YEAR-END TAX PLANNING OPPORTUNITIES

These important tax and financial planning moves can help prepare you for the upcoming tax season and better align your portfolio with your short- and long-term goals.

KEY TAKEAWAYS

While tax and financial planning should take place all year long, there are several actionable strategies to consider before year-end CRA deadlines.

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Important life events can have financial implications and should be discussed with your tax and financial advisor.

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Certain investments generate more taxable distributions than others, so work with your advisor and tax professionals to evaluate your investments and after-tax returns.

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INTRODUCTION

For those considering tax moves, you generally have to take action before the clock strikes midnight on New Year's Eve. With deadlines fast approaching, now's the time to take advantage of tax-deferred growth opportunities, tax-advantaged investments, and charitable-giving opportunities, among other strategies. You'll also want to maximize deductions and credits ahead of tax season. Reviewing your investments in light of your goals, the tax environment, and the economic landscape can help you and your advisor see where adjustments need to be made to position yourself for 2018 and beyond.

KEY DATES TO REMEMBER

Dec-15-2017 - Fourth quarter tax installment payment for 2017 due.

Dec-27-2017 - Last day to sell securities on Canadian markets to realize a gain or loss. Settlement is now T+2 days.

Dec-27-2017 - Last day to sell securities on U.S. markets to realize a gain or loss. Settlement is now T+2 days.

Dec-31-2017 - Last day to pay prescribed rate loan interest to deduct in 2017.

Dec-31-2017 - Last day to complete charitable contributions for 2017; be sure you allow enough time to complete donations that may require additional lead time.

Dec-31-2017 - Annual tax instalment payment for 2017 due for farming and fishing income.

Jan-30-2018 - Must pay prescribed rate loan interest by this date to maintain income splitting (deductible in 2018).

Feb-28-2018 - Deadline for employers to send T4 receipts to individuals.

Mar-01-2018 - Deadline to contribute to a Registered Retirement Savings Plan to claim as a 2017 deduction.

Apr-30-2018 - Deadline to pay your 2017 taxes and file your 2017 Individual T1 tax return.

Jun-15-2018 - Deadline to file your 2017 Individual T1 tax return if you or your spouse earned self-employment income.

PAPER WORK

Here are a few documents you'll need to get organized for year-end tax planning.

- ☐ Copies of your 2016 and 2015 income tax returns
- ☐ T4 and T4A receipts from your employer(s)
- ☐ Brokerage statements (T5008) and any confirmation statements showing investment purchase/sale dates
- ☐ Dividend and interest T5 receipts
- ☐ Trust, mutual fund, and ETF distribution T3 receipts
- ☐ Retirement distribution receipts (T4A(P), T4A(OAS), T4A -RCA, T4RIF, and T4RSP), if applicable
- ☐ Statements reporting income and expenses from partnerships (T5013 and Schedule K-1), if applicable
- ☐ Investment interest statements
- ☐ Student loan interest statements, if applicable
- ☐ RRSP contribution receipts
- ☐ Medical/dental expenses
- ☐ Education expenses
- ☐ Charitable receipts
- ☐ Daycare/childcare and support costs
- ☐ Children's arts and fitness program expenses (BC & MB)
- ☐ Public transit passes
- ☐ Home accessibility renovation expenses

MOVES TO CONSIDER

Here are important items to think about in each of the major planning categories. Keep in mind the ideas listed here are conversation starters for most investors. You and your advisor should determine next steps for your own situation.

Year	TFSA Contribution Limit
2009	$5,000
2010	$5,000
2011	$5,000
2012	$5,000
2013	$5,500
2014	$5,500
2015	$10,000
2016	$5,500
2017	$5,500
Total cumulative contributions	**$52,000**

INCOME TAX PLANNING

1. **Ensure every family member age 18 and over has maximized contributions to their TFSA account.**

   TIP: The highest income earner can split income by gifting funds to each eligible family member to open their own TFSA account and contribute the maximum amounts. The cumulative maximum to the end of 2017 is $52,000 for individuals who were age 18 and over in 2009. There is no attribution on TFSA income if the funds are gifted because the income earned is tax-free. Withdrawals from and income earned inside a TFSA do not affect income tested benefits such as OAS and GST/HST credits.

   Note: The TFSA account holder must be 18 or older and Canadian resident to receive TFSA contribution room for each year.

2. **Consider making a prescribed rate loan to your spouse to split investment income if one spouse earns significantly more taxable income than the other.**

   TIP: The CRA prescribed rate for spousal loans is currently set at 1% until December 31, 2017. Lock in the 1% interest rate indefinitely for the life of the loan before the prescribed rate potentially increases back to 2%. The low 1% interest rate maximizes the income-splitting benefits. Also consider using a prescribed rate loan to split income with your children using a family trust.

