

TO HELP YOU PREPARE FOR YOUR 2022 TAX RETURN

## What's new for the tax season

### **Tax-free first home savings account (FHSA)**

The tax-free first home savings account (FHSA) is a new registered plan that will take effect on April 1, 2023. On December 15, 2022, Bill C-32, which contains the legislative provisions for the FHSA, received royal assent.

Desjardins is working to ensure the new plan is available to its members and clients as early as possible after March 31, 2023. A sort of hybrid between a TFSA, RRSP and HBP, the FHSA will offer a tax-free way for eligible individuals to save up for their first home. There will be an annual contribution limit of \$8,000 (with the full amount available in 2023) and a lifetime limit of \$40,000. Note that the HBP will remain available and that it will be possible to make both an FHSA withdrawal and an HBP withdrawal for the same qualifying home\* purchase.

\* A qualifying home is a housing unit located in Canada or a share in a co-operative housing corporation that entitles the holder to possess a housing unit located in Canada.

To open an FHSA, you must be a resident of Canada and at least 18 years of age. You or your spouse or common-law partner must not have owned a home in which you lived at any time during the part of the calendar year before the account is opened or at any time in the preceding four calendar years.

You will be allowed to carry forward unused portions of your annual contribution limit up to a maximum of \$8,000. For example, if you contribute \$5,000 to your FHSA one year, you'll be allowed to contribute \$11,000 the following year (\$8,000 + the left-over \$3,000). Note that carry-forward amounts will only start accumulating after you open an FHSA for the first time. And unlike with an RRSP, you won't be able to contribute to your spouse or common-law partner's FHSA. However, like with a TFSA, you'll be able to contribute to your FHSA from funds provided by your spouse or common-law partner, without triggering the usual attribution rules.

You will be able to deduct FHSA contributions made in a particular taxation year, or you can carry forward the deduction to a future year. However, unlike with an RRSP, you won't be able to deduct contributions made in the first 60 days of a given year on the previous year's taxes.



FHSAs must be closed by December 31 the year in which the earliest of these events occurs: the 15th anniversary of the date you first opened an FHSA, or your 71st birthday. It must also be closed by the end of the year following the year in which you make your first qualifying withdraw

To be considered a «qualifying withdrawal» (in other words, a tax-free withdrawal), there are some conditions that need to be met. For example, you must not have owned a home in which you lived, as a primary residence, during the period beginning at the start of the fourth calendar year preceding the withdrawal and ending the 31st day preceding the withdrawal. You must also have a written agreement to buy or build a qualifying home in Canada before October 1 of the following year. The purchase cannot have been made more than 30 days before you make the withdrawal. If these conditions are met, you can withdraw the entire amount of your FHSA on a tax-free basis in a single withdrawal or a series of withdrawals. Any new contributions you make after you make a qualifying withdrawal will not be deductible. If you make a non-qualifying withdrawal, it will be included in your income. It will also not reinstate either the annual contribution limit or the lifetime contribution limit.

Investment income will grow tax-free. Income, losses and gains in respect of investments held within an FHSA, as well as qualifying withdrawals, will not be included in computing income for tax purposes or count against you in determining eligibility for income-tested benefits or tax credits. Like with an RRSP or TFSA, interest on money borrowed to invest in an FHSA will not be deductible in computing income for tax purposes.

You'll be able to transfer any unwithdrawn savings from your FHSA to an RRSP or RRIF. Such a transfer would be tax-free and wouldn't count toward (or be limited by) your RRSP contribution limit. You'll also be allowed to transfer funds from an RRSP to an FHSA on a tax-free basis, subject to FHSA contribution limits and qualified investment rules. Such transfers wouldn't be deductible and wouldn't reinstate your RRSP contribution room. Note that transfers from a spousal RRSP to an FHSA will not be allowed in cases where the «3-year rule» applies. That means such a transfer couldn't be made to your FHSA if your spouse contributed to an RRSP of yours in the year of the transfer or the 2 previous calendar years.

