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Review prescribed rate loan strategy before 1 April 2018

Teresa Gombita and Iain Glass, Toronto, Gael Melville, Vancouver

With the introduction of higher federal and provincial top marginal personal income tax rates in recent years, Canadian individuals may be looking for an effective way to split income with family members who are in a lower income bracket.

Low interest rates have offered a tax planning opportunity to anyone interested in income splitting with their lower-income spouse (or common-law partner) and/or children or grandchildren. This tax planning is carried out using a “prescribed rate” loan. Despite the recent introduction of rules that restrict certain income splitting techniques involving the use of private corporations¹, prescribed rate loan

planning remains an acceptable and effective income splitting strategy. Caution should, however, be exercised when splitting income with a family member who may be subject to the tax laws of another country (for example, a spouse who is a US citizen).

Since 2009 Q2, the rate of interest that must be charged on these loans has been 1% (with the exception of 2013 Q4, when it was 2%). Because it is expected that recent increases in interest rates will cause the prescribed rate to increase to 2% effective 1 April 2018, there may be an opportunity now to lock in a greater benefit than will be available after that date.

TaxMatters@EY is a monthly Canadian bulletin that summarizes recent tax news, case developments, publications and more. For more information, please contact your EY advisor.

¹ See “Revised draft legislation narrows application of income sprinkling proposals” in the February 2018 issue of [TaxMatters@EY](#) and [EY Tax Alert 2017-52](#).

How the prescribed rate is set

The prescribed interest rate for new loans is reset each calendar quarter, based on the average rate of three-month Bank of Canada treasury bills (T-bills) sold during the first month of the previous calendar quarter, rounded up to the next highest whole percentage point.² Once the average three-month T-bill rate exceeds 1%, the prescribed interest rate will increase from 1% to 2%.

The average of the rates published for January 2018 (1.17% and 1.20%, on 9 January and 23 January, respectively) exceeds 1%; therefore the rate for the second quarter, beginning 1 April 2018, will be 2%. This means that prescribed rate loans entered into on 1 April or later will have an interest rate of double the amount that would apply to loans entered into before that date.

Putting a prescribed rate loan in place

Generally, with prescribed rate loan planning, the higher-income spouse or partner loans cash to his or her partner, or to a trust, for the benefit of the spouse or partner and/or minor children or grandchildren.

The loan proceeds are invested to earn a higher rate of return than the prescribed rate. The net income from the invested funds (i.e., net of interest expense paid on the prescribed rate loan) is taxable in the hands of the family members at lower tax rates than would apply to the lender. The tax saving, then, is the net income multiplied by the difference in tax rates of the two parties. When the prescribed rate is higher, the investments will need to generate a higher rate of return to achieve the same tax savings.

It should be noted, that once a prescribed rate loan has been entered into, the interest rate does not fluctuate even if the published prescribed rate changes.

To ensure that the income attribution rules do not apply,⁴ interest charged on the loan must be paid within 30 days of the end of each calendar year. The lender reports this interest received as income, while the loan recipient reports the investment income and deducts the interest in the year it is paid.



If cash is not readily available for a loan but you have a portfolio of securities, you could sell these investments to your family members, or to a trust for their benefit, in exchange for a prescribed rate loan equal to the value of the investments at that time. You would be required to report the disposition of the investments at fair market value on your personal income tax return.⁵ Although any resulting capital gains are taxable, capital losses realized could be denied under the superficial loss rules.

For purposes of this planning, the loan is generally payable on demand and should have sufficient flexibility, such that any portion of it is payable 30 days after demand, and the borrower has the right to repay it at any time without notice or penalty. Legal counsel should be consulted to draft the terms of the promissory note. A separate bank or broker account can be set up to preserve the identity and source of the investments, and the resulting income.

Refinancing a prescribed rate loan

Be aware that simply changing the interest rate on an existing loan to the current low prescribed rate – or repaying the loan with a new prescribed rate loan – would cause the new loan to be offside, and attribution

would apply, so that any income earned on the loaned funds would be reported by the lender.

If you wish to refinance a prescribed rate loan, consult with your EY advisor.

Action to be taken now

If you're contemplating putting in place a prescribed rate loan, you have the chance to do so before the rate changes on 1 April 2018. If this step is properly executed, the current 1% interest rate should apply throughout the duration of the loan.

If you're considering this, or any other prescribed rate loan strategies, consult your EY tax advisor to determine the most effective plan for your personal situation. Remember in particular to seek professional advice if one of the participants is subject to tax in the US or another country, as implementing the strategy above may lead to unintended consequences.

² Section 4301 of the *Income Tax Regulations*.

³ Source: <http://www.bankofcanada.ca/rates/interest-rates/t-bill-yields/>

⁴ In certain circumstances it may be desirable to have the attribution rules apply (e.g., where the investment generates a loss).

