-refundable credit amounts (e.g., the age amount and the disability amount) increased by an inflation factor of 1.9% for 2020.

New digital news subscription tax credit

There is a new, non-refundable digital news subscription tax credit that will be available from 2020 to 2024. This tax credit is calculated at 15% of the eligible amounts paid, to a maximum of $500, to access primarily original written news in a digital format from a qualified Canadian journalism organization (QCJO).

If your subscription provides access to content in a non-digital format, or to content not from a QCJO, only the cost of a stand-alone digital subscription to the content of the QCJO is eligible for the credit; if there is no stand-alone digital subscription, one half of the amount paid is considered an eligible expense.

New Canada Training Credit (CTC)

The CTC is a new refundable tax credit introduced in 2020. If you are between 26 and 65 years old, you will accumulate $250 towards their Canada Training Credit Limit (CTCL) account in 2020 if both of the following apply to you:

- You had at least $10,000 of "working income" in 2019.
- Your total 2019 net income was less than or equal to $147,667 (the level at which the 29% tax bracket started that year).

Working income generally includes employment and self-employment income, research grants, scholarships, bursaries, prizes, and maternity and parental EI benefits.

Who qualifies, and how to calculate your CTC balance

If you meet both the minimum working income limit and the maximum total income limit in subsequent years, the CTCL account will continue to accumulate over time to a maximum of $5,000; both limits will be indexed to inflation.

You can claim up to 50% of the costs of taking a course or enrolling in a training program against the balance in your account in the year you paid the tuition. The remaining 50% of the program costs may be eligible for the tuition tax credit, as the CTC uses the same eligibility criteria as are used for the tuition tax credit. You would see the balance in your CTC account for 2020 on your notice of assessment for 2019. Any unused CTCL will expire when you turn 65.

For example, Sohil was a 28-year-old Canadian resident in 2020. From 2019 to 2023, he met both the minimum working income limit and the maximum net income limit, so the balance in his notional CTCL account as reported on his 2023 notice of assessment was $1,250 (five years x $250 per year). In 2024, he enrols in a continuing education program at a local community college to upgrade his skills. The tuition he pays for the program is $2,000.

On his 2024 tax return, Sohil can claim a refundable CTC of $1,000 (50% of the $2,000 tuition), and he can claim a non-refundable tuition tax credit of 15% on the remaining $1,000 of tuition fees not eligible for the CTC. Sohil's CTCL for 2025, assuming he meets both the working income and net income criteria for 2024, would be $500 ($1,250 opening balance – $1,000 CTC claimed in 2025 + $250 added based on his income in 2024).

Tax-exempt qualified donees

Certain not-for-profit journalism organizations were allowed to register with the CRA under a new category of tax-exempt qualified donee. Canadians may claim the charitable donation tax credit for donations to these organizations.

Other changes for 2021

Tax brackets and non-refundable tax credits

The federal tax brackets and most non-refundable credit amounts will increase by 1.0% for 2021. The enhanced amounts for the basic personal amount and the maximum amounts for spouses and eligible dependants will be $13,808, in order to achieve the government's target of $15,000 for 2023.

Employment Insurance and Canada Pension Plan

Employment Insurance premiums remain unchanged for 2021, but the maximum insurable earnings have increased from $54,600 in 2020 to $56,300.

The maximum pensionable earnings for the Canada Pension Plan have increased from $58,700 in 2020 to $61,600; the employee and employer contribution rates have also increased from 5.25% to 5.45% in 2021.

The contribution limit for Tax Free Savings Accounts remains unchanged at $6,000 for 2021.

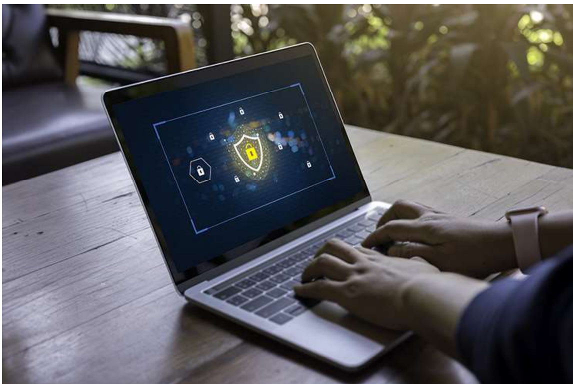
Treatment of certain stock options

The 2019 federal budget proposed changes to the preferential tax treatment of stock options for employees of large, long-established, mature companies. As a result of a continuing consultation process, the federal government announced in December 2019 that the implementation of these changes would be delayed. The Fall Economic Statement released on November 30, 2020 further clarified the changes and noted that they will apply to stock options granted after June 2021.

