TD Wealth

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Tax Planning for Individuals: 2017-2018

Introduction

As the old saying goes, death and taxes are unavoidable. When it comes to tax planning, most people don’t think about it until tax time, when it may be too late to put some tax planning strategies in place. Rather than wait until the last minute, you can look at strategies that you can act on throughout the year. What can you, as an individual, do? Let’s look at some tax-planning opportunities.

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The Workplace

For many Canadian taxpayers, their annual income tax is the result of their regular paycheque. Your employer is required to withhold tax at source and send it to the Canada Revenue Agency (CRA). However, if you anticipate a refund based on personal tax credits, RRSP contributions, medical expenses or charitable donations, consider reviewing the TD1 form you file with your employer and your eligibility to **reduce** the amount withheld for taxes. You may have to complete and submit form T1213 to the CRA and obtain their approval for reduced withholding before your employer can reduce the amount withheld.

If you anticipate a refund, consider reviewing the TD1 form you file with your employer and your eligibility to reduce the amount withheld for taxes.

You may have received a **loan from your employer**. Generally, this is a taxable benefit, and you should pay any interest owing for the year by January 30th of the following year to reduce the amount of the taxable benefit. When the funds you have borrowed are used for the purchase of investments or an automobile to be used for your work, you may be able to obtain a deduction that will offset the impact of the loan interest.

If you are receiving **stock options** as a part of your remuneration, you will have been considered to have received a taxable benefit when your exercise the option (rather than when you receive it). In addition, under certain circumstances, you may be eligible for a 50% deduction (25% in Quebec) of the taxable benefit income inclusion. To be eligible, the shares must be common shares; the exercise price must not be less than the fair market value of the shares when the option was granted; and neither you, nor any of your family members, can have a controlling interest in the company.

Have you considered how much you pay in tax as a salaried employee? Speak to your TD advisor about potential strategies intended to reduce your taxable income. Has your employer given you a loan? Consider whether you'll be in a position to pay interest-owed within 30 days after the end of the year. Do you have stock options? Consider speaking to your TD advisor about when to engage in tax strategies that are appropriate to your tax circumstances.

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Credits & Deductions

Here's a brief primer on credits and deductions: Credits reduce how much tax you pay. There are two types of credits: refundable and non-refundable. Refundable tax credits are credits that will be paid to you when they exceed the amount of tax you owe for a given year. Non-refundable tax credits may be used to reduce your taxes payable to zero. Where your non-refundable credits exceed your taxes otherwise payable the excess will not be paid to you. Deductions, on the other hand, reduce your taxable income which will reduce your taxes otherwise payable.

If you are in a high tax bracket, a deduction may provide broader tax savings compared to tax credits. Most tax credits are applied at the lowest tax rates, while a deduction generally provides tax savings equivalent to the taxpayer's marginal tax rate.

If you are in a high tax bracket, a deduction may provide broader tax savings compared to tax credits.

There are a number of tax credits and deductions you could claim on your income tax return based on your workplace. The **Canada Employment Amount**, also known as the **working income tax credit**, which is a federal non-refundable tax credit intended to help cover work-related expenses such as home computers, uniforms and supplies, is 15% of $1,177 for the 2017 tax year. In Quebec, the similar credit is $1,130.

Teachers and early childhood educators can claim refundable, federal Eligible Educator School Supply Tax Credit up to 15% of $1,000 worth of supplies. Examples include: construction paper, flashcards, science experiment items, art supplies, writing materials, games and puzzles, books for the classroom.

If your job involves traveling, you can claim a reasonable deduction amount for **employee travelling expenses** such as parking, taxis and train fares. This does not include transportation between home and work. This is particularly relevant for sales people.

You may claim a deduction if it's necessary to set up a **home office** in the service of your employers. Eligible expenses include supplies. If it's part of your contractual arrangement, you can also claim a deduction for the cost of an assistant.

Union and professional dues are deductible if they are not reimbursed by your employer.

Legal fees may be deductible under certain circumstances: to earn income from business; to collect unpaid wages; to establish or enforce child support; for advice or assistance to respond to the Canada Revenue Agency (CRA) when they reviewed your income, deductions, or credits for a particular taxation year or to object or appeal your income tax assessment.

