Worldwide personal tax guide 2020-2021

Going to/leaving Canada

Building a better working world

Local information	
Tax Authority	Canada Revenue Agency (CRA)
Website	www.canada.ca/en/revenue-agency
Tax Year	1 January to 31 December
Tax Return due date	30 April
Is joint filing possible	No
Are tax return extensions possible	Yes – filing deadline can be extended to 15 June only for individuals (and their spouses) earning self-employment or business income

2020 Federal Income Tax Rates

Taxable Income Band CAD	National Income Tax Rates
1-48,535	15%
48,536-97,069	20.5%
97,070-150,473	26%
150,474-214,368	29.22%
214,369+	33%

Provinces and territories also impose income taxes on individuals in addition to federal taxes.

Who is liable?

The major determinant of Canadian income tax liability is an individual's residence status. An individual resident in Canada is taxable on worldwide income. Non-residents are taxed on Canadian-source income only.

Residence status for tax purposes

The tax statutes do not contain a specific definition of "residence." Accordingly, the residence of an individual is determined by such matters as the location of the following:

- Dwelling places
- Spouse
- Dependants
- Personal property
- Economic interests
- Social ties

However, a non-resident individual who stays temporarily in Canada for 183 days or longer in a calendar year is deemed to be a resident of Canada for the entire year, unless he or she is determined to have non-resident status under a tax treaty. This provision applies only to an individual who would otherwise be considered a non-resident, and not to an individual who purposely takes up residence in Canada or to an existing resident who ceases to be a resident after moving away from Canada. These latter individuals may be treated as part-year residents.

In the year that an individual becomes a Canadian resident, that individual is considered a part-year resident, and is subject to tax in Canada on worldwide income for the portion of the year he or she is resident in Canada. A part-year resident is also subject to Canadian tax on any Canadian-source income received during the non-residence period.

Income subject to tax

Employment income – Income from employment includes salaries, wages, directors' fees and most benefits received from employment. Some examples of taxable benefits are low-interest loans, the use of company-owned automobiles, subsidised or free personal living expenses and stock option benefits. Among the few non-taxable benefits are employers' contributions to certain employer-sponsored retirement savings plans, including registered Canadian pension plans and deferred profit-sharing plans.

Self-employment income – The computation of an individual's income from a business or property is generally computed using the accrual method of accounting.

Income derived from a partnership is allocated among the partners in accordance with either the partnership agreement or, in the absence of such an agreement, the governing partnership law. Deductions and credits also flow through to the individual partners. Special rules limit the amount of business or property losses that may be claimed by a limited partner of a limited partnership.

The content of this document is current as of 1 February 2021. The content is next expected to be updated by 1 April 2023.

In general, business losses not utilised in the year incurred may be deducted from taxable income earned in the three years preceding the year of loss or in the 20 years following the year of loss.

Directors' fees — Directors' fees derived from Canada or a foreign country are taxable to a Canadian resident as employment income. Tax treaties signed by Canada generally do not allow a resident of Canada to be exempt from tax on directors' fees received from a foreign (non-resident) company or to otherwise receive favourable tax treatment.

For a non-resident, directors' fees are considered to be earned where the services of the director are rendered. Therefore, fees for services rendered at a specific board meeting in Canada are taxable in Canada. If a fee is related to services rendered both in and outside Canada, it may be possible to prorate the fee in proportion to the number of days that the director spent in Canada during the year. However, no specific guidelines for such allocations are provided.

Under certain tax treaties, directors' fees are considered similar to compensation from regular employment. If the conditions exempting a non-resident from Canadian taxes on compensation from regular employment are met, the directors' fees are exempt.

Investment income — Interest income may be reported by an individual using the cash basis (when received), the receivable basis (when due) or the accrual basis (as earned during the year) on investments if the investment is held for less than 12 months. Whichever method is selected, it must be applied to an investment consistently. However, for most investments held for a period of more than 12 months, accrued interest must be included in income annually. The bonus or premium paid on the maturity of certain investments, such as treasury bills, strip bonds or other discounted obligations, must be reported as interest income.

Dividends received by individuals resident in Canada from taxable Canadian corporations are given special treatment to recognise corporate taxes already paid on the accumulated income used as the source for the dividend distribution.

Royalties and rental income are taxed as ordinary income. In computing a loss from the rental of real estate or leasing of other property, allowable depreciation generally is limited to the net income determined before deducting depreciation. Therefore, the depreciation claimed by an individual may not create or increase a rental loss.

