THE
Guardian

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2017 YEAR END TAX PLANNING TIPS

As we approach the end of 2017, we outline a series of tax planning strategies to consider. We remind our readers that effective tax planning strategies do not necessarily revolve around minimizing taxes in the current year but rather minimizing taxes over the long term.

1) Capital Loss Harvesting

If you have substantial capital gains in 2017, you may wish to reduce the tax hit by selling investments which are in a loss position. Capital losses can be applied against capital gains in the current year and any excess loss can be carried back and applied against capital gains in the previous three years or carried forward indefinitely. It is worth noting that with the increase in marginal tax rates for BC residents considered to be high income earners, carrying the loss forward may be more advantageous than carrying it back (see Tax Tip 2) below).

If you are planning to trigger a capital loss, beware of the superficial loss rules. A superficial loss occurs when you dispose of the capital property for a loss and you or a person affiliated with you acquires the same or identical property starting 30 days before and ending 30 days after the sale. In such a case, the capital loss will be denied.

2) Provincial Tax Increase

In their inaugural budget, the provincial NDP government announced a tax rate increase for BC tax payers on income in excess of $150,000 effective 2018. The rate will increase from 14.7% to 16.8%. Individuals with the ability to control to a certain extent their income (eg paying a bonus, triggering a capital gain) may choose to draw more income in 2017 at the lower rate.

3) Capital Gain Inclusion Rate

Prior to the federal budget of March 2016, there was much discussion surrounding the possibility of the capital gain inclusion rate being increased beyond the current 50%. Indeed, many potentially impacted investors

initiated strategies in anticipation of the change. While the inclusion rate did not change, given recent tax policy initiatives, it is not unreasonable to believe an increase in the inclusion rate becomes part of the next budget. Further, if this transpires, the Liberal government could in part defend the action by pointing out that such an announcement should not take taxpayers by surprise, given the expectations prior to the March 2016 budget.

4) Dividend Sprinkling

The tax proposals affecting Canadian small businesses have been under significant scrutiny since their July 2017 announcement. While some of the original proposals look to be modified, it appears at time of writing that dividend sprinkling provisions will not be allowed starting 2018. Accordingly, Canadian controlled private corporations who have taken advantage of dividend sprinkling to a spouse or children over 18 in the past, would be advised to act on this before it is expected to disappear after 2017.

5) RESP Contribution Strategy

The last year in which an RESP beneficiary can qualify for the 20% government grant is the year they turn 17. Further, to qualify for the grant in that year as well as the year in which they turn 16, one of the following must occur:

i) At least $2000 must have been contributed on behalf of the beneficiary before the end of the year the beneficiary turns 15.
ii) At least $100 must have been contributed for the beneficiary in each of any of four years before the end of the year the beneficiary turns 15.

Accordingly, some planning is required in anticipation of maximizing RESP grants in the final two years of grant eligibility.

6) Spousal RRSP Considerations

With the introduction of pension income splitting in 2007 there is less emphasis placed on the value of the spousal RRSP. However, this is still a powerful tax reduction tool for a couple of reasons.

i) Splitting RRSP income is permitted starting in the year the taxpayer turns 65. Spousal RRSP withdrawals however can be drawn at any time , providing significant income splitting oppurtunities at any age.
ii) RRSP's are not always for retirement. Specifically, for an RRSP strategy to be effective, withdrawals must occur at a lower marginal tax rate than contributions. Take for example the RRSP holder who becomes a new parent and takes several years off work. Depending on all circumstances, it may make sense to withdraw funds from the RRSP at a very low or even zero tax rate and apply the withdrawn funds against a mortgage or other debt.

The caveat with a spousal RRSP is that funds withdrawn in the calendar year or two previous years (known as the attribution period), will be taxed in the hands of the contributor, not the RRSP holder if contributions

to a spousal RRSP have been made in that period.

Accordingly, if a spousal RRSP contribution is planned for the 2017 tax year, rather than waiting until the March 1, 2018 deadline, if the contribution is made in the 2017 calendar year the three-year attribution ends December 31, 2019.

7) TFSA Strategy

The TFSA contribution limit in 2017 is $5500, plus any eligible carry forward of unused contributions, to a maximum of $52,000. At the time of writing the limit for 2018 has not been announced.

If you withdraw funds from a TFSA, you are not eligible to replace the withdrawn amount until the following calendar year. Accordingly, if a TFSA withdrawal is contemplated in the near-term, if withdrawn prior to the end of the year it can be replaced anytime in 2018. If the withdrawal is in early 2018, the funds cannot be replaced until 2019.

8) First-time Donor's Super Tax Credit eliminated after 2017

The Federal 2013 budget introduced a temporary First-time Donor's Super Credit (FDSC) which is available to an individual if neither the individual nor the individuals spouse or common-law partner has claimed the Charitable Donation Tax Credit in any of the five preceding taxation years. The FDSC provides an additional 25% tax credit for first-time donors on up to $1000 of donations. This will provide the first time donor with a 40% federal tax credit for donations of $200 or less and a 54% federal credit for donations over $200 but not exceeding $1000. So if you are contemplating your first charitable donation or you and your spouse have not made a charitable donation in the past five years, a contribution made prior to the end of 2017 will give you a bigger bang for your buck then contributions made in 2018 or later, based on the current legislation.

In summary, not all of the items discussed above will apply to all of our readers. We welcome your inquiry to discuss any strategies that legally minimize your tax bill over the long term.

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

Best Current Rate:2.71% [1]

Age	1st Year	TOTAL PAYMENTS TO AGE 100
55	$239.00	$173,295.62
60	278.00	162,406.50
65	334.00	151,882.15
71	440.00	141,221.34

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: $1783.00
For 10 years: $951.00
For 15 years: $676.00

MONTHLY ANNUITY INCOMES COMMENCING
ONE MONTH FROM ISSUE BASED ON $100,000[1]

Age	LIFE (Payments cease at death)		LIFE 10 Year Guarantee		JOINT LIFE 10 Year Guarantee
	MALE	FEMALE	MALE	FEMALE	MALE & FEMALE
65	$549.16	$493.59	$538.50	$491.71	$450.34
70	643.33	568.02	609.48	557.67	505.73
75	756.84	659.76	684.16	627.80	572.59
80	929.77	810.35	770.86	725.51	661.74

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[1] CANNEX