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Personal and Family Credits

Every taxpayer can claim the **basic personal amount**, which allows you to earn up to a certain amount each year tax-free. For the 2017 tax year you can claim a federal non-refundable credit of 15% for the first $11,635 of your income.

Other non-refundable credits include the **Spouse or common-law partner amount** and the **Amount for an eligible dependant**. If you're married or in a common-law partnership, or you are single, widowed, divorced or separated and support a family member (e.g., parent or child) you may be able to claim a portion or all of one of these credits , if your spouse/partner or eligible dependent earns less than the basic personal amount.

You may be eligible to claim a tax deduction for certain **child care expenses** you incurred for your or your spouse's/partner's child. The amount will vary depending on the child's age, whether the child has a disability, and is limited to two-thirds of the income of the lower income parent. For more information, you can check the CRA website under Child care expenses: https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/about-your-tax-return/tax-return/completing-a-tax-return/deductions-credits-expenses/line-214-child-care-expenses.html

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Students

If you paid **tuition**, you will be eligible for a non-refundable tax credit of 15% of the eligible fees. Aside from tuition fees, this can include library and laboratory charges, exam and application fees, the cost of certificates or diplomas and any mandatory fees for health and athletic services. Note that the **Education Amount** tax credit and the **Textbook tax credit** were eliminated beginning in 2017, however, any unused amounts from previous years can still be claimed in 2017 or beyond by the student.

Unused tuition amounts can, subject to limitation, be transferred to your spouse or common-law partner, your parent or grandparent, or your spouse's or common-law partner's parent or grandparent. Please note these amounts can only be carried forward for the purpose of claiming them by the student.

Unused tuition amounts can, subject to limitation, be transferred to your spouse or common-law partner, your parent or grandparent, or your spouse's or common-law partner's parent or grandparent.

Students and former students are eligible for a 15% non-refundable tax credit on interest paid on their **student loans**.

It may be possible for a student to claim moving expenses if they moved and established a new home to work or run a business, or, they moved to be a student in full-time attendance in a post-secondary program at a university, college or other educational institution. The institution must be 40 km closer to their new work or school. If they moved and established a new home to work or run a business at a new location, they can deduct eligible moving expenses from the employment or self-employment income they earned at their new work location. If moving to attend school they can only deduct moving expenses from the parts of scholarships, fellowships, grants and awards that are required to be included in their income. Eligible moving expenses include transportation and storage cost, travel expenses (of the student and their belongings), as well as meals and temporary lodging while *en route*.

If you are the parent or grandparent of a child who will at some point be attending a post-secondary educational institution, consider opening a Registered Educational Savings Plan (RESP). Funds within the plan are not taxed until they are withdrawn. If they are withdrawn by the child, they will be taxed at the child's income tax rate which may be lower than that of the parent or grandparent. Meanwhile, contributions to an RESP are eligible for the Canada Education Savings Grant (CESG) of up to $500 per year. The grant is based on a maximum of 20% of RESP contributions or $2,500 whichever is less. You must make RESP contribution by December 31st to obtain CESG for that year. Additional amounts may be available for low income families. For more information, ask your TD advisor for our RESP articles on setting up an RESP and RESP withdrawals.

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People with Disabilities

If you or your child suffers from a "severe and prolonged" impairment of physical or mental function, which has been certified by a medical doctor, optometrist, nurse practitioner, audiologist, speech-language pathologist, occupational therapist, physiotherapist or psychologist, you may be eligible for the Disability Tax Credit (DTC), a federal non-refundable tax credit of 15% of $8,113 for the 2017 tax year. The ability to perform two "basic activities of daily living" must be "markedly restricted," according to the *Income Tax Act*. Your medical professional needs to be aware of the eligibility requirements and must complete a DTC form T2201 on behalf of the disabled individual. For more information, please see: https://www.canada.ca/en/revenue-agency/services/tax/individuals/segments/tax-credits-deductions-persons-disabilities/disability-tax-credit.html

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Medical Expenses

A medical expense tax credit exists to assist in covering the cost of eligible medical expenses. To be eligible for the 15% federal tax credit for medical expenses, the total amount of expenses must be 3% or more of your net income. It may be better for the spouse/partner with the lower net income to claim the eligible medical expense because the expenses for the couple can be pooled. In addition, expenses can be claimed for any 12 month period ending in the taxation year (24-month period in the event of death).

