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TAX TIPS

2018

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32 Easily adaptable tax ideas for you and your family

Our annual *Tax Tips* can assist you in your tax planning. It presents some quick ideas and strategies. Please take the time to review your 2018 tax situation and call us for specific recommendations tailored to meet your needs. We will be pleased to work with you on these and other tax-savings ideas.

Investment income

1. Tax rates are significantly more favourable for dividend income than interest income.

- The top personal tax rates in Ontario for 2018 are as follows:

Income	2018			
	For taxable income over $144,489 to $150,000	For taxable income over $150,000 to $205,842	For taxable income over $205,842 to $220,000	For taxable income over $220,000
▪ Eligible dividends (generally, dividends received from public corporations)	29.52%	31.67%	37.19%	39.34%
▪ Non-eligible dividends (generally, dividends received from small business corporations)	38.39%	40.20%	44.84%	46.65%
▪ Interest income	46.41%	47.97%	51.97%	53.53%
▪ Capital gains	23.20%	23.98%	25.98%	26.76%

- The top personal tax rates are not expected to change for 2019, except for the non-eligible dividend rates. The top marginal rate for non-eligible dividends will increase from 46.65 per cent to 47.40 per cent in 2019, given that the small business corporate tax rate is decreasing from 10 per cent to 9 per cent.
- Re-evaluate your investment strategy by comparing the pre-tax dividend rates with the pre-tax interest rates using the chart provided on page 15.

2. **Defer tax on interest to the following year by investing funds for a one-year term ending in the next calendar year.**

3. **Defer purchases of mutual funds until early in the next calendar year to minimize taxable income allocated in the current year from the mutual fund.**

4. **Existing holding companies that have built up refundable dividend tax should consider paying dividends to recover this tax. Depending on its year-end, the company may have up to 24 months to enjoy the benefits of the tax refund before the shareholder is required to pay personal tax on the dividend. The individual circumstances should be reviewed**

Did you know?

Effective for taxation years starting after 2018, corporations that generate both General Rate Income Pool ("GRIP") and Refundable Dividend Tax on Hand ("RDTOH") will no longer be able to pay eligible dividends (which are subject to lower dividend tax rates in the hands of the shareholder(s)) to recover the RDTOH. Transitional rules apply to corporations that have both GRIP and RDTOH balances at the end of their 2018 tax year (or 2019 if an off-calendar year that started in 2018).

Capital gains and losses

5. **If you own qualified small business corporation (QSBC) shares or qualified farm and fishing property, you may benefit from the lifetime capital gains exemption of $848,252. The exemption is indexed to inflation annually.**

- The Government has maintained the exemption of $1,000,000 for qualified farm and fishing property. The exemption is available on dispositions made on or after April 21, 2015.

6. **Consider realizing accrued losses on investments to shelter capital gains realized this year and/or in the previous three years.**

- Note that a loss realized from the disposition of an investment may be denied if you repurchase the investment within a short period of time.

7. **If you have significant trading activity, your sales of securities may be considered a business for income tax purposes.**

- If your sale of securities is considered a business, your profits will be fully taxable as income (instead of being considered capital gains taxable at 50%), and your losses will be fully deductible against any source of income.
- If you are concerned about your sales of securities being considered a business, you can consider filing a one-time, non-revocable election with the Canada Revenue Agency (CRA).
- This election will treat all of your gains from dispositions of Canadian securities as capital gains (and all of your losses as capital losses) for the current year and all future years.

Charitable donations

8. **Consider donating publicly-traded securities instead of cash.**

- A tax-advantaged gift of securities can be made to a private foundation as well as to public charities. Any appreciation in the value of the securities will not be subject to capital gains tax if the securities are donated to:
  - A registered charity; or
  - A private foundation after March 18, 2007. There are special rules that apply to persons not dealing at arm's length with the foundation. For more information, please contact us.

- The donation credit (for individuals) or deduction (for corporations) continues to be available for the fair market value of the securities donated.
- To avoid capital gains tax on the appreciated securities, the actual securities must be transferred to the charity or foundation.
- Similar rules will apply to a capital gain on ecologically-sensitive land donated to a conservation charity.
- Due to 2011 changes to the tax rules, the donation of flow-through securities may trigger a capital gain to the donor.

