TAX HIGHLIGHTS FOR THE 2024 TRUST TAX SEASON

The landscape of Canadian income tax continues to evolve, bringing new developments and adjustments each year. As reporting requirements for taxpayers grow increasingly complex, keeping up with the latest changes is more important than ever. Below, we've outlined some of the key updates for 2024 to help you navigate these shifts with confidence.

MyTrust Account and Canada Revenue Agency (CRA) Online Authorization Access

In 2024, CRA launched MyTrust Account, which provides access to a secure online portal for legal and authorized representatives of trusts. Throughout 2024 the CRA began including more information on these portals, such as letters issued by them, historical tax returns filed, notices of assessments, balances on account, etc.

We have prepared a detailed set of instructions on how you can obtain access to this secure online portal for your trust and provide Hendry Warren access as an authorized representative of your trust. We are requesting that all trust clients provide us with access to CRA. The instructions can be found on our website https://www.hwllp.ca/resources/checklists/

Capital Gains Inclusion Rate Changes

On January 31, 2025, the Department of Finance announced that the implementation date of the proposed legislation regarding the increase in the capital gains inclusion rate from 50% to 66.67% would be deferred. Originally scheduled for implementation on June 25, 2024, it will now take effect on January 1, 2026 and will not impact 2024 income tax filings.

Changes to the Alternative Minimum Tax (AMT)

AMT is a notional calculation of tax payable under an alternative set of rules governing the computation of income and deductions. If tax calculated according to these alternative rules is greater than tax calculated under the normal rules, then a taxpayer must add the difference to their tax payable for the year, increasing taxes owing. Effectively, tax paid for the year is the greater of tax calculated under the normal rules and tax calculated under the AMT rules. AMT has always been a calculation working in the background, but historically it has not impacted most trusts.

Effective January 1, 2024, the rules for AMT were changed and may affect more trusts, particularly those which claim an interest expenses deduction. This change will primarily impact trusts that currently have a prescribed rate loan outstanding. As such, it is expected that these trusts will have a balance owing on their 2024 T3 trust income tax return.

For more information about the proposed changes to the AMT, please see this post on our website.

Expanded Trust Reporting

Expanded trust reporting became law effective for the 2023 taxation year, with recent updates in 2024 to the reporting rules for bare trusts. Bare trusts have been exempted from filing trust income tax returns for the 2024 taxation year but will need to begin filing again for the 2025 taxation year, subject to potential new exemptions. Included below are some examples of arrangements that could be considered a bare trust:

1. A parent who adds an adult child on legal title of a property. In these circumstances, there may be no change in beneficial ownership from the parent to the child if the child is holding the property in favour of the parent and there was no intention to gift. There are certain filing exemptions for personal-use properties.
2. Shares of private corporations held “in trust” by a parent or other individual. These arrangements are common where minor children are shareholders in private corporations, particularly professional corporations where only individuals are permitted as shareholders.
3. Bank or investment accounts held “in trust” by a parent or other individual. These accounts may have been created to hold the funds of a minor child. There are certain filing exemptions for accounts under certain thresholds.
4. Other bare trustee arrangements where the legal title owner of property does not also hold beneficial ownership.

Even if there was no activity in the trust for the year, if the trust income tax return is not filed by the deadline, a penalty of up to $2,500 or 5% of the trust assets per year can apply. For more information about the new trust reporting rules, please see this post on our website. It is important to note that the new exemptions for 2024 and beyond discussed in our post on our website have not yet been passed into law. Given the current prorogation of the Parliament of Canada, it is uncertain if these new exemptions will be passed into law.