PROSPERA
CHARTERED ACCOUNTANTS

2018 Tax Planning Tips

2016 Tax Increases and Decreases Continue

Both the federal and provincial governments have increased personal income tax rates in 2016 and subsequent years on taxable income in excess of $200,000. When we prepare 2016 personal tax returns we will consider how to best allocate income between family members. For those in the lower tax bracket between $45,000 and $90,000 there will be a 1.5% income tax reduction in 2016 and we will plan to make best use of that. Taxable income over $300,000 will be taxed at 48% in 2016 rather than 40% previously.

Old Age Security – Voluntary Deferral

The *Old Age Security Act* has been amended to provide the option to defer take-up of the OAS pension by up to five years past the age of eligibility, in exchange for an enhanced monthly benefit of 0.6 percent per month of deferred (or 7.2 percent for a full year of deferral). Once people chose to receive their OAS pension, this percentage will be applied to the benefit for the rest of their lives. This new voluntary deferral of the OAS pension started in **July 2013**. The voluntary deferral the OAS pension will be available between the ages of 65 and 70 until the eligibility age is increased. The deferral period will be gradually increased to start at age 67 and end at 72, in parallel with the age of eligibility increase.

This change provides an opportunity for taxpayers to aggressively draw down RRSP or corporate funds and avoid the OAS claw back at $73,756. Old Age Security pension can be deferred until age 70 and benefits would then be received at a higher rate.

CPP Contributions

You can also defer the receipt of CPP benefits to age 70 and get a larger pension. If you are age 65 to 70 and you work while receiving your CPP retirement pension, you can choose to make CPP contributions. These contributions will increase your CPP retirement benefits. You can elect to stop contributing to the Canada Pension Plan after age 65 by completing and providing your employer with Form CPT30, Election to Stop Contributing to the Canada Pension Plan.

A useful site that allows you to estimate your CPP entitlement on retirement can be found at http://www.servicecanada.gc.ca/eng/isp/common/cricinfo.shtml .

Tax Free Savings Account

Most people now know of this investment vehicle that allows every taxpayer 18 years of age or older who was a resident of Canada throughout the year to contribute up to $5,500 each year. Contributions to a TFSA and the interest on money borrowed to invest in a TFSA are not tax deductible. The earnings generated in the TFSA are tax-free when withdrawn. The $5,500 ($10,000 in 2015) annual contribution limit is cumulative and amounts withdrawn from the TFSA can be recontributed into the account **in a subsequent year**. If you wish to transfer your TFSA to a different bank or broker, have them arrange to transfer the funds directly to avoid it being treated as a withdrawal. *You cannot remove money from a TFSA and replace it in the same calendar year.* To find out how much you can contribute to your TFSA for 2016 go to www.cra.gc.ca/myaccount or call CRA's enquiries service.

What type of investment is best in the TFSA?

As the income earned in a TFSA is tax sheltered it is best to use the TFSA to generate investment income that would attract the greatest amount of tax if earned outside the TFSA. Generally speaking this would be interest income from investments such as GIC's and bonds. Dividends and capital gains are generally taxed at lower income tax rates and are best held in your personal or corporate investment accounts.

Which is best? RRSP, RESP, TFSA or Mortgage prepayment?

As mortgage interest is paid with after tax dollars, the most effective option would be the mortgage prepayment, unless your effective guaranteed rate of return, net of tax is higher than your mortgage interest. The RRSP gives you a tax deduction, but is of most benefit if your personal income is at the level attracting the highest rate of tax (income over $200,000 for 2016). RRSP's can be an effective tool but mortgage prepayment should still be a priority. As RRSP eligibility is cumulative it can always be used at a later date. RESP's are the next best investment for those with children under 16. The various Government contribution programs make this a useful tool for tuition fees incurred for post-secondary education. There is no annual limit for contributions and the lifetime limit for contributions is $50,000 for each beneficiary. Lastly, the TFSA can be used if all other vehicles have been maximized.

TFSA accounts are also useful for keeping emergency funds in case of layoff or for saving for large purchases such as vehicles or home renovations.

Mileage Allowance

For those who are charging mileage for business use of a personal vehicle, the CRA approved allowance rates for 2016 and 2017 are 54 cents per kilometer for the first 5,000 km and 48 cents per kilometer thereafter. GST is included in these rates and is calculated at 5/105 of the amount calculated. You can now use a Simplified Logbook system to track mileage in some circumstances by tracking a sample month rather than the whole year. Please review the detailed requirements at http://www.cra-arc.gc.ca/whtsnw/lgbk-eng.html.

US Snowbirds

If you are a snowbird you should file a Form 8840 with the IRS to avoid being classified as a US tax resident. Ask us for this form if applicable.

Income Splitting

There are many ways to accomplish this but two of the most common are the pension splitting available to those with eligible pension income (not OAS or CPP) and interspousal loans. An income split of CPP is available by contacting Service Canada.

Pension splitting began in 2007 and our software calculates the most tax effective split. This can result in both spouses having to pay instalments, but we found many clients saved a significant amount of tax with this option. We will automatically calculate the most beneficial amount.

Interspousal loans are made by the spouse at the highest tax rate income to the spouse with low rate tax. The loan should be documented by a promissory note and the interest actually paid by the low rate tax spouse to the other spouse by January 30 of the following tax year. The interest is tax deductible to the low rate tax spouse and represents taxable income to the other spouse. The income earned from the investments purchased with the loan proceeds is earned by and taxable to the low income spouse.

Instalments

Income tax instalment payments are required to be made if your tax owing in 2017 and in either 2016 or 2015 is greater than $3,000. Our transmittal letter we will enclose with your 2016 personal income tax return will indicate the instalment payment amounts you should remit to CRA during 2017.

Health and Welfare Trusts

For many years we have been recommending that our self employed corporate clients use this vehicle to allow a tax deduction for all medical expenses by their company. The resulting tax saving is greater than the tax benefit from the medical expense tax credit on a personal income tax return. The company we usually recommend is now offering an enhanced service in the form of a group insurance medical plan. This is pooled with clients of many CA firms in Alberta and as a result the premiums are kept to a very reasonable amount. If you want a brochure for this, ask when you are next in our office. Please note we get no commission on this and are just mentioning it as we believe is a very good value.

Other Changes

The children's arts and fitness tax credits is being phased out and will decrease by half in 2016 and be gone in 2017 and future years.

Email

Be aware that CRA does not correspond with taxpayers by email and any email representing to be from CRA is fraudulent and should be ignored!

If you have any questions regarding any tax or financial planning ideas please contact us at admin@partnersinprosperity.ca