Interest Deductibility

9. Where possible, maximize interest deductions by structuring or arranging your borrowings, first for business or investment purposes, and then, for personal use.

10. Where certain business or capital property (e.g., shares, but not real estate or depreciable property) is lost or ceases to earn income, the interest incurred on the related borrowed money may in some cases continue to be deductible.

Tax-Free Savings Account (TFSA)

11. Beginning in 2016, Canadian residents 18 years of age and older can each contribute up to $5,500 annually, plus any unused contribution room from previous years, to a tax-free savings account. Going forward, the contribution limit will be indexed to inflation and rounded to the nearest $500. The annual limit for 2019 is $6,000.

- For someone who has never contributed and has been eligible for the TFSA since its introduction in 2009 has contribution room of

$57,500 available.

- Contributions to a TFSA are not deductible for income tax purposes.
- Interest on money borrowed to invest in a TFSA is not tax deductible.
- Contributions to and income earned in a TFSA are tax-free upon withdrawal.
- You can give money to your spouse for a TFSA contribution, and the income earned on the contributions in your spouse's TFSA will not be attributed back to you.
- You cannot contribute more than your TFSA contribution room in a given year, even if you make withdrawals from the account during the year. If you do so, you may be subject to a penalty tax for each month that you are in an excess contribution position

Quickfacts for 2018

The maximum RRSP contribution limit is $26,230.

The amount of earned income required in 2018 to maximize your 2019 RRSP contribution room is $147,222 (the maximum RRSP contribution limit for 2019 is $26,500).

The small business deduction limit is $500,000.

Pensioners, retirees and pre-retirees

12. Income splitting opportunity:

- Individuals receiving pension income that qualifies for the pension credit can allocate up to half of this income to their spouse or common-law partner. A determination of the optimal allocation should be considered in tandem with the couple's continued ability to qualify for Old Age Security payments and certain personal tax credits.

13. An individual's RRSP must be converted to a Registered Retirement Income Fund (RRIF) or be used to acquire a qualifying annuity by the end of the year in which the individual turns 71.

- An individual who turns 71 in 2018 can make RRSP contributions by the end of 2018, where contribution room is available.
- An individual can continue to make a contribution to a spousal RRSP until the end of the year in which his or her spouse turns 71, where contribution room is available.
- For 2015 and later years, the Government has introduced a reduction in the minimum amount that must be withdrawn from an RRIF for a holder who is over the age of 71. The new RRIF factors will permit holders to preserve more of their RRIF savings in order to provide income at older ages.

If you have disabled or infirm dependents

14. The Registered Disability Savings Plan (RDSP) is a savings plan that is intended to help parents and others save for the long-term financial security of a person who is eligible for the Disability Tax Credit.

- Contributions to an RDSP are not tax deductible and can be made until the end of the year in which the beneficiary turns 59 years of age.
- To help you save, the Government pays a matching grant of up to $3,500. You are allowed to carry forward unused grant entitlements for up to ten years.
- Contributions that are withdrawn are not included in the income of the

beneficiary, although the Canada disability savings grant, Canada disability savings bond, and investment income earned in the plan will be included in the beneficiary's income for tax purposes when paid out of the RDSP.

- There is no annual limit on amounts contributed to an RDSP of a particular beneficiary, but the overall lifetime limit is $200,000.

- A deceased individual's RRSP or RRIF can be transferred tax-free into the RDSP of a financially dependent infirm child or grandchild.

15. For 2016 and subsequent tax years, the Government has implemented a new non-refundable Home Accessibility Tax Credit.

- The tax credit is available for eligible expenses incurred in making a home more accessible to individuals aged 65 or older or to individuals who are disabled or infirm.

- Either the individual who incurred the expenses or the individual for whom the expenses are made can claim the tax credit. The individual who incurred the expenses can only claim the tax credit in respect of expenses incurred for his or her spouse or common-law partner, or for disabled or infirm dependants.