⁵ If you sell to your spouse or partner, you'll need to elect out of the roll-over under subsection 73(1) of the *Income Tax Act*.

Filing your 2017 personal tax returns

Alan Roth, Toronto



As the 2017 personal income tax return filing deadline quickly approaches, it's time to reflect on the year that ended and complete your tax return. That means it's also time for EY's annual list of tax filing tips and reminders that may save you time and money.

Personal tax filing tips for 2017 tax returns

No matter what, file on time: Generally, your personal income tax return has to be filed on or before 30 April. If you, or your spouse or common-law partner, are self-employed, your return deadline is 15 June, but any taxes owing must be paid by the 30 April deadline.

Failure to file a return on time can result in penalties and interest charges. Even if you are not able to pay your balance by the deadline, you should still file your return on time to avoid non-deductible penalties. And even if you expect a refund, you should still file on time in case a future change or assessment results in a tax liability for the year. Remember, if you wait more than three years after the end of the year to file a return claiming a refund, your right to the refund expires and will be subject to the Canada Revenue Agency's (CRA's) discretion.

Review your 2016 return: Reviewing your 2016 return and notice of assessment is a great starting point before you complete and file your return. Determine if you have any carryforward balances that may be used as deductions or credits in your 2017 return.

Carryforward amounts could include unused registered retirement savings plan (RRSP) contributions, unused tuition, education and textbook amounts,⁶ interest on student loans, capital losses or other losses of prior years, resource pool balances and investment tax credits.

⁶ Although the education and textbook credits were eliminated for 2017 and later years, unused amounts from 2016 and earlier years may be carried forward and claimed in 2017 or later years.

Principal residence sale – reporting required, even if all gains are exempt

Capital gains realized on the sale of your residence may be exempt from tax if the residence qualifies as, and is designated as, your principal residence. No tax is owed, for example, if your residence is designated as your principal residence for each year that you owned it.

In the past, the CRA did not require you to report the sale of your principal residence if the realized gain was fully sheltered by the principal residence exemption. However, beginning with sales occurring in 2016, you are required to report the disposition of a principal residence on your income tax return, whether the gain is fully sheltered or not.

The sale of your principal residence must be reported, along with the principal residence designation, on Schedule 3, *Capital Gains (or Losses)*, of your income tax return. In addition, you must also complete Form T2091, *Designation of a property as a principal residence by an individual (other than a personal trust)*. The year of acquisition, proceeds of disposition and a description of the property must be included on the form.

If the gain is fully sheltered, you only need to complete the first page of Form T2091 and no gain needs to be reported on Schedule 3. If the gain is not fully sheltered, then any capital gain remaining after applying any available principal residence exemption (as calculated on Form T2091) must be reported on Schedule 3.

There is generally a time limit for the CRA to reassess an income tax return. The normal reassessment period for an individual taxpayer generally ends three years from the date that the CRA issues its initial notice of assessment. However, for 2016 and later years, if you do not report the sale of your principal residence (or any other disposition of real property) in your tax return for the year in which the sale occurred, the CRA will be able to reassess your return for the real property disposition beyond the normal reassessment period.

T1135 – remember your foreign reporting: If at any time in the year you own certain specified foreign property with a total aggregate cost of more than CDN\$100,000, you are required to file Form T1135, *Foreign Income Verification Statement*. This form may be filed electronically. Failure to report foreign property on the required information return may result in a penalty. In addition, if Form T1135 is not filed on time or includes incorrect or incomplete information, the CRA can reassess your income tax return for up to three years beyond the normal reassessment period.

Taxpayers who own specified foreign property costing more than CDN\$100,000 but less than CDN\$250,000 throughout the year have the option of using the simplified reporting method (under Part A of Form T1135).

Reportable property generally includes amounts in foreign bank accounts and shares or debts of foreign companies, as well as other property situated outside Canada. It does not include property used in an active business, shares or debt of a foreign affiliate or personal-use property.

Capital losses: Capital losses realized in the year may only be applied against capital gains. Net capital losses may be carried back three years, and losses that cannot be carried back can be carried forward indefinitely.

Where capital losses are incurred on certain shares or debt of a small-business corporation, they may qualify as business investment losses that may be claimed against any income in the year, not just capital gains.

Pension income splitting: If you received pension income in 2017 that is eligible for the pension income credit, up to half of this income can be reported on your spouse's or common-law partner's tax return. Note that recent amendments, applicable retroactively to 2015 and later years, include amounts received out of a retirement income security benefit (RISB) as pension income eligible for the pension income credit and eligible for pension income-splitting purposes, in certain circumstances.