If your marriage or common-law partnership ends, an amount may be transferred directly from either party's FHSA to an RRSP or RRIF belonging to the other, without affecting the contribution room of either party. In the event of your death, the value of your FHSA would remain tax-exempt for you but would be taxable for the beneficiary. If your FHSA is inherited by your surviving spouse, it could be transferred to their own FHSA, RRSP or RIFF, if eligible.

It's the taxpayer's responsibility to ensure they meet the plan conditions to avoid any tax pitfalls. The Canada Revenue Agency (CRA) will provide information to help taxpayers determine how much they can contribute in a given year. In the event you over-contribute to an FHSA, a 1% tax would apply for each month to the highest over-contribution amount in that month. Your over-contribution may be absorbed when your annual contribution limit is reset the following year. You could also fix the situation by reversing a direct contribution by means of a tax-free withdrawal or by returning an amount to your RRSP. Qualified investments for an FHSA will be the same as those for a TFSA.

The FHSA is designed in such a way that even if you rent and don't plan to buy a home, you can still open and contribute to an FHSA and then transfer your savings to an RRSP when it's time to close the FHSA. This strategy would allow you to keep your RRSP room for future contributions, effectively increasing the amount you could potentially add to your RRSP. While it's always important to carefully analyze your specific circumstances, you may find the FHSA to be an attractive option, as it could give you more room to save tax-free and also benefit from a tax deduction, particularly if you've maxed out your RRSPs. One of the advantages compared to the HBP is that there's no obligation to repay a withdrawal used to purchase a qualifying home. Additionally, the ability to combine the FHSA and the HBP toward the same purchase means it will be possible to put together a larger down payment.

## Increased refundable senior assistance tax credit (Quebec)

Beginning in the 2022 tax year, the refundable senior assistance tax credit for eligible individuals age 70 or older is being raised to \$2,000. Subject to reductions calculated based on family income, the maximum amount will increase from \$400 (in 2021) to \$2,000. Payments will be made after 2022 tax returns have been processed. The tax credit is reduced by 5% of the family income over \$39,350 if you had a spouse on December 31, 2022, or \$24,195 if you did not. Depending on your situation on December 31, 2022, the maximum family income is:

- \$119,350 if your spouse was an eligible individual and you were both age 70 or older.
- \$79,350 if your spouse wasn't an eligible individual or if only one of you was age 70 or older.
- \$64,195 if you didn't have a spouse.

Beginning in the 2023 tax year, the credit will no longer be indexed annually, and a new mechanism will be introduced to calculate the reduction rate in order to maintain the level of assistance over time.

## Elimination of the refundable tax credit for seniors' activities (Quebec)

Considering the substantial increase in the refundable senior assistance tax credit, the refundable tax credit for seniors' activities is being eliminated. After December 31, 2022, registration or membership fees paid for an organized activity (physical, artistic, cultural or recreational) will no longer be eligible for tax assistance.

## Increased non-refundable home accessibility tax credit (federal)

The home accessibility tax credit is for qualifying expenses incurred for renovating or altering the eligible dwelling of a qualifying individual.\* To better support independent living by enabling qualifying individuals to make more substantial renovations, the annual expense limit is being doubled from \$10,000 to \$20,000. This would provide a maximum tax credit of \$3,000 (\$2,505 for Quebec residents) instead of \$1,500 (\$1,253 for Quebec residents) beginning in the 2022 tax year.

\*Qualifying individual: an individual who is 65 or older or a disabled individual who is 18 or older.

## Increased non-refundable tax credit for the purchase of a home

Eligible first-time homebuyers can claim up to \$10,000 (up from \$5,000 in 2021) for purchases made on or after January 1, 2022 (both federal and Quebec). That means a credit of \$2,753 (up from \$1,376) for Quebec residents and \$1,500 (up from \$750) for residents of other provinces.