- You can claim up to $10,000 in eligible expenses under the Home Accessibility Tax Credit, resulting in a non-refundable tax credit worth up to $1,500. Expenses eligible for the claim must be permanent and non-routine renovations to the home. The alterations must allow the individual for whom the expenses were incurred to be mobile within the home and/

or reduce the risk of harm to the individual within the home.

If you have young children

16. Save for your child or grandchild's education with a Registered Education Savings Plan (RESP).

- An RESP is a trust arrangement that earns tax-free income to be used to fund the cost of a child or grandchild's post-secondary education. Contributions to an RESP are not deductible for tax purposes and withdrawals of capital from the RESP are not taxed. The beneficiary is taxed on the income portion when withdrawn from the RESP for the purpose of funding his or her post-secondary education. While at school, the child or grandchild tends to have relatively low sources of other income, and, as a result, the income is usually taxed at lower rates, if at all.

For RESP contributions in 2018:

- There is no annual contribution limit;
- The lifetime contribution limit is $50,000 per beneficiary; and
- A federal Government grant of 20% of annual RESP contributions is available for each beneficiary under the "Canada Education Savings Grant." The maximum annual RESP contribution that qualifies for the federal Government grant is $2,500.

17. Maximize child-care expense deduction.

- The maximum amounts deductible for child-care expenses are $11,000 for a disabled child, $8,000 for children under age seven, and $5,000 for other eligible children (generally, children aged 16 and under). In most cases, the spouse with the lower net income must claim the child-care expenses against his or her earned income.

Did you know?

On July 18, 2017, the Government announced proposed changes to the tax on split income (TOSI) rules which impact the ability to split dividend and other types of income (paid by private corporations) with adult family members. If TOSI applies, the income is taxed in the hands of the recipient individual at the highest marginal tax rate. These TOSI rules became effective on January 1, 2018 and apply to 2018 and later taxation years. The TOSI rules aim to curtail the splitting of income with related family members who have not otherwise made a meaningful contribution to the business, be it labour, capital, and/or an assumption of business risks.

18. Apply for the Canada Child Benefit (CCB)

- The Government has merged the Universal Child Care Benefit (UCCB) and Canada Child Tax Credit (CCTB) in to a new Canada Child Benefit (CCB). The CCB is a tax-free payment based solely on the family's income from the previous year. The program provides parents with monthly benefits of up to $541.33 ($6,496 annually) for children aged six and under and up to $456.75 ($5,481 annually) for children aged 6 to 17.

- It is expected that families making below $150,000 will receive more in monthly child-benefit payments than they were otherwise receiving under the UCCB and CCTB programs. However, the benefit is gradually clawed back for families making over $30,000 and fully eliminated for families making over $200,000 annually.

- The application for the CCB can be made online through the CRA "My Account" when you complete your child's provincial birth registration form or by completing Form RC66. More information can be found at http://www.cra-arc.gc.ca/bnfts/ccb/pplctn-eng.html.

- The CCB is effective for 2016 and subsequent taxation years.

If you have your own corporation

19. Consider your optimum salary/dividend mix to achieve less overall tax:

- Salary will qualify you and other family members active in the business for RRSP contributions, Canada Pension Plan (CPP) contributions, and child-care deductions. Dividends will not qualify an individual for these contributions or deductions.

- Dividends, on the other hand, may cost the family unit less in current taxes. Each family member, over 17 years of age and receiving non-eligible dividend income of approximately $35,000 or less, or $50,000 or less of eligible dividends, from taxable Canadian corporations, will pay little or no income tax (a small Ontario Health Tax premium may apply). The TOSI eliminates the tax benefits of paying dividends to family members who are not active in the business or who do not own "excluded shares"* of the company. If TOSI applies to the dividends, they will be taxed to the recipient individual at the highest marginal tax rate applicable to the type of dividend received.

- Consider accessing funds from the corporation that can be withdrawn tax-free. For example, repay shareholder loans, return capital to shareholders up to the lesser of the paid-up capital and the adjusted cost base of the shares, or roll in personal

Did you know?

