

## This Month:

- Loans to Your Adult Children
- Extension of Local Lockdown Program and Worker Lockdown Benefit

### Loans to Your Adult Children

You may lend money to your child to help with the purchase of a major personal item. A common example is a loan to help with the purchase of a child's first home. Generally, this doesn't create tax problems if they are made to adult children. (A loan to a child *under* 18 triggers the "attribution rules".)

If the loan is interest bearing, you must declare it on your tax return. The child cannot deduct the interest on a loan used for personal purposes. However, if they use the loan for investment purposes – say, to buy a rental property instead of a personal residence – they can deduct the interest they pay you.

If the loan is interest-free and used for personal purposes by your child, this also poses no tax problems. However, if the interest-free loan is used by your child for *investment* purposes, there is a special attribution rule in the Income Tax Act that may apply.

This attribution rule has the effect of causing the resulting investment income to be included in your income rather than that of your child. This rule might apply if you are in a high tax bracket and your child is in a low tax bracket and one of the main reasons for the loan was to shift investment income into your child's hands to reduce overall tax. If this was the case, the investment income may be attributed to you and included in your income. The Canada Revenue Agency does not often apply this rule, but it is an important rule to consider and to ensure that income splitting is not documented as a main purpose for the loan. There should be other genuine reasons for the loan and income splitting should not be one of them. Note that this attribution rule does not apply to capital gains if your child sells the investment. It can only apply to income from property - which includes interest income, dividends, and rental income.

One way to avoid the attribution rule is to charge interest at the "prescribed rate" under the Income Tax Act at the time the loan is granted. This rate is typically low, and for the first quarter of 2022 is currently set at 1%. These loans should be properly documented.

.... continued

**PAYTRAK**  
PAYROLL SERVICES

**PAYROLL AND EMPLOYEE PROGRAMS**

**PAYTRAK**

- ✓ Payroll packages tailored to your needs – from Web-based to Full Service
- ✓ Dedicated Customer Service Team
- ✓ All Government Remittances and Reporting
- ✓ Easy-to-Read, Concise Employer Reports
- ✓ All Year-End Services

*Let us be your behind-the-scenes Payroll Department!*

**YOUR TRUSTED PARTNER IN PAYROLL**

**PAYTRAK PROTECT**  
health + dental benefits

**HEALTH AND DENTAL BENEFITS**

- ✓ Choice of 4 Levels of Benefit Protection
- ✓ Flexible Shared Contribution Percentages for the Business Owner
- ✓ Guaranteed Acceptance

**PAYTRAK PENSION**

**PENSION PLAN SERVICES**

- ✓ Lower Cost
- ✓ Tax Relief
- ✓ Professional Management
- ✓ Creditor Protection
- ✓ Control & Information

PAYROLL SERVICES • HEALTH AND DENTAL BENEFITS • PENSION PLAN SERVICES • 1.877.316.2999 • PAYTRAK.CA *Exclusive CFA Pricing*

## Loans to Your Adult Children (continued)

Where the loan is used for the child’s personal purposes, if you subsequently forgive the loan, there are no income tax consequences for the child. The forgiveness is basically treated like a gift.

If the loan is used by the child for investment or business purposes, there can be adverse tax consequences for the child if you forgive the loan. However, there is an exception if the loan to your child remains outstanding upon your death, and it is settled or forgiven under the terms of your will. In this case, there are no income tax issues even if the loan was used for income earning purposes.

## Extension of Local Lockdown Program and Worker Lockdown Benefit

On February 9<sup>th</sup>, 2022, the Federal government announced it plans to extend access to the following programs by one month, until March 12, 2022:

- **Local Lockdown Program:** Eligibility would continue to include employers subject to capacity-limiting restrictions of 50 per cent or more; and the current-month revenue decline threshold requirement would remain at 25 per cent. Eligible employers would receive wage and rent subsidies from 25 per cent up to a maximum of 75 per cent, depending on their degree of revenue loss. The 12-month revenue decline test continues to not be required in order to access this support.
- **Canada Worker Lockdown Benefit:** Eligibility would continue to include workers in regions where capacity-limiting restrictions of 50 per cent or more are in place. This benefit provides \$300 a week in income support to eligible workers affected by a COVID-19-related public health lockdown order, and who are either unable to work or have lost 50 per cent or more of their income as a result.