## Dividends

There are 2 categories of dividends in Canada: eligible dividends, which are given preferential tax treatment, and non-eligible dividends. Eligible dividends are taxable dividends paid by public corporations and corporations that have all or part of their active business income taxed at the general rate (as opposed to the lower rate) or that have themselves received an eligible dividend from another corporation (private or public). The dividends paid by the companies held in the portfolios managed for Desjardins Private Wealth Management are primarily eligible dividends.

In Quebec, the rate of the non-eligible dividend tax credit was lowered from 4.01% in 2021 to 3.42% in 2022. For 2022, an individual can receive \$31,450\* in non-eligible dividends without federal taxes being payable, provided they have no other income for the year. In Quebec, tax becomes payable on non-eligible dividends over \$18,180.\*

\*Before applying the 15% gross-up.

As for eligible dividends, federal taxes are not payable for an amount of up to \$54,398 (provided the individual has no other income for the year); in Quebec the figure is \$41,350.\*

\*Before applying the 38% gross-up.



### Other legal information

#### **Joint bank accounts no longer frozen when one spouse dies**

With Quebec's *Act Respecting Remittance of Deposits of Money to Account Co-Holders Who Are Spouses or Former Spouses* now in effect, joint bank accounts will no longer be frozen when one spouse dies. That means a co-holder of a joint account will have easier access to their share of the funds in the event of their partner's death and will no longer need to wait several weeks for the account to be unfrozen. Under the new act, account funds are split equally between the partners, unless a declaration stating otherwise is provided to the financial institution.

#### **Increased threshold for tutorship to the property of a minor**

Under Quebec's new law to better protect vulnerable persons that came into effect on November 1, 2022, there are new rules introduced by the province's Public Curator. One change is an increase to the value threshold after which property belonging to a minor must be formally managed. This threshold is now \$40,000 instead of \$25,000.

# What to watch for in 2023

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## Increased TFSA limit

The contribution limit for tax-free savings accounts (TFSAs) will be raised from \$6,000 to \$6,500 in 2023. That means if you've never contributed to a TFSA and were 18 or older in 2009, you'll have \$88,000 in total contribution room (it was \$81,500 in 2022). Under current rules, unused TFSA contribution room can be carried forward indefinitely, and the amount of any funds withdrawn will be added back to the following year's contribution room.

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## New multigenerational home renovation tax credit (federal)

Beginning in 2023, a new refundable tax credit is being introduced for the renovation of multigenerational homes where a secondary suite is constructed so that an eligible person age 65 or older (or age 18 or older if disabled) can live with a qualifying relative. The value of the credit will be 15% of eligible expenses (up to \$50,000), for a maximum of \$7,500. There are specific criteria for what defines a qualifying renovation, the renovation period and eligible expenses.

## House-flipping profits now taxable as business income

As of 2023 there is a new Residential Property Flipping Rule, which stipulates that profits arising from the disposition of residential property (including rental property) that was owned for less than 12 consecutive months would be deemed to be business income, with some exceptions. That means that neither the 50% capital gains inclusion rate nor the primary residence exemption will apply to such profits. Exceptions to the rule are in relation to life events such as a death, separation or insolvency.

## Small business deduction

As a growth support measure to allow more mid-sized Canadian-controlled private corporations (CCPCs) to benefit from the small business deduction (SBD), the federal government is expanding the range within which the business limit of \$500,000 is reduced based on the combined taxable capital employed in Canada of the CCPC and any associated corporations: For tax years beginning after April 6, 2022, the applicable range is between \$10 million and \$50 million (it used to be between \$10 million and \$15 million). Quebec has aligned its rules accordingly.

## Cap on government rate increases (Quebec)

As part of its plan to help Quebecers cope with the rising cost of living, announced in its December 8 economic and financial update, the Quebec government has set a 3% limit on increases to a number of rates, effective January 1, 2023, for a period of 4 years. This includes residential Hydro-Quebec rates, subsidized childcare fees and contributions to residential and long-term care centres (CHSLDs).

