00:00:00:00 - 00:00:20:12

Unknown

You moved to Canada, but you failed to report your assets that you own in your home country. Now all of a sudden, you're into like thousands of dollars, maybe $50,000 in penalties. There's a lot to learn, and we'll cover it. When do you become Canadian resident for tax purposes? What are your obligations to file? What do you need to file potentially for your foreign assets if you have some the tax rules in Canada.

00:00:20:14 - 00:00:40:26

Unknown

It's a high tax country. It's complicated. But it's something that definitely Canadians need to understand. They need to be aware of those penalties. That's a large amount. But if you don't know then and then boom, you're like, you had no idea that this would be something that would wipe you out, potentially with all your savings going, if you have this much of penalties and you came to Canada on that day.

00:00:40:29 - 00:01:05:02

Unknown

You're Canadian resident. And I think from that date on, it's pretty clear that now you have to report your worldwide income and paid taxes on it in Canada, regardless of it, that income also maybe being taxed in foreign countries. I think that's what people need to know. It's worldwide and income. Yeah.

00:01:05:04 - 00:01:24:05

Unknown

So Sonny, often parents want to help their kids out. Or grandparents want to help their grandchildren out by gifting them money or gifting them just items during their lifetime. Right. And what often gets missed is that there's tax exposure when you're going down these transactions.

00:01:24:06 - 00:01:45:06

Unknown

You can't just easily give to the next generation, as some people might think. Right. And we've seen that in our practice. Yeah. Most people come to us and sometimes, and not every time people come and ask like, hey, can I give? I want to help out my child to buy a house. Yeah. Or so-and-so wants to buy a car.

00:01:45:08 - 00:02:09:29

Unknown

My child is about to start a business. They want to, start saving. Like, how do I give money to them now to help them out? Some don't think much. They just give it to them. Yeah. Without thinking of tax consequences. And the others will ask you. And the theme that we commonly have, I was like, well, okay, so, our tax rules have so much of it.

00:02:10:00 - 00:02:31:10

Unknown

It's a minefield of rules where things can get triggered, even the best of intentions. Yeah. You want to help out your child, that's all you want to do. But oftentimes, the tax consequences are still going to be borne by the person giving the gift. And it's not often clear that what is our tax consequence and what is the tax being triggered and why.

00:02:31:13 - 00:02:51:03

Unknown

Yeah it's not clear. There's different parts of of the act that deals with different types of gift rules. And it's much more complicated than people. Yeah. And people just don't know. They just think that if I gift them. Just helping out my kid. Yeah, I'm just gifting them some investments or they're giving the money. Yeah. Or giving them is also subject to interpretation.

00:02:51:03 - 00:03:16:06

Unknown

Or are you really gifting them or you're loaning them? Do you expect something back from them? Right. You know, it's when it comes to, like, related, people transacting with each other, it also gets more scrutinized. By the government and the CRA, and they're trying to make sure that nobody's getting the tax and, and doing anything that they shouldn't be.

00:03:16:07 - 00:03:46:25

Unknown

That goes against the law. Yeah. But it's but you know frankly speaking a lot of these things are not intuitive. Yeah. Right. They are completely unintuitive. And I think we should cover these types of issues because they don't just fall under the purview of like, rich family problems versus like, you know, teachers, professionals. If anyone has any family like if you're a family and you want a gift to your kids or nephews and nieces or grandchildren, there's something yeah, there's there can be tax exposure.

00:03:46:25 - 00:04:02:16

Unknown

It's not as easy as someone. Yeah. And I think you were mentioning there was a, there was an, a news report that we had seen. Right. Yeah. There was an elderly lady, a grandma. She was like 93 years old that wanted to just gift. She had a lot. She had land. Yeah. Like a cottage or something.

00:04:02:17 - 00:04:21:06

Unknown

Yeah. That she wanted to gift to her, grandchildren. Yeah. And she did. Right. And and. Yeah. And she was just surprised with the tax bill as she was just getting a pension income. She didn't have the cash. It became it became sort of a meme. It to some extent it did. Yeah. Because she's like, oh, well I don't have $40,000 to pay taxes.

00:04:21:06 - 00:04:39:02

Unknown

I just, I just gifted my cottage to my child or my grandchild. Yeah. And where am I going to get this money from? It's not like she actually got money to to pay for this. No, she just, like, gave the property away. But it came with the tax bill. It came with the tax. Expect the unexpected. And she didn't have the pension income.

00:04:39:03 - 00:05:00:17

Unknown

Yeah. And I you know, if you go to the, that news article from last year is it last year is actually from 2024. Yeah. I was reading and scrolling through the comments and, like, there's a huge debate, like, oh, yeah, taxes have to be paid. Yeah. She's giving away a property to her children. And because she's got so much accumulated profit on these properties, she shouldn't be just skating and not paying those taxes.

00:05:00:18 - 00:05:19:17

Unknown

Exactly. Others are like, well, what do you have to pay taxes? That is such like you can clearly see in the comments that clearly is not intuitive, right? Some people agree with it. A lot of people disagree with that treatment. Clearly the grandma didn't know. Yeah, that taxes could be tricky. She's stuck with the tax. Yeah. Well her whole thing was like well I'm not selling it.

00:05:19:17 - 00:05:39:05

Unknown

I'm gifting it. Yeah, yeah, she was exactly what she was. There's like those words are interesting because she's not saying, like, what is a sale like transfer as a sale for tax purposes. Yeah. Right. But in her minds, like, oh, I'm not selling to third person, I'm just gifting it to my grandchild or whatever, and I shouldn't be paying tax on that.

00:05:39:06 - 00:06:11:08

Unknown

Exactly. But that's not how our tax returns. That's not how it works. Yeah. So I think it's it'll be important to like, work through what are these different tax rules that we commonly tax traps as we may call them, that get in the way. And what you should be aware, aware of. And I think, it will be once we sort of go through some scenarios, I think people will be able to look at and then apply those scenarios to themselves and see whether or not they should be seeking some advice and better plan for these type of transactions before they actually just go down the road.

00:06:11:09 - 00:06:20:18

Unknown

Yeah. And like, don't don't be that grandma that got stuck with the tax bill after doing the the transfer and yeah really she can't do anything about it anymore. Exactly. Right.

00:06:20:21 - 00:06:43:04

Unknown

you know often what happens is that grandparent let's start with like very common scenario grandparents parents usually want to give money to their one year old, to your children or grandchildren. Yeah. Often on like birthdays, big stones, big milestones. Maybe they're graduating, maybe even the birth, the first birthday or births. Yeah, the birth of the child.

00:06:43:04 - 00:07:00:11

Unknown

Yeah. They want to, you know, take some savings and say, here you go. Like an grandpa from grandparents. Here's, a gift. Maybe it's like a couple thousand dollars, or maybe it's $10,000. Whatever they can afford. Yeah, out of generosity, they give it to the parents. And parents usually have to think about. Okay, what am I gonna do with this money?

00:07:00:13 - 00:07:25:13

Unknown

And, you know, people will either spend it on to the, for expenses. They might buy diapers and pay for, like, expenses that they wanted to pay for the kids childcare or whatever. But should you want to invest that money? Yeah. On behalf of the child. But you can you can open up like an investment account in trust, like parents can as a guardian.

00:07:25:16 - 00:07:47:08

Unknown

And then should you want to invest it, did you know that you have to, pay taxes on it? The grandparents might be on the hook for the investment income generated on that investment. Yes. No. It's crazy. The the actual. You open up this account, it's in the child's name. It's for them. And the grandparent gifted that property, that money.

00:07:47:10 - 00:08:10:27

Unknown

The income generated on those investments is attributed back to the grandparents. And grandparents have no idea when their parents are, like, filing their tax return, like not thinking about the income. So if I bought, let's say, you know, Bell stock or Enbridge stock and created a little pool of like, investments for my, grandchild. And if I'm getting dividend income on them.

00:08:11:01 - 00:08:37:14

Unknown

Yeah. Or interest income. Well, whatever income I'm getting on it, all of that income automatically is supposed to be attributed to the grandparents who have given the money to the child. Yeah, right. Because a child is minor. Yeah. And the rules don't look for intention. It just looks for money. Came in, got invested, and whoever gave the money directly, indirectly through a loan or a gift, so long as there's a transfer of money and the money got invested and it's.

00:08:37:14 - 00:08:58:20

Unknown

And it's a minor. Yeah. That's it. That's into the rules. It's called attribution rules. And now grandparents are supposed to pick up that income every year except for a capital gain. Yes. Except for capital gains. So if you have and I don't know why that cargo is there, but it makes no sense to me. But if you have, let's say let's use an example.