3. **Consider rebalancing your portfolio to include more tax-advantaged investments such as Canadian dividend-paying stocks and investments that allocate capital gains, especially in higher tax brackets.**

   TIP: When rebalancing, consider using new money coming into the account versus selling off certain investments to avoid incurring unnecessary capital gain taxes.

4. **Complete TFSA withdrawals by December 31, 2017 to restore TFSA contribution room on January 1, 2018.** If you require funds from your TFSA or want to rebalance the holdings by withdrawing securities in kind, make the withdrawal before December 31, 2017 rather than in 2018 to ensure the withdrawal value is added back to your contribution room. Asset values withdrawn in 2017 can be replaced as of January 1, 2018 rather than having to wait until January 1, 2019.

   TIP: Rebalance your TFSA holdings by contributing income-producing Canadian securities “in kind” into your TFSA. Any accrued capital gains will be taxable using the value at contribution date. Capital losses are not claimable. Therefore, do not contribute securities in a loss position to your TFSA.

5. **Complete “first-time” donations by December 31, 2017.** The 2017 tax year is the last year individual taxpayers can claim the First-Time Donor’s Super Tax Credit (FDSC). The federal credit is equal to 25% of a donated cash amount on top of the existing donation credit. Individuals are eligible for the super credit if they or their spouse/partner have not claimed a donation credit during the 2008 to 2016 tax years.

   TIP: Only donations of money (not securities) are eligible for the FDSC claim.

6. **Consider accelerating income into 2017 if you live in a province where personal tax increases are scheduled for 2018.** Also, consider deferring deductible expenses until 2018 to offset taxes at a higher rate. Conversely, consider deferring income into 2018 if you live in a province where personal tax decreases are scheduled for 2018.

   TIP: The top British Columbia personal tax rate will increase from 14.7% to 16.8% for taxable income over $150,000 starting in 2018. All personal Saskatchewan tax brackets will decrease by 0.25% in 2018 and by 0.25% in 2019.

INVESTMENT TAX PLANNING

1. **Review your portfolio's tax efficiency.** Simply put, tax efficiency is measured by how much of an investment's return remains after taxes are paid. Certain investments generate more taxable distributions than others. Work with your advisor to evaluate your investments and after-tax returns.

   TIP: Review your portfolio's turnover ratio and historical distributions to get a sense of your annual tax liability, and take steps to add more tax-efficient investments to minimize taxes.

2. **Find out if you have tax-efficient placement of foreign investments between your investment, TFSA, and retirement accounts.** Ensure your TFSA accounts do not hold investments that are subject to foreign withholding tax which eliminates the tax-free benefit of the TFSA account. Consider whether it makes sense to hold certain dividend-paying foreign stocks in your RRSP/RRIF accounts since the income may be taxed at source and then a second time upon withdrawal from the plan. Ensure treaty withholding rates are applied to foreign investments in your taxable investment account, where applicable.

   TIP: Tax-deferred growth is even more advantageous when taxes are higher.

3. **Work with your tax advisor to determine when you should realize capital gains and/or harvest capital losses.** Offset investment gains with losses, as appropriate, to reduce your overall tax liability. However, be aware of "superficial loss" rules that stop you from deducting capital losses on the sale of a particular security if you initiate a similar position within a 61-day period (30 days before the sale date and 30 days after the sale date). The rules apply across your and your spouse's portfolio, in both taxable and nontaxable accounts. So you can't liquidate a position in one account and establish a similar position in your RRSP for example.

TAX-DEFERRED GROWTH OPPORTUNITIES

Registered Retirement Savings Plan

Defer up to 18% of your earned income with a limit of $26,010 for 2017 when you make a contribution to your RRSP.

Registered Education Savings Plan

Investing in an RESP account for your children or grandchildren allows you to defer taxes on up to $50,000 per child. The growth and income are taxed in the beneficiary's hands when they are enrolled in a qualifying educational program. The beneficiary may not even pay any tax on the RESP growth. The federal government will also contribute up to $7,200 in grants to the RESP.

Index Funds

Index funds do not trigger frequent capital gains and much of the growth is tax deferred until the index fund units are sold.

Life Insurance

Accumulating cash value in life insurance can also offer tax-deferred growth and tax-advantaged retirement income.

