2022 TAX FILING SEASON NEWSLETTER

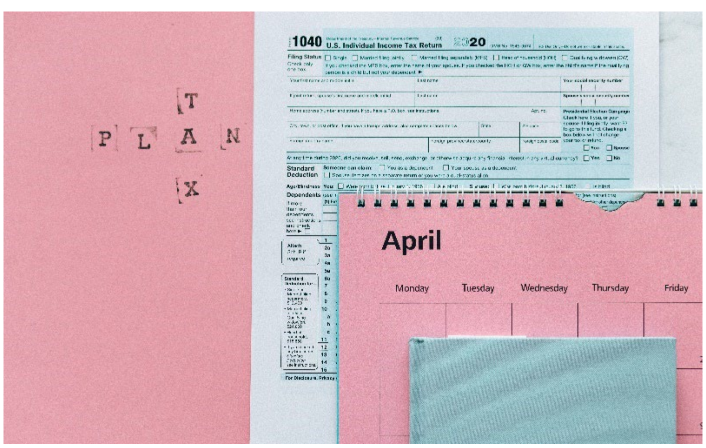
HANSON Crossborder Tax Inc.

It goes without saying that the past year has continued the trend of COVID-19-related challenges. Just ask the Internal Revenue Service, which has just seen their most challenging year to date. But more on that later.

The global community has vacillated between the easing of restrictions and ramping them back up again. Differing groups can't see eye-to-eye on how the powers that be are handling the pandemic, and the division is palpable as anti-mandate protestors around the world voice their disdain. And then there's the crisis in Ukraine that has been dominating news cycles everywhere…

Here's hoping things start to turn around for the rest of 2022.

In this issue of our annual cross-border tax newsletter, we provide highlights of changes that took place or are set to take place involving both the Canadian and U.S. taxation landscape as well as trending topics and facts to keep you in-the-know as we move into the year ahead and the tax season to come.



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Wishing all of you an uneventful tax season! We hope you will rely on us for assistance!

Remembering Cecilia Reyes

In the fall of 2021, HCBT suffered a devastating loss with the passing of Cecilia Reyes. Everyone who has worked with Cecilia, clients and colleagues alike, will remember her for kindness, quick wit and incredible work ethic. She was a very important part of bringing our clients the absolute best in customer service and office administration. Cecilia will be greatly missed by loved ones, friends and her HCBT family.

There are New Reporting Rules for Canadian Taxpayers with Trusts

Canadian citizens who hold trusts are going to see changes come into effect for the 2022 taxation year…eventually...? Originally, these changes were proposed to come into effect for trusts with year-ends on or after December 31, 2021; however, the draft legislation has not yet received royal assent.

The new reporting rules pertain to trusts resident in Canada and non-resident trusts that must currently file a T3 return, including trusts that are inactive or dormant. (Hence, if you have any inactive / dormant trusts, consider wrapping those up ASAP.)

At a high level, the proposed changes are as follows:

- Certain trusts that don't currently file a T3 "Trust Income Tax and Information Return" will now have the filing obligation.
- Trusts must report the identity of all trustees, beneficiaries, and settlors, including the identity of individuals who have control over trustee decisions regarding appointment of income or capital (e.g., a protector).
- The reporting rules now apply to a "bare trust" arrangement (i.e., a trust that is reasonably considered to act as an agent for beneficiaries in all dealings of the trust's property).
- Trusts with all units listed on a designated stock exchange are exempt from these additional reporting rules.
- Disclosure of information subject to solicitor-client privilege is also exempt.

Exemptions remain in place for certain specialized trusts or trusts holding assets worth $50,000 or less

Biden's Build Back Better Act Brings About Changes to the Net Investment Income Tax (NIIT)

Under the Build Back Better Act recently passed by the U.S. House of Representatives, and effective January 1, 2022, the net investment income tax (NIIT) has been expanded to self-employment and business income for high income earners.