00:08:58:23 - 00:09:24:17

Unknown

Let's say if I bought Enbridge stock. Yeah. For let's say 100 bucks and that has grown to $150. And I sold that stock. Yeah. And I made $50 of, capital gain on it. That capital gain will stay with the child. Yeah. And they'll pay tax on it. But should there be any dividend income, other types of income being generated on the same stock, that income goes to the guy.

00:09:24:17 - 00:09:37:24

Unknown

Yeah. Those T5 slips that you think you might have to record in the name of the child. They're going actually with the grandparents, but like who knows all this stuff? No one knows this stuff. If I told this to a client, they'll just look at funny at me, you know? No, they would like, what is wrong with you?

00:09:37:25 - 00:09:52:28

Unknown

They are going to think that we're wrong. Because it's so ridiculous. The grandparent has no idea what's happening. They just gift the money. They're gone out of the picture. They decide to do with the money. It's up to the parents or the. The parents are the ones that are going to invest, that decide what to do with it.

00:09:52:28 - 00:10:21:25

Unknown

Right. And they themselves are not aware of these rules that this would happen. Yes. You know, and it's crazy. It is pretty crazy. So, I mean, and the funny thing is like this, this attribution thing automatically stops if the child turns 18. Yeah. So if you have given money when the child was one year old and 18 years later, this issue will will automatically stop.

00:10:21:26 - 00:10:41:04

Unknown

Yeah, but annually the income is supposed to be they may be 18 years of 18 years of investment income. That should have been reported on the grandparents return. Yeah. Yeah. I mean, look, there's so many questions or issues I can come up. Right. Like, okay, a how does grandparent control that or even know about it. They don't they don't.

00:10:41:06 - 00:10:58:07

Unknown

Does parent even know about it. No. Does the bank or whoever the investment advisor know they don't ask, like, hey, where did you get this money? Oh, I got it from the grandparents. Gave it for a birthday. No, they don't keep record of it. They don't ask those questions. No, no, the slips are going to be in the name of the holder of the investments, which is.

00:10:58:08 - 00:11:17:18

Unknown

That's it. Yeah. Right. So no one really, like, ask these questions. No one really looks for them. But now, but if it comes to like Canada Revenue Agency and if they want to look into auditing and start questioning about, well, where did the money come from, what is the tax law. So that's the yeah, exactly. They're going to look at that or they're going to basically look for okay.

00:11:17:18 - 00:11:38:00

Unknown

They don't really sometimes tell you what they're looking for. Sometimes they look for a fishing expedition. Should they happen to audit this investment account, they might for another first thing they look for is like, where is the investment where the source of, investment come from in the first place? Where does the seed capital come from? Where was the original money that came from?

00:11:38:03 - 00:11:59:27

Unknown

And should they trace it back to their grandparents? Unfortunately, they could apply this rule. It's an anti-avoidance rule? Yeah. Oh, no. They're screwed. Yeah. They could. Yeah, yeah. So, you know, this is one of the things like, if you want to go do nice things for your family, you want to pass down some money or property or whatever you can.

00:11:59:27 - 00:12:18:05

Unknown

Like you were saying, this is one of the tax trap to certainly avoid and, keep good records of where the money went. Yeah. Because you decided to invest it, and talk to the accountant. Talk to you? Yeah. When it's a large funds. Yeah. If it's it's a large it can grow. It can grow substantially. It can grow.

00:12:18:05 - 00:12:38:18

Unknown

Yeah. Like an 18 years. Let's see. That's true. In 18 years it can compound and there can be a lot of income, investment income that you may. Yeah I mean think about it like, let me just give you a ridiculous example. What if the, the, the parents thought, oh, I should buy, Nvidia stock. Yeah, yeah. That's true.

00:12:38:18 - 00:13:00:19

Unknown

And they put the thousand bucks into Nvidia. Yeah. Right. And it grew to like, I don't know I don't know ridiculous amount over 18 years. It's one of the top five market as market cap in the investment. I think the capital gain is okay because we said capital capital gain is a problem. But like should they have invested in something that was going to generate dividends.

00:13:00:19 - 00:13:17:29

Unknown

Yeah. You can you can you do have a problem. Yeah. So it's a tax trap I think you need to look out for or at least know that it exists. And if it's, if it's going to be a problem, you need to just kind of see. Well, maybe we should buy only, investments that only generate capital gain.

00:13:18:02 - 00:13:40:16

Unknown

Yeah, like types of income. The capo of capital gains is interesting. I think people should be aware of that. You can focus on growth investment versus dividend paying. Don't put it into like gas or disease. Avoid gases. Oh, avoid dividend paying stocks. Maybe buy if you bother paying for their expenses. You know if there are expenses or just pay for expenses.

00:13:40:16 - 00:13:50:10

Unknown

Yeah pay for childcare expenses using that. But you always need some cash contribution if you spend the money. Yes, exactly. It's only if you invest in it. It's only if you invest it. Yeah

00:13:50:13 - 00:14:16:10

Unknown

So you mentioned something that, like when the child turns 18, right. These rules. Well, did not do when this was in this specific rule. Attribution. Attribution rule will not apply anymore. However. Yes, there are other they have other or they have other arrangements to so catch you. Yes. There are some other traps that can catch you once you turn 18.

00:14:16:14 - 00:14:35:16

Unknown

Yeah, yeah. So, so like what happens is mostly if you want to give money that can be seen as a loan. So now you're an adult, your your kid, your grandchild or child is no longer 18. Right. They turn 18. They turn 18. But you know, even if it's an like you're older than 18, whatever it may be, whenever they're going to give the gift.

00:14:35:23 - 00:14:58:28

Unknown

Yeah. Or money. Yeah. This rule will catch you because if it's seen as. Yeah, I mean, yeah. So like, they have a rule to catch minors. Yeah. So, so children under 18. Yeah. And then there's a separate set of rules that are not attribution rules that catches adults. Yeah. 18 and over. Yeah. There's a separate separate.

00:14:58:28 - 00:15:22:25

Unknown

Yeah. And it's a similar. Yeah it's a similar thing from the grandparents or parents perspective. They might just want to give money. Right. Or it may be something that's not even documented. Or maybe it is a loan but they make it interest free. Yeah. Right. Well yeah. I mean, the the distinction I think we've always seen is that there's no in, in the attribution rule, it applies automatically.

00:15:22:26 - 00:15:47:18

Unknown

Yeah. No matter what. It just looks for. Hey, did you get the money. Was the money invested and was it investment income. That is not a capital gain. And just income just gets allocated or attributed back to the person who gave the money parent or grandparent whatever. Yeah. But if you were an adult now it's a separate set of rules going to apply.

00:15:47:20 - 00:16:09:29

Unknown

Those rules look for the type of transfer that was done to you. So let's say let's use numbers for example. So let's say as an adult you took $10,000 from your grandparent. Right. And if you took that money and this invested it same way as you would have done it. Like what more stocks whatever that is.

00:16:10:01 - 00:16:29:06

Unknown

And if and this is where like it's not automatic anymore. All they have to look for is like is this a loan or not alone. If it's not a loan then you're fine. You're fine. Yeah, but if it is a loan or if it's seen as a loan, if it. Yeah, if it a if it's undocumented and people interpret that it's a loan.

00:16:29:06 - 00:16:58:08

Unknown

Yeah. Then Canada Revenue Agency can apply this. I know I'm going to be technical like section 56. Yes. And we try not to say those sections but like section 56 we. Yeah. So yeah with well like what happens is similar story. Right. The income on that property that's been seen as a loan and they've invested it. Any income generated from that would be attributed back to the transfer.

00:16:58:13 - 00:17:22:13

Unknown

But the person that the lender the lender. Right. Who's who's actually lent the money. Yeah. But I mean they can charge any interest a reasonable. Yes. As long as they didn't charge reasonable interest, fair market value, interest. Right now it's 3%. 5%. It's high.

Yeah. Right. So you have to charge interest for it. But another thing, another condition that's written in the act is that it has to.

00:17:22:14 - 00:17:47:27

Unknown

One of the reasons that you're doing this is to avoid taxes. Yes, which is difficult. One of the main reasons, one of the main reasons that you're making this arrangement is to avoid taxes. Yeah. I think there's, I get the fact that why government has its rules, they're trying to say, well, if you are going to make an investment and you happen to just basically avoid taxes by giving this money to someone you're related to and they invested on your behalf.