4. **Trustees of testamentary and inter vivos trusts may want to consider distributing all or most trust income before December 31, 2017 to income beneficiaries.** Effective January 1, 2016, income retained in the trust will be subject to the top federal and provincial tax rates if not distributed or allocated out to the beneficiaries. It's important to note, however, that decisions should be made within the boundaries of the trust's governing instrument and provincial law.

   TIP: Rather than accumulating income inside the trust, distribute or allocate the income (in line with trust terms and fiduciary duties) to beneficiaries, particularly those below the basic personal exemption. This essentially shifts the income and the resulting income tax burden from the trust/estate to the beneficiary.

FINANCIAL PLANNING

While each individual's needs are unique, many people have similar planning objectives – whether to ensure they have the income they need today, to plan for retirement tomorrow or to grow their assets.

1. **Discuss important life changes with your tax and financial advisors.** Whether you expect a new addition to the family or want to build a new addition to your house, they can help you with the financial implications. When it comes to your financial plan, what is most critical is establishing your short- and long-term goals, planning accordingly and stress testing your plan under different scenarios. As this is an ongoing process, make some time throughout the year to have planning conversations with your financial advisor.

2. **Review your asset allocation to ensure it's still geared toward your goals and tolerance for risk.** Risk tolerance isn't static – it changes based on your net worth, age, income needs, financial goals, and various other considerations. Review your holdings and your overall asset allocation then make adjustments and rebalance as necessary. Don't forget to do this for your company-sponsored retirement accounts, too. "Set it and forget it" shouldn't be the default for your RRSP investments.

   Asset allocation does not guarantee a profit nor protect against loss.

   TIP: Certain investments may be better suited for certain account types from a tax standpoint. Be sure to discuss with your tax professionals.

ESTATE PLANNING AND CHARITABLE GIVING

1. **Review and update estate plans and documents** to reflect your current wishes.

2. **Consider making gifts to your adult children during your lifetime.** These gifts will reduce the size of your estate subject to probate fees. Document the gifts to ensure they do not form part of the estate and cannot be contested.

3. **Review designated beneficiaries on registered accounts.** Ensure the designations are current and your spouse is designated as the successor annuitant/holder where applicable. Add contingent beneficiaries in case the designated individual pre-deceases you.

4. **Review the legal titling on all your accounts** and property to ensure they reflect your current wishes and family dynamics. Consider methods to reduce probate fees, such as joint ownership and alter-ego trusts.

5. **Give, but do so with an eye toward reducing your tax liability.** Consider whether a trust or a Raymond James Charitable Giving Fund helps you meet your legacy and tax-savings objectives.

6. **Think strategically about your estate plan.** Transferring assets to a living trust (inter vivos) for the benefit of your heir(s) allows you to ensure your estate distribution goes according to your desires and offers several advantages:

   - Future appreciation of these assets is removed from your estate.
   - Income may be shifted to beneficiaries in a lower income tax bracket.
   - Transferred assets may be protected from potential creditors, lawsuits, or divorce proceedings.
   - Assets held within the trust will bypass probate and maintain your privacy.

MAJOR LIFE EVENTS

Birth	Divorce
Death	Job Changes
Marriage	Inheritance

ESTATE PLANNING AND CHARITABLE GIVING TIPS

- Give appreciated securities instead of cash to avoid capital gains to reduce your overall tax liability.
- Establish a charitable giving account to make future donations and claim the current income tax deduction.
- Contribute assets to a charitable remainder trust (CRT) to receive an immediate donation credit and ensure the charity will receive the gift uncontested upon your death.
- Charitable giving can reduce your tax burden and also provides a sense of satisfaction by benefiting your favourite causes.

RETIREMENT PLANNING

1. **Maximize your retirement contributions** to take advantage of tax deferred growth if you're still working. Many companies allow you to arrange automatic contributions each pay period and provide employer matching contributions.

2. **Determine if you need to take required minimum distributions** from your registered retirement accounts.

3. **Consider whether you are going to use your TFSA** to receive tax-exempt income to minimize OAS clawbacks.

4. **Evaluate the benefit of CPP sharing and maximize pension income splitting.** Spouses who are both at least 60 years of age can apply to share their CPP to split income evenly. Couples can also elect to split up to 50% of pension income on their personal tax returns to take advantage of the pension credit. The ability to split pension income depends on the type of pension income and whether the pension earner is under age 65 or is age 65 or over.

   TIP: Be sure to discuss the pros and cons of taking CPP early with your financial advisor and tax professional.

5. **Claim home accessibility renovations effective January 1, 2016.** Seniors age 65 or over can claim a federal tax credit equal to 15% of eligible home renovation expenses ($10,000 maximum) which improve access, mobility, and functionality within the dwelling. This is a new tax credit available in 2016 and subsequent years.