To be eligible for the 15% federal tax credit for medical expenses, the total amount of expenses must be 3% or more of your net income.

There is an extensive list of eligible expenses. Here are some typical expenses which qualify for the medical expense tax credit:

- Prescription drugs
- Institutional care
- Laser eye surgery
- Guide dogs
- Eyeglasses, hearing aid and dentures
- The cost of moving to accessible housing or making accessibility renovations to your home
- Devices such as: crutches, insulin needles, wheelchair lifts and telephone devices for the deaf

For more information, please see: https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/about-your-tax-return/tax-return/completing-a-tax-return/deductions-credits-expenses/lines-330-331-eligible-medical-expenses-you-claim-on-your-tax-return.html

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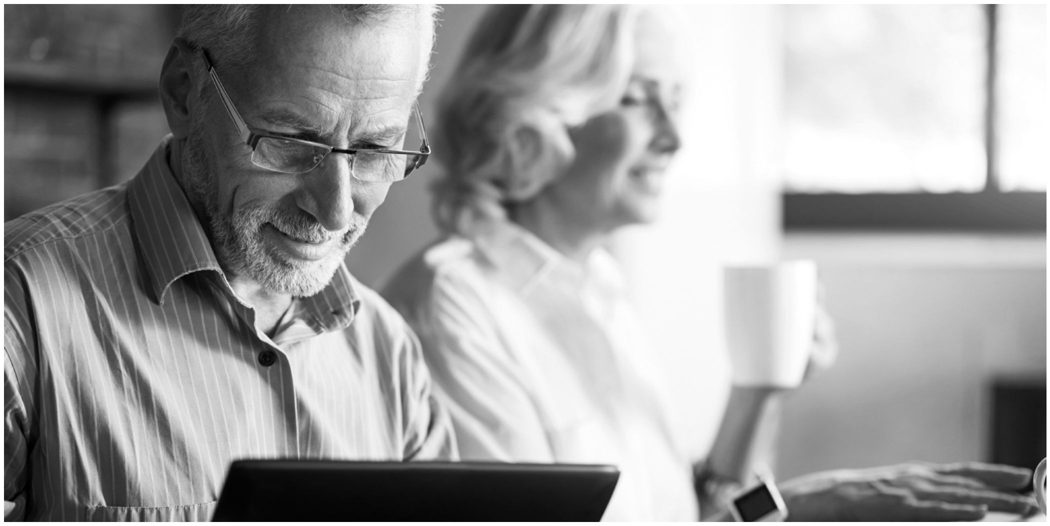
Seniors



If you turned age 65 in 2017, you may wish to apply for Old Age Security (OAS) benefits if you meet the eligibility criteria. If you will turn age 65 in 2018, you can apply for OAS up to 12 months before your 65th birthday — so you can consider filing your application for OAS as soon as you are eligible.

On the other hand, you can defer the receipt of OAS benefits up to five years (60 months) after the month you turn age 65. This will result in you receiving a higher annual pension than if the benefit began at age 65. This can be a planning strategy if receiving OAS during those five years will result in a clawback of your benefits. The OAS clawback applies if your net income for the year exceeds an annual threshold. For 2017, the threshold is $74,788. The amount of the clawback is equal to the lesser of your OAS payments or 15% of the amount that your net income exceeds the threshold. For 2017, a full OAS clawback will occur when your net income reaches $121,314.

If a taxpayer delays receipt of OAS, they will not be able to receive the Guaranteed Income Supplement. The GIS provides a monthly non-taxable benefit to Old Age Security (OAS) pension recipients who have a low income and are living in Canada.

If a taxpayer delays receipt of OAS, they will not be able to receive the Guaranteed Income Supplement.

If you turned age 65 in 2017, and made contributions you will generally be eligible to receive Canada Pension Plan benefits. You may elect to receive CPP benefits as early as age 60, however, this will result in a reduced benefit payment.

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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 amount of CPP they would otherwise be entitled to receive. Alternatively, you may decide to defer receipt of CPP up to until you reach age 70, in which case your pension entitlement will be increased by 0.7% per month, up to 42%.