You'll reap the greatest benefits when one member of the couple earns significant pension income while the other has little or no income. In some cases, transferring income from a lower-income pension recipient to a higher-income spouse can carry a small tax benefit.⁷

File returns for children: Although often unnecessary, in many cases there are benefits to filing tax returns for children. If your children had part-time jobs during the year or have been paid for various small jobs, such as babysitting, snow removal or lawn care, by filing a tax return they report earned income and thus establish contribution room for purposes of making RRSP contributions in the future.

Another advantage of filing a return for teenagers is the availability of refundable tax credits. Several provinces offer such credits to low- or no-income individuals. When there is no provincial tax to be reduced, the credit is paid out to the taxpayer. There is also a GST/HST credit available for low- or no-income individuals over age 18.

Claim all your deductions and credits: Remember to take advantage of the various family-related tax credits that might apply to you. See "Spotlight on personal tax deductions and credits" for details.

...or not: You may be able to increase the tax benefit of certain discretionary deductions if you defer them to a later date.

- ▶ Discretionary deductions that may be deferred include RRSP contributions and capital cost allowance.
- ▶ Similarly, consider accumulating donations over a few years and claim them all in one year to increase your benefit from the high-rate donation credit which is available for donations made within the five preceding years.
- ▶ Deferring deductions and certain credits makes sense if you are unable to use all applicable non-refundable tax credits in 2017 (and they cannot be transferred), or if you expect to earn higher income in the future.

⁷ For example, the lower-income pension recipient could then claim a greater amount of certain income-tested tax credits such as the medical expense credit, or the age credit.

Get a head start on 2018 savings

Early in 2018 is a great time to think of ways to save on your 2018 taxes. Here are some ideas to help you increase your savings in April 2019:

- ▶ Contribute early to your RRSP or RESP to increase tax-deferred growth, and to your TFSA to increase tax-free growth. The 2018 TFSA contribution limit is \$5,500 and the 2018 RRSP contribution limit is equal to the lesser of 18% of earned income for 2017 and a maximum amount of \$26,230.
- ▶ Consider income-splitting opportunities such as prescribed-rate loans or reasonable salaries to a spouse or child for services provided to your business. If you're planning to set up a prescribed-rate loan, consider doing so by 31 March 2018, as the prescribed rate is expected to increase from 1% to 2%, effective 1 April 2018 (for more details, see the previous article in this issue).
- ▶ Consider tax deferral opportunities using corporations (such as revisiting your salary/dividend/remuneration needs) or other planning opportunities involving corporations. However, keep in mind that proposed amendments, effective in 2018, will limit income splitting opportunities with certain adult family members for income derived directly or indirectly from a private corporation. For more information, see the [February 2018 issue of TaxMatters@EY](#). Also, be aware of recent changes contained in the 2018-19 federal budget to limit the deferral advantages of private companies earning passive income. The changes are generally applicable for years beginning after 2018. For more details, see EY Tax Alerts 2018 No. 7 and 2018 No. 8.
- ▶ If you're planning on selling an investment or earning income from a new source in the year, consider opportunities to realize and use losses to offset that income.
- ▶ Consider converting non-deductible interest into deductible interest by using available cash (perhaps a tax refund) to pay down personal loans, and then borrowing for investment or business purposes.
- ▶ If you expect to have substantial tax deductions in 2018, consider requesting CRA authorization to decrease tax withheld from your salary.

Make time for tax planning

When your return is done, you can step back and reflect on your progress toward your financial goals in the year that just ended. It's a great primer for a meaningful conversation about tax and estate planning.

An estate plan is an arrangement of your financial affairs designed to accomplish several essential financial objectives, both during your lifetime and on your death. The plan should provide income during your lifetime, dependant support after your death and transfer of your wealth, and it should protect your assets, all in a tax-efficient manner.

Make time to review and update your will(s) and estate plan to reflect changes in your family status and financial situation as well as changes in the law. For example, proposed amendments effective in 2018 may limit income splitting opportunities with certain adult family members in the context of an estate freeze.

Don't underestimate the benefits of financial spring cleaning. Tax season is a time when many focus a little more closely on their financial affairs. So this really is a good time to at least take a new look at the components of your financial and estate plan that could most impact your financial future and those who depend on you.

Spotlight on personal tax deductions and credits

A good way to save tax is by understanding the deductions and credits that are available to you. In order to enhance the benefit of tax deductions and credits, consider these tips and reminders while you're preparing your tax return.

Family-related and other special tax credits: Claim all credits that apply, including the public transit credit (for eligible transit use from January to the end of June 2017), adoption expense credit, tuition credit (including transfers from a child), credit for the costs of exams or accreditation as a professional, volunteer firefighting or search-and-rescue credits, Canada caregiver amount, homebuyers' amount, and the home accessibility credit.

Did you know?