00:17:47:27 - 00:18:06:11

Unknown

Yeah. Then they want that income to go back to the person who gave the money because you're trying to avoid taxes. Well, you're trying to like lower your tax rate because you save taxes, children or minors or maybe in this case, an adult. Yeah, maybe isn't earning any other income. So it's attractive to shift the income to their marginal tax rate.

00:18:06:11 - 00:18:29:26

Unknown

But I think it's like one of those things where like even, people who are not genuinely trying to save tax and actually wanting to help by giving loans or other ways to, like, give money to their related people, it still can catch you. And then kind of revenue agents, you can still say, well, section 56 can apply to you.

00:18:29:28 - 00:18:53:24

Unknown

And, any income, if you have earned from this investment should go to the person who gave you the money. Yeah. Because that person gave you a loan with no market value, interest or whatever. Yeah. So, like, I think the the case in point is that, you know, if you're an adult and you're going to receive money or give money to somebody, either make it a formal gift that you can sign a deed, a gift at the time you receive the money.

00:18:53:26 - 00:19:14:15

Unknown

Or you should very basically, if it's going to be a loan, meaning there's an expectation of repayment, then charge a fair market value. Interest. Yeah. So then the individual who has taken the money that whatever income they generate on it doesn't get attributed back to the person, which can be costly because I think like that might be fine if you want to do that with your children or grandchildren.

00:19:14:21 - 00:19:34:26

Unknown

But if you have to now charge higher interest rates, you may not want to do that anymore. You know what I mean? Yeah. I mean, these are things like it just makes a very simple, you know, let's say simple case of generosity to, like, help somebody because, like, so much legalities come into play, there's some tax issue and complexity.

00:19:34:26 - 00:20:00:10

Unknown

Yeah, I'm not sure. Then I think that kind of turns off people from, like, even helping each other. Well, it did or the 93 year old grandma. Right. Like once she found out she was just not happy at all. Yeah. Like, had the grandma, gotten the advice if you're going to give this cottage or whatever the lands to your children and grandchildren, and you will, you will pay $40,000 in taxes, I think she would have or, you know, not actually gifted anything.

00:20:00:12 - 00:20:25:10

Unknown

Yeah. Yeah. So I think, like, people, they just change their mind. It's unfortunate because within the family unit, you know, you think sometimes I'm just helping my kids, right? It's going to be for them. Why am I getting penalized to help my children? I think that's how someone would see it. Yeah. Because some people do believe the, the, the money is going to stay within the family anyways, right?

00:20:25:10 - 00:20:47:15

Unknown

Why am I getting, taxed now? You know, it's. Yeah. And, you know, I mean, it, although these rules exist, in, in various parts of the tax act, you know, we also got to talk about, like, practicality of like, yeah.

00:20:47:17 - 00:21:12:08

Unknown

Anytime you make any significant amount of money being given or acid being given to a related person, they should obviously ask questions to their accountant tax advisor, but at the same time, like if like, I don't know, how many times do we have actually seen people getting audited or I have the issue and then being questioned, not okay, or they're going to apply this type of rule to you.

00:21:12:11 - 00:21:36:07

Unknown

It makes it difficult where like from in our experience, we don't see a lot of audits in this area. No. Or we don't see a lot of, negative outcomes from the Canada Revenue Agency. But then it doesn't stop a bad situation to arise itself when, if and when, Canada Revenue Agency wants to make it an issue.

00:21:36:09 - 00:21:53:04

Unknown

Yeah. Ever. And then if your exposure goes like many number of years, let's say 18 years of the first example we were talking about, that's a quite a high risk. Yeah. Well, I guess that's what I was going to say. It's a risk. Right. And do people want to take that risk. Yeah. Right. They shouldn't be in that position you know.

00:21:53:04 - 00:22:30:16

Unknown

Yeah. But but the law is written as it is and it's tax. That's the law. Right. Yeah. Rules are law even if it's not getting audited. Yeah. Yeah I mean I think it doesn't change kind of create like change their attention and start enforcing rules all of a sudden. Yeah. And I think if you have like either misstated your returns, or you been like, you know, made a significant error, it cra has, has unlimited time to go back and audit any years in the past because all the years are open for a reassessment.

00:22:30:18 - 00:23:01:29

Unknown

Usually the tax returns open for reassessment for about three years or four years, depending on the individual that has, you know, being exposed to the, depending on the individual on their status, etc.. But in case where there's a significant error, like Sierra can go back any year and apply all these assessments all at once. Technically speaking, we've seen that happen in other instances, other applications, but it just depends on like if government decided today that now they want to start focusing on this low hanging fruit.

00:23:01:29 - 00:23:26:10

Unknown

I do believe this is a low hanging fruit for many people, because a lot of people try and try to help each other and especially the, you know, boomers or aging parents who've now, you know, are ready to, like, start, you know, give away some of their wealth to the next generation to help them buy homes and such, help homes, or like, even help them buy a business, you know, get them ahead in life.

00:23:26:13 - 00:23:43:19

Unknown

Money has is always moving around. Yeah. And I do believe this is a low hanging fruit and I think just depends on one day that government feels like today they should now go after they go after them. I think there's going to be a lot of issues. Yeah. They'll find a lot of people to, to tax you on.

00:23:43:19 - 00:23:57:09

Unknown

And it just means that you just have to be ready basically. Right. Yeah. So just get or at least no, no, the rules. Right. Know the rules. At least. You know, knowledge is definitely going to be, something you want to be on your side. Yeah.

00:23:57:11 - 00:24:17:27

Unknown

I think we spoke about, you know, some of the attribution rules and section 56 rules, but I think we should also speak to what it would mean if you took your own money and invest it on behalf of your children in a TFSi. Yeah, right. First of all, a child, a minor child can't open up a TFSA.

00:24:17:29 - 00:24:40:06

Unknown

They have to be to having the room in the first place. Yeah, exactly. They have to be 18 before they have that route. Open up that account. Invest. But you could do the RSP. You can do the RSP. That's what I was going to say. Yeah. Yeah. So if, if money had come in and, and let's say same example grand grandparents want to give money.

00:24:40:08 - 00:25:01:08

Unknown

And if the, the parents had opened up the RSP account they can contribute that money to it. Yeah. The investment income in it is not going to be subjected to the same rules.

Yeah. Rules. Right. But yeah, like the other ones you mentioned like the FSA. Yeah. The TFSA would grow tax free. Tax free wouldn't be.

00:25:01:13 - 00:25:23:08

Unknown

You need to be like, I don't want like you have to be 18, but you have to be 18 anyways. Yeah. And not minor. So like the FSA, RSP, RSP need to have an RSP room. Yes. Which is created by actually working and having something. Exactly. So it doesn't happen right away either. So like when you turn 18, it's not like you get like a big margin of account that you can still open and like put money into it like small.

00:25:23:10 - 00:25:44:01

Unknown

You get like small room every year. Yeah. As you earn income and as you go through your life. Yeah yeah yeah yeah yeah. So, so go ahead. Know I guess I think go ahead. Well because I'm trying to like transition. And I would like to use this to go ahead. I just didn't want like a sign. No I was confused.

00:25:44:01 - 00:26:04:19

Unknown

That was the RSV. I don't think you can technically do the RSP and I don't think it contributes back. But the but you're saying that the the income you won't even have income. You don't have room to invest or the child. Yeah. TFSA gives you what, $5,000 a year. Yeah. So the TFSA, okay, I don't know. I don't know what we were going to say next.

00:26:04:22 - 00:26:20:10

Unknown

No. So just why don't we restart that piece? Okay. I think you should, like, take it away, because I don't think we. Well, I just at the same time. Yeah, but what else do we want to say? RSP just say like minor then to to to avoid these issues like make sure you have an account open. Yeah. We just want about our.

00:26:20:10 - 00:26:38:17

Unknown

Yeah. But then if you turn but does that's the only you can do. But you said it think you should do it. Say it properly okay. What I said was like not good okay. Yeah. Okay. Sounds good. Yeah. Gives me. No. Because then I'm also thinking from a clip perspective. Right. You can cut a clip just on that sort of thing prescribed.

00:26:38:17 - 00:26:59:05

Unknown

Right. Well, it's probably but are we going through all of these like do we want to do we. I'll say wait till 18. Obviously with planning they document it as a gift. I mean, just the FSA are TFSA, Rrsps and FSH, HSA whatever. But but TFSA yeah. Okay. I'll just say I think that's it. Yeah. Okay. That's it.