Specifically, Sec. 1411 is amended to apply the 3.8% tax to net investment income earned in the ordinary course of a trade or business for taxpayers with taxable income over $400,000 (single filers), $500,000 (married taxpayers filing jointly or surviving spouses) or $250,000 (married taxpayers filing separately).

In summary, the NIIT now applies to:

- Income of an S corporation shareholder (if the shareholder materially participates in the S corporation business)
- Gains from the sale of S corporation stock or interest in a partnership or LLC (if the selling owner materially participates in the business being sold)
- Gains from the sale of assets of a partnership, LLC or S corporation (if such gain is allocated to an owner who materially participates in the business being sold).

In other words, the expanded NIIT applies to all income earned by an individual, unless such income is either taxable wages or subject to the self-employment tax. For US citizens residents of Canada who are derive their active income from self-proprietorships or partnership and thus subject to CPP contribution, NIIT should not apply.

Build Back Better Also Puts More Tax Burden on the Ultra Rich

If It's the Act that just keeps on giving…or taking if you're a US citizen with an ultra-high net worth. Under the new Sec. 1A, a surcharge will be imposed on high-income individuals, estates and trusts.

Individual taxpayers will see a surcharge equal to the sum of 5% of their Adjusted Gross Income (AGI) that exceeds $10 million. The threshold for married taxpayers filing separately is $5 million and for estates and trusts the threshold is $200,000. This is in addition to 3% of the amount of the taxpayer's AGI that exceeds $25 million ($12.5 million for married taxpayers filing separately; $500,000 for an estate or trust).

And don't forget about all other applicable income taxes!

Changes to the FDII and GILTI Under the (You Guessed It!) Build Back Better Act

The Build Back Better Act contains a number of revisions to the Global Intangible Low-Taxed Income (GILTI) tax. Under IRC Sec. 250(a), GILTI applies to US shareholders of Controlled Foreign Corporations (CFCs) and is a 10.5% to 13.125% minimum tax on income from various property and other overseas assets. With Build Back Better, the applicable percentage for the GILTI deduction decreases from 50% to 28.5%, for a GILTI rate of 15%. In addition, Sec. 951A will be amended to apply GILTI provisions on a country-by-country basis, according to CFC taxable units

Because it works in tandem with the GILTI, the foreign-derived intangible income (FDII) deduction is also reduced from 37.5% to 24.8%, for a rate of 15.8%. Also under IRC Sec. 250, the FDII entitles US corporations to a separate deduction on income derived from selling property and services to foreign customers for foreign use. The Act also allows the FDII deduction to be considered when determining a net operating loss deduction.

Finally, the Act increases the allowable deemed paid foreign tax credit for GILTI from 80% to 95% of properly allocated taxes.

Payments to the IRS from Canada

For those of you who have to pay Uncle Sam, you know its not easy to pay from Canada, unless you have a US bank account. It is becoming increasingly more difficult to maintain a US based bank account while living abroad. We recently received information from the IRS that may help in this regard. Anyone in Canada who does not have a US-based bank account may send a wire transfer to the US Department of the Treasury using the following details:

Bank Name: US Treas Single TX
Bank Address: 401-14th St. SW, Washington DC 20227

You would also have to include your US Social Security Number or Individual Taxpayer Identification Number when sending the wire transfer

New Canadian Stock Option Tax Rules

In the summer of last year, Bill C-30 received royal assent, bringing with it some changes to limits on the favourable employee stock option tax rules. Specifically, in cases where the employer of an employee both grants and issues shares, there is a new annual maximum for shares subject to a stock option that are eligible for the employee favourable 50% deduction at exercise.

This limit is based on the portion of underlying shares with a fair market value exceeding $200,000 CAD at the time of vesting. Shares that are no longer eligible for the deduction are considered “non-qualified securities”. The new rules only apply to entities that are not Canadian-controlled private corporations (CCPCs) or do not exceed $500 million in gross annual revenues. This change brings Canadian tax rules more in line with US incentive stock option rules.

Please note that if the issuer is not arm’s length with the employee (e.g., a foreign parent company) there will be modifications to consider.

