

TAX FOCUS

November, 2017

Effective tax planning requires careful attention and a consistent long term focus. This edition of our annual Tax Focus will outline some opportunities that you should consider in your annual tax planning regimen. We will also consider how recent income tax changes can be used to help you minimize your taxes for 2017 and subsequent years.

Taxation of Canadian Private Corporations

Over the last five months the Federal government has made a number of controversial proposals on the taxation of private corporations. We have included a separate report on these issues in this package.

Tax Matters for 2017

- Both the Infirm Dependent Credit and the Caregiver Credit have been replaced with a new Canada Caregiver Credit in 2017.
- The Federal Public Transit Tax Credit will only be available for monthly passes from January to June 2017. However a new Ontario Public Transit Credit for Seniors will be available for the period July 1, 2017 to December 31, 2017.

- Effective September 1, 2017 the Ontario Tuition and Education Tax Credit will be eliminated. The Federal Education Tax Credit has been eliminated effective January 1, 2017 and the Federal Tuition Credit is still available for all of 2017.
- The Children's Fitness Tax Credit and Children's Arts Tax Credit have been eliminated for 2017.
- The Ontario Healthy Home Renovation Tax Credit has been eliminated for 2017. However, the Federal Healthy Home Renovation Tax Credit is still available.
- Again this year, we will need to report the sale of your principal residence on your tax return. The gain from the sale of your principal residence is still exempt from income taxes in most situations.

RRIF Withdrawals

- The minimum amount required to be taken out of your RRIF is as follows:

Age	Amount
71	5.28%
72	5.40%
73	5.53%
74	5.67%
75	5.82%
76	5.98%
77	6.17%
78	6.36%
79	6.58%
80	6.82%
81	7.08%
82	7.38%
83	7.71%
84	8.08%
85	8.51%
86	8.99%
87	9.55%
88	10.21%
89	10.99%
90	11.92%
91	13.06%
92	14.49%
93	16.34%
94	18.79%
95	20.00%

Capital Gains Exemption

- The lifetime capital gains exemption for the sale of qualified small business corporation shares is \$835,716 for sales in 2017.
- The exemption for the sale of qualified farm or fishing property is \$1,000,000.

Foreign Reporting T1135

The filing of the T1135 form has been part of the tax return for a number of years and in 2012 and prior years consisted of a simple ticking of a box. For 2013 and 2014, the new T1135 form required much more detailed information concerning non-Canadian investments owned during the year, including:

- The name of each foreign bank account(s) or investment(s)
- The specific country for the investment(s)
- The maximum cost in the year and at the end of the year (in Canadian funds)
- The income or loss for each investment(s)
- The capital gain or loss on disposal of the investment(s)

Non-Canadian stocks held in a Canadian brokerage account are required to be listed on the T1135.

- Starting in 2015, if the foreign assets held are between \$100,000 and \$250,000 a simplified form will be filed.
- If the foreign assets are in excess of \$250,000 the detailed form will be required to be filed.

Electronic Filing

Once again for the 2017 tax returns, your personal tax return will be e-filed to comply with the e-file rules for tax preparers.

Old Age Security

You may elect to defer receiving your OAS pension from age 65 to age 70. Your OAS benefit will increase by 0.6% for each month of deferral. If your OAS is subject to the clawback you should elect to defer for 2017. Once your net income reaches \$74,788 you will be subject to the clawback. The full amount of your OAS will be claimed back once your net income reaches \$120,648.

Owner- Manager Year End Tips

The small business deduction (SBD) reduces the corporate income tax rate to 13 ½% in 2018 (in Ontario) on the first \$500,000 of qualifying active business earned by companies.

Now is the time for owner-managers to focus on year end planning and determine their optimal salary-dividend mix.

A determination must be made that minimizes overall taxes for the owner-manager and family members. Consideration must be made of:

- the owner-manager's marginal tax rate;
- the corporate tax rate;
- provincial health and/or payroll taxes;
- RRSP contribution room;
- CPP contributions;
- other deductions and credits such as those for child care expenses and charitable donations.

To be deductible, salaries and bonuses must be accrued (i.e. payable) before the business's year end and paid within 179 days thereof. It may be beneficial to pay a reasonable salary to a spouse or child who provides services to the business and is in a lower tax bracket.

Some salary-dividend strategies include:

1. Paying a salary of \$145,722 will generate sufficient earned income to maximize your 2018 RRSP contribution of \$26,230.
2. Next, salary or bonuses may be paid to reduce business income to \$500,000.
3. Any additional amount could be paid as dividends. The payment of dividends may result in a dividend refund to the corporation - if there is RDTOH (Refundable Dividend Tax on Hand).
4. The following chart illustrates the tax savings from income splitting with your spouse.

	Spouse
Income up to \$45,916	\$ 17,030
Income from \$45,916 to \$91,831	9,992
Income from \$91,831 to \$142,253	5,114
Income from \$142,353 to \$220,000	<u>3,598</u>
	<u>\$ 35,734</u>

Investment Strategy

Return on Investment

This topic has been very popular in past years and therefore we are again repeating it using 2017 numbers.

As part of year-end tax planning, you should review your investment mix to ensure that you receive the best possible **after-tax** return on your portfolio.

The table below shows the differences in tax rates as applied to various income sources and taxable income. Regular income includes salary, interest and business income.

