Business Matters

August 2021

VOLUME 35 | ISSUE 4

MANAGEMENT

Ask the right questions when hiring virtually, pros say

With remote interviews, many of the cues you would normally use to read a person are lacking. But there are still tactics you can use to help make the right choice.

Even in normal times, selecting the right candidate for a position can be challenging. But, for many organizations, COVID-19 has made the process even more difficult by requiring employers and candidates to adjust to remote interviews that lack the kind of human connection – including direct eye contact and collegial handshakes – that in-person exchanges can bring.

The shift comes with consequences, experts say. According to **new research** from Robert Half Canada, more than half (56 per cent) of employers say the cost of making a bad recruiting choice is higher than it was pre-pandemic.

Still, given that remote work is likely here to stay for many and that virtual hiring offers access to larger talent pools, we are likely to see more, rather than less, remote recruiting going forward.

Here are four tactics that can help you make the right hire.

1. Prepare your questions

With remote interviews, you have to be slightly more pointed in the way you ask questions, says David Dial, founder of Calgary-based Dial Solutions Group.

"Some people are professional interviewers. They do a great interview. Then they show up and within the first week you're saying, 'This isn't the person we interviewed.' "

One solution, Dial suggests, is to ask questions that put the candidate into unique or challenging job-related scenarios. Listen for evasive responses, he adds.

"Take the person away from a script and observe how they behave," he says. "If they're feeling uncomfortable answering, dig in a little bit with follow-up questions."

2. Connect creatively

When interviewing in person, you can often get a feeling about a candidate by reading their body language, Dial says.

"Remotely, you miss that … so you need to listen very carefully," he says.

To help compensate for a lack of in-person cues, Michael French, regional vice-president of Robert Half Canada, suggests spending a few minutes getting to know the candidate. Choose questions that showcase their personality and why they are interested in the role and organization, he says, and pay attention to facial expressions and tone.

"Get a good understanding of how and why they came to meet you," he says. "Make sure their tone comes across as comfortable."

Connections can also be made with prospective teammates, adds French. Once candidates are shortlisted, arrange video conferences with future colleagues and consider their feedback during the final selection process.

3. Stay alert to cues

The pandemic has brought added stress for many employees, and it's important to show flexibility and understanding, says French.

There are limits to employer flexibility, though. If a candidate reschedules an interview more than once, it may indicate someone who is unreliable. If they have persistent technical issues during the interview process, this could be a knowledge gap.

Beyond having the right skills, it often comes down to a candidate's attitude and the overall impression they make, French says.

"Look out for someone who responds negatively," he cautions.

This could be a sign they're not the right fit for the role, adds Dial.

4. Probe for solutions

Finally, if you find yourself with a bad hire on your hands, try to avoid the knee-jerk reaction of firing on the spot, says French.

Instead, exhaust all options to keep the new employee rather than waste time and resources used to replace them, he advises. For example:

- Consider whether talking about any issues – such as punctuality, meeting deadlines – could put things on track.
- Assess whether retraining could be easily executed.
- Find out if the employee has personal issues because of the pandemic.
- Determine whether your virtual onboarding process is effective.

If you must let an employee go, Dial adds, do it fast and within the probationary period. "Mistakes are made when people hire because they're desperate to fill the role," he says.

"Take your time hiring the person. But, if it's wrong, change it quickly."

TAX

Four common questions about the CRA's principal residence exemption

CPA expertise can help clients maximize this exemption and minimize taxes when it is time to sell property.

When filing personal income tax returns, how to report a property sale can be confusing and expensive, dependent on value appreciation and the capital gains tax owed. Luckily, under Canada's *Income Tax Act* (ITA), the sale of a residence can be exempted from this tax under the Principal Residence Exemption (PRE).

CPAs will remember that in 2016 the CRA required the sale of principal residence to be reported on the seller's income tax in order to qualify for the PRE and to tighten up eligibility requirements.

With this in mind, there are several things Canadian property owners need to consider when filing for PRE, particularly if they own multiple properties. Here are four questions clients may ask you and how CPAs can adequately respond.

1. How long do I need to live in a residence to claim it as a principal residence and qualify for PRE?

The CRA **does not specify an exact duration of time** an individual or their family members, including a spouse, common-law partner or children, must reside in a dwelling for it to qualify as a principal residence for a given year. The tax rules refer to the residence being "ordinarily inhabited" within the calendar year, which is a relatively low bar. A more significant issue is whether a property held for a short period will produce an income gain or a capital gain when sold.