- ▶ Both the federal children's fitness and arts credits were eliminated for 2017 and later years.
- ▶ The federal education and textbook credits have been eliminated for 2017 and later years, but any unused amounts from previous years can still be carried forward and applied after 2016.
- ▶ The Canada caregiver credit has replaced the infirm dependant, caregiver, and family caregiver tax credits for 2017 and later years. While the amounts that may be claimed under the new credit are generally consistent with the former system, there are some differences. For example, the Canada caregiver credit is not available in respect of non-infirm seniors residing with their adult children.
- ▶ For 2017 and later years, the federal tuition credit can be claimed in respect of a course that is intended to provide or improve occupational skills and that is taken at a post-secondary educational institution, even if the course itself is not at the post-secondary level (provided certain conditions are met).
- ▶ For 2017, the federal public transit credit applies only in respect of eligible transit use between January and the end of June 2017. The credit is being eliminated for 2018 and later years.
- ▶ As of 22 March 2017, nurse practitioners have been added to the list of medical practitioners who are qualified to certify an individual's eligibility for the disability tax credit. In addition, as of 8 September 2017, nurse practitioners may also provide certifications for various other income tax purposes, including, for example, for purposes of the child care expense deduction (i.e., to certify that the lower-income supporting individual is incapable of caring for children because of that individual's mental or physical infirmity).

⁸ A nurse practitioner is a registered nurse with additional education, preparation, and experience who possesses and demonstrates the competencies, within the practitioner's scope of practice, to diagnose autonomously, order and interpret diagnostic tests, prescribe certain pharmaceuticals, and perform specific procedures.



- ▶ Senior citizens and persons with disabilities can claim a 15% non-refundable home accessibility tax credit on up to \$10,000 a year of eligible home renovation or alteration expenditures that improve home accessibility or safety (maximum credit of \$1,500 a year).
- ▶ The labour-sponsored venture capital corporation (LSVCC) tax credit for share purchases of federally registered LSVCCs has been eliminated for 2017 and later years. The credit is still available for provincially registered LSVCCs.

Charitable donations: The federal tax credit for donations is available in two stages: a low-rate 15% credit on the first \$200 of donations and a high-rate (33% and/or 29%) credit on the remainder. Higher-income donors can claim a 33% tax credit on the portion of donations made from income that is subject to the 33% highest marginal tax rate.⁹ Otherwise, the 29% rate applies.

▶ Did you know?

- ▶ To maximize the benefit from the high-rate credit, only one spouse or partner should claim all of the family donations.

- ▶ 2017 is the last year that the first-time donor's super credit can be claimed, if certain conditions have been met.
- ▶ If you donated publicly listed stocks, bonds or mutual funds to a charity, none of the related accrued capital gain is generally included in your income.
- ▶ If you donated flow-through shares, the exempt portion of the capital gain on donation is generally limited to the portion that represents the increase in value of the shares at the time they are donated over their original cost.
- ▶ A tax credit for gifts to US charities is available to the extent that the individual (or their his or her spouse) making the gift has sufficient US-source income.

Child care expenses: If you paid qualifying child care expenses for an eligible child to allow you to work or attend certain educational programs, you may be able to claim a deduction. The limits are generally \$8,000 for each child under 7 years of age and \$5,000 for each child between 7 and 16 years of age. A higher amount may be claimed for a child who has a disability.

▶ Did you know?

- ▶ The deduction for fees paid to an overnight school or camp is limited.
- ▶ The claim must generally be made by the lower-income spouse or common-law partner (some exceptions apply).
- ▶ You must have receipts to support your claim.

Home relocation loan benefit: You are required to include in your income for tax purposes a taxable benefit¹⁰ received as a result of an employer-provided low-interest or interest-free loan that qualifies as a home relocation loan, but you can also claim a deduction equal to the amount of the taxable benefit on the first \$25,000 of the loan.¹¹ However, new rules have eliminated this deduction for benefits arising after 2017.

▶ Did you know?

- ▶ To qualify for a home-relocation loan, you must be buying a home due to a change in the location of your work. The new residence must be in Canada, and at least 40 km closer to your new work location.

Interest expense: If you've borrowed money for the purpose of making an income-earning investment, the interest expense incurred should be deductible.

▶ Did you know?

- ▶ It's not necessary that you currently earn income from the investment, but it must be reasonable to expect that you will.
- ▶ Interest on the money you borrow for contributions to an RRSP, registered pension plan or tax-free savings account, or for the purchase of personal assets such as your home or cottage, is not deductible.

⁹ For 2017, the 33% rate applies to taxable income greater than \$202,800.

¹⁰ The taxable benefit is equal to the difference between the interest rate computed at no greater than the prescribed rate in effect when the loan was received (for up to five years) multiplied by the amount of the outstanding loan for the period, and the amount of interest actually paid.

¹¹ Computed on the basis of an interest-free \$25,000 loan. The deduction is available for as long as the loan is outstanding, to a maximum of five years. However, new rules have eliminated this deduction for benefits arising in 2018 and later years.

