



Saklas & Co.

Chartered Professional Accountants

Accounting and Tax Made Simple!

#200 - 2121-152nd Street, Surrey BC V4A 4P1
www.saklasaccounting.com

b: 604.531.2292 f: 604.531.7400
email: kim@saklasaccounting.com

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YEAR-END TAX PLANNING

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This publication is a high-level summary of the most recent tax developments applicable to business owners, investors, and high net worth individuals. Enjoy!

YEAR-END TAX PLANNING

December 31, 2016 is fast approaching... see below for a list of tax planning considerations. Please contact us for further details or to discuss whether these may apply to your tax situation.

SOME 2016 YEAR-END TAX PLANNING TIPS INCLUDE:

- 1) Certain expenditures made by individuals by December 31, 2016 will be eligible for 2016 tax deductions or credits including: moving expenses, child care expenses, charitable donations, political contributions, medical expenses, alimony, eligible employment expenses, union, professional, or like dues, carrying charges and interest expenses, certain public transit amounts, and children's fitness and arts amounts. Ensure you keep all receipts that may relate to these expenses.
- 2) You have until Monday, March 1, 2017 to make tax deductible Registered Retirement Savings Plan (RRSP) contributions for the 2016 year. Consider the higher income earning individual contributing to their spouse's RRSP via a "spousal RRSP" for greater tax savings.
- 3) The age limit for maturing Registered Pension Plans, RRSP, and Deferred Profit Sharing Plans is 71 years of age.
- 4) If you own a business or rental property, consider paying a reasonable salary to family members for services rendered. Examples include website maintenance, administrative support, and janitorial services.
- 5) A senior whose 2016 net income exceeds \$73,756 will lose all, or part, of their Old Age Security. Senior citizens will also begin to lose their age credit if their net income exceeds \$35,927.
- 6) Consider purchasing assets eligible for capital cost allowance before the year-end. A half-year of depreciation deduction is allowed for most assets even if it was purchased just before the year-end.
- 7) Registered Education Savings Plan (RESP) – A Canada Education Savings Grant for RESP contributions will be permitted equal to 20% of annual contributions for children (maximum \$500 per child per year). In addition, you may be eligible to receive a Canada Learning Bond which provides \$525 in the first year, and an additional \$100 each year until the child turns 15.

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- 8) A refund of Employment Insurance paid for certain non-arm's length employees may be available upon application to CRA.
- 9) Taxpayers that receive "eligible dividends" from private and public corporations may have a significantly lower tax rate on the dividends as compared to non-eligible dividends. Notification to the shareholder is required.
- 10) A Registered Disability Savings Plan (RDSP) may be established for a person who is under the age of 60 and eligible for the Disability Tax Credit. Non-deductible contributions to a lifetime maximum of \$200,000 are permitted. Grants, Bonds and investment income earned in the plan are included in the beneficiary's income when paid out of the RDSP.
- 11) If income, forms, or elections have been missed in the past, a Voluntary Disclosure to the CRA may be available to avoid penalties.
- 12) For individuals who have not yet claimed charitable donations, consider making a donation of up to \$1,000 in order to get a "super charged" donation credit. For these individuals with total donations of less than \$1,000 in the current year, consider not claiming the donation amount until you have donated a total of \$1,000.
- 13) Consider restructuring your investment portfolio to convert non-deductible interest into deductible interest.

It may also be possible to convert personal interest expense, such as interest on a house mortgage or personal vehicle, into deductible interest.
- 14) Are you a U.S. Resident, Citizen or Green Card Holder? Consider U.S. filing obligations with regards to income and financial asset holdings.

