

TAX FOCUS

December, 2014

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 2014 and subsequent years.

Tax Matters for 2014

Family Tax Cut

The Federal Government announced a series of changes to the tax rules for families effective for the 2014 tax year.

- For families with children under 18 during 2014, we will be able to transfer up to \$50,000 of taxable income from the higher earning spouse to the lower earning spouse, if this results in a reduction of the combined federal tax for the couple then the federal income tax will be reduced to a maximum of \$2,000.
- Effective for 2015 the non-refundable tax credit or children under 18 will be eliminated.

- Effective for 2015 the child care expense deduction will be increased for a child under 7 to \$8,000 from \$7,000, for a child aged 8 to 16 to \$5,000 from \$4,000 and for a disabled child to \$11,000 from \$10,000.
- Effective 2015 the Universal Child Care Benefit (UCCB) will be increased to \$160 from \$100 per month for a child under the age of 6. Also for a child between the ages of 6 to 18 a new monthly payment of \$60 will be made under the UCCB.

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 subsequent years, the new T1135 form will require 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 will be required to be listed on the new T1135.

Ontario Personal Tax Increase

Effective for 2014, Ontario has increased the personal income taxes on earnings above \$150,000 and a second increase on earnings above \$220,000.

Electronic Filing

Once again for the 2014 tax returns, your personal tax return will be e-filed to comply with new 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 2014. Once your net income reaches \$71,592 you will be subject to the clawback. The full amount of your OAS will be claimed back once your net income reaches \$115,452.

Owner- Manager Year End Tips

The small business deduction (SBD) reduces the corporate income tax rate to 15.5% (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 \$138,500 will generate sufficient earned income to maximize your 2015 RRSP contribution of \$24,930.
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 \$43,953	\$ 14,510
Income from \$43,593 to \$87,907	7,090
Income from \$87,907 to \$136,270	2,958
Income from \$136,270 to \$220,000	<u>1,371</u>
	<u>\$ 25,929</u>

Investment Strategy

Return on Investment

This topic has been very popular in past years and therefore we are again repeating it using 2014 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.

<u>Taxable Income</u>	<u>Tax</u>	<u>2014 Marginal Tax Rates</u>			
		<u>Income</u>	<u>Capital Gains</u>	<u>*Eligible Dividends</u>	<u>Other Dividends</u>
\$0	\$ 0	20.05%	10.03%	(6.86%)	5.35%
\$40,120	5,885	24.15%	12.08%	(1.20%)	10.19%
\$43,953	6,811	31.15%	15.58%	8.46%	18.45%
\$70,648	15,126	32.98%	16.49%	10.99%	20.61%
\$80,242	18,290	35.39%	17.70%	14.31%	23.45%
\$83,236	19,350	39.41%	19.71%	19.86%	28.19%
\$87,907	21,191	43.41%	21.71%	25.38%	32.91%
\$136,270	42,185	46.41%	23.21%	29.52%	36.45%
\$150,000	48,557	47.97%	23.99%	31.67%	38.29%
\$220,000	82,136	49.53%	24.77%	33.82%	40.13%

* dividends from publicly-traded companies and dividends from income taxed at the high rate in CCPC's (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 2014 an individual in Ontario who has no other income would pay no taxes if they received a \$35,547 other dividend, or a \$49,284 eligible dividend.

If this individual is a student with \$7,000 of tuition, they would pay no taxes if they received a \$44,733 other dividend, or a \$58,138 eligible dividend.

Capital Gains Exemption

The lifetime capital gains exemption has been increased to \$800,000 effective for sales of qualified small business corporations after January 1, 2014.

Employer Health Tax

Effective January 1, 2014 the exemption for paying employer health tax has been increased from \$400,000 to \$450,000.

Registered Retirement Savings Plan (RRSP)

- i) The RRSP contribution limits for 2014 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>
2014	\$24,270	\$ 134,833
2015	24,930	\$ 138,500
2016	Indexed	

- ii) Your 2014 RRSP contribution must be made within 60 days of the end of the calendar year, which is March 2, 2015. However, if you turn 71 in 2014, the RRSP contribution for 2014 must be made by December 31, 2014 not March 2, 2015.
- 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.

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, 2015 you will be able to contribute up to \$36,500.

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. TFSA's 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.

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.

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 2014 or in any of the last three years (2011 to 2013) 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, 2014 to be effective starting January 1, 2015.

Fraudulent CRA Email

Over the past few months we have been asked about email correspondence that our clients have received from "CRA" regarding "Refunds". Please be advised these are spam emails and they should be deleted. CRA will never contact you by email.

Tator, Rose & Leong Website

We hope you will visit our newly updated website - Tarole.ca. Your feedback is welcome and appreciated and assists us to better serve your needs.

Upcoming Deadlines

December 15, 2014

Final 2014 personal income tax instalment due.

December 31, 2014:

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 2014 Canada Education Savings Grant
- RRSP contribution if you turn 71 in 2014

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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