## Personal income tax

### Adjustments to federal personal income tax brackets

The adjustment rate for 2023 is 6.3%. The new brackets are as follows:

Applicable rate* on taxable income over the amount in the next column	2023	2022
15%	\$15,000	\$14,398
20.5%	\$53,359	\$50,197
26%	\$106,717	\$100,392
29%**	\$165,430	\$155,625
33%	\$235,675	\$221,708

\* Due to the 16.5% provincial tax abatement, the rates in this column for Quebec residents are 12.53%, 17.12%, 21.71%, 24.21% and 27.56% respectively.

\*\* The basic personal amount of \$15,000 is gradually reduced to \$13,521 from taxable income of \$165,430 until it reaches \$235,675 (not considered in the table).

### Adjustments to Quebec personal income tax brackets

The adjustment rate for 2023 is 6.44%. The new brackets are as follows:

Applicable rate on taxable income over the amount in the next column	2023	2022
15%	\$17,183	\$16,143
20%	\$49,275	\$46,295
24%	\$98,540	\$92,580
25.75%	\$119,910	\$112,655

## Notes and reminders

### Tax on select luxury items

As of September 1, 2022, this new tax applies to the following «subject items» acquired for recreation or sport activities: aircrafts and motor vehicles with a retail value above \$100,000 and boats or watercraft with a retail value above \$250,000. The tax is payable at the final point of sale and is calculated based on the lesser of the following:

- 20% of the value over the \$100,000 or \$250,000 threshold, as applicable
- 10% of the total value

### Superficial losses

Poor stock market performance in 2022 saw many investors sell off their holdings, leading to capital losses. Some of these losses may not be deductible if they're considered to be superficial losses. That can occur when you sell a security and you or a person affiliated with you (such as your spouse) repurchases the same or an identical security in a registered plan (TFSA, RRSP, LIRA, RRIF, LIF) in the 30 days leading up to the sale or in the 30 days following. The security must also still be owned by you or the affiliated person on the 30th day following the sale.

Properties are considered «identical» when they are the same in all material respects, so that a prospective buyer would not have a preference for one over the other. The capital loss will be denied and added to the adjusted tax base (tax cost) of the repurchased security. This is something to keep in mind when preparing your tax return.

### Prescribed rate loans

The strategy of using a loan to split investment income between family members without triggering attribution rules is becoming less cost-effective. The prescribed rate, which is set on a quarterly basis, will increase to 4% for the first quarter of 2023 (up from the 3% in effect until December 31). Another increase is likely for the second quarter. For existing loans, the rate in effect at the time they were made remains valid (even if it was 1%). However, the interest on the loan must be paid by January 30, 2023, or else attribution rules will begin to apply for the year in question and all future years.

### Pension income splitting

Pension income splitting is available to you if you are age 65 and older and receive eligible pension income (such as RRIF or LIF payments or annuity payments from a registered pension plan). For income tax purposes, you can allocate up to 50% of your eligible pension income to your spouse. At the federal level, life annuity payments from registered pension plans and some other types of payments received as the result of the death of a spouse are eligible for income splitting before age 65. Every year at tax time, you and your spouse must make a joint election to split your pension income by completing form T1032 (federal) and Schedule Q (Quebec).



## Government pensions

### Old age security (OAS)

For 2022, the OAS clawback is 15% of any net income exceeding the threshold of \$81,761. If you began receiving OAS at age 65 and received 12 months of payments in 2022, that means you will need to repay the full OAS amount if your net income is \$134,626 or more. If you're 75 or older and began receiving higher payments in July 2022 due to the new 10% increase, this figure is \$137,331. If you elected to delay receiving OAS payments between age 65 and 70, the figure will be different as your payments will be higher.