Moving expenses: If you moved in 2017 to start a new job or a new business, or to attend university or college on a full-time basis, you may be able to claim expenses relating to the move.

Did you know?

- ▶ In addition to the actual cost of moving your furniture, appliances, dishes, clothes and so on, you can claim travel costs, including meals and lodging while en route.
- ▶ Lease-cancellation costs, as well as various expenses associated with the sale of your former residence, are also deductible, including up to \$5,000 in costs (such as interest, property taxes and utility costs) associated with maintaining a former residence that was not sold before the move.
- ▶ The expenses are only deductible to the extent of income from the new work or business location (or, for students, taxable scholarships or research grant income). If this income is insufficient to claim all the moving expenses in the year of the move, you can carry forward the remaining expenses and deduct them in the following year, again to the extent of income from the new work (or school) location.

Medical expenses: The claim for the medical expense tax credit is limited by an income threshold. In other words, the lower your net income, the more you can claim in eligible medical expenses. Because one spouse or common-law partner can claim medical expenses on behalf of the entire family, it generally makes sense to claim all expenses in the lower-income spouse's return if they have tax payable. You might be able to claim the medical expenses of other dependent relatives such as elderly parents or grandparents.

Did you know?

- ▶ Eligible medical expenses are not restricted to medical services provided in Canada, as long as they otherwise qualify.
- ▶ Transportation expenses in respect of a patient's travel to and from a location where medical services are provided may qualify if the patient travels at least 40 km to obtain the service, substantially equivalent

services are not available where the patient lives, the patient takes a reasonably direct travel route and it is reasonable for the patient to travel to that place to obtain the medical services.

- ▶ Other reasonable travel expenses may also qualify if under the same circumstances the patient must travel at least 80 km to obtain the services.
- ▶ The same kind of expenses may qualify for one person who accompanies the patient provided that a medical practitioner has certified that the patient is incapable of travelling without assistance.
- ▶ Travel expenses incurred to travel to a warmer climate, even for health reasons, are not eligible medical expenses.
- ▶ Premiums paid to a private health services plan qualify as medical expenses, so remember to claim any premiums paid through payroll deductions.
- ▶ Self-employed individuals may be allowed to deduct private health services plan premiums from business income instead of claiming a tax credit for them as medical expenses.
- ▶ An amount that may otherwise qualify may be denied if the service was provided purely for cosmetic purposes.
- ▶ You may claim expenses paid in any 12-month period that ends in the year as long as you have not claimed those expenses previously.
- ▶ Amounts paid for attendant care or care in a facility may be limited. Special rules also apply when claiming the disability amount and attendant care as medical expenses. For more information, refer to the [September 2016 issue of TaxMatters@EY](#).

Take advantage of technology: Use software to prepare your tax return and file electronically. The CRA offers several online services to make managing your taxes faster and easier.

Registering for the CRA's My Account will allow you to view prior-year returns and assessments, check carryover amounts, view tax slips filed in your name, view account balances and statements of account, file returns, make payments and track the status of your return. It also allows you to register to receive online correspondence from the CRA within My Account, including notices of assessment, benefit notices and slips, and instalment reminders. My Account will also allow you to use the "Auto-fill my return" service, which pre-populates your return with figures from tax information slips and other information from CRA records.

Certain tax preparation software products offer the CRA's Express NOA service, which can provide you with your notice of assessment the day after you file your tax return electronically. You must be registered for both My Account and online correspondence with the CRA in order to use the [Express NOA](#) service.

The CRA's new [ReFILE](#) service allows you to file adjustments to your tax return using NETFILE certified tax preparation software, provided your original tax return is also filed electronically. Adjustments can be made to your 2017 or 2016 tax return. You should receive your notice of assessment on your original return first before using ReFILE to file any adjustments.