REGISTERED PLAN CONTRIBUTION LIMITS

The RRSP contribution limit for 2017 is 18% of earned income up to a maximum of $26,010.

The TFSA contribution limit for 2017 is $5,500. The cumulative TFSA limit is $52,000 up to end of 2017.

The RESP lifetime contribution limit is $50,000 per beneficiary.

EDUCATION PLANNING

1. **Explore your education funding options,** which include Registered Education Savings Plan (RESP) accounts and In Trust for Minor accounts which both offer flexible investment options. Consider establishing an RESP account if you haven't already and contribute a minimum of $5,000 before year-end to receive the maximum grant for the current and prior year ($1,000) from the federal government. Raymond James clients have access to all of the available provincial grants. Starting early and saving often may be your best bet here.

   TIP: 2017 is the last year the Saskatchewan government will provide the Saskatchewan Advantage Grant for Education Savings (SAGES). Saskatchewan contributors have until December 31, 2017 to make contributions towards an RESP to be eligible for a SAGES grant ($250 plus $250 if carryforward available).

2. **Superfund your RESP account** to maximize tax-deferred growth over the life of the RESP. Take full advantage of the $50,000 lifetime contribution limit if you can fully fund the account now. If the growth is compounded for 18 years, the increase in the value of the account will most likely exceed the foregone grants.

   TIP: A one-time $50,000 contribution made at age 1 will grow to $121,534 by age 18 at a 5% rate of return. Compare that balance to annual contributions of $3,125 from age 1 to 16 which would only equal $98,333 by age 18, even with the maximum grants of $7,200.

3. **Discuss alternative ways to fund future education** with your financial advisor. If you have already maximized your family's RESP contributions, consider using an In Trust for Minor account to earn capital gains income that is taxable in the minor's hands to further reduce tax on investment income. You can also invest Canada Child Benefit (CCB) payments in an In Trust for Minor account to save for education and other expenses. The income earned from CCB payments is not subject to the attribution rules.

4. **When the student is enrolled in a qualifying educational program,** withdraw enough educational assistance payments (EAPs) to use up the student's personal tax credits.

BUSINESS OWNERS

1. **Get organized** by first making sure your accounting records are updated and accurate. Business owners should consider the additional cost of the enhanced Canada Pension Plan starting in 2019 when determining future salaries.

2. **Evaluate your salary dividend mix to minimize overall personal and corporate tax,** while meeting your cash flow requirements and long-term retirement savings goals.

   TIP: Pay out capital dividends and repay shareholder loans as tax-free sources of cash. Pay out taxable dividends if your corporation has a refundable dividend tax balance (RDTOH) to recover corporate taxes. Consider the impact of the federal decreases in the small business tax rate starting in 2018 in conjunction with any provincial tax rate changes that affect business and investment taxable income.

3. **Determine how to minimize taxes on passive investment income due to the pending legislative proposals.** The Department of Finance released information during October 2017, assuring business owners that investment income from existing investments would not be subject to a tax increase. It also indicated that no tax increases apply to the first $50,000 of passive investment income earned by the private corporation. Consider strategies to maximize the grandfathered investments and strategies to keep investment income on future business profits below the $50,000 threshold. Unfortunately, further details about the proposals will be released after year-end and the effective date of any changes is unknown.

   TIP: Consult with your corporate tax accountant to determine the possible impact on investment income inside your corporation.

4. **Review your business succession plan and the potential tax impact upon your death.** Review your shareholder agreements to ensure your rights are protected and to avoid shareholder disputes after your passing. Determine whether it is an appropriate time to freeze the company in order to pass future value to your heirs. Evaluate your ability to claim the $835,716 (for 2017) lifetime capital gains exemption upon sale of your small business shares or upon your death.

WORK WITH YOUR FINANCIAL ADVISOR

Get organized: Collect all important tax and financial documents to prepare for a thorough year-end review. ▶ **Be open:** Discuss all aspects of your financial life, including any major changes you anticipate. ▶ **Make necessary adjustments:** Think strategically about what changes need to be made to best position you to achieve your goals. ▶ **Take action before year-end.**

Despite what may be happening in the markets and the overall economy, there are several key actions you can take at year-end to help you get a better grasp of where you stand financially. A year-end review with your professional advisors also helps ensure you're on track to meet your goals and helps identify areas in need of adjustment so your plan can evolve as your needs change.

Take the time now to talk about those changing needs, so you and your advisors fully understand where you are and where you want to go.

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