In October of 2017, the Government announced a reduction to the small business deduction rate effective January 1, 2018. The rate decreased from 10.5 per cent to 10 per cent for 2018, and will decrease even further to 9 per cent for 2019. Ontario also announced a reduction to the small business rate to 3.5 per cent (from 4.5 per cent) on January 1, 2018. These rate reductions result in a larger deferral of after-tax business profits in the corporation that can be reinvested in the business. Thus, the combined (federal and Ontario) small business rate will be as follows:

Year	Tax Rate
2017	15.0%
2018	13.5%
2019	12.5%

**An individual owns "excluded shares" of a corporation if:*
(a) He/she is 25 years of age or older.
(b) The corporation has income from carrying on a business.
(c) The corporation is not a professional corporation or a service provider.
(d) The individual owns shares directly in the corporation that entitle him/her to 10% or more of the votes and value.

assets with a high cost base to the corporation on a tax-free basis to extract the cost base of the assets on a tax-free basis.

20. Where you have a parent corporation that has an RDTOH balance but no GRIP at the end of its 2018 tax year, and a subsidiary operating company with GRIP and no RDTOH, consider having an eligible dividend paid by the subsidiary to the parent corporation before or at the 2018 year-end.

- This way the GRIP will be in the same company that has RDTOH. Transitional rules will apply to future tax years which will allow the parent corporation to pay eligible dividends (to the extent of the lesser of its RDTOH balance and 38 1/3% of its GRIP at the end of its 2018 tax year) to recover the RDTOH that carried forward from the 2018 tax year.

21. Defer income that is not required personally for longer period:

- If you do not require cash from your corporation to spend personally, consider keeping the funds invested in your corporation and defer the extra dividend tax payable on the withdrawal of the funds.

22. Consider instalments for 2018:

- The threshold above which corporations must pay income tax, GST and source deductions instalments is $3,000. The threshold will be based on 2018 tax amounts payable.
- Certain Canadian-controlled private corporations are allowed to make quarterly, instead of monthly, income tax instalments. To qualify, certain conditions must be met, including the following criteria relating to the 2018 taxation year:
  - The corporation has been in perfect compliance in the previous 12 months;
  - The corporation was entitled to the small business deduction;
  - The taxable income of the associated group did not exceed $500,000; and
  - The taxable capital of the associated group did not exceed $10 million.
- Instalment planning for 2019 can be addressed during 2018 by meeting the conditions where applicable.

If you are self-employed

23. If you have a home office and you meet certain conditions, you can deduct eligible home office expenses, including a portion of your mortgage interest, home insurance, property taxes, utilities and minor repairs.

24. Consider the potential benefits of incorporating your business.

If you are employed

25. Reduce tax withheld at source:

- If you will have large tax deductions available to you (e.g., RRSP contributions, tax shelters, interest, business losses, work related car expenses, tuition credits, or alimony), apply in advance to the CRA for a reduction of the payroll withholdings that are withheld from your salary.

Did you know?

The 2018 Federal Budget introduced rules surrounding the taxation of small business income for private corporations (or associated corporations in a corporate group) that earn investment income. The small business deduction limit of $500,000 will be reduced once the investment income earned in the associated group exceeds $50,000, with full elimination once investment income exceeds $150,000. These new rules apply to corporate taxation years commencing after 2018.

26. Minimize taxable employee benefits:

- Arrange to receive non-taxable benefits from your employer instead of taxable benefits where possible. Examples of non-taxable benefits include: employer contributions to a registered pension plan (the pension is taxable when you receive it); and contributions to a “private health services plan,” such as those covering medical expenses, hospital charges

and drugs not covered by public health insurance and dental fees.

- If you received interest-free or low-interest loans from your employer, the loans will generally result in a taxable benefit.
  - Some of the benefit can be offset by an "interest" deduction if the loans are used for certain purposes.
  - If not deductible, be sure to pay any interest payable on the loan for 2018 by January 30, 2019 to reduce or eliminate your taxable benefit.
  - Consider renegotiating any home purchase loans from your employer in order to minimize taxable benefits by "locking in" the loan at a lower prescribed interest rate for a five-year term.

