TD Wealth

2016 Year-End Tax Planning Tips for Seniors, Employees, Families and Students

While the end of 2016 is approaching, there is still an opportunity for individuals to review their financial situation with their TD Wealth advisor and explore year-end tax planning. Here are some of the year-end tax planning ideas an individual might want to explore.

You may wish to consider:

- Establishing an income splitting loan to benefit from low rates
- Collecting your receipts for the Children's Fitness Tax Credit
- Reviewing the income of your family trust

1. Seniors

☐ Apply for Old Age Security (OAS) Benefits

If you turned age 65 in 2016, you may wish to apply for OAS benefits. If you'll reach age 65 in 2017, then you can apply for OAS up to 12 months before your 65th birthday – so you may want to consider filing your application for OAS as soon as you are eligible to apply.

Also, you may voluntarily defer the start of your OAS pension benefit for up to five years (60 months) after the month you turn age 65 and receive a higher annual pension than if the benefit began at age 65. As of July 2013, if you defer receiving your OAS pension, your monthly pension payment will be increased by 0.6% for every month you delay receiving it, up to a maximum of 36% at age 70. If you would otherwise be subject to a full clawback of your OAS benefits, deferring receipt of the payments may be beneficial, with little attached risk or cost. The OAS clawback applies if your net income for the year exceeds a certain annual threshold. For 2016, this threshold is $73,756. The amount of the clawback is equal to the lesser of your OAS payments or 15% of the amount by which your net income for the year exceeds the threshold amount. For 2016, the full amount of the OAS benefit is eliminated when your net income reaches $119,512.

Note that if you choose to defer receipt of your OAS pension, you will not be eligible for the Guaranteed Income Supplement (GIS), and your spouse or common-law partner (Partner) will not be eligible for the Allowance benefit (*i.e.*, generally, a benefit available to a Partner, aged 60 to 64, of a GIS recipient) for the period that you are delaying your OAS pension.

☐ Apply for Canada Pension Plan (CPP) Benefits

If you turned age 60 in 2016, you are eligible to apply to receive CPP benefits. However, if you apply for CPP benefits before age 65, you should know that there is a reduction in your benefit payment. In 2016, an individual who takes CPP retirement benefit at the earliest possible moment (*i.e.*, age 60) will lose 36% (0.6% per month) of the entitlement. On the other hand, an individual who defers his/her CPP retirement benefit to the latest moment (*i.e.*, age 70) will increase the pension entitlement. In 2016, the late pension augmentation is 0.7% per month for a total increase of 42%.

Service Canada suggests that individuals should apply for their CPP benefits six months before the time they wish to start receiving CPP benefit payments.

☐ If you are 71 in 2016, consider making a final contribution to your registered retirement savings plan (RRSP).

If you turned age 71 in 2016, you may wish to make a final contribution to your RRSP by December 31, 2016. If you have unused RRSP contribution room remaining, making a final contribution can be beneficial, as the amount of the contribution can be deducted against income generated in 2016, thereby reducing your tax liability in 2016.

☐ Allocate pension income to your Partner

Since 2007, Partners have been entitled to an income splitting opportunity that allows them to allocate up to one-half of their income that qualifies for the existing pension income tax credit to their Partner. In this case, you may want to review your 2016 pension income (including income from a registered retirement income fund if you are aged of 65 or older) and assess the opportunity to allocate up to 50% of your eligible pension income to your Partner. This income splitting opportunity may provide you with greater after-tax income from your retirement plans. Speak to your professional tax advisor about the optimal allocation in your particular circumstances.

2. Employees

☐ Pay interest on any loans

You should endeavour to pay any interest (for the 2016 year) on an employee loan before January 30, 2017. Paying this interest can reduce the 2016 taxable interest benefit that would be reported by your employer.

☐ Reduce your automobile standby charge

You might want to consider reducing the taxable standby charge on a company car provided to you by reducing the number of days between now and December 31st that this car is made available to you. You might also consider purchasing this car from your employer at its depreciated value (tax cost to the employer) in order to reduce the taxable benefit to you in 2016.

☐ Reduce your automobile operating cost benefit

You may be able to reduce the taxable operating cost benefit you receive from an employer-provided car by:

i) reimbursing your employer for some or all of the operating costs by February 14th and providing your employer with a summary of such costs; and
ii) minimizing your personal-use driving of the employer's car between now and December 31st.

☐ Negotiate the requirement to have and use a home office

You may want to consider negotiating with your employer the requirement to work from home more than half the time so that you may be able to deduct certain home office expenses. While it is late in 2016, this strategy can assist you by creating deductible expenses on your personal income tax return for next year. In order to claim these expenses, your employer should sign the Canada Revenue Agency's (CRA) form T2200 "*Declaration of Conditions of Employment*" and provide you with the original form as evidence of this requirement.

