Tax & Estate Planning
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# Tax treatment of federal Covid-19 measures

RRIFs, CERB and working from home have tax implications

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Your clients have likely heard or read about the federal government's measures to help Canadians cope with both the health and economic effects of the Covid-19 pandemic. While the tax treatment of some of these measures may not be top of mind yet, those questions will eventually arise.

## Broad measures

The Canada Emergency Response Benefit (CERB) replaces the short-lived Emergency Support Benefit and Emergency Care Benefit. It represents a significant temporary expansion of income replacement benefits. The CERB will provide $2,000 per month for up to four months to those off work and without income due to Covid-19.

Just like employment insurance (EI) benefits, where federal and provincial/territorial taxes are deducted from each payment, CERB will be a taxable benefit. While the income itself is currently more important than its taxation, you can help eliminate the surprise when the benefit is reported at income tax time next year.

Two sources of tax-free payments are also receiving a bump: the GST/HST credit and the Canada Child Benefit (CCB).

The GST/HST credit is a quarterly payment that helps low and modest income households offset some or all of their GST/HST. Starting April 9, a one-time special payment will result in an average increase of roughly $400 for individuals and $600 for couples.

CCB recipients will receive an extra $300 for each child for the 2019-2020 benefit period on their May payment.

While these amounts are tax-free and do not require an additional application, it is prudent for clients to file their 2019 tax returns sooner rather than later. Doing so can reduce any hiccups with upcoming payments under the two programs.

Those who owe tax have up to Sept. 1, 2020 to pay without interest or penalties. Clients can file tax returns and pay any tax balance owing separately and at different times.

Finally, many Canadians have been forced to work remotely during the pandemic. For expenses related to a client's home workspace to be deductible, the client's employment contract must require them to pay the expenses without reimbursement.

The client's employer would also have to complete a T2200 Declaration of Conditions of Employment form, which is required for the deduction of such expenses.

# RRIF changes

RRIF minimum withdrawals have been reduced by 25%. The taxation of RRIF income has not changed, but the reduction creates two minimum payments: the "original" RRIF minimum and the "reduced" minimum.

The required withholding tax at source will not apply until a client's RRIF payments exceed the original RRIF minimum. If the account is a spousal RRIF, the payments in excess of the original minimum will be used to determine spousal attribution, if applicable.

A client who has withdrawn RRIF payment amounts in excess of the reduced minimum and would like to recontribute the excess amount back into the RRIF will not be permitted to do so.

The formula for determining non-resident withholding tax on RRIF payments will still use the original RRIF minimum and not the reduced minimum.

# Student loans and mortgages

The government has also deferred payments on student loans and mortgages.

There will be a six-month interest-free moratorium on repayment for all student loan borrowers (this includes loans received under the Canada Student Loans Act, the Canada Student Financial Assistance Act and the Apprentice Loans Act).

During this time no payments are required and interest will not accrue. Interest paid in the current year or previous five years can be claimed as a tax credit. Since no interest will be paid during this period, the tax credit will not be increased. This is likely a small cost versus the benefit of payment and interest relief for this six-month period.

Mortgage borrowers will also have the opportunity for mortgage deferral on a case-by-case basis by working directly with their financial institution. While mortgage interest is generally not tax deductible, it may be in cases where the borrowing was used to purchase property that can earn income, such as rental income.

In such cases, taxpayers either report the interest paid or accrued, but not both. Either way, clients should carefully review their annual interest statement for any changes to interest for the year that may impact what they report as deductible for the 2020 tax year.

During these times health and safety are paramount. Many of your clients may be taking things day by day, but eventually they may start to wonder about the tax implications of the measures they're accessing. I hope this provides a handy resource. Until then, from my family to yours, stay healthy, safe and keep smiling. This too shall pass.

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