NEW Ontario Business Registry

In May of 2021, the CRA terminated its agreement with the Ontario government to receive the annual Ontario Corporate Information Return. Historically, this information return was transmitted with the Company’s T2 Corporate Income Tax Return, however this is no longer possible.

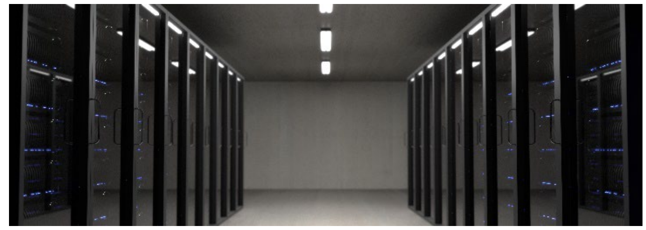
In October 2021, the Province of Ontario launched a new Business Registry. This is a self-service portal which allows you to update corporate information, such as directors, addresses, etc. online. In order to access the portal, you must first request your Company Key. The Company Key will be sent to the corporation’s address of record. For more information regarding the new electronic service, please visit: https://www.ontario.ca/page/ontario-business-registry#existing

The IRS Tax Backlog Continues with Most Challenging Year to Date

In her annual report released on January 12, National Taxpayer Advocate Erin Collins gives us a rundown of the (ongoing) downward spiral that challenged IRS administrators in 2021, including the taxpayers’ perspective (i.e., service was “horrendous.”).

A summary of specific issues includes:

- Customer service representatives who assist taxpayers with tax law questions, account problems, and



compliance notice responses answered 32 million of the 282 million calls received in 2021.

- There were significant delays in processing responses to IRS notices, with some correspondence taking more than six months as compared to the “normal” 45-day processing time, delaying refunds and resulting in follow-up by the IRS on math error notices and collection notices.

- At the time of the report’s publication, there were more than 35 million unprocessed tax returns, including 6.2 million unprocessed Forms 1040, “U.S. Individual Income Tax Return”; 2.8 million Forms 941, “Employer’s Quarterly Federal Tax Return”; and 2.4 million Forms 1040-X, “Amended U.S. Individual Income Tax Return.”

- The IRS “Where’s My Refund?” online tool is considered “non-functional” as it does not explain status delays, returns status, or steps to obtain refunds.

In Collins’ own words: “When you call the IRS, either you can’t get through to an IRS employee or they can’t answer questions about your return delays. When you go online, you can’t find the information you need.” Let’s hope the IRS pays close attention to the report enacts at least some of the report’s 68 legislative recommendations!

CANADA NUMBERS AT A GLANCE

2021 COMBINED FEDERAL AND ONTARIO PERSONAL TAX RATES

Taxable Income $	Salary/Interest %	Capital Gain	Eligible Dividends	Non-Eligible Dividends
First 45,142	20.05	10.03	-6.86	9.24
45,142 - 49,020	24.15	12.08	-1.20	13.95
49,020 - 79,505	29.65	14.83	6.39	20.28
79,505 - 90,287	31.48	15.74	8.92	22.38
90,287 - 93,655	33.89	16.95	12.24	25.16
93,655 – 98,040	37.91	18.95	17.79	29.78
98,040 – 150,000	43.41	21.70	25.38	36.10
150,000 - 151,978	44.97	22.48	27.53	37.90
151,978 - 216,511	48.29	24.14	31.97	41.72
216,511 - 220,000	51.97	25.98	37.19	45.95
over 220,000	53.53	26.76	39.34	47.74

2021 COMBINED TOP AND MARGINAL PERSONAL TAX RATES

Province	Taxable Income $	Salary/Interest %	Capital Gain	Eligible Dividends	Non-Eligible Dividends
British Columbia	222,420	53.50	26.75	36.54	48.89
Alberta	314,928	48.00	24.00	34.31	42.31
Saskatechewan	216,511	47.50	23.75	29.64	42.29
Manitoba	216,511	50.40	25.20	37.78	46.67
Ontario	220,000	53.53	26.76	39.34	47.74
Quebec	216,511	53.31	26.65	40.10	48.02
New Brunswick	216,511	53.30	26.65	33.51	47.75
Nova Scotia	216,511	54.00	27.00	41.58	48.28
Prince Edward Island	216,511	51.37	25.69	34.22	45.21
Newfoundland	216,511	51.30	25.65	42.61	44.59