00:26:59:10 - 00:27:24:10

Unknown

There's other just so you can say that those two. But these are the main. No. Well you should tell them not to use what we just said. So yeah. Guys like whatever I spoke in the beginning like last five minutes. You can ignore it. We'll just restart that same segment again okay? Okay. Okay. So I did want to mention because we were just talking about investing on behalf of your children or grandchildren.

00:27:24:12 - 00:27:41:13

Unknown

You know, there are different registered accounts out there. There is the TFSA, right. However, with the TFSA you have to wait till you're 18. Anyways, right? To open up an account to have the room to invest in the TFSA. And it also grows very small. Right. 5000 or something like that. It. Yeah, it only grows. It's small.

00:27:41:20 - 00:28:02:11

Unknown

So that can't really be used when they're not for minors but for adults. Yes. Yeah. And then for your RSP you need contribution room which you only earn as you work. Right. As you generate income. It's a percentage of your employment income in the previous year. Exactly. That makes the room for you to make the contribution. So you don't really have anything to begin with.

00:28:02:11 - 00:28:25:05

Unknown

Yeah. Yeah. So, you know, in a lot of cases, you may just wait till you're 18 and they're 18. But one thing that is available, is the RSP as a miner. Yeah. As a miner, the registered education savings plan, which can be opened up. And you can put those gifts that you're receiving for the children's behalf into the RSP and that income won't be attributed back.

00:28:25:09 - 00:28:46:21

Unknown

Yes, yes. So I think if you if the intention is to like, have, some investment account as a miner. Yeah. Go open up your RSP account. Yeah. And then once you turn 18, if you're still going to be someone's going to contribute and help you and gift you some money or whatever. Maximize TFSA and RSP if, yeah, if and when you generate the room.

00:28:46:28 - 00:29:07:26

Unknown

Yeah. Or otherwise just receive gifts otherwise documented. Documented, yeah. Have a written documented gifted to show that this was a gift versus a loan. Or if it's a loan, that's okay to be a loan so long as you charge a market value, market interest on it. Exactly. That's all. Yeah. You could say something. Oh. That's it.

00:29:07:29 - 00:29:28:27

Unknown

Okay. That's fine. To the point is good. Yes yes, yes. Okay. So now we'll talk about corporate loans to kids and Tosi. Yes. Just say for like a lot of business owners, a lot of business owners who have typically cash saved up in a company, it's not like that money personally saved up. Yeah. Yeah I got it a long time ago.

00:29:29:00 - 00:29:48:01

Unknown

So then this brings us to the conversation guys. We're going to start the next segment. Sorry. Yeah. So a lot of our business owner clients right a lot of their wealth investments, everything is held within their corporate structure. And they may not have a lot of personal money to give. And they want to make gifts to their kids or their grandchildren, right.

00:29:48:07 - 00:30:14:09

Unknown

So they often come to us and ask us, can I just pull money out and just use my corporate funds and, you know, give it to my children? Yeah. Usually, you know, like, every accountant is different, every client is different. So can't really generalize. But you know, those who those who want to minimize taxation, they only take money from the company to the extent they needed for their personal use.

00:30:14:11 - 00:30:43:05

Unknown

Yeah. So do they pay for their home mortgage, pay for their living expenses, groceries, car payments, whatever. Have you insurance, property tax. So they only take money that they need and whatever it is they don't need and they want to invest it, they usually leave the money into their corporation that runs an operating business. So that's how you would, generally speaking, minimize the tax because whatever you draw to the company gets taxed at a higher tax rate generally.

00:30:43:07 - 00:31:10:24

Unknown

And if you leave the money inside the company, the profits in the company, they usually are taxed at a better rate. And that rate could be rate. It could range from 12.2% in Ontario to 26.5% also in Ontario. So you're always better off to leave money in now. Yeah, that's I think, where people are, concerns like, hey, my child wants to, start a business or like now they're like, not minors.

00:31:10:24 - 00:31:29:23

Unknown

They're older, they need tuition. Probably. They're going to like, let's say a medical school. And the cost of education is really, really high, especially some of them now actually have to go overseas to Australia. Or they're going to go to U.S. and like it's a huge deal. They get in like 2 or $300,000 a year for the next 4 or 5 years.

00:31:29:23 - 00:31:46:25

Unknown

Exactly. Like all at once. They may need a lot of money that's sitting in their corporation to pay for their education or a wedding or something for their children. Well, they're also like scraping money around, right? Like they're looking for ways to, like, pitch in for their children. Some do a little bit, some want to do all of it.

00:31:46:26 - 00:32:04:18

Unknown

Yeah. And those who don't have money at all, they just go out and get a loan. Yeah. But if they have, if they don't have to get a loan and they got money inside a corporation to get it, it becomes very like, unintuitive intuitively. Sometimes people don't make that connection to say, I see the money in the company.

00:32:04:22 - 00:32:27:11

Unknown

Yeah, but if I draw money out to give to my child, I lose more than half of it to tax. Yeah, but my child can go get a loan from a bank, and the bank may not want to qualify them. Yeah, right. And it becomes like a financing issue and a tax issue tied to it because, clearly you've got savings that you can actually draw, but you can't really use it for that purpose.

00:32:27:11 - 00:32:47:09

Unknown

Yeah. So it's like kind of money's like an A, it's like locked away. Yeah. It's like an invisible glass around it. Yeah. It's sitting there and it's, it's wanting to be used. But yeah, it adds complexity to use it in a tax bill. Exactly. And then, you know, some people will wonder why can I take a loan? I can if I can go take a loan from a bank.

00:32:47:12 - 00:33:05:28

Unknown

Yeah. My child can get a student loan from a bank or get like an Osap. Yeah. In Ontario, that's like, you know, government giving you a loan. Well, why can't my company, who has got this cash? Why can't I give a loan for my company? And the company can earn interest income from it. Yeah, just like a bank would.

00:33:06:00 - 00:33:27:25

Unknown

And then I can have a repayment plan with my. My children. Yeah, whatever that is. Yeah. The problem is, is that our tax rules very clearly say if you ever get into a loan situation, if you draw money out of the company that you are a shareholder of. Yeah. Like in a private business company, I'm talking about any draw that you take.

00:33:27:28 - 00:34:01:17

Unknown

Call it shareholder loans. They must become or treated as dividend income or a salary or whatever, have you. It's a compensation that is to be taxed. Yeah. And I think where people get confused is that because our, our rules have some carve outs, specific carve outs, which basically says that if you draw money as a, for the purposes of using it to buy a house, to buy a car or to buy shares from the company, right, those three items are accepted.

00:34:01:20 - 00:34:23:10

Unknown

So long as you are doing that in capacity of an employee. Yeah, right. And I think people confuse that quite a bit to say, oh, yeah, maybe I don't need a student loan, but I need to, like, buy a car. My child needs to buy a car. Okay, here you go. The loan is there. Yeah, but I think it's very hard to sometimes decipher that.

00:34:23:12 - 00:34:44:19

Unknown

If you took money out of the company, and you bought a car with it and you have a loan. Outstanding. What Sierra is going to test you or ask you is like, okay, we think because you're the only one in the company who has ever done this in most cases, that only you had this loan, nobody else ever had it.

00:34:44:21 - 00:35:01:21

Unknown

Would you have done the same loan for all employees, for all employees who are like, not yet trusting to see if, as a shareholder, are you an employee or not? Yeah. So if you took money as a in the capacity of a shareholder, it's a big no. Yeah. But if you are taking it as an employee, just like any other employee would have done it, then it's okay.

00:35:01:27 - 00:35:20:25

Unknown

Yeah. Right. And these rules are complex. Even to explain these things are like, I think people will have to rewatch this. Yeah. Get a little bit over and over again. Yeah. To get it right, basically, if you take money in the capacity of a shareholder, big no. If you took it as a capacity of an employee, that's okay.

00:35:20:28 - 00:35:38:26

Unknown

So long as you pay the interest, reasonable interest to the to the company or there's a crude CRA rate, prescribed rate, we call it. Then you're okay. But the only way to prove that you took it as an employee, if you had given those loans, we had a history of those loans with other employees who are not shareholder related to you.

00:35:39:03 - 00:35:56:29

Unknown

Yeah, and that's ridiculous. It's like as a shareholder, you're pretty much an employee. If you really think about the amount of work you may be putting in in your business if you're running it, but it's something some small business owners, but some small businesses. Some. Yeah. So where does that leave you? Right. Like. Well, I don't mean like I run the business.

