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Tax planning in 2020 — COVID-19 considerations

News & Views

This year has been unlike any other, and tax planning may also be different for most Canadians. Although there was no federal budget in 2020 to introduce new or updated tax measures, there was much done to help individuals and their families cope with the economic stress caused by the COVID-19 pandemic. As a result, there may be differences in tax situations that are unique for many in 2020. What follows is a summary of individual tax considerations and potential strategies for dealing with such an unparalleled year.

Tax considerations

Many Canadians faced changes to their source of income during 2020. While income received from an employer has income tax deducted at source, for those individuals who received Canada Emergency Response Benefit (CERB) payments, no income tax was withheld. Because CERB payments are taxable as ordinary income, the amount of tax owing will be calculated at each individual's marginal tax rate.

The CERB has now transitioned to three new benefits: the Canada Recovery Benefit (CRB), the Canada Recovery Sickness Benefit (CRSB), and the Canada Recovery Caregiving Benefit (CRCB). These benefits are also taxable and the Canada Revenue Agency (CRA) will withhold 10% tax at source from amounts distributed. Depending on how much income a person has earned during the year, the 10% tax withheld at source may not be all the tax that's required.

For the 2020 tax year, CRA is introducing additional employment income codes for the T4 slip. These codes will report employment income based on COVID-19 payment periods and will allow CRA to validate payments made under the various emergency programs, including CERB.

For those making retirement savings contributions, including payroll source deductions for employer sponsored plans, the contributions could be lower this year, which would result in a lower tax deduction available on their 2020 tax returns.

Also, keep in mind that having lower earned income in 2020 will impact an individual's registered retirement savings plan (RRSP) contribution limit for 2021, resulting in a lower amount for future tax deductions. For those fortunate enough to maximize their RRSP contributions each year (i.e., zero or negligible carry-forward contribution room), this needs to be considered when estimating how much to contribute during the first 60 days of 2021.

To date, no announcements have been made regarding the 2021 RRSP contribution deadline or 2020 tax return filing deadline. Normally, these deadlines would be the first 60 days of 2021 (Monday March 1, 2021) for RRSP contributions and April 30, 2021 for filing 2020 tax returns. Without formal government announcements changing these dates, plan to get these items done before their cut-off dates.

There may be other expenses that have been reduced from last year due to COVID-19. With facilities required to be closed during the past year, childcare expenses may have decreased, as well as many medical-related services and procedures. People who have jobs that require regular travel also may not have the same deductions as they did in previous years.

The end result of these changes is that even though a person's total income may have decreased during 2020, lower income tax withholding on that income, along with reduced tax deductions and credits, could lead to a potential tax bill. What can be done?

Tax strategies

Here are some tax strategies that Canadians can consider for lowering their 2020 tax bill:

Review carry-forward amounts

CRA's My Account and the notice of assessment (NOA) are where many carry-forward amounts are tracked. This may include items like tuition and education amounts, moving expenses, charitable donations, and student loan interest. Where available, these amounts can be used to reduce the current year's taxes.

RRSP contributions

Current-year and carry-forward RRSP amounts could be used to create a deduction, lowering 2020 income and, subsequently, taxes payable.

Capital losses

A capital loss must be deducted against any capital gain in the current year, and the excess, if any, may be carried back three years or carried forward indefinitely to reduce a taxable capital gain reported at that time.

Consider realizing a loss in a taxable portfolio and then use the cash to make an RRSP contribution. This can generate tax savings from both the RRSP contribution and the capital loss, which either reduces capital gains this year or is carried back to previous years. Make sure to avoid the superficial loss rules when crystalizing capital losses.

Charitable donations

For those with philanthropic aspirations, a charitable donation could provide additional tax savings. This tax credit can directly lower taxes.
These are just some of the tax planning strategies that individuals can use to reduce taxes this year. For a more comprehensive guide on tax planning, see our *2020 Tax planning tips*.
Keep your supporting information. It's important to keep good tax records to support the information you provide to the CRA. This includes T-slips and any documents or receipts where you received a tax credit or deduction. For those receiving relief benefits such as the CERB, keep related records to demonstrate eligibility for those programs.

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Needless to say, 2020 has been a unique year. Your 2020 tax situation may also be unique relative to previous years. From a planning perspective, it helps to quantify your specific situation. You can start by reviewing your paystubs and bank account deposits to estimate your income and the taxes that you've paid so far. You can compare this to what your estimated taxes would be by using an online calculator. If you find you may owe taxes, consider some of the strategies above to perhaps reduce that balance owing. The good news is that time is on your side — combined with some foresight, planning, and action you may be able to take taxes owing off your to-do list. Wouldn't that be a great way to end 2020 and build momentum for 2021?

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