2017 Marginal Tax Rates				
<u>Taxable</u> <u>Income</u>	<u>Income</u>	<u>*Eligible</u> <u>Dividends</u>	<u>Other</u> <u>Dividends</u>	<u>Capital</u> <u>Gains</u>
\$0	20.05%	0.00%	6.13%	10.03%
\$42,202	24.15%	0.00%	10.93%	12.08%
\$45,917	29.65%	7.56%	17.37%	14.83%
\$74,317	31.48%	8.92%	19.51%	15.74%
\$84,405	33.89%	12.24%	22.33%	16.95%
\$87,558	37.91%	17.79%	27.03%	18.95%
\$91,832	43.41%	25.38%	33.46%	21.70%
\$142,354	46.41%	29.52%	36.97%	23.20%
\$150,001	47.97%	31.67%	38.80%	23.98%
\$202,801	51.97%	37.19%	43.48%	25.98%
\$220,001	53.53%	39.34%	45.30%	26.76%

* dividends from publicly-traded companies and dividends from income taxed at the high rate in CCPCs (Canadian Controlled Private Companies)

Conclusion:

Based on the different tax treatment for each type of investment, where possible, it is preferable to:

- hold interest-yielding investments inside an RRSP (to defer tax on the higher-taxed interest), and
- hold equity investments, which yield dividends and capital gains, outside an RRSP.

Note: For 2017, an individual in Ontario who has no other income would pay no taxes if they received a \$33,308 other dividend, or a \$51,635 eligible dividend.

If this individual is a student with \$7,000 of tuition, they would pay no taxes if they received a \$45,577 other dividend, or a \$58,635 eligible dividend.

Registered Retirement Savings Plan (RRSP)

- i) The RRSP contribution limits for 2017 and subsequent years, before any pension adjustments are as follows:

<u>Year</u>	<u>RRSP Contribution Limit</u>	<u>Earned Income Required in Prior Year</u>
2017	\$ 26,016	\$144,500
2018	\$ 26,230	\$145,722
2019	Indexed	

- ii) Your 2017 RRSP contribution must be made within 60 days of the end of the calendar year, which is March 1, 2018. However, if you turn 71 in 2017, the RRSP contribution for 2017 must be made by December 31, 2017 not March 1, 2018.
- iii) You should consider making a lifetime (not annual) non-deductible over-contribution of \$2,000 to your RRSP. Since the over-contribution is not deductible, the amount is from your after tax dollars.
- iv) Once you turn 65 you may convert your RRSP to a RRIF. This income would then be eligible for the pension credit and pension splitting with your spouse where upon you will be able to withdraw \$4,000 from your RRIF without paying tax on it.

Self Employed - EI Program

Effective January 31, 2010, self-employed individuals and owner managers of corporations are eligible for the following special EI Benefit Programs:

Maternity Benefits/Parental Benefits
Sickness Benefits
Compassionate Care Benefits

If you elect to pay the EI Premiums you will be eligible for the above-mentioned benefits. This program makes financial sense for someone who will be able to receive maternity benefits in the future. The program doesn't apply to regular benefits.

Tax Free Savings Accounts (TFSA)

TFSA's were introduced in 2009 and allows for annual contributions of up to \$5,500. If you have not previously taken advantage of the TFSA, on January 1, 2018 you will be able to contribute up to \$57,500.

Income earned by a TFSA is tax free and the funds can be withdrawn at any time without tax consequences. Funds can be re-contributed to the TFSA, after a withdrawal, on January 1, of the following year. TFSAs are an excellent savings vehicle that should be used along with your RRSP and Pension Plan accounts. They can also be used as a savings vehicle for the purchase of your first home, along with the Home Buyers Plan program of your RRSP.

Capital Loss Utilization

With the continuing volatility in the world economy dominating the news, the stock markets have been very unpredictable with gains and losses occurring daily. If you have realized a capital gain in 2017 or in any of the last three years (2014 to 2016) consider selling investments with accrued losses before the end of the year.

You may wish to repurchase these shares again in the near future. However, you should always consider obtaining investment advice prior to making this type of decision.

CPP Contribution Rules

Currently an employer will need to deduct CPP for employees aged 60 to 70 even if the employee is receiving CPP retirement pension.

Employees age 65 to 70 can elect to stop paying CPP deductions while receiving CPP retirement pension by filing Form CPT30(E) with the Canada Revenue Agency. This form needs to be filed prior to December 31, 2017 to be effective starting January 1, 2018.

Fraudulent CRA Email / Telephone Calls

Over the past few years we have been asked about email correspondence and telephone calls that our clients have received from "CRA" regarding "Refunds". Please be advised these are fraudulent emails/calls and they should be deleted.

If you have signed up for online mail CRA will send an email to the address you provided, to notify you when new online mail is available to view in the CRA's secure online services portal.

There have also been a number of phone call scams by callers indicating they are from CRA.

The CRA website lists a number of scams and offers advise on protecting yourself against fraud. You can visit CRA's website for additional details at canada.ca.

Website

An e-copy of this Tax Focus and Taxation of Canadian Private Corporations is available on our Website: tarole.ca

Upcoming Deadlines

December 15, 2017

Final 2017 personal income tax instalment due.

December 31, 2017:

Pay deductible or creditable fees, expenses and dues, for example:

- Charitable donations
- Medical expenses
- Union dues and professional membership fees
- Investment counsel fees, interest and carrying charges on investments
- Certain legal, tax and accounting fees
- Alimony and support payments
- Child care expenses
- Moving expenses
- Political contributions
- Employment expenses (home office, travel and entertainment)
- Tuition fees
- Tax shelter investments
- Registered Education Savings Plan (RESP) - to qualify for 2017 Canada Education Savings Grant
- RRSP contribution if you turn 71 in 2017

A newsletter of this nature cannot be all-encompassing and is not intended to replace professional advice. This letter summarizes recent tax developments and tax planning opportunities; however, we recommend that you consult with us before embarking on any of the suggestions contained in this letter, which are appropriate to your own specific requirements.

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