00:35:56:29 - 00:36:15:28

Unknown

Me and my my wife, my my husband, my children work in the business. It's a family business. Like, say, it's a pizza store. Yeah, right. Us families like enough to run the business. Yeah. And I don't have any third party employees. And should I had employees, maybe I would have trying to do it. Yeah, but I think all to say is like, you know, our rules are pretty, like, crystal clear.

00:36:15:29 - 00:36:37:10

Unknown

Yes. They just don't allow shareholder loans. Yeah, right. And if you have shareholder loans, this is like a very low hanging fruit. You want to pull the money out and you drew it. It's going to be taxable. You're to pay personal tax on it, which can be like 54%. Yeah. Especially when you're, you know, maybe pulling out $300,000 from multiple kids, putting them through university overseas.

00:36:37:10 - 00:36:56:03

Unknown

What it maybe it's a it's a big tax bill. I know someone who's like trying to put their child to like medical school in Australia. Yeah. And they're like literally scraping money together. Yeah. And they know they cannot get a loan from their own company where the money could be. Yeah. And they're having a hard time because the the bank isn't approving for the whole thing.

00:36:56:05 - 00:37:13:09

Unknown

They're giving a little bit but not everything. Yeah. So now they're like they have to either pull the money out and pay that tax. Well, they pull the money or lose half of it to tax. Yeah. And then give a little bit whatever is left to the child or they just get a bank loan. Well bank loans but they're not even giving the financing.

00:37:13:09 - 00:37:34:06

Unknown

Right. So yeah that's where I think people really get like stuck between like you know, in a hard place. Yeah. It's like it's it's neither of the scenario is good. No. And the only way sometimes your your your your okay too. The only way to be okay in that situation is like bite the bullet, pay the tax.

00:37:34:08 - 00:37:53:16

Unknown

Despite the fact that they don't want to, despite the fact that they, you know, may be able to get a loan somewhere else, pay a higher interest rate. Yeah, like a shark loan. Yeah. Give like a shark loan. Oh, where are we? Where am I going to pay 40 or 50% in personal tax and then give the. And I'm sorry, give the money to my children for their education.

00:37:53:16 - 00:38:12:01

Unknown

Yeah. I know like so many times people who come to our office and they're talking about how to help their children get ahead in life and they've got large expenses associated to them because, you know, they're looking at like, their careers and like what these, you know, teenagers right now or like their early 20s, what are they going to do in their lives?

00:38:12:03 - 00:38:33:16

Unknown

Yeah. You know, a lot of a lot of, these parents, they think they need to spend a lot of money on their education, like, you know, law medical. Yeah. But everything demands so much money. Yeah. To to pay for these types of education expenses, especially if it's overseas living expenses. It's not cheap, especially if you do overseas all by yourself.

00:38:33:16 - 00:38:56:28

Unknown

And yeah, there's all kinds of expenses, right. Yeah. So shareholders make shareholder loans a big no most of the time. There are some exceptions. I'm not going to get an get into it because I think most people won't qualify. There's a one year rule that most people talk about, that you can take a loan for one year and pay the interest, so long as it's done only once in a while, or like one off loan that you've taken.

00:38:57:04 - 00:39:13:17

Unknown

Yeah, but I think in most cases it's not very practical to be like to be in a defensive position. Yeah. It's very wise to look at and see how it looks at shareholder loans quite a bit. Yes. No experiments. Whenever we got to get into an audit they always scrutinize that that short loan. Yeah. With the, with the clients.

00:39:13:20 - 00:39:28:16

Unknown

But the problem with the shareholder loan also is that, you can also be double taxed. Right. Yeah. Because. Yeah, yeah. Do you want to explain that like and show what, how that double time. Yeah. Yeah. Can we take a

00:39:28:19 - 00:39:48:09

Unknown

So you know, I mean we've we can get into a so many details related to shareholder loan, but I think it's also good to ask the questions like when we get into CRA audits. Yeah. There are situations where the audit can be done and the CRA can actually double tax you when it comes to shareholder loans.

00:39:48:10 - 00:40:13:19

Unknown

Yeah. Can you speak to me about that in terms of how it works? And like what do we usually see in that context. Yeah. See what happens is that, you know, you owe the corporation X amount of money. So if you've taken the money, say you pulled out $200,000 from the corporation, right. On the balance sheet, there's a receivable for the corporation, and now you're forced to include that into your personal tax and personal income and pay personal tax on it.

00:40:13:19 - 00:40:36:26

Unknown

Right. So now you've shaved off $1,000, you paid $200,000, so you pay $100,000 of tax. Right. The the unfortunate part is, you still owe that money to the corporation. Yeah.

It's not that that that that's gone that still sits on the books. Yeah. There's been nothing to pay it back. All it's done is it's force you to include it into your personal tax return.

00:40:36:26 - 00:40:59:04

Unknown

And you pay that tax. Now you're left with $100,000 if you think of the economics of it. But you owe the company $200,000. Yeah. So like, I think most, when an audit comes to the CRA auditor has two options. Yeah. They can either say, let's continue using that $200,000 example. Yeah. They can either say, well, take this $200,000 that you've taken from the company into your income.

00:40:59:04 - 00:41:23:06

Unknown

It'll be deemed it'll be dividend for you. Yes. And you paid the tax. And then the CRA auditor will allow you to remove that loan outstanding from the company that has a receivable off the books. Like now you've actually paid the loan by taking the income up to $200,000. You no longer have that money outstanding. Yeah. But in some cases, they can double tax you.

00:41:23:09 - 00:41:49:07

Unknown

Right. And say that $200,000 is going to be still outstanding. To the company, despite the fact they've taken $200,000 into income once. Yeah. Which hurts. Yeah. Right. Not to mention the penalties and interest that comes up. Because the only way for you to then clear off the books is to pay yourself a salary or a dividend again of that $200,000 and then clear it.

00:41:49:12 - 00:42:10:15

Unknown

Yeah. So now you can be more like shareholder loans can be so brutal because Canada Revenue Agency looks at them all the time. And, oftentimes they will go and try to apply the double tax route. And you always have to fight it back to like make sure that it's not it's the wrong outcome sometimes. And they should be you should be fighting back for.

00:42:10:21 - 00:42:32:03

Unknown

Yeah that's crazy. So have you seen them take. No I remember you telling me about Mike Stanley. I didn't go through the audit, but, did you achieve the right result at the end? Like, were you able to argue it so. Well, why do they do that? But then they just give you, as they say, misappropriation of asset versus the.

00:42:32:05 - 00:42:56:05

Unknown

I remember you telling me my family's scenario and also O'Reilly was the same problem. What happened with him? Same day shareholder? No, not properly capped. Oh, like hundreds of thousands of dollars. But this happens so often, though, like so many accountants, I feel like apply that strategy or the one year thing. And they. It's always rolling one year, right?

00:42:56:05 - 00:43:07:15

Unknown

Yeah. Yeah, yeah, I know okay, okay. What's next? Autopsy. Yeah. Okay.

00:43:07:18 - 00:43:30:19

Unknown

Okay. All right. So. Oh, so. But I would say I kind of want to, like, I think the best way to relate to it is, like, what I find to be crazy is, like, you have an investment corporation, like rigor. Okay. Like, even operating company probably means the same thing. I think the what I struggle with is, like, how we're going to make it relatable.

00:43:30:22 - 00:43:53:06

Unknown

Yeah. Right. It doesn't. Yeah. I feel like although I get it in our context of audience, whoever. But our primary audience is those. Yeah. All those people. Yes, yes. And I think it's good to at least create the episode, because as we get more rich, there will be some business owners that will want to listen to that.

00:43:53:07 - 00:44:15:18

Unknown

Yeah, yeah, yeah. And are you just afraid of the comments? Okay. No, I mean, I'm not afraid of the comments. I'm just saying like, yeah, let's do it. Because like, remember we our whole strategy was not to just for the personal like yeah yeah I agree I agree okay let's do it. So how do we out the way I don't know you tell me your thoughts.

00:44:15:18 - 00:44:33:26

Unknown

But I was just thinking about people that like even just have like, investment corporations. You know, they just have passive investments. They like, I would say like, go to, like Tony B and his grandkids. Yeah, but none of them are going to meet the. Yes, none of them can stream dividends to them. Yeah. Yeah. Like they're just holding the shares.

