THE
Guardian

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Year End Tax Planning Tips

As we approach the end of 2014, we point out various tax tips and investment strategies that should be considered prior to the New Year.

1) Triggering capital losses. If you have investment assets which have created a taxable capital gain in the current year, you may consider selling investments that have accrued a loss to apply against the taxable gains. If taxable losses exceed taxable gains in the current year, the loss can be carried back up to three years and applied against capital gains in previous years or carried forward indefinitely and applied against any future capital gains. It is important that you sell the security such that it settles prior to the end of the calendar year. Settlement date is generally three business days past the trade date.

   Note that the superficial loss rules effectively deny any capital loss where either you or your spouse re-acquire the asset within 30 days of its disposition. Superficial loss rules are complex and we suggest you obtain clarification as necessary from your advisor.

2) Consider drawing income from your RRSP. If you experienced a low income year in 2014 and expect to be in a higher tax bracket in the future, you may consider drawing funds from your RRSP, or if you are drawing income from a RRIF, accelerating your RRIF withdrawal in the current year. It is important to keep in mind that RRIF income can be split with your spouse if you are 65 or over, while RRSP withdrawals cannot be split regardless of age.

3) Convert RRSP funds to an income if you are 65 or over. If you are 65 or over, the first $2,000 of income from a RRIF or RRSP annuity qualifies for a $2,000 Federal Tax Credit. . Thus, even if you do not require the extra income, converting a smaller portion of your RRSP to a RRIF provides the credit. Note that if you are in receipt of a pension from a

previous employer, you are already qualifying for the pension income tax credit.

4) Timing a TFSA withdrawal. If you are planning to make a withdrawal from your TFSA account in the near future, consider making the withdrawal prior to the year end. Funds withdrawn from a TFSA cannot be replaced until the following calendar year. Accordingly, a withdrawal made prior to the end of 2014 can be replaced when funds become available in 2015. If the TFSA withdrawal were to occur in the early part of 2015, the funds cannot be replaced until almost a full year later in 2016.

5) Consider deferring mutual fund purchases. If you're considering purchasing units of a mutual fund, you may want to defer the purchase until early 2015. Many mutual funds (and most equity funds) distribute income and capital gains once a year, during December. Consequently, if you purchase units of these funds just prior to a distribution, you will be allocated a full share of the mutual fund's income and gains for that year. Deferring the purchase until after the mutual fund distribution will ensure that you won't be allocated taxable income for 2014. It is important to keep in mind that a distribution that is reinvested in the fund increases the adjusted cost base (ACB) of the investment.

6) Maximizing RESP grant for sixteen and seventeen year olds. The Canada Education Savings Grant (CESG) is equal to 20% on annual contributions to a maximum of $2,500. Thus, an annual grant of $500. It is important to keep in mind that the CESG can be restricted for the years the beneficiary turns sixteen and seventeen. Specifically, a CESG will only be allowed if contributions to all RESP's for the child have totaled at least $2,000 before the year the child turns sixteen, or contributions of at least $100 per year were made for the benefit of the child during any four years prior to the year the child turns sixteen. Parents and/or Grandparents should keep this in mind in the four years leading up to the beneficiaries of an RESP turning 16.

7) Maximizing the Charitable Tax Credit. The first $200 of charitable donations in a given year is subject to a 15% Federal tax credit on the excess is subject to a 29% Federal tax credit. By having the charitable donations declared in just one spouse's hands, the reduced credit on the first $200 is applied once.

   In addition, you may consider combining two years' worth of charitable donations on one tax return again to minimize the impact of the lower credit on the first $200.

For clarification on any of the above strategies, contact your Solguard Financial advisor.

PORTFOLIO RE-BALANCING (IT REALLY WORKS!)

Re-balancing is the process of selling holdings in an asset class that have grown beyond their target weighting and adding to an asset class that is underweight its target allocation. For example, the target weighting of a portfolio might be 60% equity and 40% fixed income. If strong equity markets resulted in the equity portion of the portfolio growing to 65%, re-balancing would result in 5% of the total portfolio being shifted from equity to fixed income. This strategy essentially involves “taking profits” when markets are strong, and “buying in” when prices are low. The Wall Street Journal recently highlighted a study done by Columbia Business School professor Andrew Ang. The study looked at two distinct periods (1926-1940 and 1990-2011), each of which included one of the worst declines in U.S. stock market history. He found that a portfolio of 60 per cent stocks and 40 per cent bonds, re-alanced to those weights quarterly, significantly outperformed on all-stock portfolio and an all-bond portfolio.

Re-balancing is effectively the opposite of what our performance-chasing emotions tend to tell us what to do, which often gets investors into trouble.

While adopting a re-balancing strategy seems counter-intuitive, as you sell the “good stuff” and move capital to an asset class that has not done as well, it is likely to benefit the long term performance of the portfolio, more than chasing the next “hot” stock or mutual fund.

REGISTERED RETIREMENT INCOME FUND (RRIF)
STATUTORY MINIMUM MONTHLY INCOMES BASED ON $100,000
COMMENCING ONE MONTH FROM ISSUE

Best Current Rate: 2.85%

Age	1st Year	TOTAL PAYMENTS TO AGE 100
55	$239.00	$171,785.22
60	278.00	158,401.81
65	334.00	146,306.70
71	616.00	133,317.32

A R.R.I.F. can also be structured to pay a level income for a shorter period. Based on current interest rates, $100,000 will produce the following monthly income.

For 5 years: $1774.00
For 10 years: $939.00
For 15 years: $663.00

MONTHLY ANNUITY INCOMES COMMENCING
ONE MONTH FROM ISSUE BASED ON $100,000

Age	LIFE (Payments cease at death)		LIFE 10 Year Guarantee		JOINT LIFE 10 Year Guarantee
	MALE	FEMALE	MALE	FEMALE	MALE & FEMALE
55	$442.53	$412.27	$438.01	$410.29	$384.79
60	504.30	456.87	496.07	452.70	424.19
65	568.26	508.22	551.92	499.81	463.68
71	690.23	611.36	645.60	587.29	533.90

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