☐ Purchase assets for Capital Cost Allowance (CCA)

Although it is late in 2016, you might want to consider buying assets (*e.g.*, an automobile, musical instruments) before December 31st that might allow you to claim CCA in 2016, rather than waiting until 2017 to buy those assets. Even though the half-year rule provides that only half of the CCA otherwise allowable can be claimed in the year that you buy an asset, you would have accelerated your deductible CCA by one full year to 2016 rather than waiting to deduct it for 2017.

☐ Teacher and early childhood educator school supply tax credit

The 2016 Federal Budget introduced a new teacher and early childhood educator school supply tax credit for school supplies acquired on or after January 1, 2016. This allows an employee who is an eligible educator to claim a 15% refundable tax credit based on an amount of up to $1,000 in expenditures made by the employee in a taxation year of eligible supplies.

3. Families

☐ Split income with family members

Establishing an income splitting strategy with family members before December 31st may help you achieve tax savings for 2016 and later years. There are various ways to income split with family members, including gifting investments to adult (age 18 or older) or minor (under 18) children. Generally speaking, there should be no attribution of any income or capital gains back to you when you gift investments to an adult child. On the other hand, if you gift investments to a minor child, you will be taxed on income earned on the investments, but not on capital gains arising from the disposition of the investments. Since a gift is a disposition for tax purposes, you should calculate the potential tax cost before carrying out a gifting strategy with appreciated assets.

You may be able to income split with a lower-income Partner by lending him/her money for investment purposes. In this case, you should have your Partner sign a promissory note with interest being charged at the prescribed rate in effect at the time the loan is made (Prescribed Rate Loan or PRL). Your Partner has to pay you interest on the loan by January 30th of the following year, and where the borrowed money is used for investment purposes (*i.e.*, to earn income from property or a business), he/she may be able to deduct that interest expense when filing his/her personal income tax return. As the lender, you would report and pay tax on the interest income paid to you by your Partner.

As result of using a PRL, your Partner would report all of the income and capital gains he/she receives from investing with the borrowed money (and pay the tax thereon). You may wish to consider establishing a PRL with your Partner sooner rather than later, since the prescribed rate is currently at 1% (Q3 or 2016) and it may increase some time in 2017. You can lock in a PRL indefinitely at the current 1% rate when you enter into a PRL before the current rate changes. If you have already created one or more PRLs at prescribed rates above 1%, the loans can be repaid and a new loan can be set up to benefit from the 1% rate. Note that the features of the new loan should be different from the old loan. If not, the CRA could view them as the same loan, in which case this planning strategy would not work.

☐ Contribute to a Registered Education Savings Plan (RESP)

The maximum Basic Canada Education Savings Grant (CESG) is $500 per year or $1,000 if there's unused grant room. Therefore, you should consider contributing at least $2,500 to an RESP by December 31st to receive a $500 CESG for 2016 (or more if you have unused grant room from previous years) for beneficiaries who are eligible for the CESG.

☐ Collect your receipts for the Refundable Children's Fitness Tax Credit (CFTC)

Parents who have children under the age of 16 who are registered in an eligible program of physical activity may be entitled to a refundable tax credit on activity costs of up to $500. If you are eligible for this tax credit, you should keep the original receipts from organizations that provided eligible programs of physical activity in case the CRA reviews your claim. As per the 2016 Federal Budget, the CFTC will be phased out by 2017. The 2016 maximum eligible amount was reduced to $500 from $1,000 and will be eliminated for 2017 and subsequent taxation years.

☐ Collect your receipts for the Children’s Art Tax Credit (CATC)

The CATC allows parents to claim a 15 percent non-refundable federal tax credit based on an amount of up to $250 in eligible expenses per child for 2016. An eligible expense may include the cost of registration or membership of your or your Partner’s child in an eligible program. As per the 2016 Federal Budget, the CATC will be phased out by 2017. The 2016 maximum eligible amount was reduced to $250 from $500 and will be eliminated for 2017 and subsequent taxation years.

☐ Pay child care expenses before December 31st

Any qualifying child care expenses that you pay in 2016 can be claimed on your 2016 personal income tax return. You might, therefore, want to consider paying your adult children (age 18 or older in 2016) for the time in 2016 that they looked after younger children in the family (16 or younger throughout the year), so that you were able to work and earn income. Although you are entitled to a deduction for child care expenses, and your adult child will include in his/her income the child care payments, it is likely that your adult child may pay little or no tax on this income in 2016 (depending upon his or her other income).

☐ Plan the timing of your move

In addition to federal income tax, Canadian individuals pay tax to the province/territory where they reside on December 31st of each year. Accordingly, if you are about to move before the end of 2016 and may be in a higher taxed province/territory on December 31st, consider delaying your move until January 2017 and take advantage of

the lower marginal tax rates in your current province/territory of residence for 2016. On the other hand, if you are about to move to a province/territory with lower marginal tax rates in 2017, you may want to consider making your move earlier, so that you are resident in the lower tax province/territory before December 31st.