Clients should beware that the CRA will analyze evidence, such as length of time in the dwelling, sources of income and real estate buying patterns, to establish if the dwelling is indeed a principal residence or perhaps part of a business venture, such as real estate flipping.

"If the CRA challenges your claim of exemption, they're going to look at all the facts in the scenario," says CPA Michael Espinoza, senior manager, national tax office, Grant Thornton LLP. "[Such as] what was your intention of moving in and did something happen that forced you to sell [the property]?"

2. Can other properties, such as a cottage, be designated a principal residence and eligible for PRE?

Most properties (home or cottage, for example) can be designated a principal residence – even those seasonal residences located outside of Canada, such as in the U.S. or Caribbean – as long as the owner or their family ordinarily inhabit it during each calendar year being claimed.

Clients should be aware that only one property per year, per family (spouse or common-law partner and children under 18), can be designated a principal residence. Although it is becoming rare now, each spouse can designate a different property as a principal residence for years before 1982. Once sold, a property that isn't

deemed a principal residence will be subject to capital gains tax for the years it was not designated. A gain may also arise if the residence is designated for some, but not all, of the years of ownership.

There is also a restriction on land size that qualifies for the PRE. Property that exceeds one-half hectare (roughly 1.2 acres) will generally not qualify for the exemption. For example, if the property is a farm, only one-half of a hectare of land plus the home would qualify for the exemption, while the remaining acreage would be subject to capital gains tax based on value appreciation. If the excess land is required for the use and enjoyment of the property, then the land that qualifies can be larger. However, CRA is very restrictive when applying this rule.

When selling one of multiple properties owned, an owner can designate it as a principal residence for all or part of the years of ownership to take best advantage of the exemption and minimize the amount of capital gains tax paid.

"Generally speaking, it makes sense to designate the property that has the highest average gain per year of ownership," says Bruce Ball, FCPA, vice-president of taxation at CPA Canada. "However, there are a number of factors to consider and getting advice from a CPA may help reduce your tax."

Clients should speak to a tax professional to assess how best to calculate this, experts say.

3. Can a property that generates income be deemed a principal residence and eligible for PRE?

The mandatory income tax reporting of a principal residence sale was introduced by the CRA to limit when the exemption could be applied. Overall, it increased monitoring over foreign property ownership, "quick flips" or short holdings (on properties that may not qualify for principal residence status), properties that were not "ordinarily inhabited" every year by the owner, a well as serial builders who build and occupy a property before selling it.

Therefore, property that is used mainly to generate income or that is considered inventory does not qualify for PRE. This includes property that is solely rented out on a long- or short-term basis, or one where the owner occupies one unit and rents out the others.

Exceptions include renting out property for the short term, such as a cottage for a couple of weeks in the summer or a house as an Airbnb while on vacation, which an owner occupies otherwise; and if a family member (spouse or common-law partner or child) rents out the property.

"If, for the most part, you are using [the property] for your own purposes ... then it will qualify for a principal residence, even if you use Airbnb," says Espinoza. "Which means you could have people coming in frequently, as long as you are living there [regularly, in some capacity]."

4. What penalties are incurred when the sale of a principal residence is not reported to the CRA?

If an owner fails to report the selling of a principal residence, they could be subject to a late-filing penalty of $100 per month, up to a maximum of $8,000, **according to the CRA**. In addition, if an owner doesn't report the sale, the exemption may be denied and therefore the owner would be taxed on the capital gains.

"Although the new reporting requirements have been in place for several years now, many individuals may still believe that they do not have to report the sale of the principal residence when they only own one property," Ball says. "Failing to report the sale can result in significant costs."

TAX

The tax consequences of leaving Canada permanently

From assets and property to personal ties, several factors will affect your taxation, so detailed planning needs to be done in advance of the move.

About three million Canadians currently **live outside the country**. And many others contemplate making a move at some point in their lives – whether it be to pursue a professional opportunity, return to their home country or relax in a warmer climate.

But if you are thinking of moving abroad, it's important to remember that the process can be complicated. Among other things, you will need to plan for the tax consequences, especially if you expect the move to be permanent. There are many rules to consider – the key considerations below are just a few of them – which is why professional advice is important.

