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Table of Contents

Tax Tidbits 1
Canada Disability Benefit: New Support! 1
Verify It Is the CRA Calling: Fraud Prevention 2
Losses From Personal Scams: No Tax Deduction Available 2
Tax Relief: Support For Those Impacted by Tariffs 2
Business and Rental Losses: Dog Breeder and Vacation Rentals 3
GST/HST Registration and Remittance: Taxpayer Relief.....4
De Facto Director: Personal Liability 5

This publication is a high-level summary of the most recent tax developments applicable to business owners, investors and high net worth individuals. Enjoy!

Tax Tidbits

Some quick points to consider…

- CRA has been **significantly delayed** in **posting several tax slips** to its **online portal** this year. **Adjustments** to filed personal tax returns may be needed to report income that was missed.
- **Individuals** reporting **capital gains** have **until June 2, 2025** to file their income tax returns and make associated payments without being subject to penalties or interest.
- An individual may claim a **charitable donation tax credit** for their **spouse or common-law partner's gift** made within the past five years, even if the donation **predates** their **spousal relationship**.
- A **parking space** may be a component of a condominium unit for **principal residence exemption** purposes, even if it was **purchased separately from the unit**.
- On **April 1, 2025**, the **HST** rate in **Nova Scotia dropped to 14%** (from 15%). Ensure to update the HST charged for sales in or to this jurisdiction.

Canada Disability Benefit: New Support!

The Canada disability benefit is a **new monthly payment** for **working-age persons** with **disabilities** who have **low income**. The **first payments** will be made in **July 2025**.

To be **eligible** for this benefit, individuals must meet the following criteria:

- be a **resident of Canada** (for tax purposes);
- have a valid **disability tax credit certificate**;
- be between the **ages of 18 and 64**;
- have **filed an income tax return** for the previous tax year; and
- be either a **Canadian citizen**, permanent resident, protected person, a temporary resident (that lived in Canada for the past 18 months) or registered (or entitled to be registered) under the Indian Act.

The **maximum benefit** for the July 2025 to June 2026 period is **$2,400** ($200 per month), but is **reduced by** the following:

- **20%** of income above **$23,000** if the beneficiary is **single**;
- **20%** of income above **$32,500** if the beneficiary is **married** or has a **common-law partner**; and
- **10% of income above $32,500** if the beneficiary is **married** or has a **common-law partner** and **both are eligible.**

The first $10,000 of working income ($14,000 for a couple) is exempt from this calculation. Income is based on the most recent taxation year that ended before the payment period begins.

If the individual is **married** or in a common-law relationship, their **partner** must **also file a tax return** for the **previous tax year**. In limited cases, the person applying for the benefit can ask to remove the requirement that their spouse or common-law partner file an income tax return. This includes situations where the partner is not resident in Canada, the partner does not live with their partner for reasons that they cannot control (e.g. one partner lives in a long-term care home), or it is unsafe for the person to ask their spouse to file a tax return.

While the **application process** has **not yet opened**, individuals should ensure the following is completed in **preparation**:

- apply for the **disability tax credit**;
- ensure that their (and their spouse's) **2024 personal tax returns** are filed; and
- obtain a **social insurance number**.

Details on the application process will be posted on this webpage (https://www.canada.ca/en/services/benefits/disability/canada-disability-benefit.html).

ACTION: If you or a family member are eligible for this new benefit, ensure you prepare for a timely application.

Verify It Is the CRA Calling: Fraud Prevention

Have you received a call claiming to be from CRA but are unsure if it is legitimate?

CRA has launched a webpage (https://www.canada.ca/en/revenue-agency/corporate/scams-fraud/verify-cra-contact.html) to assist taxpayers in determining **whether the call** is **actually from CRA**. Taxpayers can go to the webpage and enter the 10-digit number that they were given to call back. The website will automatically **confirm** the **validity** of the phone number. CRA also reminded taxpayers **not to rely** on the **number displayed** on their caller ID.

Only phone numbers listed on the CRA website can be found using this tool. It does **not** include individual **CRA employees' direct work numbers**.

ACTION: Use CRA's verification tool to confirm the legitimacy of calls before responding.

Losses From Personal Scams: No Tax Deduction Available

A June 18, 2024 **Technical Interpretation** discussed the tax treatment of **losses** resulting from a **personal scam**, as opposed to an investment scam. Two examples of personal scams were provided, as follows:

- a **grandparent scam** that generally involves the fraudster **impersonating a grandchild**, claiming that they are in trouble and **require financial assistance** (e.g. they have been in an accident, have been kidnapped or are stranded abroad); and
- a **phishing scam** where the fraudster **impersonates an entity** (e.g. a financial institution, a utility company or CRA) and attempts to pressure their victim into providing personal or financial information or assets.

CRA noted that there is **no tax relief** specific to **fraud**. In some instances, a **capital** loss or even a **business loss** may result from **investment scams**. However, a loss incurred by a victim of a **personal scam** would generally **not result in a loss** from employment, business, property or a business investment loss as there is **no income-earning activity** related to the loss.