### Quebec pension plan (QPP)

Since the QPP enhancement act and gradual contribution increases came into effect on January 1, 2019, an additional plan was introduced on top of the base plan. These plans remain separate. With the additional plan, retirement pensions will gradually increase, as will disability pensions and surviving spouse's pensions. Contributions will also gradually increase through 2025, with the rate for both plans combined rising from 12.30% in 2022 to 12.80% in 2023.



## 2022 tax slips

Here's some information about the different tax slips you may receive in the coming weeks and a table of mailing deadlines.

### T4RSP, T4RIF AND RL-2 SLIPS

#### Withdrawals and transfers from registered accounts

Withdrawals from RRSPs, registered retirement income funds (RRIFs) or life income funds (LIFs) made between January 1 and December 31, 2022, must be added to your income for 2022. If you made withdrawals from a managed account, the trustee (Desjardins Trust) will send you T4RSP or T4RIF slips, as applicable, along with a RL-2 slip indicating the amount withdrawn and taxes deducted at source.

If you're an annuitant aged 65 or over, the annuity payments in Box 16 for the T4RSP, Box 16 for the T4RIF and Box B for the RL-2 may be split with your spouse.

You'll receive a T4RIF/RL-2 slip and transfer receipt if you transferred funds from a RRIF or LIF to an RRSP or locked-in retirement account (LIRA).

### T3 AND RL-16 SLIPS

#### Fund income

If you held investments in a mutual fund in 2022, the fund trustee will send you information on these investments directly. An information slip for all your fund holdings will be issued.

### T3, T5013, RL-15 AND RL-16 SLIPS

#### Income trusts and limited partnerships (select accounts only)

The deadline for these types of entities to produce T3, T5013, RL-15 and RL-16 slips is March 31 (as opposed to the February 28 deadline for most others). As a result, you may not receive these slips until April. A separate information slip will be issued for each security. Check that you've received all your tax slips before filing your return.

### T5 AND RL-3 SLIPS

#### Interest and dividends

Interest earned on cash for all of your active Canadian and US accounts, as well as dividend and interest income on securities held in non-registered portfolios in 2022, will be reported on the T5 and RL-3 slips issued and sent by Desjardins Trust (the asset custodian) in late February. Details appear on the list of transactions. Note that interest and dividends not reported on a T5 or RL-3 slip must still be included in your income calculation. No slip will be issued if the only income distribution is «other income» less than \$50.

### 2022 RRSP CONTRIBUTION RECEIPTS

RRSP contributions are deductible, subject to certain limits. Receipts for contributions made between March 2 and December 31, 2022, will be mailed out around January 15, 2023. Amounts that were reported but not deducted on previous tax returns may be deducted in whole or in part on your 2022 return. You can also carry forward any undeducted contributions to a future taxation year.

### RRSP CONTRIBUTION RECEIPTS FOR THE FIRST 60 DAYS OF 2023

Contributions made in the first 60 days of 2023 can also be deducted on your 2022 return. If you make contributions, you will receive your slips in early March 2023.

### T5008/RL-18 – SECURITIES TRANSACTIONS

Slip T5008/RL-18 indicates any amounts paid by you or credited to you for securities sold or disposed of during the year.

## Statement and tax slip mailing dates

Registered accounts			
Type of slip	Federal	Quebec	Sent by
Income from an RRSP	T4RSP	RL-2	February 28*
Income from an RRIF	T4RIF	RL-2	February 28*
RRSP contribution Between March 1 and December 31	Received	Received	January 13*
RRSP contribution in the first 60 days of the year, between January 1 and March 1 <i>Note: Enter the date you made your contribution in your tax return for the previous year</i>	Received	Received	March 31*
RRSP or RRIF – amounts paid or credited to non-residents of Canada	NR4	None	March 31*

\*If the deadline falls on a Saturday or Sunday, it is postponed until the following Monday.