If your employer provides you with an automobile

27. The taxable benefit is based on original cost of the automobile and does not decrease as the car ages. Consider purchasing the car from the company by way of an interest-free loan from your employer and personally claiming depreciation on the car.

- Avoid employer-owned vehicles costing over $30,000.
- You can reduce the taxable benefit if your automobile is used primarily (generally, greater than 50%) for business purposes and by keeping your personal use to less than 20,000 kilometers per year.

Working in the U.S.

28. A Canadian resident who works in the U.S. may deduct contributions made to a U.S. pension plan, under certain circumstances, up to the taxpayer's RRSP deduction limit.

- This will reduce the individual's unused RRSP contribution room.

Income splitting with family members – other opportunities

Consider the following legitimate means of shifting income to family members whose taxable income is below the lowest tax bracket, approximately $45,916. This will allow them to take advantage of certain non-transferable credits as well as lower tax rates.

29. Income splitting with children over the age of 17 ("adult children"):

- Shift investment income by gifting money to your adult children or to a trust for their benefit, if you wish to maintain control.

- Lend funds to or purchase shares in a corporation whose shareholders are your adult children.

30. Income splitting with adult or minor children:

- Purchase appreciating assets in the names of your children regardless of their ages. Capital gains will be taxed in their hands, not yours.

- Lend money to your children with actual interest payable at the prescribed rate. Earnings in excess of this rate will be taxed in their hands.

- Consider reorganizing the shareholdings of your private corporation to have your adult children (over the age of 24) own shares directly that give them 10% of the votes and value (i.e., “excluded shares). Dividends can be paid by the corporation on these shares to your adult children without TOSI applying. This planning is beneficial if your adult children are not otherwise active in the business and not already earning income that puts them at the highest marginal tax bracket.

  Note, this planning only works if the corporation earns business income, is not a professional corporation and is not in the provision of services.

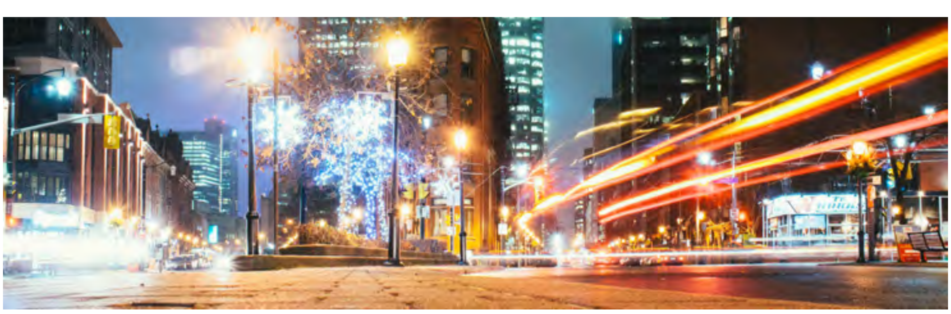
31. Income splitting with your spouse or common-law partner:

- Lend money to your spouse or common-law partner to earn business income.

- Have the higher-income spouse or common-law partner incur all household expenses, thus allowing the lower income person to acquire investments, which could be taxed at a lower rate.

- Lend money to your spouse or common-law partner with actual interest payable at the prescribed rate. Earnings in excess of this rate will be taxed in your spouse or common-law partner’s hands.

- Consider reorganizing the shareholdings of your private corporation to have your spouse (over the age of 24) own shares directly that gives him/her 10% of the votes and value. Dividends can be paid by the corporation on these shares to your spouse without TOSI applying. This planning is beneficial if your spouse is not otherwise active in the business and not already earning income that puts them at the highest marginal tax bracket. Note, this planning only works if the corporation earns business income, is not a professional corporation and is not in the provision of services.



32. File and pay your taxes on time

- Even if you are receiving a refund, you should file your taxes on time. Filing on time avoids the possibility of late-filing penalties that may be applicable on CRA reassessments.