To see how these changes affect you, it may be useful to meet with your Chartered Professional Accountant (CPA).

TECHNOLOGY

The latest in antivirus technology: What you need to know



The need for antivirus protection came to us just shortly after computers started talking to each other. For years most people needed to install and maintain an up-to-date antivirus program to remain unaffected by malicious activity. Cybersecurity threats have advanced significantly since then. Fortunately for us, a new generation of defences has evolved along with them.

What's wrong with traditional antivirus solutions?

Most of us know what antivirus solutions do for us. We may not all know the technical details, but we get it. Special software is needed to protect your computer (often referred to as an "endpoint") from malicious intent that may lie in wait. Antivirus software is installed on a computer and, as long as it is updated regularly, it monitors files for bad code and quarantines them if issues are detected.

This essential premise has not changed – you still need to protect yourself against malicious code being propagated by nefarious individuals; what has changed is the method of attack, what is attacked and the resulting outcome.

Traditional antivirus has become a victim of its own success. Attackers now know where the defence is installed and how it scans and searches for the viruses, and they have exploited the fact that traditional software relied on "updates," or signature files that told the antivirus software what to look for. In most cases this meant looking for a particular bad file that had been unwittingly installed.

The traditional defence also came into play primarily during the scan, when the antivirus software would run scheduled investigations looking for trouble. What this meant was that, in the time between scans, there was vulnerability.

Since then, traditional antivirus software has become susceptible to newer attack scenarios like:

- memory-based intrusions
- PowerShell scripting language weaknesses

- macro-based attacks
- remote log-in masking and cracking

What are "next gen" antivirus solutions?

The single largest advantage of next-generation antivirus (NGAV) solutions is that they not only prevent many different types of attacks, but they also are no longer tied to the target computer and can actually learn from attacks as they happen.

While traditional defensive software depended on the placement of a file (or the manipulation of code in an existing file), NGAV no longer has this limitation, as it is focused on events. Events involving things like processes, applications, network connections or even files are monitored and malicious intent determined based on how these events change as the result of attacks.

NGAV is a significant step forward in several aspects:
- First, NGAV applications tend to be cloud-based. This means a lower dependency on local installations, and new information can continually, and more quickly, be shared with all subscribers – no need to wait for scheduled updates.
- Second, NGAV has taken advantage of advancements in the area of machine learning. Essentially, the NGAV programs are capable of learning what the normal operation of your programs looks like and able to identify deviations caused by malicious code.

The newer capabilities also include some extremely complex advancements in the areas of threat intelligence and behavioural analysis. These carry extreme value in that the systems are able to monitor and identify not just malicious programs, but also the impacts those programs have. Essentially, any changes impressed on the target system are identified right away by the impact they have. Rather than the system needing to wait for a file definition update to tell it there is new malicious code to watch for, the NGAV discerns the change in normal operation and takes action. With this significantly improved threat intelligence, the defence can be executed lightning fast.

Next gen versus traditional

The biggest difference between the traditional and NGAV programs is one of timing. Traditionally, your defences were reactive to intrusion: Attackers developed a new way to attack, and once those attacks were encountered, studied and built, updates were made available to prevent those exact problems in future. With the machine learning and artificial intelligence of new systems, a proactive approach is now available.

The advantages of NGAV are furthered by the fact that business networks, and even those at home, are increasingly more interconnected with various types of devices. It is commonplace now for even small to medium-sized (SMB) organizations to have multiple layers of connected devices. Servers, computers, mobile devices and network gear all create entry points for malicious software and need to be protected. Before NGAV, each one of these would need their own versions of antivirus software, and each would come with its related maintenance and updates.

Closing thoughts

Cybersecurity importance has continued to rise over the last few years. Ransomware, malware and denial of service attacks are on the rise, and smaller organizations are just as vulnerable as larger targets. Even most business insurance companies are now offering cybersecurity coverage due to the prevalence of these activities. Without proper coverage, your data – including customer and transactional details – can be copied, shared or held for ransom. But with these next-generation antivirus solutions, you can help protect your electronic assets.

Today's investment options and expectations: Which is best for you?

Given that today's bank savings rates are close to nil due to historically low interest rates, Canadians will likely need to explore other options outside of guaranteed investments to achieve their retirement goals. In so doing, they will need to be comfortable with *risk*.

