GRAHAM SCOTT ENNS LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

P. 519-633-0700 · F. 519-633-7009
450 Sunset Drive, St. Thomas, ON N5R 5V1

P. 519-773-9265 · F. 519-773-9683
25 John Street South, Aylmer, ON N5H 2C1

www.grahamscottenns.com

In this edition:

This publication is a high-level summary of the most recent tax developments applicable to business owners, investors, and high net worth individuals. Enjoy!

YEAR-END TAX PLANNING

December 31, 2015 is fast approaching… see below for a list of tax planning considerations. Please contact us for further details or to discuss whether these may apply to your tax situation.

SOME 2015 YEAR-END TAX PLANNING TIPS INCLUDE:

1) Certain expenditures made by individuals by December 31, 2015 will be eligible for 2015 tax deductions or credits including: moving expenses, child care expenses, charitable donations, political contributions, medical expenses, alimony, eligible employment expenses, union, professional, or like dues, carrying charges and interest expenses, certain public transit amounts, and children’s fitness and arts amounts. Ensure you keep all receipts that may relate to these expenses.

2) You have until Monday, February 29, 2016 to make tax deductible Registered Retirement Savings Plan (RRSP) contributions for the 2015 year. Consider the higher income earning individual contributing to their spouse's RRSP via a “spousal RRSP” for greater tax savings.

3) The age limit for maturing Registered Pension Plans, RRSP, and Deferred Profit Sharing Plans is 71 years of age.

4) If you own a business or rental property, consider paying a reasonable salary to family members for services rendered. Examples include website maintenance, administrative support, and janitorial services.

5) A senior whose 2015 net income exceeds $72,809 will lose all, or part, of their Old Age Security. Senior citizens will also begin to lose their age credit if their net income exceeds $35,466.

6) Consider purchasing assets eligible for capital cost allowance before the year-end. A half-year of depreciation deduction is allowed for most assets even if it was purchased just before the year-end.

Tax Tips & Traps

7) Registered Education Savings Plan (RESP) – A Canada Education Savings Grant for RESP contributions will be permitted equal to 20% of annual contributions for children (maximum $500 per child per year). In addition, you may be eligible to receive a Canada Learning Bond which provides $525 in the first year, and an additional $100 each year until the child turns 15.

8) A refund of Employment Insurance paid for certain non-arm's length employees may be available upon application to the CRA.

9) Taxpayers that receive "eligible dividends" from private and public corporations may have a significantly lower tax rate on the dividends as compared to non-eligible dividends. Notification to the shareholder is required.

10) A Registered Disability Savings Plan may be established for a person who is under the age of 60 and eligible for the Disability Tax Credit. Non-deductible contributions to a lifetime maximum of $200,000 are permitted. Grants, Bonds and investment income earned in the plan are included in the beneficiary's income when paid out of the RDSP.

11) If income, forms, or elections have been missed in the past, a Voluntary Disclosure to the CRA may be available to avoid penalties.

12) For individuals who have not yet claimed charitable donations, consider making a donation of up to $1,000 in order to get a "super charged" donation credit. For these individuals with total donations of less than $1,000 in the current year, consider not claiming the donation amount until you have donated a total of $1,000 (can wait up to five years to claim the credit).

13) Consider restructuring your investment portfolio to convert non-deductible interest into deductible interest.

    It may also be possible to convert personal interest expense, such as interest on a house mortgage or personal vehicle, into deductible interest.

14) Are you a US Resident, Citizen or Green Card Holder? Consider US filing obligations with regards to income and financial asset holdings.

    Filing obligations may also apply if you were born in the US.

15) An investment tax credit is available in respect of each eligible apprentice. Also, a $1,000 Incentive Grant per year is available for the first and second year as apprentices. A $2,000 Apprenticeship Completion Grant may also be available.

    Provincial credits may also be available.

16) Canada Pension Plan (CPP) receipts may be split between spouses aged 65 or over. Also, it may be advantageous to apply to receive CPP early (age 60 - 65) or late (age 65 - 70).