☐ Review the income of your family trust

If you have an existing family trust which may have been created for estate planning and income splitting purposes, you should review the income earned by the trust in 2016 and determine how to pay or allocate that income for the best tax results in 2016. For example, consideration may be given to whether income should be allocated to the beneficiaries and/or the trust and how much should be allocated among them, or whether the beneficiaries or the trust should pay tax on this income. Beneficiaries have to pay tax on trust income that is paid or made payable to them by December 31st at their own marginal tax rate. It may be more tax efficient to allocate income to the beneficiaries than to tax the income in the trust, since a family trust is an *inter vivos* trust taxed at the highest marginal tax rate, unless the trust has losses that might be used to shelter the income from taxation.

4. Students

☐ Make moving expenses deductible

Full-time students in post-secondary education should consider claiming moving expenses for their move to school. In order to be eligible to claim the moving expenses, students would have to earn some income while at school (*i.e.*, have a part-time job or receive a taxable scholarship, award or grant). Students should also consider claiming expenses for moving back home again in the summer (provided the student also earns income while at home in the summer). In order for the moving expenses to qualify for a tax deduction, the new home must be at least 40 kilometers closer to the new school or work location. Eligible moving expenses include those associated with travel, transportation of belongings, as well as meals and temporary lodging for up to 15 days.

☐ Pay loan interest before year-end

Students may be entitled to claim a tax credit for interest they paid in the year (on or before December 31st) on a qualifying student loan for post-secondary education. Either the student or a person related to the student can pay the student loan interest; however only the student is entitled to this tax credit. Unused credits from the current year can be carried forward and be used in the following five years.

☐ Claim the Goods and Services Tax (GST) / Harmonized Sales Tax (HST) credit

Students who have a low or modest income and are a resident of Canada may be able to claim the GST/HST credit. They can apply for this quarterly payment by filing their income tax and benefit return.

☐ Claim foreign tuition

Students who attend a university outside of Canada may claim a credit for tuition, education and textbook amounts on their personal Canadian income tax return. In order to support the claim, students should have their school issue and sign CRA form TL11A "*Tuition, Education, and Textbook Amounts Certificate – University Outside Canada*" before December 31st or early in 2016 before students file their personal tax returns. Students should keep this form in the event the CRA reviews their claims. As per the 2016 Federal Budget, the education and textbook tax credits will be eliminated for 2017 and subsequent taxation years.

☐ Consider transferring a student's unclaimed amounts

If a student is unable to fully utilize available tax credits for tuition, education and textbook amounts, any excess amounts may be i) transferred to either a Partner or a supporting parent or grandparent (including a Partner's parent or grandparent) or ii) carried over to a future year (as discussed below). There are different rules and limits to the amounts eligible for transfer by a student to either a Partner or a supporting parent or grandparent. The student and his/her Partner or supporting parent or grandparent should speak with a professional tax advisor regarding any applicable rules and limits, as well as for guidance on transferring a student's unused amounts.

☐ Track a student's unclaimed credits

Students are allowed to carry forward any unused tuition and education credits indefinitely, and any unused credits for student loan interest paid for five years. If a student has paid tuition or student loan interest in the past and has not been able to claim tax relief for those amounts, he/she should keep an accurate record of his/her unclaimed amounts. Once a student begins to work full-time and can use the tax relief that these credits offer, he/she will enjoy tax savings by reducing his/her tax otherwise payable.

5. General Strategies for Individuals

☐ Make expenditures before year-end

For an individual to claim tax relief when filing his/her personal income tax return, certain deductible or creditable expenses should be made before December 31st each year. Such expenses could include: union dues, professional membership fees, child care costs, medical and dental costs, investment counsel fees, interest costs, alimony and maintenance payments, moving expenses, political contributions, charitable donations, transit pass costs, deductible legal fees, tuition costs, and tax shelters costs.

☐ New rules for charitable donations

Prior to 2016, the federal charitable donation tax credit was worth 15% on the first $200 of annual donations and 29% on amounts over $200. Those were the prevailing lowest- and highest-bracket rates. With the introduction of the new 33% federal tax bracket for income in excess of $200,000 (as of 2016), the addition of the 33% bracket would have automatically increased the over-$200 credit rate from 29% to 33%. As the credit rate applies irrespective of the income of the donor, this would have increased the value of the charitable donation tax credit. Instead, the higher 33% credit rate will be available only to the extent that a taxpayer has income over $200,000. This assures that high-income taxpayers will not be deterred from donating, while preserving the value of the credit for others.

☐ Adjust your installments

Individuals may be required to make income tax installments during the year on March 15th, June 15th, September 15th and December 15th. If an individual makes a late or insufficient installment payment, he/she may be subject to interest charges on the deficiencies. This possible interest charge can be alleviated if an individual makes a subsequent installment earlier and possibly in a greater amount, rather than waiting to make it on a due date. If you have made insufficient installments, you should consider making up this shortfall well before the next installment due date of December 15th.