"Having a CPA oversee the process helps avoid unpleasant surprises," says Virginie Vargel, a CPA who specializes in expatriate and non-resident taxation.

Here are four factors to think about:

1. Determining your residency status

To determine whether you will need to continue paying tax in Canada, the Government will first check whether you have retained **significant ties** here, says CPA Annie Poitras, lead senior manager, U.S. and international taxation at Raymond Chabot Grant Thornton. Such ties, she says, might include owning a house in Canada or having a spouse or common-law partner and/or dependants who are minors still residing in the country. The Government will also consider secondary ties, such as owning personal property, bank accounts or a valid driver's licence.

"These ties are acceptable as long as they can be justified," says Poitras. "You can keep your driver's licence if it is valid in the host country and you can continue to own a residence that you are renting out if conditions are met, such as having a written lease. The Canada Revenue Agency starts to ask more questions, however, if you leave the country but retain a vacant home or if you have dependants, spouse or common-law partner in Canada. Residency status is based on facts and on the taxpayer's firm intention to leave the country."

If the Government determines that you are no longer a resident, you will be considered an **emigrant** and subject to certain restrictions. For example, you will no longer be able to make regular contributions to a tax-free savings account (TFSA). However, as the **CRA website explains**, "Any withdrawals made during the period that you were a non-resident will be added back to your TFSA contribution room in the following year, but will only be available if you re-establish your Canadian residency status for tax purposes".

You will still be able to contribute to a registered retirement savings plan (RRSP) if you **have unused contributions** but it may not make sense to do so. "This is why it is so important to carefully consider the date on which you give up your Canadian residency," says Poitras.

2. Avoiding double tax

Switching to non-resident status is crucial because every host country has its own tax rules and, in many cases, an agreement with Canada.

"The goal," Poitras points out, "is to avoid being taxed twice." For example, in Canada, the tax rate on an RRSP withdrawal is generally 25 per cent for non-residents. However, depending on tax agreements, this rate could be lowered to 15 per cent depending on how amounts are withdrawn."

"Whether there is double tax or not depends on whether the foreign country will tax the RRSP," says FCPA Bruce Ball, vice-president of taxation at CPA Canada. "If the rate is 25 per cent but no tax is paid in the new country of residence, there is no double tax. Also, one may be able to claim a foreign tax credit in the other country based on the Canadian tax depending on the tax rules of that country.

3. Paying a departure tax

The moment a resident leaves Canada, the CRA deems that they have disposed of **certain kinds of property** at fair market value and immediately reacquired it at the same price. This is known as a **deemed disposition** and you may have to report a taxable capital gain that is subject to tax (also known as **departure tax**). But, that doesn't mean an individual leaving should rush to liquidate everything.

For example, says Poitras, "furniture and vehicles, are excluded from tax, as are registered plans (**such as RRSPs or TFSAs**) and CPP and QPP benefit entitlements, because they will be taxed at a later date." Same for foreign assets, such as, property that generate taxable capital gains, as long as the person has been a resident for 60 months or less during the 10-year period prior to emigration and held the property when residency was established.

Also, there is no immediate need to sell your home, as the deemed disposition does not apply to real property. "There is no deemed capital gain on a principal residence," Vargel explains. "The property only becomes taxable when you leave the country and it is sold." At that time, recognition is given to the principal residence designations which apply.

That said, leaving a vacant home can be an issue for residency determination, so it's common for people to sell or rent the home, says Ball. If the property is rented, there may be a deemed disposition due to a change in use and other issues may arise, such as withholding tax on rental income. Hence, getting professional advice is important.

If the house is sold once the owner has become a non-resident, the **vendor must notify the CRA** about the disposition or proposed disposition by **completing Form T2062** and send the payment or **acceptable security** to cover the resulting tax payable.

Also, any balance owed under the Home Buyers' Plan must be repaid before you leave, otherwise it will be included in taxable income, says Vargel.

Poitras adds that it's also important to communicate your change in status to any financial institutions where you have accounts generating passive income, such as interest or dividends. Also, provide a foreign address.

4. Final tax return and tax deferral

Since it will include your departure date, the change will be confirmed when you file a final tax return by April 30 of the year following the one you left Canada.