00:44:33:26 - 00:44:52:13

Unknown

That's it. They can't actually take any income out without totally a plan. Yeah. Unless we yeah we can say why can't we. The income split basically is an income split. Yeah. But you want you'd want to income split in the in the case like that I would think if it's for the like his intention or for the grandchildren.

00:44:52:15 - 00:45:13:03

Unknown

So money coming out. The parents might want to give it to the grandchildren's accounts. Yeah. Or like is Investment Holdco a better example or is it an operating business a better example. Well the operating they have the carve out I kind of like that that they're working. They're working. We can see that. We can then we can see those solutions.

00:45:13:03 - 00:45:32:11

Unknown

Right. Yeah. Because like because like the 25 and over is the 10% Wharton value. Yeah. But it only applies for 25 and older. Yeah. Yeah. But I think if we're looking at like slightly younger solving for kids receiving money when they're like under 25.

00:45:32:13 - 00:45:58:06

Unknown

Yeah. Tony honest was like the perfect example or. Yeah this kid's. Yeah. Yeah. Okay. So how do you do it? You tell me you're the leader of Co would be like think better. Okay. It's done by a better example because we have a solution to an inflexible. Yeah. Tosi okay. You've done a paper on it. So yeah. Tell us.

00:45:58:08 - 00:46:13:27

Unknown

That'd be the easiest one to explain when you say that. The easiest one to explain. Okay. Go ahead. What do you want to say? How do I start? What's, Oh, we don't even have a segment. Okay. I can say, like,

00:46:14:00 - 00:46:31:21

Unknown

Business owners, you know, well, at least you have a you talk to the history of it because I feel you were practicing a lot when they were in groups, putting a lot. Right, I don't know. Yeah, like I was. So you can say at that time how it was and how it transitions. Okay. So guys we're going to take on the next segment now.

00:46:31:29 - 00:46:49:19

Unknown

So you know if you're a business owner I mean so far all the examples we've used so far. Next meeting the shareholder loan. Yes I say maybe start I'm going to restart guys. Yeah. So if you're a business owner right. There used to be a solution. And I want to speak a little bit about the history of it.

00:46:49:19 - 00:47:11:29

Unknown

And then basically get into like what are the how we do it today to get to a result where, a business owner who wants to basically give income but on a tax efficient basis because shareholder loan, like I said, is not a good solution to work. Yeah. What used to happen is that you would have your operating company, and the operating company, shareholders.

00:47:11:29 - 00:47:32:28

Unknown

Right. Like, let's say Bob started, plumbing company and it's very successful. It makes good money. But if if Bob draws all the money out of the corporation, Bob now has to pay all that tax personally. Right. But maybe he's taking money to pay for the kid's education that we were just talking about because he wants to help out.

00:47:33:00 - 00:47:59:13

Unknown

But if he takes money that he needs to run his business. So to run his home, living expenses, etc., and then tacking on on top of that, the money that he wants to give the children after tax dollars to so that they can spend on him for the education. Bob is going to have a lot more tax to pay, whereas in in relation to our, compared to if Bob children could directly receive that income.

00:47:59:16 - 00:48:19:20

Unknown

Right. And Bob has a child who wants to, like, actually go to school, they're already, you know, they're adults 18 and over, want to go to university and they need that money. What used to happen is that Bob would bring in their child X, let's say Julie, right into the shareholdings of the plumbing company, right at the operating company.

00:48:19:22 - 00:48:40:24

Unknown

And then Julie, as a kid can receive dividends directly from the plumbing company, and then Julie will pick up that income and pay her tax, which will be if she has no other income as a teenager or whatever. Her tax bill will be lot lower compared to what Bob's might have been if he had taken all the income to himself personally.

00:48:40:28 - 00:49:07:13

Unknown

Yeah. Including what Julie. Julie needs. Yeah. So. And this system worked really well. So long as the, child was 18 and over. Right. And we had income splitting rules that allowed for it for a very long time. So from like the year 2000 to 2018, basically we had a system for 18 years to say, you can pay dividends to your, any adult.

00:49:07:21 - 00:49:25:24

Unknown

Yes. That's a sure. Anyone over 18, anyone 18 and over, you can actually pay dividends to that person. You can and they'll pay their own. So any so any money coming out of the corporation spread across the family units, members, family members, you were using their own marginal tax rates. Right. There were income splitting and there were income splitting.

00:49:25:27 - 00:49:56:18

Unknown

Reducing the overall tax rate for the whole family. When you're looking at it as a family unit because you can income split, you know, I mean there's a whole policy argument that which we can very, you know, at a high level go over is that, you know, if, if, if a, if a family of X is making, $200,000 in total, then this family of four, well, if you split that family, if each of those four people were making $50,000 each, that family's tax bill is going to be a lot lower in total.

00:49:56:19 - 00:50:18:17

Unknown

Yeah. Where it says if one person out of that family of four worked and actually earned all of that $200,000 by himself or herself. Yeah. So that now a family of four whose gross income is $200,000. In both cases, one family now has a lot lower tax and the other family has a lot higher tax. So there's like a fairness and equity question.

00:50:18:24 - 00:50:36:27

Unknown

Yeah, right. And the income splitting rules in the case of business owners it worked really well because you could just like arrive at that situation where you if you just added other family members to the shareholdings of a corporation, and so long as you were 18 and over, you could have paid dividends and you can pay just your own.

00:50:36:29 - 00:50:57:12

Unknown

Yeah. Which kind of makes sense. Bringing back to the conversation that we're talking about, you want to fund your children's education, your living expenses, childcare. There's a lot of money involved in funding their, you know, life and their future life and being able to use their, marginal tax rates in their tax brackets was helpful for the family overall.

00:50:57:13 - 00:51:20:14

Unknown

Yeah, right. Yeah. It was helping the family, tax efficient government got less money. Yeah. And then guess what happened in 2018. Right. And so the reason I'm very familiar although government had like you know, I mean there's so much politics involved. It's so crazy. But yeah, in 2017, they had released a package to, a new set of rules for tax, for, for, for, for private companies.

00:51:20:15 - 00:51:45:02

Unknown

Yeah. Whereby they had now disallowed this type of planning, income splitting because they took the income splitting rules, which was like fairly simple to apply, easy to apply though, like 1 or 2 pages long. They made it into like this 15 page massive overhaul. And now they're like, you know, kind of Swiss cheese. Like everybody's caught into these rules.

00:51:45:02 - 00:52:02:27

Unknown

Income splitting rules applies to everybody, not just people who are under ten and under who are minors, who will use to apply to now it applies to all the adults. Yeah. And and different sets of rules for different age groups. Yeah. There's rules for like if you're. Yeah that's the annoying part. Rules for 18 and under is different.

00:52:02:28 - 00:52:25:26

Unknown

Yeah. Rules for 18 to 24 is different. Yeah. Rules 25 to 64 is different than rules 65 and over is also different. Yeah. And there's it's a whole flowchart that we all need to rely on to just understand these rules to see where you where you fall under. Yeah. And like every scenario is different. Yeah. It's complicated, super complicated.

00:52:25:29 - 00:52:44:13

Unknown

And then and then I think what I wanted to mention, at least in this podcast, what has not meant for like, I guess, the income splitting teaching of like how it works. Yeah. But if you have a child, who's at least 18 or falls into the bracket of 18 to 24, or even like they're older than that doesn't matter.

00:52:44:16 - 00:53:06:08

Unknown

But a family member such as a child and who's at least 18, if you can prove that that individual child on average works 20 hours per week. In the business on average in throughout the year, then you can pay them dividends if they're shoulder in your company. Yeah. Well, we didn't even explain. Okay. So you explain the history and what happened.

00:53:06:11 - 00:53:29:21

Unknown

Yeah. But when, when, when the paper came out, what's the result that if you did that same thing, you've spread your income across the different individuals. Oh yeah. What's the tax rate that would apply. Right. Okay. Yeah. Let's just explain that and then we'll talk about the carve outs. Yeah yeah yeah. Fair enough. So it under the old rules basically you would if you paid the dividend to you were income splitting.

00:53:29:21 - 00:53:51:22

Unknown

You would pay just pay your own personal tax rate if you had no other. Let's say if the child had received, let's say, $40,000 of income from a corporation as a dividend, as the only income they had, they barely paid any taxes. Yeah, maybe 3 or $4000 of tax. Yeah. They're not very little. Right. And that less than 10% was the tax rate in Ontario.

00:53:51:24 - 00:54:16:06

Unknown

But if these rules apply the income splitting rules apply then the tax rate is from that. Almost nothing to 48% in Ontario. Yeah. Right. Which so if you paid $40,000 the child, his tax return will show that they now they have to pay almost $20,000 in taxes. Should they have received the same $40,000 in income just because of this income splitting rules that they apply.