Filing obligations may also apply if you were born in the U.S.
- 15) An investment tax credit is available in respect of each eligible apprentice. Also, a \$1,000 Incentive Grant per year is available for the first and second year as apprentices. A \$2,000 Apprenticeship Completion Grant may also be available. Provincial credits may also be available.
- 16) Canada Pension Plan (CPP) receipts may be split between spouses aged 65 or over. Also, it may be advantageous to apply to receive CPP early (age 60 - 65) or late (age 65 - 70).
- 17) Individuals 18 years of age and older may deposit up to \$5,500 into a Tax-Free Savings Account in 2016. Commencing in 2009, annual contributions were limited to \$5,000, increased to \$5,500 in 2013, and again to \$10,000 in 2015, for a total of \$46,500 by January 2016.
- 18) Consideration may be given to selling non-registered securities, such as a stock, mutual fund, or exchange traded fund, that has declined in value since it was bought to trigger a capital loss which can be used to offset capital gains in the year. Anti-avoidance rules may apply when selling and buying the same security.
- 19) Effective January 1, 2017, exchanges of shares of mutual fund corporations that result in an investor switching between funds (commonly referred to as "switch funds" or "corporate class funds") will result in a fair market value disposition, rather than a rollover at its adjusted cost base. As such, individuals may wish to rebalance their portfolio before December 31, 2016.
- 20) Teacher and early childhood educators – A new non-refundable tax credit of 15% on purchases of up to \$1,000 of eligible school supplies by a teacher or early childhood educator used in the performance of their employment duties may be available. Receipts for school supplies will be required.
- 21) Home accessibility tax credit – A new federal non-refundable tax credit of 15% on up to \$10,000 of eligible expenditures (renovations to a qualified dwelling to enhance mobility or reduce the risk of harm) per calendar year, provided a person 65 years or older, or person eligible for the Disability tax credit reside in the home may be available.

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Higher levels of personal income are taxed at higher personal rates, while lower levels are taxed at lower rates. Therefore, individuals may want to, where possible, adjust income out of high income years and into low income years. This is particularly useful if the taxpayer is expecting a large fluctuation in income, due to, for example,

- taking maternity/paternity leave;
- receiving a large bonus;
- selling a company; or
- planning on selling or buying investment assets.

In addition to increases in marginal tax rates, individuals should consider other costs of earning additional income. For example, an individual with a child may give up some financial support from the government in the form of reduced Canada Child Benefit (CCB) payments if the individual earns additional income in a certain year. Likewise, excessive personal income may reduce receipts of Old Age Security, and GST/HST credit.

There are a variety of different ways to smooth income over a number of years to ensure an individual is maximizing access to the lowest marginal tax rates. For example,

- In owner/managed companies, owners may take more, or less, earnings out of the company in the form of salaries or dividends. The best option depends on the applicable provincial/territorial tax rates, and quantity of personal and corporate income, amongst other factors.
- Realizing investments with a capital gain or loss in the year.

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- Deciding whether to claim RRSP contributions made in the current year, or carry-forward those contributions.
- Deciding on whether or not to claim CCA on assets in a proprietorship.
- Withdrawing funds from an RRSP to increase income. Care should be given, however, to the loss in RRSP room based on the withdrawal.
- Consider electing to pay out tax-free dividends from the "Capital Dividend Account" in years where an individual is in a high marginal tax rate.

Changes in provincial/territorial rates may also impact the above decision.

There are also some year-end planning possibilities available which do not specifically relate to changes in income levels and therefore marginal tax rates:

- 1) Spouses may jointly elect to have up to 50% of certain pension income reported by the other spouse.
- 2) Consider paying taxable dividends to obtain a refund from the "Refundable Dividend Tax on Hand" account in the Corporation.
- 3) Corporate earnings in excess of personal requirements could be left in the company to obtain a tax deferral (the personal tax is paid when cash is withdrawn from the company).

The effect on the "Qualified Small Business Corporation" status should be reviewed before selling the shares where large amounts of capital have accumulated.

- 4) Dividend income, as opposed to a salary, will reduce an individual's cumulative net investment loss balance thereby possibly providing greater access to the capital gain exemption.
- 5) It may be advantageous to defer receiving Old Age Security receipts (for up to 60 months) if it would otherwise be eroded due to high income levels (greater than \$73,756 for 2016).
- 6) Salary payments require source deductions (such as CPP, EI and payroll taxes) to be remitted to CRA on a timely basis.
- 7) Individuals that wish to contribute to the CPP or a RRSP may require a salary to create "earned income".

RRSP contribution room increases by 18% of the previous years' "earned income" up to a yearly prescribed maximum (\$25,370 for 2016; \$26,010 for 2017).

- 8) If you are providing services to a small number of clients through a corporation (which would otherwise be considered your employer), CRA could classify the corporation as a Personal Service Business. There are significant negative tax implications of such a classification. In such scenarios, consider discussing risk and exposure minimization strategies with your professional advisor.

The preceding information is for educational purposes only. As it is impossible to include all situations, circumstances and exceptions in a newsletter such as this, a further review should be done by a qualified professional.

Although every reasonable effort has been made to ensure the accuracy of the information contained in this newsletter, 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.

For any questions... give us a call.

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