"The tax authorities treat this final tax return much like they would treat the tax return of a deceased person," says Poitras. "It's the last chance for the CRA to tax the **income and property of a Canadian resident**, including foreign assets, such as a condo in Florida."

When filing their return, the resident can choose to defer the departure tax to be paid on income relating to the deemed disposition of property, says Poitras. This can include some or all the assets with no pre-set time limit, even if the eventual return date to Canada has yet to be decided. "Some may defer, since they might come back," adds Ball.

"If the person provides guarantees [such as a letter from a bank], they will not pay the tax immediately, but only when the assets that are the subject of the guarantee are actually deemed to be disposed of," she says. "If the amount of federal tax owing on income from the deemed disposition of property is more than $16,500 ($13,777.50 for former residents of Quebec), you have to provide adequate security to the CRA to cover the amount [see **Form T1244**]."

"Leaving the country has significant and costly consequences from a taxation standpoint," reminds Poitras. "However, a CPA can review everything in advance before the tax return is filed. It's always much cheaper to hire an expert to help you plan than to pay them to fix mistakes."

Stay updated on taxes

This article includes a general summary of detailed tax rules. Need specific tax advice? Hire a Chartered Professional Accountant (CPA) and get the best working for you. Visit the website of your provincial or regional CPA body to access a CPA directory.

TECHNOLOGY

Four threats to watch out for when a hacker gets your phone number

The more personal information we supply online, the greater at risk we are of identity theft, experts say.

Passing out your digits is all it takes to put you at risk of identity theft, warn cyber-security experts.

From account profiles to online registration forms – be it for retailers, hospital records or social media platforms – we are supplying personal information digitally without hesitation or regard for the implications.

"If someone has your phone number, they are likely to have other identity elements as well, so don't be surprised," says Claudiu Popa, a certified security and privacy risk adviser and CEO of Informatica Corporation, a Canadian cybersecurity consulting firm.

In a world where our offline and digital identities are symbiotic, here are some identity theft scams, and mitigation tactics, to watch out for.

1. Spoofing to scam

You've likely received several of these spammy, or spoofing, calls. The caller poses as police, the Canada Revenue Agency, or the immigration service, demanding payment and threatening jail time, deportation, and so on. Many are falling victim to a potentially financially devastating scam, warn experts.

"If [call recipients] don't have that level of awareness, they are a sitting duck, and that's who [spoofers] are hoping to catch," says Popa.

According to the Canadian Anti-Fraud Centre, these scams have defrauded Canadians of more than $16.7 million since 2014. It has become so prevalent that the Canadian Radio-television and Telecommunications Commission recently **ramped up its efforts** to combat it. The commission will require telecom service providers to implement, by next September, a new framework called STIR/SHAKEN (Secure Telephone Identity Revisited/Signature-based Handling of Asserted Information Using Tokens) technology, which enables the recipient to determine before answering whether the call is suspicious or not. In the meantime, the

commission, now requires, as of Dec. 19, that these providers block calls with numbers more than 15 digits long or that can't be dialed (such as those with a string of letters or zeros), or provide more advanced call-filtering services.

"Legislation would put the responsibility back on the organizations, and that will hit the cellphone carriers," says Matt Coveart, identity theft expert at DragonFly I.D., an identity restoration service provider. "They are going to have to do more."

Mitigate it

- Avoid answering any calls received from unknown numbers.
- If you do answer the call, immediately hang up and do not answer any questions.
- Never give out any personal information (such as social insurance numbers and banking information) without verifying the request is legitimate.
- Report any calls received to the Canadian Anti-Fraud Centre.
- Keep abreast of offerings by your mobile provider to help stop these calls

2. Porting for profit

Identities are now being compromised by phone porting, whereby the fraudster, with phone number in possession, links that phone to another SIM card, enabling access to its apps, cloud and email accounts and more.

From there, the fraudster may call the mobile service provider, impersonating the phone owner and make account changes or report the device lost or stolen. They may change passwords on accounts using the "forgot password" option, gaining access through verification codes now sent to them.

Meanwhile, victims may be locked out of their accounts, unable to call, text or use data. They may fall prey to extortion threats or have their bank accounts drained and **credit cards** racked up.