TAX FREE SAVINGS ACCOUNT (TFSA) CONTRIBUTION LIMIT

Years	Contribution Limit $/ Year	Total
2009 - 2012	5,000/year	20,000
2013 - 2014	5,500/year	11,000
2015	10,000	10,000
2016 - 2018	5,500/year	16,500
2019 - 2022	6,000/year	24,000
		81,500

REGISTERED RETIREMENT SAVINGS PLAN (RRSP) CONTRIBUTION LIMIT

Years	Contribution Room $/Year	Earned Income Required in Prior Year (18%)
2016	25,370	140,944
2017	26,010	144.500
2018	26,230	145,722
2019	26,500	147,222
2020	27,230	151,278
2021	27,830	154,611
2022	29,210	162,278

Source: Taxtips.ca

U.S. NUMBERS AT A GLANCE

2021 FEDERAL ORDINARY INCOME TAX RATES

Tax Rate %	Single $	Head of Household $	Married Filing Jointly or Qualifying Widow	Married Filing Separately
10%	0 - 9,950	0 - 14,200	0 - 19,900	0 - 9,950
12%	9,951 – 40,525	14,201 – 54,200	19,901 - 81,050	9,951 – 40,525
22%	40,526 - 86,375	54,201 - 86,350	81,051 - 172,750	40,526 - 86,375
24%	86,376 - 164,925	86,351 - 164,900	172,751 - 329,850	86,376 - 164,925
32%	164,926 - 209,425	164,901 - 209,400	329,851 - 418,850	164,926 - 209,425
35%	209,426 - 523,600	209,401 - 523,600	418,851 - 628,300	209,426 - 523,600
37%	523,600 or more	523,600 or more	628,300 or more	523,600 or more

2021 LONG TERM CAPITAL GAINS TAX RATES

Tax Rate %	Single $	Head of Household $	Married Filing Jointly or Qualifying Widow	Married Filing Separately
0%	0 - 40,399	0 – 54,099	0 - 80,799	0 - 40,399
15%	40,400 - 445,849	54,100 - 473,749	80,800 - 501,599	40,400 - 445,849
20%	445,850 or more	473,750 or more	501,600 or more	445,850 or more

2022 FEDERAL ORDINARY INCOME TAX RATES

Tax Rate %	Single $	Head of Household $	Married Filing Jointly or Qualifying Widow	Married Filing Separately
10%	0 - 10,275	0 - 14,650	0 - 20,550	0 - 10,275
12%	10,275 - 41,775	14,650 - 55,900	20,550 - 83,550	14,650 - 55,900
22%	41,775 - 89,075	55,900 - 89,050	83,050 - 178,150	55,900 - 89,050
24%	89,075 – 170,050	89,050 - 170,050	178,150 - 340,100	89,050 - 170,050
32%	170,050 - 215,950	170,050 - 215,950	340,100 - 431,900	170,050 - 215,950
35%	215,950 - 539,900	215,950 - 539,900	431,900 - 647,850	215,950 - 539,900
37%	539,900 or more	539,900 or more	647,850 or more	539,900 or more