In the context of investing, risk can be defined as "the loss of money due to negative fluctuations in investment value."

Risk: Why take it? And what level of risk is right for your savings?

Investors risk their hard-earned savings in riskier investments with the expectation of earning a higher rate of return than less risky investments. Typically, investors require higher rates of return to reach their financial goals, or else those goals may be negatively impacted.

There are two key factors that should dictate how aggressive (or risky) you should be with your savings):

1. your ability to take risk (i.e., factual details about your finances)
2. your willingness to take risk (i.e., your attitude toward risk and potential losses)

When combined, these factors provide your "risk tolerance" (i.e., the amount of investment loss you can tolerate and not panic).

What are the risks of different investment types?*

Traditionally, there are three types of investments:

- equities (stocks)
- fixed income (bonds)
- cash (or cash equivalents)

These three groups of investments are called "asset classes," which are groups of investments that exhibit similar characteristics and move similarly in the marketplace. These three asset classes are the predominant choices for Canadian investors, whether completed directly or indirectly through a mutual fund or exchange traded fund (ETF).

Equities (stocks): ownership interest in a company that generates return through stock appreciation / depreciation and dividends.

> **Example:** Royal Bank of Canada
> **Risk:** high, highest of the three assets classes discussed in this article
> Expected returns: approximately 5% compound average growth rate over the next five years for large blue-chip Canadian companies
> **Reasons to own:** increased cash flow through dividends, protection against inflation, participation in economic growth via capital growth in stock value

Bonds (fixed income): loan made to a company or government with a stated rate of interest and maturity date.

> **Example:** Government of Canada bonds
> **Risk:** medium, second most risky of the three asset classes listed here
> **Expected returns:** approximately -0.5% compound average growth rate over the next five years for the broad Canadian bond market
> **Reasons to own:** insurance from market fluctuations, ability to know the value of the investment at a future date (maturity), steady predictable income

Cash (or cash equivalents): certainty of value with no fluctuations, which pays interest but usually at a lower rate than bonds.

> **Example:** high-interest savings account
> **Risk:** low, lowest risk of the three asset classes discussed here
> **Expected returns:** close to +0.5% compound average growth rate for the next five years
> **Reasons to own:** certainty, liquidity to pay for living expenses, ability to purchase other investments quickly

* Estimate source: BlackRock Investment Institute, Capital market assumptions (**https://www.blackrock.com/institutions/en-us/insights/charts/capital-market-assumptions**).Individual investments listed are for example purposes only.

Historical returns for asset class returns

Why would anyone want to invest in low-returning investments, as described above for bonds and cash? The answer is risk tolerance. Treating your investments like a horse race, where you are trying to pick the winner every time, typically leads to suboptimal outcomes. Instead, investors typically have a mix of investments, called "diversification," that helps them customize their investments (or "portfolio") to be more in line with their specific risk tolerance.

Should the market fall, the diversified investor is more able to stick to their investment strategy. This compared to the investor always trying to pick the winning stock ("horse") but not able to tolerate the risk involved with that strategy. This typically leads to investors making poor decisions based on their emotions.

Below is a table of the three asset classes over the last five years. The main point the table illustrates is that returns fluctuate year to year, and different asset classes perform better or worse in different years. So, picking the winner each year is difficult for even the best investors.**

2016	2017	2018	2019	2020
Equities +17.5%	Equities +6.0%	Bonds +1.4%	Equities +19.1%	Bonds +2.2%
Bonds +1.7%	Bonds +2.5%	Cash +1.4%	Bonds +6.9%	Equities +5.6%
Cash +0.5%	Cash +0.6%	Equities -11.6%	Cash +1.6%	Cash +0.9%

** Returns in Canadian dollars. Data source: Raymond James Market Pulse, December 31, 2020.

Which investment is best for you?

Like most things in life, it depends. The level of risk that you want to take on with your investment savings is unique to your personal financial situation and personality. This detail is most likely captured in your personal financial plan. It is likely that the right investment for you is a mix of the three discussed asset classes in varying proportions, to align with your risk tolerance.

A financial advisor can help you to first create a financial plan unique to your personal situation, and then marry that plan with an investment strategy that takes into consideration your goals, risk tolerance and financial situation. Every year or two, repeat this exercise and rebalance your investment portfolio to suit your risk tolerance at that time. This will make you much more likely to meet your financial goals – so that when you retire, you can focus on what matters most.

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Today's investment options and expectations: Which is best for you?	Adam McHenry, CFA