Kevin A. Dunn, CPA, CA

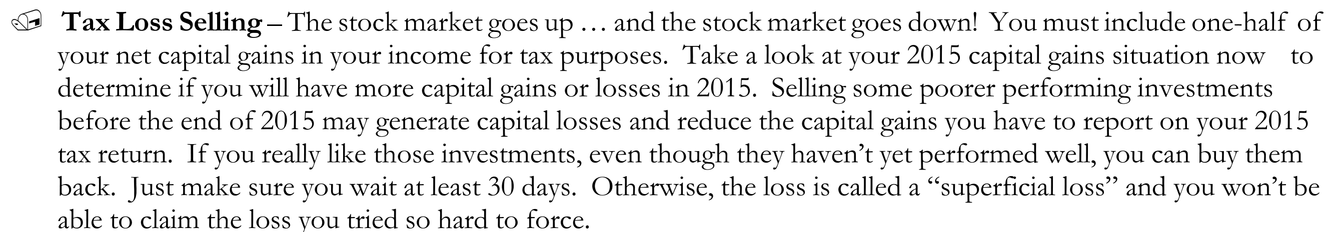
YEAR-END TAX PLANNING – 2015

Tax planning should be a year-round exercise, not one that you look at just before (or even worse, just after) filing your tax return. Small business owners and individuals can often benefit by taking a look at their situation before December 31, 2015.

- **RRSP's** have been around for years and most Canadian taxpayer's make use of them to some extent. You have until March 1, 2016 to make RRSP contributions that can be deducted against your 2015 taxable income.

  Your maximum RRSP contribution should be noted on the Notice of Assessment for your 2015 income tax return. The maximum RRSP contribution for 2015 is the lesser of $24,930 and 18% of your "earned income" minus your pension adjustment (which will likely reported on your 2014 T4).

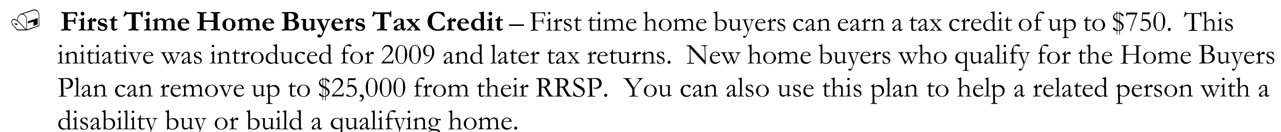
  Don't just automatically make the maximum RRSP contribution. Perhaps you want to make a spousal RRSP contribution. Maybe you should make a contribution instead to your "Tax-Free Savings Account" or to a "Registered Disability Savings Account". The Pension Income Splitting Rules may also change your view on how much in RRSP funds should be accumulated.



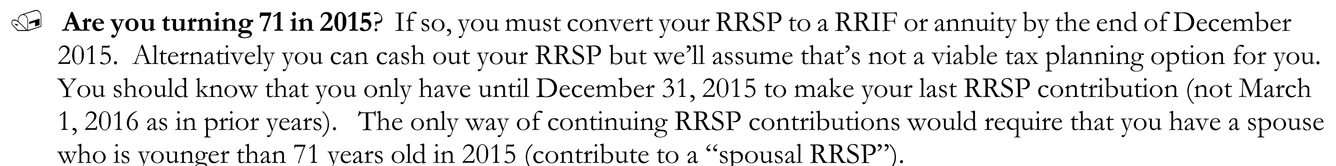
- **Tax Loss Selling** – The stock market goes up … and the stock market goes down! You must include one-half of your net capital gains in your income for tax purposes. Take a look at your 2015 capital gains situation now to determine if you will have more capital gains or losses in 2015. Selling some poorer performing investments before the end of 2015 may generate capital losses and reduce the capital gains you have to report on your 2015 tax return. If you really like those investments, even though they haven't yet performed well, you can buy them back. Just make sure you wait at least 30 days. Otherwise, the loss is called a "superficial loss" and you won't be able to claim the loss you tried so hard to force.

  And what happens if your capital losses in 2015 exceed your capital gains? This net capital loss can be carried forward indefinitely and applied to capital gains in future years. It can also be carried back and applied against net capital gains in the past three years (2014, 2013, and 2012). Before choosing one over the other, it makes sense to look at your income in those previous three years compared with what your income may be next year.

  Some clients have been advised to trigger these losses by transferring investments to their RRSP's or RRIF's. Beware! The Income Tax Act contains rules that may limit capital losses resulting from these transfers.