Non-residents with sources of income from Canada other than employment or business income generally are subject to a withholding tax of 25% of gross income received. Examples of income subject to withholding tax are rental income, royalties, dividends, trust income, and pensions. The payer must withhold and remit the appropriate amount of tax and must file the required returns. For the recipient, withholding taxes generally are final taxes, and tax returns are not required for income subject to withholding. However, non-residents receiving real estate rentals or timber royalties may choose to file a tax return and be taxed in Canada on the net rental or timber royalty income at the same tax rates that apply to Canadian residents. Non-residents receiving certain pension and benefit income may elect to be taxed on such income at the same incremental tax rates as Canadian residents, rather than at the withholding tax rate.

Most arms' length interest payments to non-residents are exempt from Canadian withholding tax.

Canada's double tax treaties generally reduce withholding taxes to 15% or less on most types of passive income paid to non-residents.

All residents of Canada, age 18 or older, may contribute up to CAD6,000 to a tax-free savings account (TFSA) in 2020 No tax deduction is allowed for the contributions, but the investment earnings are not subject to tax.

Other sources of income — Other amounts that must be included in income are receipts from superannuation or pension plans and amounts paid from Canadian Registered Retirement Savings Plans. Eligible pension income can be split between spouses for tax reporting purposes. Under this measure, if spouses have taxable income in different income tax brackets, overall tax may be reduced by moving income from the higher-rate taxpayer to the lower-rate taxpayer.

Taxation of employer-provided stock options — Individuals are not taxed when the employer grants the stock options. In general, tax consequences arise when the employee exercises the options.

The amount of the taxable benefit is equal to the difference between the value of the shares at the time the shares are acquired and the exercise price paid. The shares have a cost basis equal to the fair market value of the shares at the time of acquisition, provided the employee does not hold identical shares of the issuer at that time.

The employee may be entitled to a deduction equal to 50% of the taxable benefit (25% for Quebec tax and 50% if the public corporation has a significant presence in Quebec) if the option price is at least equal to the fair market value of the shares on the date of grant, if the shares are prescribed shares and if certain other conditions are met. The effect of this deduction is taxation of the benefit at tax rates applicable to taxable capital gains. Effective from 1 January 2020, the 2019 Federal Budget proposed to limit the 50% stock option deduction to an annual cap of CAD200,000 at the time of grant, based on the fair market value of the underlying shares except in the case of options granted by "start-ups and rapidly growing Canadian businesses". The Department of Finance announced that the implementation of the proposed rules would be delayed and a new coming-into-force date would be announced at a later date.

The Canadian stock option rules apply to both shares and to units of mutual fund trusts.

If the employee is a resident of Canada at the time that the shares are sold, any gain is subject to the regular capital gains rules. If the employee ceases to be a Canadian resident prior to the sale of the shares, then he or she is subject to the deemed disposition rules at departure.

Capital gains and losses

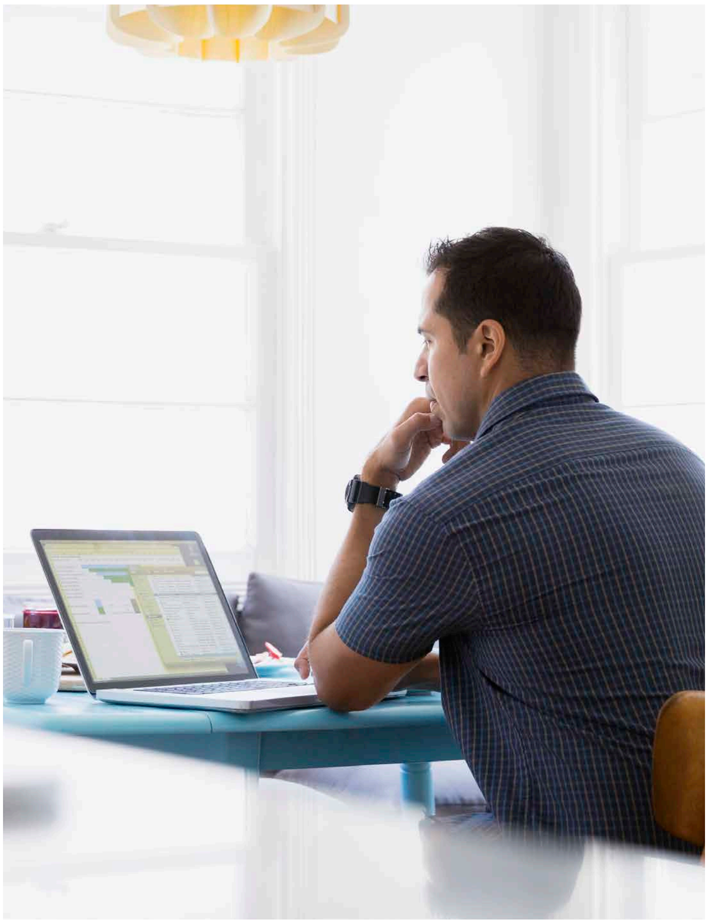
Fifty percent of the year's capital gains are included in taxable income, to the extent that the amount exceeds 50% of capital losses for the year. This includes capital gains on real estate and personal property, regardless of whether used in a trade or business, and on shares held for personal investment. Special rules apply to determine the nature of the gain or loss on the sale of depreciable property.