- The deadline for filing your 2018 personal tax return is Tuesday, April 30, 2019. If you, or your spouse or common-law partner, are self-employed, the deadline for filing your tax return for 2018 is extended to Monday, June 17, 2019. Regardless of your filing due date, if you have a tax balance owing for 2018, you still have to pay the balance due on or before April 30, 2019.

- The penalty for late filing your return is 5% of the unpaid taxes, plus an additional 1% for each complete month your return is late (up to 12 months). Penalties are higher for repeat offenders or gross negligence omissions.

Highlights of the Canada Pension Plan (CPP) and Old Age Security (OAS)

Canada Pension Plan (CPP)

Effective January 1, 2012, there have been some noteworthy changes to the CPP, which include the following:

1. If you are an employee between the ages of 60 and 65 and you are still working, you must continue to contribute to the CPP even if you are already receiving a CPP retirement pension.

2. If you are an employee between the ages of 65 and 70 and you are still working, you can choose to continue to contribute to the CPP or you can opt out of making these contributions.

3. Any contributions you make to the CPP, regardless of your age, will increase your CPP benefits even if you are already receiving a CPP pension benefit.

4. You will be able to receive your CPP retirement pension without any work interruption.

5. Your employer must match your CPP contributions in each of the scenarios described in (1) and (2) above. Your employer must make these contributions regardless of whether you are already receiving a CPP pension benefit.

Old Age Security (OAS)

1. The value of the Old Age Security (OAS) benefit for eligible seniors over the age of 65 is approximately $6,979 per year (indexed quarterly for inflation) but is generally reduced where net income exceeds $74,788 and is completely eliminated where income exceeds $121,314.

2. Beginning July 1, 2013, you may choose to delay receipt of your OAS for up to five years beyond the normal benefit start date of 65, in exchange for an increased monthly pension of 0.6% (up to a total of 36% annually) for each month that the benefit is delayed.

3. If you have already started receiving OAS payments but would like to benefit from the deferral, you can write to Service Canada to request a cancellation of your OAS pension, provided you have been receiving the pension benefits for less than 6 months, but you will have to repay the benefits you have received to date.

Did you know?

The Ontario Government has abandoned the proposed “Ontario Retirement Pension Plan” in exchange for the new CPP regime. Beginning in 2019, the CPP contribution rates will be gradually increased from the current 4.95% to 5.95% by 2025. This is an effort by Ontario to ensure that retirees will have sufficient income past retirement in case they were unable to save during their working years.

Investment income - A closer look…

It may be a good time for you to consider whether your investment income is tax efficient and consider investment alternatives.

The table below has been prepared to assist you in this matter. It assumes that your investment goal is to earn an after-tax rate of return of 5%.

It compares the pre-tax yield required to achieve a 5% after-tax rate of return by earning:

1. Interest income;
2. Eligible dividends (generally dividends received from public corporations); or
3. Non-eligible dividends (generally dividends received from small business corporations).

If your total taxable income is:	The pre-tax rate of return required to achieve a 5% after-tax rate of return is approximately:		
	If you receive interest income	If you receive eligible dividends	If you receive non-eligible dividends
Between $1,000 and $46,605	5% - 6.6%	5%	5% - 5.8%
Above $46,605 but below $93,208	7.1% - 8.1%	5.3% - 6.1%	6.2% - 7.1%
Above $93,208 but below $144,489	8.8%	6.7%	7.8%
Above $144,489 but below $150,000	9.3%	7.1%	8.2%
Above $150,000 but below $220,000	9.6%	8%	8.5%
Above $220,000	10.8%	8.2%	9.5%

Did you know?

U.S. social security benefits received may be taxable at a lower effective rate. Eligible Canadian residents are allowed in addition to the 15% deduction permissible against U.S. social security income, an additional 35% deduction for a total deduction equal to 50% of the benefits.

You may be eligible for the enhanced deduction if you have been resident in Canada and receiving U.S. social security benefits continuously since before 1996 or you are receiving these benefits in respect of your deceased spouse or common-law partner who received benefits prior to 1996.

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