"It's very targeted. They find an old cellphone bill and try to leverage that information. The representatives believe the device is stolen or lost," says Coveart. "They [cyber criminals] say they would like to have the phone ported to another device. Once it's ported to that device … there are all sorts of impersonation scams from that point."

Mitigate it

- **Protect your personal information.** Cautiously fill out online forms, only entering what you absolutely need to. Does this company really need your date of birth, gender or marital status? Is it even legal to request it?
- **Contact your mobile service provider** to find out what additional security measures are available if your phone is lost or stolen, or has been compromised.
- If your identity is hacked, **report it to the Canadian Anti-Fraud Centre** and your local police force, and immediately contact your financial institutions and credit bureaus.

3. Phishing for vulnerability

According to security firm Wandera, 83 per cent of phishing attacks in 2019 took place in text messages or in apps. Meanwhile, a recent **IBM study** reported that users are three times more vulnerable to phishing attacks on a mobile device than a desktop.

Hackers know this, and target accordingly. Similar to email phishing, these fraudulent requests may be urgent or threatening, demanding payment or personal information, and/or encouraging users to click on ransomware-infected links or attachments. They may also be simple requests, including account updates or password confirmations.

"What people don't understand about ransomware is that your data gets stolen first," says Popa. "So that [info] goes out there and it just joins the masses of personal information that is available about anyone going forward and forever."

Mitigate it

- **Never respond** to (or click on) suspicious messages, links or attachments sent via text or apps.
- **Report suspicious messages** to your mobile service provider, and anti-fraud centre.
- If the message sent looks legitimate, **contact the alleged sender** (i.e., your bank) before responding or entering any information to confirm receipt.
- **Update any passwords/log-in credentials** associated with targeted accounts.

4. Mining for identities

With access to one piece of personal information, fraudsters can mine for more data to piece together an identity, Popa says. With the amount we share online – from birthdates, to family members, to marital statuses, to employers – we make it easy for them, he adds.

A quick search of a phone number, he says, can lead to its mobile service provider. One phone call to that provider can reveal account details when the right questions are asked. One account detail can direct to a social media account. Furthermore, Popa adds, fraudsters can use data they collect from multiple individuals and combine the information to create virtual people.

"It could be a phone number. It could be a picture. It could be a home address, social media profile. Any one of these identity elements can give rise to an opportunity to gather more data about an individual," he says.

"You can mix someone's social insurance number with someone's home address and suddenly you don't have someone who really exists. That's called a synthetic identity … and you can multiply your opportunities for making money."

In an internal report completed last August, and **obtained by the Canadian Press** through an Access to Information request, Privacy Commissioner Daniel Therrien called out federal political parties for not adequately protecting Canadians personal information and misusing voter data without proper consent. The report states that Canadian privacy policies fall short on setting limits on how data is used, how long it is kept, whether it is accurate, and how it is safeguarded through security systems.

Mitigate it

- When possible, **create distinct digital identities** across platforms and accounts using pseudonyms or nicknames, different email addresses, fake birthdates, and so on, advises Popa. Keep track of this information for customer service. "People need to understand one thing. The person that they are in real life is different than the digital identity that they have online. Divorce these two concepts," he says. "The way they do that, is to be as pseudonymous as possible online."
- **Use an offline password manager** and database to keep track, creating new and distinct passphrases, rather than passwords (minimum of 12 characters, including spaces and punctuation), advises Popa. "Type in a sentence. It's much easier to remember and it's less likely to guess it."

These stories first appeared on CPA Canada's online news site.

Disclaimer:
BUSINESS MATTERS deals with a number of complex issues in a concise manner; it is recommended that accounting, legal or other appropriate professional advice should be sought before acting upon any of the information contained therein.

Although every reasonable effort has been made to ensure the accuracy of the information contained in this letter, no individual or organization involved in either the preparation or distribution of this letter accepts any contractual, tortious, or any other form of liability for its contents or for any consequences arising from its use.

BUSINESS MATTERS is prepared bimonthly by Chartered Professional Accountants of Canada for the clients of its members.

Authors:

Ask the right questions when hiring virtually, pros say	Sophie Nicholls Jones
Four common questions about the CRA's principal residence exemption	Sophie Nicholls Jones
The tax consequences of leaving Canada permanently	Mathieu De Lajartre
Four threats to watch out for when a hacker gets your phone number	Sophie Nicholls Jones