The **property** that is **lost** is generally **personal funds** that would likely be considered to be **capital property**. The lost cash would normally be **personal use property**, such that any **losses** would be **deemed to be nil**.

ACTION: Be mindful of falling victim to fraudulent scams. There is no tax relief with respect to losses resulting from personal scams.

Tax Relief: Support For Those Impacted by Tariffs

In response to the tariffs, the federal government has announced several measures to support businesses and individuals.

In accordance with a March 21, 2025 Release from the Prime Minister, CRA will implement the following measures:

- **deferring GST/HST remittances** and **corporate income tax payments** from **April 2 to June 30, 2025**;

- **waiving interest** on GST/HST and T2 **instalment** and **arrears** payments required to be paid between April 2 and June 30, 2025; and
- providing **interest relief** on **existing** GST/HST and T2 **balances** between April 2 and June 30, 2025.

Interest will resume starting July 1, 2025. CRA also reminded that taxpayers **must continue to file** GST/HST returns and T2 returns by their due dates to remain compliant with filing requirements.

On March 7, 2025, the Department of Finance issued a News Release announcing the following measures:

- launching the **Trade Impact Program** through Export Development Canada that will deploy **$5 billion over two years** to help exporters reach new markets for Canadian products and help companies navigate the economic challenges imposed by the tariffs;
- making **$500 million** in favourably priced **loans** available through the Business Development Bank of Canada to **support impacted businesses** in **sectors** directly **targeted by tariffs**, as well as companies in their supply chains;
- providing **$1 billion** in new financing through **Farm Credit Canada** to reduce financial barriers for the Canadian agriculture and food industry; and
- **temporarily increasing access to** and **lengthening** the **maximum duration** of agreements in the **EI work-sharing program**. This program provides EI benefits to employees who agree with their employer to work reduced hours due to a decrease in business activity beyond their employer's control, allowing employers to retain experienced workers and avoid layoffs, and helping workers maintain their employment and skills.

ACTION: Review and leverage available tax deferrals and government financing programs as appropriate to ease the impact of tariffs.

Business and Rental Losses: Dog Breeder and Vacation Rentals

A December 20, 2024 **Tax Court of Canada** case reviewed the **denial of losses** from **two activities**, a **dog breeding business** and the **short-term rental** of properties in the Okanagan region of BC. The operation had been carried on by a married couple in the taxation years 2004 to 2010.

Dog activities

The Court undertook an extensive analysis of the taxpayers' activities **breeding champion dogs** to establish a reputation for their kennel and generate revenues from **stud fees and sales** of **puppies and semen**, resulting in **significant losses** from 1999 to 2018. The Court first discussed whether the venture had **elements of a hobby** or other personal pursuit, concluding that the taxpayers' lifelong **connection** to dogs suggested such elements.

Although the evidence demonstrated that the taxpayers **intended to earn income**, their dog-breeding activities were **not a source of income** as they were **not** conducted in a **commercially reasonable manner**. The Court cited the **following factors** as particularly relevant:

- **recurring large losses** over many years, with almost $1 million of losses over the 20-year period, with less than $50,000 in total revenues;
- use of **credit card financing** rather than securing less expensive commercial loans or lines of credit;
- **rudimentary budgeting** processes, lacking any plan to limit costs from various dog shows or on an overall basis;
- **loose management of expenses**, which were generally only summarized after the end of the year for income tax filings;
- **unsophisticated books and records** mingled with their law practices and rental operations;
- **restrictive marketing** that limited sales, which was **not comparable** to other **commercial breeders**; and
- the opinion of their own **expert witness** that activities generating such losses over a fifteen-year period **cannot be a business**.

The Court ruled that these **losses** were **properly disallowed**.

Rental activities

In 2001, the taxpayers **purchased** a **house** in a **recreational area** that they **rented on a short-term basis**. In 2005, they acquired the **adjacent house** to expand their **rental business**. The Court concluded that the taxpayers **intended to earn income** from the properties. In reviewing the **commerciality** of the activity, the Court noted the **following factors**:

- **prior to purchasing** the properties, they had undertaken **research** that indicated that **short-term rental** would be more **profitable** than long-term rental and **obtained appraisals** of **market rents**;
- **limited rentals** from 2006 to 2010 were attributable to **unexpected factors** including a **decline** in the US dollar and **wildfires** in several of those years that **reduced demand** for short-term rentals;
- they discovered that **significant repairs** were required to the second property, and a **shortage of tradespeople** delayed the repairs, resulting in that property being **unavailable** for extended periods;

- one of the taxpayers had **prior experience** with **rental properties**;
- the taxpayers obtained **short-term rental insurance**, obtained **assistance** for property cleaning and on-site management of renter issues and maintained a **guest book** to obtain feedback and solicit repeat business;
- **mortgage financing** and the financing of the repair costs reflected **businesslike** operations;
- they **carefully budgeted** furnishing and decorating the properties, with an eye to **quality** and **risk mitigation** with extended warranties and the scotch-guarding of upholstery, practices different from those applied to their personal appliances and furniture;
- they **advertised the properties** and **monitored** the practices of **neighbouring rental properties**;
- they **revised their strategies** over time, including implementing guest book suggestions, expanding advertising to online platforms (e.g. Airbnb and VRBO) and taking advantage of **long-term rental** opportunities; and
- **subsequent years' results** showed **significant profits**.