00:54:16:09 - 00:54:42:06

Unknown

So they're detrimental, it will be a disaster. These rules apply to you. Yeah. And one of the ways to get away from these rules, one of the ways there's so many different ways to work around these rules. But that's the problem with these rules is that if you work 20 hours per week on average in that business, if you've done that in the year or any five years in the past, yeah, then you can pay unlimited amount of dividends and these income rules won't apply.

00:54:42:06 - 00:54:45:20

Unknown

So you'll be fine. Yeah.

00:54:45:23 - 00:55:11:15

Unknown

So, always talk to maybe your accountant, right. Like, if you're, if you have plans to help out your child, it's not suddenly you have that intention that's going to come to fruition. Yeah. I think if you have intention to help out your child in the future, and that child currently like, you know, maybe ten, 12 years old, and you're thinking to like, help them for their education later on when they turn adult like 18 or whatever.

00:55:11:18 - 00:55:29:09

Unknown

Start planning now, maybe start changing your corporate structure in a way that might allow for income splitting, and you can plan how you're going to meet the 20 hour rule or other types of these other types of rules that you may be able to meet the exceptions to income splitting rules that can work in your favor. Yeah. Should you, and if you're a business owner, basically, yeah.

00:55:29:09 - 00:55:52:10

Unknown

Because if you are trying to find your children's education and that if you can take, use of their tax return, their marginal tax rates, you should you have. Right. Yeah. Because you do want to leave, you want to come out of it with more funds after tax. Right. So so you know, 50% you don't want to lose 50% tax because life is expensive and paying for your children and your grandchildren also be expensive.

00:55:52:10 - 00:56:12:24

Unknown

So it's expensive and super important and super important because you want to leave with them as much as you can, right? So if there's a way to structure your business to allow for meeting some of the exceptions, you should talk to your advisors and your accountant. Yeah. And I you know, there's my there's a personal right. Like they should really relook at those income splitting rules and like probably restore what used to be.

00:56:12:24 - 00:56:32:20

Unknown

Yeah. The current current context is so bad that a lot of these accountants and I'm not getting clients and some accountants like obviously some. Yeah not all of them. I don't want to generalize it. They completely ignore the income splitting rule. Yeah. Because they're so complicated to work with. They are that either you are like in compliance or not.

00:56:32:20 - 00:56:51:28

Unknown

But that's not the way it should be. Law should be easy to read, easy to apply, and it should be fair to everybody. And I think income splitting rules is one, only one of the small examples where it's tremendously overly complicated for something that everybody needs to know. I agree, I don't want to learn about it. I don't want to have to study it.

00:56:51:28 - 00:57:12:17

Unknown

But I had to spend hours and hours as papers been written on this, like the new. Yeah, it's like ridiculously complicated. And every time you get a good result, even Chris struggles with it. How to audit. Yes. Okay. So bad rules written by the parliament. I think politicians game that in terms of when they did. Yeah. And that's what.

00:57:12:20 - 00:57:25:13

Unknown

So any we've had that client that, the grandmother, the grandmother. Very unfortunate situation. She had a couple of rental properties that she bought way back in the day for, like, nothing.

00:57:25:16 - 00:57:48:12

Unknown

Right. And back then, real estate prices here in Canada were a lot lower than we've seen. Now. Right. And her grandchildren were struggling. I don't see grandchildren. Grandchild. Yeah. So that's a rental property. How much was let me just put like numbers to it. Yeah. Let's put like number 17, $40,000 about it for okay. Yeah. But my dad's property that he bought okay.

00:57:48:14 - 00:58:18:19

Unknown

Grandparents. Yeah. In the 60s were like 40,000 because I think our first house was like 130,000. Chrissy. Yeah. So let me let me ask you and then you can start. Okay. So let's see. You really starting. Okay. So, a lot of times our clients or whoever, like parents, grandparents, they want to help their children by funding their down payment or even, like, housing to, like, get them into a house because it's so expensive to buy a house now.

00:58:18:21 - 00:58:41:11

Unknown

And it is also almost impossible, for families to get a mortgage these days because you need really high or high income, you know, to even get a mortgage in the first place. So either families now have to, like, come up with very high downpayment and smaller portion of the amount goes becomes a mortgage. Like sometimes it's 5050 ratio, whatever the bank's happy with.

00:58:41:14 - 00:59:02:03

Unknown

Or if you have other means to help them out, you would do it. I think we have an example that we recently saw. Yeah, an unfortunate situation. You know, you help us. Yeah. So like what you said is very true that a lot of people want to help their kids because the real estate market is really bad. We've talked about that in a separate video.

00:59:02:06 - 00:59:22:08

Unknown

Why it's really bad right now. Cost of living is difficult. Kids come out of university actually at a much older age. They're just starting to earn income. So like what you said is true. Getting a mortgage, qualifying takes time. And you know, in this case the there was a grandma who was who would want to help her grandchild, to have a home.

00:59:22:08 - 00:59:43:22

Unknown

She had a couple of rental properties that she bought back in the day for like $40,000. Those type of prices we don't see anymore. We don't know. You don't even get a garage for that. No. You you down a parking spot. So for her because thankfully she, she was able to buy a couple of properties and she's had held on to them and they were rented out.

00:59:43:25 - 01:00:08:25

Unknown

And now, her grandchild, one is looking for a property. So she's like, you know what? Like I'm going to leave some inheritance to her anyways, she sold this property. Gifted. Yeah. You know, gifted this property. But, when drawing up the documentation, right, to have given this property to her grandchild, they put a number to it, right?

01:00:08:25 - 01:00:34:17

Unknown

Yeah. Right. They they they said it was a sale for a dollar. Yes. And sometimes we've seen that. Right. And this not a minute away for nothing. They thought it was a gift, but they think it was a gift. But they actually documented it as a sale for a dollar, which is very unfortunate in our, in our, tax system because, what happens is that under our, the value of the property.

01:00:34:24 - 01:00:59:12

Unknown

Yeah, it was, it was around $1 million. 1 million. The cost was only 40,000. Yeah. It was entirely the million dollars was actually taxable. Yes. So so under our tax rules, they want to look at the fair market value at the time of that sale. Right. So although she's like I'm selling it for a dollar, she has to actually recognize the capital gain at fair market value.

01:00:59:19 - 01:01:22:22

Unknown

So what you regardless of what you put in the sale documents, you're going to be paying a capital gains tax on the difference between her original $40,000 and 1 million. So like $960,000 is her capital gain. Yeah. On which you have to pay nearly. I'm just going to round the number $250,000 of tax. Yeah, right. Crazy. Yeah. And she thought it was a gift this whole time.

01:01:22:25 - 01:01:45:18

Unknown

And this is something that, you know, some people aren't aware of. Right. And she came to us. Yes. Even land transfer tax. Right. There's there's. Yeah. So but you know what's ridiculous is you know, this is very common that when you are gifting or selling to your kids, the tax act wants to recognize the fair market value of the transfer and tax.

01:01:45:18 - 01:02:05:16

Unknown

You want that, right. But what's what's what's not great in this case was because they sold it for a dollar for the child that's inheriting that property. Their cost base is not a million. It's a dollar. Yeah. So meaning that when they go to sell it in the future, say they they sold that in a couple of years.

01:02:05:18 - 01:02:26:29

Unknown

Right. They have to pay that tax again from $1 to what they sell it for from, even though tax has already been paid up to the 1 million. Right. So basically grandma obviously thought she doesn't have to pay tax, but then ultimately she has $250,000 of tax. Yeah. For her for actually giving the property to the grandchild. Yeah.

01:02:27:03 - 01:02:48:12

Unknown

And then when the grandchild goes to sell it, even though let's say the value did not increase. Yeah. Since since the grandma gave it to her because she bought it for $1 when she goes out to sell it for that property a couple of years down the road for, let's say, $1 million, again, the grandchild will have to pay the tax of $250,000.

01:02:48:15 - 01:03:13:24

Unknown

Again, it's double tax. There's double taxation involved in this case. And you know what? What should have been done right. Well then you saw the CRA has interpreted it to be. Yeah. Right. And CRA is the one that actually got to them. Yeah. Right. And made it happen. Like grandma has to pay 250. But then they also made sure that the legal documents that were drawn up which says $1 yeah, is respected not for just because it's a legal transaction.