17) Individuals 18 years of age and older may deposit up to $10,000 into a Tax-Free Savings Account in 2015. Commencing in 2009, annual contributions were limited to $5,000, though increased to $5,500 in 2013, and again to $10,000 in 2015, for a total of $41,000 by January 2015.

    The Federal Liberals have proposed to reduce the current $10,000 annual contribution limit back to $5,500.

18) Teacher and early childhood educators – The Federal Liberals have proposed a new benefit to be available for school supplies purchased. Although the legislation has not yet been passed, the credit is expected to available for 2015. Receipts for school supplies may be required.

2015 REMUNERATION

The Federal Liberals have proposed two significant tax changes as indicated on their election platform:

- Reduction of the personal tax rate by 1.5% (drop from 22% to 20.5%) on income earned in the 2nd tax bracket (approximately $45,000 to 90,000). For individuals at the top end of this bracket, this results in a tax savings of approximately $670.
- Increase on the personal tax rate by 4% (from 29% to 33%) on income commencing at $200,000.

The legislation relating to these changes has not yet been passed but it is expected that these changes will be effective in the 2016 year.

As such, individuals who will be earning income in excess of $200,000 for the next few years may wish to consider, if possible, incorporating more income in the 2015 year. In other words, by prepaying the personal income tax in 2015, individuals will avoid the 4% tax rate increase on amounts earned in excess of $200,000 in 2016 and onwards (until, and if, the rules change).

There are a variety of different ways to incorporate income in the 2015 year, or, alternatively to reduce income in 2016, such as, for example:

- Taking additional earnings out of a corporation in 2015. There are generally two options – salaries or dividends. The best option depends on the applicable provincial/territorial tax rates, quantity of personal and corporate income, amongst other factors.
- Realizing investments with a capital gain in 2015. Realizing investments with a capital loss in 2016.
- Claiming RRSP contributions made in 2015 in the next tax year (2016).
- Not claiming CCA on assets in a proprietorship in 2015, which can result in a higher CCA claim in 2016.
- Withdrawing funds from an RRSP in 2015. Care should be given, however, to the loss in RRSP room based on the withdrawal.

Changes in your provincial/territorial rates may also impact the above decision. This is particularly applicable in Alberta where the tax on income over $125,000 will rise by additional amounts in 2016.

There are also some year-end planning possibilities available which do not specifically relate to the impending change in tax rates:

1) Elect to pay out tax-free dividends from the "Capital Dividend Account". If, however, you are in the top tax bracket, you may want to pay out taxable dividends this year, and save the tax-free dividends for future years when the tax rates are higher.

2) Consider paying taxable dividends to obtain a refund from the "Refundable Dividend Tax on Hand" account in the Corporation.

3) Corporate earnings in excess of personal requirements could be left in the company to obtain a tax deferral (the tax is paid when cash is withdrawn from the company).

   The effect on the "Qualified Small Business Corporation" status should be reviewed before selling the shares where large amounts of capital have accumulated.

4) Dividend income, as opposed to a salary, will reduce an individual's cumulative net investment loss balance thereby possibly providing greater access to the capital gain exemption.

5) Excessive personal income may reduce receipts and credits, such as Old Age Security, the age credit, child tax benefits, and GST credits.

   It may be advantageous to defer receiving Old Age Security receipts (for up to 60 months) if it would otherwise be eroded due to high income levels (greater than $72,809 for 2015).

6) Salary payments require source deductions (such as CPP, EI and payroll taxes) to be remitted to CRA on a timely basis.

7) Individuals that wish to contribute to the CPP or a RRSP may require a salary to create "earned income".

   RRSP contribution room increases by 18% of the previous years' "earned income" up to a yearly prescribed maximum ($24,930 for 2015; $25,370 for 2016).

8) Spouses may jointly elect to have up to 50% of certain pension income reported by the other spouse.

9) If you are providing services to a small number of clients through a corporation (which would otherwise be considered your employer), CRA could classify the corporation as a Personal Service Business. There are significant negative tax implications of such a classification. In such scenarios, consider discussing risk and exposure minimization strategies with your professional advisor.

Tax Tips & Traps