Non-registered accounts			
Type of slip	Federal	Quebec	Sent by
Investment income: Including dividends or interest	T5	RL-3	February 28*
Securities transactions	T5008	RL-18	February 28*
Trust income (Allocations and Designations)	T3	RL-16	March 31*
Partnership income	T5013	RL-15	March 31*
Amounts paid or credited to non-residents of Canada	NR4	None	March 31*

\*If the deadline falls on a Saturday or Sunday, it is postponed until the following Monday.

# Key dates in 2023

## JANUARY TO MARCH 2023

Plan your TFSA and RRSP contributions for the year as accurately as possible.

### TFSAs

For 2023, the annual TFSA contribution limit is \$6,500 (up from \$6,000 in 2022). If you made any withdrawals in 2022, you can add those amounts to your contribution room. Also, any unused contribution room from previous years can be used to maximize your TFSA contributions. To find out how much room you have, log in to your Canada Revenue Agency (CRA) *My Account for Individuals* or call the CRA. The balance is generally updated for the current year in March.

### RRSPs

In 2023, the RRSP limit is either \$30,780 or 18% of your previous year's earned income, whichever is lower. If you contributed to a workplace registered pension plan (RPP) in 2022, there will be a pension adjustment that reduces your 2023 RRSP room.

### Tax deductions

You can ask to reduce your tax deductions at source for almost any significant deduction or tax credit you expect in 2023, by submitting forms TP-1016 or TP-1015.3 (provincial) and T1213 or TD1 (federal) along with the appropriate supporting documentation. Examples include RRSP contributions and deductible childcare expenses and support payments.

### Documents you'll need

Take inventory of the documents you'll need for your 2022 tax returns; they're usually sent out by the end of February.

### MARCH 1, 2023

- This is the deadline for making RRSP contributions that you can deduct from your 2022 taxes. Reminder: the 2022 RRSP limit is \$29,210 or 18% of your income earned in 2021, whichever is lower (plus any unused contribution room you may have).
- It's also the deadline for annual Home Buyers' Plan (HBP) and Lifelong Learning Plan (LLP) required repayments.

### MARCH 15, 2023

- This is the deadline for the first 2023 quarterly federal/provincial instalment payment, if that applies to your situation. If needed, use non-registered investments or borrow funds to meet the deadline; otherwise, you could face a sizable penalty and high interest charges (which are non-deductible).

### MAY 1, 2023

- This is the deadline for filing your 2022 federal and provincial tax returns. Since April 30 falls on a Sunday this year, the deadline is extended to the next business day: Monday, May 1, 2023. Keep in mind, however, that there are specific rules for some unincorporated businesses.
- It's also the deadline for paying any taxes owing to avoid penalties and interest. If you're claiming a refund, file your return sooner than later so you can receive what you're owed as quickly as possible.

## JUNE 15, 2023

- This is the second instalment payment deadline, if applicable.
- It's also the tax filing deadline for some unincorporated businesses.

## SUMMER 2023

- Check your federal and provincial notices of assessment for 2022. If there's anything you need to dispute, make sure to act before the deadline.

## SEPTEMBER 15, 2023

- This is the third instalment payment deadline, if applicable.

## SEPTEMBER 30, 2023

- This is the deadline for disbursements and eligible purchases if you withdrew funds from your RRSP in 2022 under the HBP.

## SEPTEMBER TO DECEMBER 2023

- Assess the tax implications of transactions you've made so far this year.
- Consider any tax-efficient asset sales you may want to make.

## DECEMBER 15, 2023

- This is the fourth instalment payment deadline, if applicable.

## DECEMBER 31, 2023

- This is the deadline for some types of disbursements and eligible purchases for 2023.
- It's also the deadline for anyone who turned 71 in 2023 to convert their RRSPs into RRIFs or purchase an eligible annuity.

This document and the information contained herein are provided for information purposes only. Tax information is based on current tax rules (December 2022). The information in this document should not be construed as advice on legal, accounting, financial or tax matters, and Desjardins Wealth Management recommends that you consult your own experts in accordance with your needs. Desjardins Wealth Management takes no responsibility for the consequences of any decisions made based on the data contained herein.

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