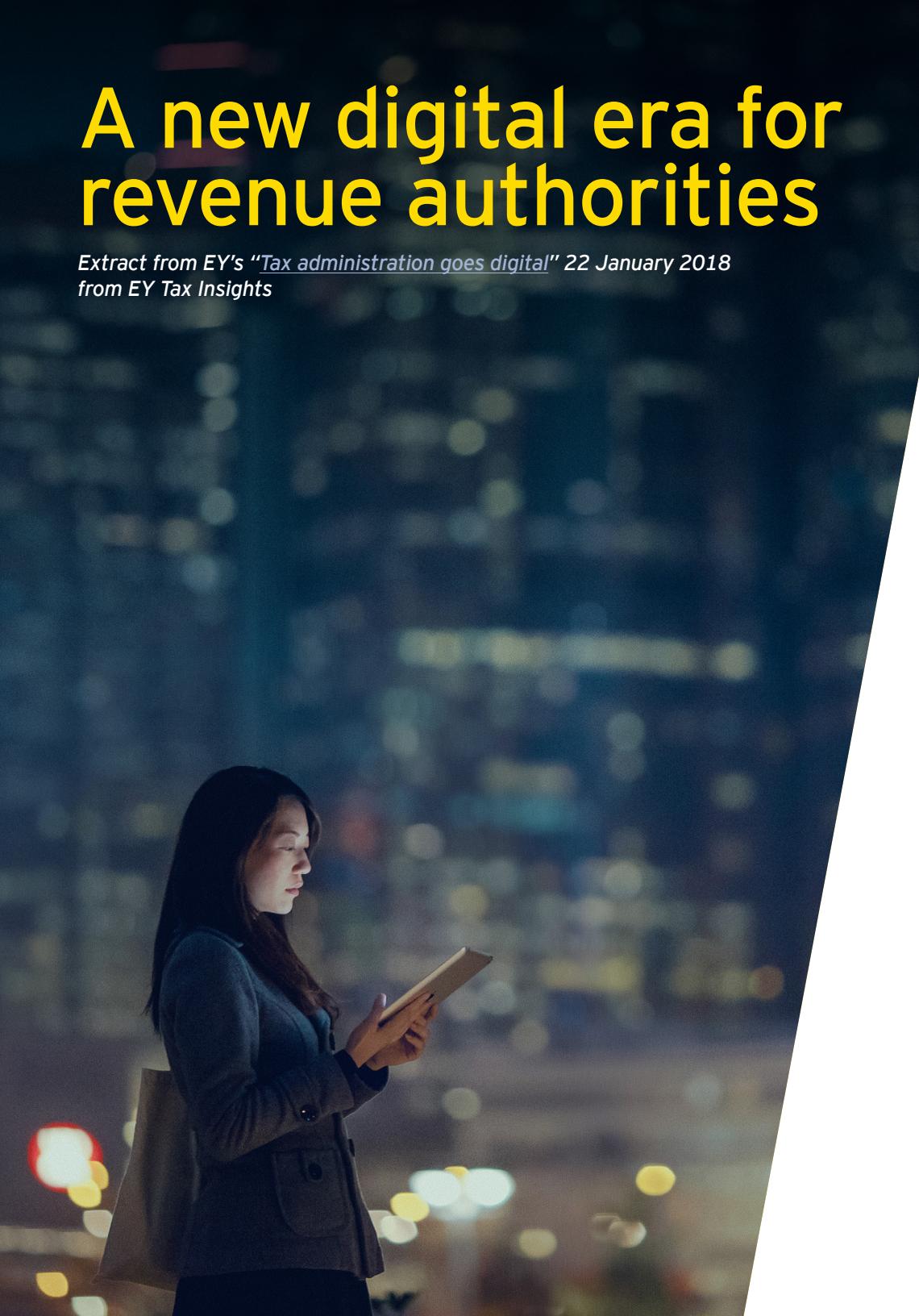
Learn more

Speak to your EY advisor for additional advice or assistance regarding your personal tax return.

For many more helpful tax-saving ideas and handy tips throughout the year, download your copy of our annual guide [Managing Your Personal Taxes: a Canadian Perspective](#).

A new digital era for revenue authorities

*Extract from EY's "Tax administration goes digital" 22 January 2018
from EY Tax Insights*



For the last couple of years, many commentators have used the term "disruption," sometimes without much forethought. It sells newspapers, magazines and journals, and it attracts television viewers.

In most cases, though, observers detail the opportunities ascribed to disruption, not the underlying challenges. They talk of growing market share, getting to market sooner, and developing new tools, products and offerings. That's certainly all true, but it's only one side of the coin. The challenges of disruption in the tax world are becoming more and more apparent. They're hitting taxpayers especially hard as they struggle to keep up with voluminous, fast-paced and inconsistently designed changes – on both the tax policy and tax administration fronts.

Tax administration disruption begins

Many countries are implementing new data submission and electronic auditing requirements, creating a whole new set of challenges. As a first step, businesses must overcome difficulties in accessing their tax and financial data, especially when it is spread out among multiple enterprise resource planning (ERP) systems; tax processes may not support new submission requirements. Businesses must also keep abreast of new rules, understand their impact and cope with the speed of change, among other challenges.

Norway and Poland provide similar case studies of ongoing change, and they exemplify how requirements differ. Both are implementing Standard Audit File for Tax (SAF-T) electronic auditing, but we expect that they will differ in the ultimate format of each file, the submission requirements (and timing) and the types of tests that the revenue authority will run on the data. That poses a real challenge for the tax director or financial controller who is trying to devise a multi-country response.