- **First Time Home Buyers Tax Credit** – First time home buyers can earn a tax credit of up to $750. This initiative was introduced for 2009 and later tax returns. New home buyers who qualify for the Home Buyers Plan can remove up to $25,000 from their RRSP. You can also use this plan to help a related person with a disability buy or build a qualifying home.



- **Are you turning 71 in 2015**? If so, you must convert your RRSP to a RRIF or annuity by the end of December 2015. Alternatively you can cash out your RRSP but we'll assume that's not a viable tax planning option for you. You should know that you only have until December 31, 2015 to make your last RRSP contribution (not March 1, 2016 as in prior years). The only way of continuing RRSP contributions would require that you have a spouse who is younger than 71 years old in 2015 (contribute to a "spousal RRSP").

Kevin A Dunn, CPA, CA
452 Charlotte Street, Suite 200, Peterborough, ON, K9J 2W3

- **Charitable donations** must be made by December 31, 2015 in order to qualify for tax savings on your 2015 tax return. Charitable donations are an excellent tax savings vehicle since the tax savings on your total annual donations in excess of $200 will generate tax savings at the highest marginal tax rate (about 46% in Ontario). There is a "super" donation credit for first-time donors. You can qualify if neither you nor your spouse have claimed and been allowed a charitable donation tax credit for any year after 2007.

- **Registered Educational Savings Plan** contributions must be made by December 31, 2015 in order to qualify for the Canadian Educational Savings Grant of up to 20% of your contributions up to $2,500. RESP's are an excellent way of contributing to your childrens' future education costs.

- **Registered Disability Savings Plan ("RDSP")** contributions need to be made by December 31, 2015. A RDSP is available for individuals who are eligible for the Disability Tax Credit and their parents and certain other contributors. Total contributions to the plan cannot exceed $200,000 over the lifetime of the plan. Although contributions to the plan are not deductible from your income, the income grows tax-deferred in the plan. Regular annual contributions to these plans are encouraged to maximize the government's matching contributions. The matching contributions are based on the net income of the beneficiary's family.

- Take advantage of your **Tax-Free Savings Account ("TFSA")** limit. A TFSA is especially advantageous for young people who can take advantage of many years of tax-free investment income within the TFSA. It can also be a great place to own shares that you think will generate significant dividend or capital gains.

- **Low Interest Loans** to your spouse can help split income and lower your family's overall tax burden. It works this way. Let's say the higher income spouse wants to give $200,000 to the lower income spouse to invest. The lower income spouse now has $200,000 and earns investment income on that amount. It would be great if the lower-income spouse could just now report this income on his/her tax return and pay tax at a lower tax rate than the other spouse. Unfortunately, the Income Tax Act gets in the way. The Act requires the higher income spouse to still report the investment income on that $200,000. This is called *attribution*. How do we get around that obstacle? Instead of "giving" the money to the lower income spouse, the money is loaned to the lower income spouse at Canada Revenue Agency's "prescribed interest rate" which is currently 1% per annum. The lower income spouse must actually pay the interest on this loan by January 30 of the following year but this allows the lower income spouse to claim the investment income on the $200,000. Although the loan interest is income to the higher income spouse, it is also a deduction to the lower income spouse and allows that spouse to build up his/her own investment portfolio which is taxed at a lower overall tax rate.

- Do you have excess cash that you're considering investing in a GIC or some other interest bearing investment? Consider **delaying your investment** until after December 31, 2015. The Income Tax Act requires that we report the interest earned (not necessarily received) on an annual basis. If you delay your investment until after December 31, 2015 then the interest paid at maturity after the first year will essentially be deferred for one year. It will be reported on your 2017 tax return instead of your 2016 tax return. Obviously this doesn't work if your interest payments are received monthly, quarterly, or semi-annually.

- Making **donations of publicly listed securities** can yield tax savings exceeding even the generous tax savings from normal charitable donations. You can avoid paying capital gains tax on publicly listed securities that you donate to a registered charity. In addition, you get a donation receipt for the fair market value of the shares you donate. This is a great idea where you want to make a charitable donation and have shares with accrued capital gains (accrued means that the gains exist but haven't been taxed yet because you still own the shares).

NOTICE

The comments in this document have been prepared based on current enacted and proposed legislation as of the date of preparation of the document and are believed to be accurate. The comments herein are general in nature and should not be considered tax advice for your situation. You are encouraged to consult with a tax professional before acting on any of the comments or suggestions in this document.

Kevin A Dunn, CPA, CA
452 Charlotte Street, Suite 200, Peterborough, ON, K9J 2W3