The adjusted cost basis of identical shares must be averaged for the purpose of determining the capital gain or loss on a disposition of such shares if the individual has acquired shares of a particular corporation at different dates.

Capital gains derived from the sale of a principal residence are generally exempt from tax. Capital losses incurred on the sale of a principal residence may not be used to reduce income for the year. In general, capital losses from personal-use assets are not allowed.

Capital losses — Except for allowable business investment losses and capital losses realised in the year of death, capital losses not utilised in the year realised are deductible only against net capital gains realised in another year. Unused capital losses may be carried back to any of the three preceding years or may be carried forward indefinitely.

Ceasing Canadian residency — An individual who ceases Canadian residency is generally deemed to have disposed of all assets, including taxable Canadian property, and excluding real property located in Canada, capital property or inventory used in carrying on a business in Canada, certain pension rights and unexercised employee stock options, at fair market value on the date that residency is terminated. The deemed disposition rule is commonly referred to as "departure tax."



The following special tax rules and exceptions apply to individuals entering or leaving Canada with respect to the calculation of capital gains or losses and the general deemed disposition rule:

- The departure tax provision is modified for an individual who was not resident in Canada for more than 60 months during the 120-month period preceding departure. Property owned by such an individual when he or she became resident, or property inherited since that time, is not subject to the deemed disposition rule.
- Non-residents who return to Canada after emigrating may elect to reverse the tax effects of the deemed dispositions of the assets that are still held regardless of how long they were non-residents.
- Emigrating taxpayers who are subject to the deemed disposition rules may post security for the departure tax instead of paying such tax by the balance-due date for the year of departure. An individual is not required to provide security for an amount of departure tax that is equal to or less than the taxes payable on the first CAD100,000 of capital gains resulting from the deemed dispositions.

Estate and gift taxes

Canadian succession law does not include estate or gift tax. However, provincial probate fees may apply at rates that vary depending on the province.

Foreign home buyer's taxes

The provinces of British Columbia and Ontario have implemented foreign home buyer's taxes that apply to non-Canadian citizens and non-permanent residents of Canada. The tax is levied on the value of the property being acquired at a rate of 20% in British Colombia and 15% in Ontario. Furthermore, in British Columbia, a speculation tax has been implemented with respect to certain properties located in certain urban centres. For Canadian citizens or permanent residents of Canada who are not members of a satellite family, the tax rate is 0.5% of the property's assessed value. The tax rate for foreign owners and satellite families is 2% of the property's assessed value. A satellite family is defined as persons who declare less than 50% of their total combined household income for the year on a Canadian income tax return. This could apply even if an individual is a Canadian citizen or British Colombia resident. Certain exemptions exist.

Social security

Contributions — Individuals employed in Canada and their employers must each make Canada Pension Plan (CPP) contributions at a rate of 5.25% on salaries, which includes 0.15% enhanced CPP contribution. Contributions to the Quebec Pension Plan, where applicable, are made at a rate of 5.7%. For 2020, the maximum amount of earnings subject to CPP contributions is CAD58,700, with a basic exemption of CAD3,500. This results in a maximum annual CPP contribution for employers and employees of CAD2,898.00 each. Self-employed individuals must pay both portions for a maximum annual contribution of CAD5,796.00. Quebec Pension Plan contributions are subject to the same thresholds, resulting in maximum employers' and employees' contributions of CAD3,146.40 and self-employed individuals' contributions of CAD6,292.80.

Employment insurance premiums are also payable. For 2020, an employee's required employment insurance premiums are calculated at a rate of 1.58% on the maximum annual amount of insurable earnings of CAD54,200. This results in a maximum annual premium of CAD856.36. Employers must make contributions equal to 1.4 times the amount of the employee's premiums, up to CAD1,198.90. The federal employment insurance premiums for Quebec residents are lower. The premium rates are 1.2% for employees and 1.68% for employers. Quebec has lower rates because Quebec residents also participate in the Quebec parental insurance plan. For 2020, an employee's required premiums under the Quebec plan are calculated at a rate of 0.494% on the maximum annual amount of insurable earnings of CAD78,500. This results in a maximum annual premium of CAD387.79 for the Quebec parental insurance plan. Employers must make contributions equal to 1.4 times the amount of the employee's premiums, up to a maximum of CAD543.22.