The impacts of change are many, but one really stands out. As countries move data gathering (i.e., compliance) closer to the point where a transaction originally occurred (i.e., “moving upstream”), companies must understand that the data they are submitting may well be less “polished” than data that has been tax-sensitized, checked for errors and generally prepared for final submission. One can foresee new friction between taxpayers and taxing authorities, centered on the testing of data that hasn’t been quality checked as closely as it should be. The results? Audit notices might increase; companies will have to respond to incoming inquiries in an efficient and timely manner, creating a litter of penalties if they fail to keep up and disagreements may arise over the amount of tax assessed. In some unfortunate cases, requests for refunds may be rejected as the taxpayer is deemed to be noncompliant in other areas.

As more tax administrations go digital, there are clear parallels with the Base Erosion and Profit Shifting (BEPS) project. Tax authority digitalization seeks to crack down on evasion and fraud. And, as Ted Setzer, head of the IRS’s information exchange program, told EY recently, “We have an evolution now, moving from individual taxation to enterprise taxation and also a movement from tax evasion to tax avoidance and aggressive tax planning.” But there are other similarities to BEPS. All governments have essentially the same set of overarching goals – to collect more tax, and to collect it more efficiently. There are some standards, such as the SAF-T requirements from the Organisation for Economic Co-operation and Development (OECD), which are gaining traction in Europe. But design and implementation generally occur at the national level, resulting in numerous differences.



Digital tax administration is developing – now

One of the strongest indicators of the speed at which tax administration is digitizing comes in the form of how tax authorities will use data analytics to assess risks within Country-by-Country Reporting (CbCR) data. As tax administrations around the world prepare to start exchanging CbC reports in June 2018, the OECD has released tax risk recommendations it hopes will lead to greater transparency – not increased controversy – in the future.

The CbC data will provide tax authorities for the first time with a full breakdown of a multinational enterprise’s (MNE’s) revenue, profits, tax and other attributes by tax jurisdiction, significantly increasing the volume and scope of information available to them. An OECD publication released in September 2017 titled “Country-by-Country Reporting: Handbook on Effective Tax Risk Assessment,” sets out recommendations for national tax authorities to consider when introducing CbC reports into their existing tax risk assessment frameworks, detailing a series of 19 specific risk indicators (i.e., data analytics routines) that could be extracted from CbC data and used with other information to determine a MNE’s overall level of tax risk. While it might not provide a complete picture, the OECD handbook on CbCR nonetheless provides useful guidance to those companies wishing to develop pre-submission tests to ensure their compliance risk assurance approaches are aligned with those likely to be adopted by the tax authorities – presumably exactly what the OECD is hoping.

Jeremy Hirschhorn, Deputy Commissioner at the Australian Taxation Office, explains how these risk factors should be viewed by taxpayers as a very minimum set of tests:

“Australia has had a very detailed schedule around transfer pricing called the International Dealing Schedule for some time and has in parallel developed quite a few risk filters and factors off the back of analysing that data. So the move to country-by-country-reporting is a big step, but it’s not a step from nothing. We’ve already developed some strong functionality around being able to analyze free text and non-standard data sets. In Australia, for CbCR we have set up a structured schema that makes the data more searchable. In terms of the risk factors, there are the 19 put out by the OECD, but we actually have more than 100 that we apply to international dealings. Our plan is to progressively make those transparent to the taxpaying community, so that people know where we stand and can consciously decide whether they want to have a high- or a low-risk position. We sometimes call this the ‘setting out the flags at the beach’ strategy, which means that if you put out the flags, you hope that people will swim in between the flags and be safe. For those who swim outside the flags, they should not complain too much if they get caught by a rip and get taken out to sea, because they’ve chosen the position of being at risk.”

The Australian Taxation Office is not alone in supplementing the OECD’s suggested routines. Countries such as China will be building out additional testing routines, focusing on issues of national importance to each tax regime. In the case of China, this is believed to be focused on transfer pricing and the exploitation of intellectual property.

Tax administration going digital doesn’t just mean the paradigm shift of the “end of the tax return” arriving. It means gradually increasing data submission requirements, enhanced data analytics routines, and more routine sharing of electronic files – both between taxpayer and tax authority, but also between tax authorities themselves. It’s here. Now.

Publications and articles

Tax Alerts - Canada

Tax Alert 2018 No. 4 - New Brunswick budget

Tax Alert 2018 No. 5 - Northwest Territories budget

Tax Alert 2018 No. 6 - British Columbia budget

Tax Alert 2018 No. 7 - Federal budget 2018-19

Tax Alert 2018 No. 8 - Private company insights:
federal budget 2018-19

Tax Alert 2018 No. 9 - Yukon budget

Publications and articles

EY's Global Capital Confidence Barometer

The 17th edition of EY's *Global Capital Confidence Barometer* finds that Canadian respondents are still firmly aiming to pursue acquisitions in the next 12 months, and are buoyed by positive momentum in the local and global economies.