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

Spouses and common-law partners are entitled to engage in **income splitting** that allows them to allocate up to one-half of their income that qualifies for the existing **pension income tax credit** to their spouse/partner. As a result, you may want to review your 2017 pension income and assess your ability to allocate up to 50% of your eligible pension income to your spouse/partner. Consider speaking to your tax advisor about the optimal allocation for you to enable pension income-splitting.

There are a few additional non-refundable tax credits designed especially for the benefit of seniors. They include the **Age Amount** and the **Pension Income Amount**. You will be eligible for the former if you are 65 or older on December 31, 2017. The federal age credit for 2017 is 15% of $7,225. This amount is reduced by 15% of any pension income you receive above $36,430. It is eliminated if your pension income exceeds $84,597.

There are a few additional non-refundable tax credits designed especially for the benefit of seniors.

A non-refundable **pension income tax credit** is available for the first $2,000 of eligible pension income you receive in the current tax year. These pension payments can come from a registered retirement income fund (RRIF), life income fund (LIF), a deferred profits sharing plan (DPSP) or a private pension such as Defined Benefits (DB) pension. Payments from the Canada Pension Plan (CPP), Old Age Security (OAS) or Guaranteed Income Supplement (GIS) are not eligible. If you are younger than 65, pension amounts received from a deceased spouse or common-law partner may also qualify.

In Quebec where both federal and provincial tax returns are filed, the credit may only be applied against income on your federal return. However, in Quebec an **amount for retirement income** as well as an **amount for a person living alone** can be claimed. For more information, please go to: http://www.revenuquebec.ca/documents/en/formulaires/tp/2014-12/tp-1.d.b-v(2014-12).pdf

By the end of the year when you turn 71, you must **close or convert your RRSP holdings** into a form of retirement income. Most Canadians convert their RRSP funds on a tax-deferred basis to a **Registered Retirement Income Fund (RRIF)** rather than

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closing and withdrawing the funds. If you have a younger spouse/partner, it's possible to reduce the required annual RRIF minimum withdrawal based on their age. For more information on RRIFs, ask your TD advisor for our article entitled: *Registered Retirement Income Fund: Time to convert your RRSP.*

There are many credits and deductions that may help to reduce your tax bill. If you are a parent, do you understand what child care expenses you can deduct? If you are a student, are you accounting for everything that can be claimed under the tuition credit? Do you understand what is required to claim the disability tax credit? Are you aware of which medical expenses can be claimed? As a senior, there are a number of government benefits to review as well as potential pension income splitting strategies. Speak with your TD advisor and tax professional for assistance with any of the tax strategies that affect you.

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Families

One method of reducing your tax bill is to **split income with your family**. For this strategy to be effective in the 2017 tax year, it'll have to be put in place before December 31st.

There are various ways to income-split with family members. This does not include transferring or loaning property, including money, directly or indirectly to your spouse/partner. If you do, the attribution rules in the *Income Tax Act* may be applied, and all income or loss on the disposition of the property, or any capital gain or loss, will be attributed back to you. For example, if you give your spouse $10,000 in bonds and they earn $1,000 in income, that income may be taxed as your income. Income earned in subsequent years may not be attributed back to you.

One method of reducing your tax bill is to split income with your family. For this strategy to be effective in the 2017 tax year, it'll have to be put in place before December 31st.

Where the attribution rules apply, consider loaning funds to a spouse/partner as a **prescribed rate loan** (PRL). PRLs derive their name from the fact they use interest rates "prescribed" under tax law to avoid negative tax consequences such as the attribution rules and are often used to fund investing for a family.

This strategy requires formal documentation. The lower-income partner should sign a promissory note that clearly states the interest at the current prescribed interest rate, which is set by the Department of Finance every quarter.

For the loan to remain effective, the borrowing partner must pay the interest by January 30th of the year following the year in which the loan was undertaken

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and each year the loan remains outstanding. When the loan is used for investment purposes, the borrowing partner may be able to deduct the interest expense against the income earned when filing his/her personal income tax return. The lending partner would report and pay tax on the interest income paid by the borrowing partner.

You may wish to consider the timing of establishing a PRL. The prescribed rate is currently set at 1% (2017 Q4) and could rise. When setting up a PRL, you have the option of locking in interest at the current rate, as long as the interest is paid on time each year.