As the factors reflected **sufficient commerciality**, the **rental losses** were **allowed**.

Statute-barred returns?

CRA had reassessed several years **after** the **ordinary reassessment period** of three years from initial assessment. The Court noted that this was permitted only if the taxpayers had made a **misrepresentation** attributable to **carelessness, neglect,** willful default or fraud. The Court noted that this is determined on an **issue-by-issue** basis and **not** on a **year-by-year** basis. Any reassessment can relate **only** to the **misrepresentation(s)** in question.

The Court concluded that the taxpayers had a **bona fide belief** that both the dog and rental activities were **sources of income**, a conclusion reached with the assistance of **professional tax preparers**. Their **difference of opinion with CRA** was either **not a misrepresentation** or was **not attributable to carelessness or neglect**. Where **deductibility** was a **question of judgement**, whether in determining whether a **source of income** existed or whether a **specific expense** was properly **deductible**, the returns **could not** be reassessed. As a result, several years were largely **statute-barred**.

However, **some expenses** were **clearly not related** to the **income-earning activities**. The taxpayers' **practice** of **accounting for expenses** only after the **end of the year**, rather than **as** they were **incurred**, resulted in an **increased risk of error**. To the extent that **clearly personal expenses** had been claimed, this resulted from **carelessness or neglect**, and **these expenses** could therefore be **disallowed after** the **ordinary reassessment period.**

The Court identified **several expenses** that could therefore be **disallowed** in years that were **otherwise statute-barred**.

ACTION: Ensure your business or rental activities are conducted in a commercially reasonable and well-documented manner to support loss claims and avoid disallowed deductions.

GST/HST Registration and Remittance: Taxpayer Relief

A December 20, 2024 **Federal Court** case reviewed an application for **judicial review** of CRA's decision **denying penalty and interest relief** related to the taxpayer's **failure** to **register for GST/HST** and **file** GST/HST **returns** for the 2020 through 2022 years. **CRA notified the taxpayer** on **June 23, 2023** that he was required to register for GST/HST. CRA issued **notices of assessment** on **July 31, 2023** for outstanding balances for 2020, 2021 and 2022, including failure to file penalties and arrears interest. CRA denied the taxpayer's request for relief from the penalties and interest.

Taxpayer loses

The Court found that **CRA's decision** not to provide relief was **reasonable**. The fact that the **payer remitted GST/HST on the taxpayer's behalf** did **not absolve** the **taxpayer** of its **responsibility** to register for GST/HST, file the returns and remit payments. The Court also agreed with CRA that the payer's remittance did **not provide a basis** for providing the taxpayer with relief.

The Court noted that CRA was also **not required** to consider the taxpayer's **"prompt registration** and **filing"** of his overdue returns (the date the taxpayer registered and filed was not provided in the ruling) in its decision as **over a month had passed** after he was informed of his obligation to register and file returns. Further, **whether** the taxpayer "**acted quickly to remedy** the omission or the delay in compliance" is **only considered** if "**circumstances beyond [the taxpayer]'s control**" prevented them from complying with the Act. In this case, the taxpayer admitted that the issue arose due to human error. There was, therefore, no extraordinary circumstance, as CRA explained that "human error...[is] considered within [the Applicant's] control."

ACTION: Register for and file GST/HST returns promptly. Failure to do so can lead to penalties and interest.

De Facto Director: Personal Liability

A **director** of a corporation, non-profit organization or other entity can be **personally liable** for **payroll source deductions** and **GST/HST** that the entity fails to remit to CRA, unless the director exercised **due diligence to prevent failure** to remit these amounts on a timely basis. An individual can be held personally liable for up to two years after they resign as a director.

A November 29, 2024 French **Quebec Court of Appeal** case considered whether the taxpayer was a **de facto director** of a corporation and therefore liable for **unremitted QST** and **source deductions** for 2012 and 2013.

Taxpayer loses

Although the taxpayer had formally **resigned as a director** in 2010, the taxpayer continued to **act as a director**. Therefore, the Court ruled he was a **de facto director** and **liable** for the corporation's debts. This determination was based on the fact that the taxpayer **remained involved in banking, contract negotiations, discussions with Revenu Québec** and **other** corporate **decisions** after he resigned.

ACTION: If you resign as a director, ensure to cease acting as a director.

The preceding information is for educational purposes only. As it is impossible to include all situations, circumstances and exceptions in a newsletter such as this, a further review should be done by a qualified professional.

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If you have any questions, give us a call!