EY's Worldwide Personal Tax and Immigration Guide 2017-18

This guide summarizes personal tax systems and immigration rules in more than 160 jurisdictions, including Australia, Brazil, Canada, France, Germany, Mexico, the Netherlands, the Russian Federation, the UK and the US.

Publications and articles (cont'd)

EY's Worldwide Capital and Fixed Assets Guide 2017

The *Worldwide Capital and Fixed Assets Guide* helps our clients navigate the rules relating to fixed assets and depreciation. It summarizes the complex rules relating to tax relief on capital expenditures in 27 jurisdictions and territories.

EY's Worldwide Estate and Inheritance Tax Guide 2017

EY's *Worldwide Estate and Inheritance Tax Guide* summarizes the estate tax planning systems and describes wealth transfer planning considerations in 37 jurisdictions around the world, including Australia, Canada, China, France, Germany, Italy, the Netherlands, the UK and the US.

Worldwide Corporate Tax Guide 2017

Governments worldwide continue to reform their tax codes at a historically rapid rate. Chapter by chapter, from Afghanistan to Zimbabwe, this EY guide summarizes corporate tax systems in 166 jurisdictions.

Worldwide VAT, GST and Sales Tax Guide 2017

This guide summarizes the value-added tax (VAT), goods and services tax (GST) and sales tax systems in 122 jurisdictions, including the European Union.

Worldwide R&D Incentives Reference Guide 2017

The pace at which countries are reforming their R&D incentives regimes is unprecedented. This EY guide summarizes key R&D incentives in 44 jurisdictions, and provides an overview of the European Union's Horizon 2020 program.



2016-17 Worldwide transfer pricing reference guide

The proliferation of transfer pricing rules and regulations around the world, and the huge increase in focus on the subject by the world's tax authorities, require practitioners to have knowledge of a complex web of country tax laws, regulations, rulings, methods and requirements. This guide summarizes the transfer pricing rules and regulations adopted by 118 countries and territories.

Board Matters Quarterly

The January 2018 issue of *Board Matters Quarterly* includes three articles from the EY Center for Board Matters. Topics include the board's role in corporate culture, next-generation ERM and an overview of the SEC chairman's comments on cybersecurity disclosures.

EY Trade Watch

This quarterly publication outlines key legislative and administrative developments for customs and trade around the world. Highlights of this edition include: (1) Argentina's extended effective period for incentives to promote the use of renewable energy sources, (2) Canada's designation of its ninth "Foreign Trade Zone point" in Quebec City, (3) Colombia's reduction in import duty rates to 0% for certain capital goods and raw materials, (4) an update on Mexico's Special Economic Zones, and (5) recent US developments.

Publications and articles

Websites

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Because we believe in the power of private mid-market companies, we invest in people, knowledge and services to help you address the unique challenges and opportunities you face in the private mid-market space. See our comprehensive private mid-market [webcast series](#).

CPA Canada Store



EY's Complete Guide to GST/HST, 2017 (25th Edition)

Editors: Dalton Albrecht, Jean-Hugues Chabot, Sania Ilahi, David Douglas Robertson

Canada's leading guide on GST/HST, including GST/HST commentary and legislation, as well as a GST-QST

comparison. Written in plain language by a team of EY indirect tax professionals, the guide is consolidated to 15 July 2017 and updated to reflect the latest changes to legislation and CRA policy.

Check out the [video showcasing EY's GST tax leadership](#).

Online tax calculators and rates

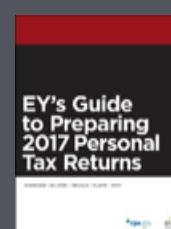
Frequently referred to by financial planning columnists, our mobile-friendly calculators on ey.com/ca let you compare the combined federal and provincial 2017 and 2018 personal tax bills in each province and territory. The site also includes an RRSP savings calculator and personal tax rates and credits for all income levels. Our corporate tax-planning tools include federal and provincial tax rates for small-business rate income, manufacturing and processing rate income, general rate income and investment income.

Tax Insights for business leaders

Tax Insights provides deep insights on the most pressing tax and business issues. You can read it online and find additional content, multimedia features, tax publications and other EY tax news from around the world.

The Worldwide Indirect Tax Developments Map

Updated monthly, our interactive map highlights where and when changes in VAT, Global trade and excise duties are happening around the world. The map can be filtered by tax type, country and topic (e.g. VAT rate changes, compliance obligations and digital tax).



EY's Guide to Preparing 2017 Personal Tax Returns

Editors: Lucie Champagne, Maureen De Lisser, Gael Melville, Yves Plante, Alan Roth

This is the line-by-line guide busy tax professionals rely on throughout the tax season. The guide includes

a summary of what's new for the 2017 taxation year as well as tips, suggestions and reminders to consider when preparing 2017 personal tax returns. Available as an easy-to-use and searchable internet collection (includes access to four years of previous internet editions).

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