There are other income-splitting strategies for you to consider. You could, for example, **gift an investment to your adult children**. Generally, when you make such a gift to an adult child, the attribution rules will not be applied by the CRA. That means there should be no attribution of income or capital gains back to you, and taxed in your hands, when you gift an investment to an adult child. This is based on the notion that the gifted investment will be considered to be disposed of by you at the "fair market value" (FMV) of property at the time it is gifted. As such, any capital gains not yet realized at the time the property is gifted to your adult child may be attributed back to you. For example: John gifts shares to his daughter Simone at an FMV of $1,000, but he paid only $600 for them. Therefore, a capital gain of $400 may be attributed back to him.

Special rules apply for children under 18. These rules will result in the attribution of income on property loaned or gifted to a minor child. However, these attribution rules do not generally apply to capital gains of the minor child. This creates opportunities for tax planning.

Before moving ahead with any variation of an income-splitting strategy, you should speak with your TD advisor and tax specialist about your specific circumstances to determine the potential tax outcome.

Special rules apply for children under 18. These rules will result in the attribution of income on property loaned or gifted to a minor child. However, these attribution rules do not generally apply to capital gains of the minor child.

If your family has **a trust** created for estate planning and income splitting purposes, you should review the income earned by the trust in 2017. Depending on how the trust is structured, consideration should be given to whether income should be retained in the trust or allocated to the beneficiaries, and if the latter, how much should be allocated to them.

If a trust is set up while the settlor (the contributor of the assets) is alive, it is known as an **inter vivos trust**. The income earned by this type of trust is taxed at the highest marginal tax rate. A **testamentary trust** is created in a person's Will and takes effect upon death.

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Your family may, for example, be benefitting from a trust set up by your mother in her Will. Income earned in a testamentary trust may benefit from the use of graduated tax rates (i.e. progressive tax rates as the amount of income increases) for 36 months after the date of death. This will also apply if the beneficiaries are eligible for the federal disability tax credit. Otherwise a testamentary trust is also taxed at the top marginal rate.

Therefore, if your family trust is taxed at the top marginal rate, it could be beneficial to the family as a whole to allocate trust income to beneficiaries in lower tax brackets. On the other hand, if the beneficiaries are in the top tax bracket, the net tax effect would be the same if the funds were to be retained in the trust.

A trustee considering whether to distribute income from a trust may consider the tax rate of that trust and that of the beneficiaries.

Canadians pay both federal and provincial/territorial income tax. The provincial rates vary by province. Therefore if your family is **planning to move** to a higher-tax jurisdiction, you may consider delaying the move until after December 31st to take advantage of the lower tax rates in your present home province/territory. Of course the opposite is true if you are moving to a lower tax jurisdiction.

Income-splitting within a family can be an effective way to help reduce your overall tax bill. However, you need to be aware of what transactions will attract the application of the income attribution rules — resulting in an adverse impact on your taxes. Does your family have a trust? These can be complex instruments to administer. Speak to your TD advisor and tax specialist or lawyer about your options.

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Investing

Should you restructure the **asset allocation** of your non-registered investments? Interest income is highly taxed, unlike dividends or capital gains which are more favourably taxed when received by you. Consider speaking to your TD advisor about restructuring your non-registered portfolio for better tax efficiency in 2017, and subsequent years.

Generally, **debt** that you have taken on for the purpose of earning income may be tax deductible. If you currently have debt where interest is not deductible (e.g., loans, credit) you might consider selling some of your non-registered investments to reduce your debt. Then you could re-borrow to replace your non-registered investments. This strategy may provide you with an interest expense deduction in 2017 (and future years).

A common query for investors as tax time nears is what to do about **capital losses**. If you have realized capital gains in 2017, or in any of the three previous years (2016, 2015 or 2014), you could consider selling investments which have decreased in value to offset your gains, and lower your tax bill. Any tax-loss selling of exchange-traded securities must occur by December 27, 2017.

Under the *Income Tax Act*, capital losses used to offset capital gains have to be applied first to the current tax year. Current year capital losses in excess of prior year capital gains may be carried back to the three previous years or carried forward to apply to future years. Carrying back capital losses may enable you to get a refund of previously paid income tax that can then be used for investments or to pay living expenses.

Under the *Income Tax Act*, capital losses used to offset capital gains have to be applied first to the current tax year.

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Keep in mind that losses may be denied if the same investment/property is owned by you or certain related parties 30 days before or after the sale. This restriction is called the "superficial loss rule."

