

Fiscal 2017

The NEW Top 10 Tax Checklist



Did you know the total amount of personal income taxes collected by all provincial and territorial governments in Canada combined was about \$190 billion dollars? Or that the CRA (excluding Revenu Québec) refunded individual taxpayers more than \$25 billion?¹ It's great trivia but what you need to know is that the end of the year is a time to get your tax plan in order, and make sure you start off 2018 on the right foot. Nicole Ewing, Tax and Estate Planner, TD Wealth, recommends that when you sit down with your tax professional, here's a checklist of year-end items you should discuss:

1 Tax Changes for Small Business Owners

For business owners, the corporate tax rate on the first \$500,000 of active business income (the small business rate) will be reduced starting next year. Note, this rate is not applicable to sole proprietorships. The tax cut will proceed in phases: 10 per cent effective Jan. 1, 2018 (down from 10.5 per cent) to 9 per cent effective Jan. 1, 2019. In addition, there are a couple of tax changes that will impact certain small business owners (including doctors, dentists, and lawyers with Canadian controlled private corporations). First, there is a proposal that will put a limit on the amount of passive income small business owners can keep within the corporation without being subject to additional taxation. The government has set that threshold at \$50,000 per year. Also, beginning Jan. 1, the ability to reduce the overall tax burden of a family unit by "sprinkling dividends" from a family-owned corporation will be significantly limited. Unless a family member has contributed labour or capital or has taken on risk related to the business, dividends received will be subject to the highest personal tax rate. While these changes are not yet in effect, those impacted should begin to consult with their financial and tax professionals now to determine if any action should be taken.

2 Get Organized

It's a no-brainer, but filing your taxes is much less painful if you are not scrambling at the last minute to find receipts, tax slips or last year's return. The same goes for trying to interpret intricate tax rules as the minutes tick down towards the deadline. Get started now, start collecting all the information you need and begin work as soon as you can. The reward for filing early is getting this onerous task off your plate.

3 TFSA and RSPs Contributions

After reviewing your overall tax situation, consider maximizing your TFSA by accessing available contribution room, including any amounts carried forward from prior years. Although the tax benefit may be comparatively small, every bit helps. Same deal with RSPs. Why leave money on the table? Moreover, business owners operating through a corporation will need to assess the value of a taking a salary from your corporation and contributing to your RSP, as opposed to other kinds of compensation. This will depend on your overall tax situation.

4 Tax-loss Selling

Congratulations. You made money on some of your stock trades this year, which means there will be capital gains tax. However if you have actual (realized) capital losses or unrealized losses (which can be potential targets for tax loss selling), they may offset the capital gains. You can carry back unused losses up to three years or they can be carried forward indefinitely. Also, remember, transactions take time to clear and because of December holidays, the last day to sell is Dec. 27. This date changes every year. The decision of whether to use your capital losses to offset the capital gains could depend on your overall tax situation, and you may wish to consult a tax professional regarding this tax strategy.

5 Double Benefit For Charitable Giving If You Sell Your Stocks

In Canada, when you sell your listed securities at a profit, you'll pay capital gains tax unless capital gains are offset by capital losses. But if you donate the shares directly to your favourite charity (or to a donor advised fund), you not only avoid the capital gains tax, but also benefit from the charitable donations tax credit.

6 Remember Foreign Exchange When Considering Profits or Losses

For investors holding non-Canadian securities, it is important to check whether you have net capital gains or losses once you convert the value of your securities into loonies. For example, a U.S.-listed stock may have increased in value over the past two years, but you might see an actual net loss if the value of the U.S. dollar has decreased relative to the Canadian dollar. If you do not know the correct method to calculate profits or losses on foreign securities — check with your finance professional.

7 Accounting For Vacation Properties

If you have made capital improvements on vacation properties this year, find your receipts and get them in order. The higher the documented cost of any improvements, the lower the tax bill will be on the gains when the property is passed on or sold.

8 Does the IRS think You Are a U.S. Person?

Are you a snowbird who spends a significant amount of time in the States or perhaps your parent is a U.S. citizen? If the answer is 'yes', you may be considered a "U.S. person" in the eyes of the IRS, which

means you could have tax filing obligations and possibly owe taxes to the IRS. The rules around who is considered a “U.S. person” are complex. So if you’re unsure about your U.S. tax status, contact your tax advisor.

9 Snowbird Alert: Do You Need to File the T1135?

If you’re a snowbird who owns a home or condo in Florida or Arizona or anywhere outside Canada, this may be for you. If you own foreign property (which many people don’t realize includes U.S.-listed stocks) with a total cost of more than \$100,000, you must file a T1135 form to CRA and if your assets have a total cost of more than \$250,000, you must complete Part B of the form which asks for detailed information about the assets. Note that foreign investments within mutual funds or within a registered investment do not have to be reported nor does a personal-use property, such as a property you own and live in part of the year, for example. But, if that property is generating income at other times of the year through rent, it must be reported. Other properties that need to be reported include patents, copyrights or precious metals or gold certificates held outside Canada. If you own any property or assets outside Canada, it’s a good idea to consult your tax professional.

10 Managing the Tax Bite for your Heirs

Not nice to think about, but at some point your death could trigger a tax liability on your property — such as a cottage or vacation home — if the property has appreciated over time. To limit this potentially large tax bill, there are strategies involving the transfer of parts of your estate to your heirs while you are still alive, thereby freezing the value of those assets for tax purposes. This way, your executors may be able to avoid the unpleasant task of having to liquidate a property to fund a large tax bill.

Get the right team on your side. Above all, ensure that you have the proper tax expertise. Tax rules can be complicated and change from year to year, so check in with tax and estate planning professionals.

— **Don Sutton, MoneyTalk Life**

¹<http://itools-ioutils.fcac-acfc.gc.ca/yft-vof/eng/taxes-qc-1-2.aspx>

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