Canadian resident individuals or employers may have to contribute to health care plans operated by the provinces. Most hospital bills and physicians' fees, including those for drugs and dental care in some provinces, are covered by these plans.

Tax filing and payment procedures

The federal government, as well as the provinces and territories, impose income taxes on resident individuals. However, only the province of Quebec collects its own individual income tax and requires filing a separate return. The federal government collects the tax on behalf of all other provinces and territories, which means that only one combined return must be filed.

Income tax is generally paid to one of the provinces or territories based on the individual's residency on the last day of the year. All of the provinces and territories calculate tax by applying their graduated tax rates to taxable income. A separate calculation of taxable income, which is similar to the calculation of federal taxable income, is required. However, the treatment of certain items may differ.

To ensure that high-income taxpayers pay a certain level of tax, an alternative minimum tax applies. Individuals pay the greater of the regular tax or the minimum tax. If the minimum tax exceeds the regular tax, the excess amount may be carried forward for seven years. The carry forward amount may be used to reduce regular tax to the extent that regular tax exceeds minimum tax.

Individuals must file tax returns if they owe tax or if they are specifically requested to do so by the tax authorities. In addition, because of the capital gains exemption rules all individuals with capital gains or losses must file income tax returns, regardless of whether tax is owed for the year.

Non-resident individuals generally must file Canadian income tax returns if they earn employment or business income in Canada or if they have capital gains from dispositions of "taxable Canadian property" (TCP), which includes the following:

- Real estate in Canada
- Property used in carrying on a business in Canada
- Shares of a Canadian resident or non-resident corporation not listed on a designated stock exchange, capital interests in trusts, income interests in non-resident trusts (other than units of mutual fund trusts) or interests in partnerships, if at any time during the 60-month period before the disposition, more than 50% of the fair market value of these shares or interests was derived directly or indirectly from real or immovable property located in Canada, Canadian resource property, timber resource property or options on or interests in any of these properties (or from any combination of these properties)
- Shares of a Canadian resident or non-resident corporation listed on a designated stock exchange, shares of mutual fund trust corporations or units of mutual fund trusts, if at any time during the 60-month period before the disposition, 25% or more of the issued shares of the corporation or units of the mutual fund trust was owned by non-resident and related parties and more than 50% of the fair market value of the shares or units of the mutual fund trust was derived directly or indirectly from real or immovable property located in Canada, Canadian resource property, timber resource property or options on or interests in any of these properties (or from any combination of these properties)
- Income interests in trusts resident in Canada

Canada's double tax treaties may modify or exempt non-residents from the above tax provisions. However, in general, Canadian non-resident tax withholding is required unless a payroll waiver is obtained or unless the employer becomes certified under a new certification process implemented in 2016.

Any unpaid income taxes are due on or before 30 April of the year following the tax year, regardless of the due date of the individual's return. Penalties are levied if any tax due is not paid on time, and interest is charged on unpaid taxes.

Individuals may be required to make quarterly instalment payments if the difference between tax payable and the amount withheld at source is greater than CAD3,000 (for Quebec residents, CAD1,800 of federal tax payable after federal withholding) in both the current year and either of the two preceding years.

Taxpayers coming to or departing from Canada during a tax year are taxed on their worldwide income for the portion of the year in which they are residents of Canada.

Double tax relief and tax treaties

Foreign tax relief — Foreign taxes paid are generally allowed as credits. If an individual receives foreign-source income that has been subject to foreign tax, foreign tax credit relief may be provided in Canada to reduce the effects of double taxation. The foreign tax credit is computed on a country-by-country basis and may be taken only to the extent of Canadian tax payable on the net foreign income from the country.

Provincial foreign tax credit relief for non-business foreign income taxes is also provided. The provincial tax credit is generally limited to the lesser of the provincial taxes payable on the income and any foreign tax paid exceeding the amount of tax allowed as a credit and deduction for federal income tax purposes.

Double tax treaties — Canada has negotiated double tax treaties with most major industrialised nations and many developing nations. All treaties negotiated after 1971 generally follow the provisions of the model treaty developed by the Organisation for Economic Cooperation and Development (OECD). Many treaties currently in force were negotiated prior to 1972 and may vary significantly from the OECD model treaty.

Double tax treaties have been entered into with 96 countries.

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