2022 LONG TERM CAPITAL GAINS TAX RATES

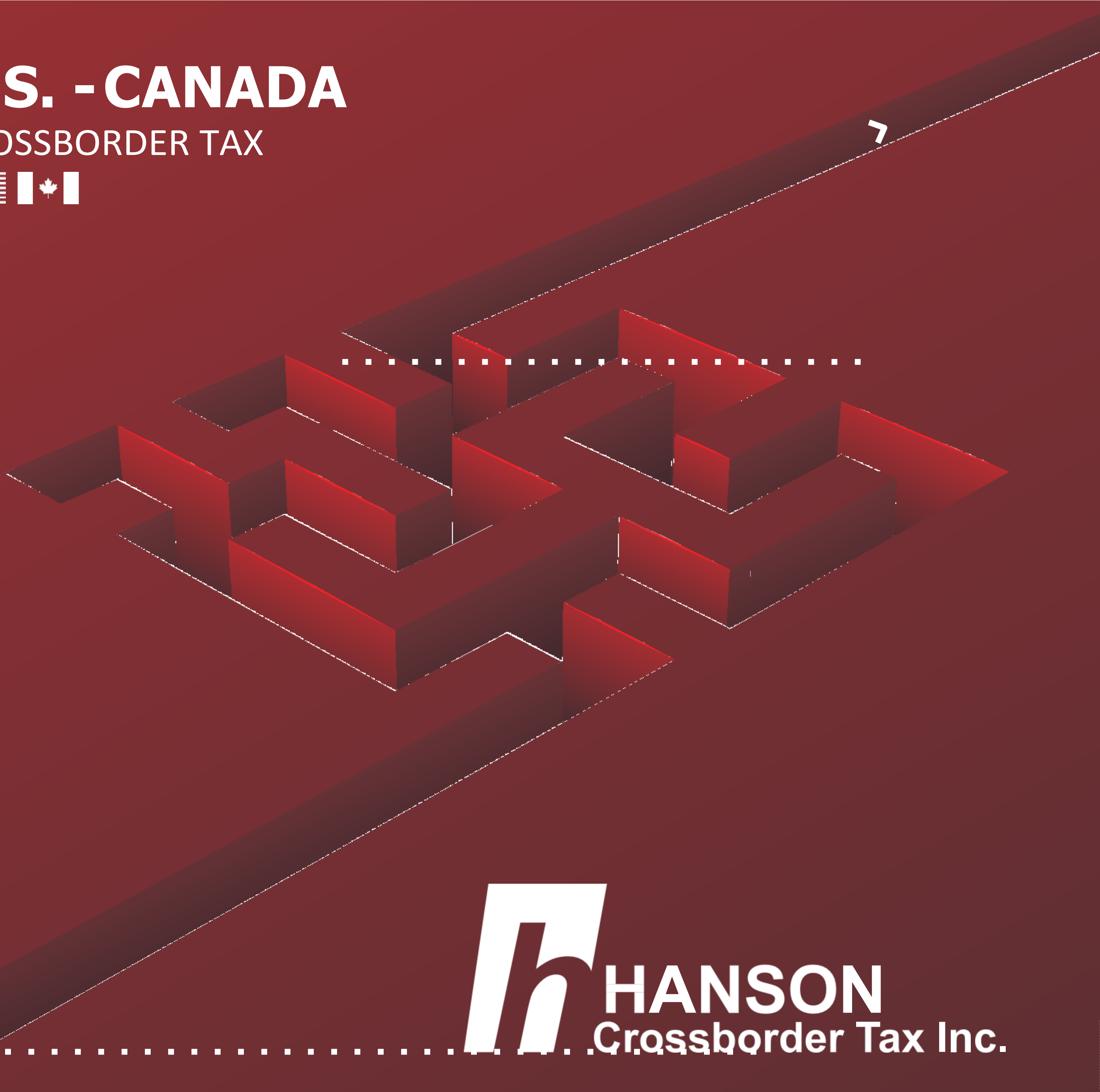
Tax Rate %	Single $	Head of Household $	Married Filing Jointly or Qualifying Widow	Married Filing Separately
0%	0 - 41,674	0 - 55,799	0 - 83,349	0 - 41,674
15%	41,675 - 459,749	55,800 - 488,499	83,350 - 517,199	41,675 - 459,749
20%	459,750 or more	488,500 or more	517,200 or more	459,750 or more

Short-term capital gains are taxed at Ordinary Rates, above

Source: Taxfoundation.org

U.S. - CANADA

CROSSBORDER TAX



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