

TAX FOCUS

December, 2015

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 2015 and subsequent years.

Income Tax Rates

During the Federal Election the new Liberal government promised to increase personal income tax rates. When/if these changes are implemented, then the top marginal tax rate on ordinary income over \$220,000 will increase from 49.53% to 53.53% and on Canadian non-eligible dividends from 40.13% to 45.30%. These will be the highest top marginal tax rates in over twenty years. We will have to wait to see what changes the new government will announce in the 2016 Federal Budget expected in March 2016.

Tax Matters for 2015

Family Tax Cut

The Conservative 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 the year, 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.
- The new Liberal government is expected to modify these tax rules in the 2016 Federal Budget.

Home Accessibility Tax Credit

- Effective for 2015 a new non-refundable tax credit of 15% will be available for certain home renovations by disabled individuals or individuals over 65. The maximum eligible expenditure is \$10,000. This is a similar program to the Ontario Healthy Homes Renovation Tax Credit that is currently in existence.

Age	Existing	New
86	10.79%	8.99%
87	11.33%	9.55%
88	11.96%	10.21%
89	12.71%	10.99%
90	13.62%	11.92%
91	14.73%	13.06%
92	16.12%	14.49%
93	17.92%	16.34%
94	20.00%	18.79%
95	20.00%	20.00%

RRIF Withdrawals

- Effective for the 2015 tax year, the minimum amount required to be taken out of your RRIF has been reduced.
- If you have withdrawn more than the minimum amount during 2015 you may re-contribute the difference by March 1, 2016 and claim a deduction for 2015.
- The new RRIF percentages are as follows:

Age	Existing	New
71	7.38%	5.28%
72	7.48%	5.40%
73	7.59%	5.53%
74	7.71%	5.67%
75	7.85%	5.82%
76	7.99%	5.98%
77	8.15%	6.17%
78	8.33%	6.36%
79	8.53%	6.58%
80	8.75%	6.82%
81	8.99%	7.08%
82	9.27%	7.38%
83	9.58%	7.71%
84	9.93%	8.08%
85	10.33%	8.51%

Capital Gains Exemption

- The lifetime capital gains exemption for the sale of qualified small business corporation shares has been increased to \$813,600 for the 2015 tax year.
- 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.

- For 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 2015 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 2015. Once your net income reaches \$72,809 you will be subject to the clawback. The full amount of your OAS will be claimed back once your net income reaches \$118,202.

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 \$140,944 will generate sufficient earned income to maximize your 2016 RRSP contribution of \$25,370.
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 \$44,701	\$ 14,770
Income from \$44,701 to \$89,401	7,235
Income from \$89,401 to \$138,586	3,011
Income from \$138,586 to \$220,000	<u>1,299</u>
	<u>\$ 26,315</u>

Investment Strategy

Return on Investment

This topic has been very popular in past years and therefore we are again repeating it using 2015 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.

Taxable <u>Income</u>	<u>Tax</u>	2015 Marginal Tax Rates			
		<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%
\$40,922	6,008	24.15%	12.08%	(1.20%)	10.19%
\$44,701	6,920	31.15%	15.58%	8.46%	18.45%
\$72,065	15,444	32.98%	16.49%	10.99%	20.61%
\$81,847	18,670	35.39%	17.70%	14.31%	23.45%
\$84,902	19,752	39.41%	19.71%	19.86%	28.19%
\$89,401	21,525	43.41%	21.71%	25.38%	32.91%
\$138,586	42,876	46.41%	23.21%	29.52%	36.45%
\$150,000	48,173	47.97%	23.99%	31.67%	38.29%
\$220,000	81,752	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 2015, an individual in Ontario who has no other income would pay no taxes if they received a \$36,150 other dividend, or a \$50,124 eligible dividend.

If this individual is a student with \$7,000 of tuition, they would pay no taxes if they received a \$45,356 other dividend, or a \$58,327 eligible dividend.

Registered Retirement Savings Plan (RRSP)

- i) The RRSP contribution limits for 2015 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>
2015	\$ 24,930	\$138,500
2016	\$ 25,370	\$140,944
2017	Indexed	

- ii) Your 2015 RRSP contribution must be made within 60 days of the end of the calendar year, which is March 1, 2016. However, if you turn 71 in 2015, the RRSP contribution for 2015 must be made by December 31, 2015 not March 1, 2016.
- 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 \$10,000. If you have not previously taken advantage of the TFSA, on January 1, 2016 you will be able to contribute up to \$51,000.

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.

The new Liberal government is expected to reduce the \$10,000 annual contribution limit, which may be announced in the 2016 Federal Budget.

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 2015 or in any of the last three years (2012 to 2014) 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, 2015 to be effective starting January 1, 2016.

Fraudulent CRA Email / Telephone Calls

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 fraudulent emails 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.

Upcoming Deadlines

December 15, 2015

Final 2015 personal income tax instalment due.

December 31, 2015:

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 2015 Canada Education Savings Grant
- RRSP contribution if you turn 71 in 2015

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.

Tator, Rose & Leong
Chartered Accountants
160 Eglinton Avenue East, #603
Toronto, Ontario
M4P 3B5
(416) 924-1404
(416) 964-3383 Fax

or

email@tarole.ca
daver@tarole.ca
edmundl@tarole.ca
joanneh@tarole.ca
calvinm@tarole.ca
glenn@tarole.ca
rebeccav@tarole.ca