Keep in mind, due to exchange rates, what may have originally been a loss could become a gain if the value of the Canadian dollar has gone up relative to the currency tied to the investment.

Consider establishing a **capital gains reserve**. If you're looking at selling capital property before December 31st for a profit, look at negotiating the sale so you can collect the proceeds over a period of five years or less. You may be able to report the capital gain, and pay the tax, over the five-year period. You may consider receiving part payment in 2017, and part payment in January 2018, in order to spread the tax liability at least over two years (2017 and 2018). Consult with your tax advisor to properly structure the receipt of your sale proceeds, and claim a capital gains reserve.

Tax-efficient investing is not the easiest task to accomplish. What should you do with your gains and losses? Is your asset allocation appropriate for you? When should you buy or sell certain investments? The "tax-planning tail" should not necessarily wag the "investing dog." Your planning should be goals-based. Speak with your TD advisor and tax specialist about your goals, and striving to keep your tax bill to a minimum.

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RRSP time

One of the most important dates in year for tax purposes is the deadline for contributing to your RRSP. For the 2017 tax year, you have until Thursday, March 1, 2018 to make a contribution which may be deducted on your 2017 personal income tax return.

Meanwhile you may have **unused RRSP contribution room**. If you have been contributing less than the RRSP contribution limit available to you, and have sufficient cash, you could consider making extra contributions to use your unused RRSP contribution room, resulting in more money being saved for your retirement and less tax owing. The desired timing of making additional RRSP contributions to make use of previously unused contribution room may depend on your current tax bracket and expected changes. If you anticipate being in a high tax bracket in the future, it could be advantageous to defer making make extra RRSP contributions until then when your tax savings are expected to be higher.

Your available cash flow may lead you to consider **borrowing to contribute to your RRSP**. It may be beneficial to take an RRSP loan if the investment return in your RRSP after-tax is greater than the interest being charged on the RRSP loan. Note that interest expense incurred on a RRSP loan is not deductible for income tax purposes; however, you may be able to reduce your interest expense on the RRSP loan if you receive a tax refund and use it to pay down your RRSP loan balance.

It may be beneficial to take an RRSP loan if the investment return in your RRSP after-tax is greater than the interest being charged on the RRSP loan.

Consider income-splitting with your spouse/common-law partner using a **spousal RRSP**. You can contribute to a spousal RRSP but continue to claim the deductions yourself. However, special RRSP attribution rules will apply if your spouse makes an RRSP withdrawal within two years following the year of the spousal contribution. For example, if you contribute to a spousal RRSP by December 31, 2017, your spouse/partner should not withdraw those funds before January 1, 2020 without his/her withdrawal being reportable and taxable in your hands assuming you don't make additional contributions to a spousal RRSP in the years 2018, 2019 and 2020.

As one of the key pillars of saving for retirement in Canada, annual contributions to your RRSP can benefit you in the long run as well as at tax time. Have you reviewed your wealth plan with the aim of maximizing your RRSP contributions? Should you take out an RRSP loan to maximize your available RRSP contribution room? Talk to your TD advisor to consider what will work for you.

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Donating to Charity

Charitable giving can be a good way to give back to the community while also decreasing your tax bill. Do you give on an ad hoc basis or do you have a charitable giving plan? Perhaps you would like to work through the steps involved in creating a Charitable Giving plan. Ask your TD advisor for our article entitled: *Digging Deep: Understanding why, where and how much you should give to charity*

When you have a plan in place, you can consider several charitable giving strategies. A combination of strategies may be suitable for you. Ask your TD advisor for our article: *Giving Smarter: Choosing the right charitable giving strategy*

Charitable giving can be a good way to give back to the community while also decreasing your tax bill.

If you own a corporation, or have stock options, the Income Tax Act provides unique benefits for giving back. If you're curious about potential strategies, ask your TD advisor for our article: *Corporations and Charitable Giving: What strategies work for you?*

Consider developing a strategic charitable giving plan that will result in positive returns for your community and less tax at tax time. What strategies are open to you? Speak with your TD advisor about how to give tax effectively.

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Conclusion

Opportunities regularly arise to save on your tax bill. Ensure you keep current on the latest tax strategies by meeting with your TD advisor well before tax time. Meanwhile, we'll have annual updates of this article to help you.

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