01:03:13:24 - 01:03:32:26

Unknown

You can't just like change legal transactions. No. If you don't sell it to transferring your for $1, that $1 is now your cost basis. That's your cost base going for it. And Sierra is going to force that on you because you cannot do, you cannot undo a legal transaction, right. Unless you go to court and like do some rescissions and, you know, there's this there's a whole legal process of that.

01:03:33:03 - 01:03:56:08

Unknown

Yeah. But in most cases now that grandchild is probably screwed because they now they have this inherited double tax issue. Well, what's going to happen is like, you know, they are going to sell maybe in whatever amount of years and their accountant's going to ask for the original documents that, you know, support that cost basis. And if there's so many years that you're holding on to this property, you're going to have that one document to show what you know.

01:03:56:14 - 01:04:17:17

Unknown

Yeah, yeah. The the one thing that actually is, is, is not bad in this situation is that whenever, whenever the grandchild does sell the property, she should be able to use a principal residence. Yeah. Yeah. In this case, I mean if, if, if she wasn't using it as a principal residence exemption. Yeah. Then she would 100% be exposed to.

01:04:17:17 - 01:04:38:03

Unknown

Yeah. $250,000 a tax. Exactly. Right. Because sometimes, like, sometimes the grandparents want to give their rental property to be used as rental property. Yeah, right. Like, hey, I'm just like some inheritance. Well, things change all the time, right? You may be living in it for a year, and then you decide, you know, or a couple of years, but maybe you decide to make it into an investment property and move into another property.

01:04:38:03 - 01:04:58:09

Unknown

You don't know what it's going to have. But either way, you don't want to be in a position where no exemption or no exemption. You don't want to be in a position where it's like your cost base is like not rubbing on the mound. Yeah. And it was incorrectly written into the legal documents. Yeah. So so you were you were going to say like how what would have been the correct way.

01:04:58:13 - 01:05:17:29

Unknown

Yeah. To do this, the correct way to would to document it as a gift and not as a sale. Yeah. Either get like, a gift. Yes. I think you're right. Yeah. But I think maybe grandma probably should have, like, gotten a valuation. Yeah. Get an appraisal from a realtor. Yeah. Real estate appraiser to get the correct valuation.

01:05:18:01 - 01:05:36:16

Unknown

The value and get them a document to say, in their independent opinion, the value of the property's ex. And if it's a million bucks, it's $1 million. Yeah. Grandma would have paid the tax anyway, which the RV force them to pay with interest and penalties. But she should have paid and that's fine. Yeah. Then they should have used $1 million on the sale documents.

01:05:36:19 - 01:06:02:28

Unknown

Yeah. Or if she really wanted to call it, it should have been a gift. Yeah. Right. Because a gift would recognize the correct. And yeah that tax roll that we have. Right. Like the one that forces the double tax if it's listed, if it's shown as a gift. Yeah. There's a big difference between if Sierra ever disputed your valuation.

01:06:03:01 - 01:06:21:16

Unknown

If let's say Sierra had come up with own valuations like oh yeah you got your valuation but we don't agree with it. We thought it was too low. And Sierra let's came up with like $1.5 million of value of property. And they put $1 million as their sale price despite them doing the whole real estate valuation etc..

01:06:21:19 - 01:06:47:08

Unknown

Then grandma would have paid taxes on 1.5 minus the $40,000 and then the capital gains tax on it. And then the cost base would have been a million bucks with it for the child or the grandchild. But if they called it a gift, then it doesn't matter. If Sierra says 1.5, the grandchild's cost base is going to be 1.5.

01:06:47:12 - 01:07:05:16

Unknown

Yeah, you don't actually have to think of a number. It's always going to be what's it's going to reflect what happened to your dad or whatever. Yeah. Right. Yeah. So they don't you don't have a double taxation right. Yeah. Yeah. No I agree I think gifting is a powerful thing. Now you always have to get tax advice to say what is a proper way of classifying you.

01:07:05:16 - 01:07:25:19

Unknown

But there's generally speaking, you just don't want to be in a double tax situation. You know, generally speaking, I think the whole point of this is to show that, like when you are going to give property like real estate or anything, there is a fair market value considered, like there is a capital gain that would be recognized that people in a valuation question and evaluation question that people are not aware of.

01:07:25:20 - 01:07:49:19

Unknown

Yeah, yeah, yeah, yeah. You know what? That actually brings me to one last point that I wanted to just maybe roundabout. Sure. Go ahead. The, you know, it's not just the fact that people give gifts of grandma like she did, like a house, but everybody has a house. Yeah, but sometimes you give gifts that have, personal items, right?

01:07:49:19 - 01:08:10:25

Unknown

Yeah. Right. You give gifts of sometimes. Oh, I've got a vehicle. I'm going to give it to my my son or daughter because they need a car and I don't have I don't need one or I'm going to buy a new one. I've got this and give it to them. Yeah. And I'm just talking about from an income tax perspective, there was a time when like during Covid or after Covid were like used cars were like super.

01:08:10:27 - 01:08:30:02

Unknown

Yeah. It had increased in value tremendously when it wasn't supposed to be. It's a depreciable asset, but in this case used car it's actually appreciated signaling. Yeah.

And there's a demand for them. There was so much demand because you couldn't get new cars right. Because of Covid. Had shut down a lot of manufacturing facilities. Yeah. For the cars and others, other industries.

01:08:30:04 - 01:08:52:17

Unknown

So if that time I had transferred a vehicle to my child, call it a gift, whatever that is, you know, if if there was a gain fair market value at the time of the transfer minus your cost, right? That gain many people don't know. Yeah. It's a taxable gain. Yeah. Right. Yeah. So you have to pay a tax on it.

01:08:52:23 - 01:09:16:08

Unknown

It's a capital gain. Yeah. But. What is little unfair is that the market no longer is the way it is. Right. Yeah. And you're back to depreciable property again. Yeah. Right. Like used cars are not what they used to be. Is soon after Covid, anytime you have a loss on a personal use property, such as a car, if it was your personal vehicle.

01:09:16:12 - 01:09:35:08

Unknown

Yeah, the losses are always permanently denied. Yeah. But if you have a gain, it's tax the way it's written in in our tax tax act. Yeah. Is that the gains on personal use property. You have to include them and they're taxable. But the losses you're not allowed to take advantage of the kind of crazy because people do use like transfer personal items.

01:09:35:10 - 01:09:52:20

Unknown

They do if they're reported or not I don't know. And but people don't know. Most people don't. I mean, they should if they need to. They talk to their accountant. But like, yeah, I don't know if any people actually do that type of transaction. I'm not sure if CRA looks into how closely they look into it. Yeah, but this technical rule does exist.

01:09:52:27 - 01:10:18:22

Unknown

Yeah. But we also have like other specific personal items that are like listed as a separate category, in which case, let's say jewelry, art box manuscript, coins, collectibles. Yeah. This group of, personal use properties, they also get taxed. Yeah. If you have a have you have a gain. Yeah. And, I don't know, like in, in Indian families or like.

01:10:18:23 - 01:10:39:03

Unknown

Yeah, South Asian communities. Yeah. How many people give jewelry? It's very hot. Children. Very, very common during inheritance, inheritance milestones, weddings. You're getting gifts all the time. Yes. I wonder how many people are putting that on their tax return. I don't think of any. Right. Yeah. But just knowing that, like, you know, I had a client who gave gold bars.

01:10:39:06 - 01:11:05:06

Unknown

Yes, yes. Children, it's very common to give gold bars in the South Asian, community. Community? And people are, I, I don't think many people are including that in there. You're supposed to you're supposed to. And, well, just everyone should know that if you are that one person that are following the rules and you are reporting the gains, just know that if you do have a loss, you're not allowed to.

01:11:05:11 - 01:11:27:29

Unknown

Except on these little the, the the other properties that I said. Yeah, jewelry, coins, books, manuscript art. If you have losses on those, you're allowed to capture them only up to the amount of gains that you recognize only on those. Yeah. Properties in the past, right? Yeah. They're very limited. Yeah. I think all to say is that almost always you're going to pay taxes on processing items wherever it is taxable.

01:11:28:04 - 01:11:43:05

Unknown

Yeah. But if you have, a loss, man, like it's, seems unfair. Yeah. You don't have to be taxed. Yeah. It seems like a lot of these things aren't fair all the time, right? Yeah. No, I know, I think it's good that people should just know about it. Yeah, but I think that brings us to a close.

01:11:43:11 - 01:11:44:02

Unknown

Yeah. Thank you.