2015 Year End Tax Tips

Jamie Golombek
Managing Director, Tax & Estate Planning, CIBC Wealth Advisory Services

As year-end approaches, here's our updated, annual look at some year-end tax tips you may wish to keep in mind as we enter the final weeks of 2015.

1. Tax-Loss Selling

Tax-loss selling involves selling investments with accrued losses at year end to offset capital gains realized elsewhere in your portfolio. Any net capital losses that cannot be used currently may either be carried back three years or carried forward indefinitely to offset net capital gains in other years. In order for your loss to be immediately available for 2015 (or one of the prior three years), the settlement must take place in 2015, which means the trade date must be no later than December 24, 2015.

Note that if you purchased securities in a foreign currency, the gain or loss may be larger or smaller than you anticipated once you take the foreign exchange component into account. The recent decline in the value of the Canadian dollar may increase capital gains or decrease capital losses, or, in some cases, turn what looks like a loss into a gain.

For example, Jake bought 1,000 shares of a U.S. company in February 2013 when the price was US$10/share and the U.S. dollar was at par with the Canadian dollar. Today, the price of the shares has fallen to US$9 and Jake decides he wants to do some tax loss harvesting, to use the US$1,000 {(US$10 — US$9) X 1,000} accrued capital loss against gains he realized earlier this year.

Well, before knowing if this strategy will work, he'll need to convert the potential U.S. dollar proceeds back into Canadian dollars. At an exchange rate of $1 U.S. = $1.34 CDN, selling the U.S. shares for US$9,000 yields $12,060 CDN. So, what initially appeared to be an accrued capital loss of US$1,000 (US$10,000 – US$9,000) turns out to be a capital gain of $2,060 ($12,060 - $10,000) for Canadian tax purposes. If Jake had gone ahead and sold the U.S. stock, he would actually be doing the opposite of tax loss selling and accelerating his tax bill by crystallizing the accrued capital gain in 2015!

Superficial loss

If you plan to repurchase a security you sold at a loss, beware of the "superficial loss" rules that apply when you sell property for a loss and buy it back within 30 days before or after the sale date. The rules apply if property is repurchased within 30 days and is still held on the 30th day by you or an "affiliated person", including your spouse (or partner), a corporation controlled by you or your spouse (or partner), or a trust of which you or your spouse (or partner) are a majority beneficiary (such as your RRSP or TFSA).

Under the rules, your capital loss will be denied and added to the adjusted cost base (tax cost) of the repurchased security. That means any benefit of the capital loss could only be obtained when the repurchased security is ultimately sold.

Transfers and swaps

While it may be tempting to transfer an investment with an accrued loss to your RRSP or TFSA to realize the loss without actually disposing of the investment, such a loss is specifically denied under our tax rules. There are also harsh penalties for "swapping" an investment from a non-registered account to a registered account for cash or other consideration.

To avoid these problems, consider selling the investment with the accrued loss and, if you have the contribution room, contributing the cash from the sale into your RRSP or TFSA. If you want, your RRSP or TFSA can then buy "back" the investment after the 30-day superficial loss period.

2. Use a Prescribed Rate Loan for Income-splitting

If you are in a high tax bracket, it might be beneficial to have some investment income taxed in the hands of family members (such as your spouse, common-law partner or children) who are in a lower tax bracket; however, if you simply give funds to family members for investment, the income from the invested funds may be attributed back to you and taxed in your hands, at your high marginal tax rate.

To avoid attribution, you can lend funds to family members, provided the rate of interest on the loan is at least equal to the government's "prescribed rate," which is 1% until (at least) the end of 2015. If you implement a loan before the end of the year, the 1% interest rate will be locked in and will remain in effect for the duration of the loan, regardless of whether the prescribed rate increases in the future. Note that interest for each calendar year must be paid annually by January 30th of the following year to avoid attribution of income for the year and all future years.

When a family member invests the loaned funds, the choice of investments will affect the tax that is paid by that family member. It may be worthwhile to consider investments that yield Canadian dividends, since a dividend tax credit can be claimed by individuals to reduce the tax that is payable. When the dividend tax credit is claimed along with the basic personal amount, a certain amount of dividends can be received entirely tax-free by family members who have no other income.

For example, an individual who has no other income and who claims the basic personal amount can receive about $50,000 of eligible dividends in 2015 without paying any tax, other than in the provinces of Manitoba, P.E.I., Quebec, Newfoundland and Labrador, and Nova Scotia where the amount of eligible dividends that can be received is lower.

You should consult with tax and legal advisors to make arrangements to implement a prescribed rate loan. By putting a loan into place early before the end of the year, you could benefit from income splitting throughout the upcoming year and for many years to come.

3. Retirement Considerations

Convert your RRSP to a RRIF by age 71

If you turned age 71 in 2015, you have until December 31 to make any final contributions to your RRSP before converting it into a RRIF or registered annuity.

It may be beneficial to make a one-time overcontribution to your RRSP in December before conversion if you have earned income in 2015 that will generate RRSP contribution room for 2016. While you will pay a penalty tax of 1% on the overcontribution (above the $2,000 permitted overcontribution limit) for December 2015, new

RRSP room will open up on January 1, 2016 so the penalty tax will cease in January 2016. You can then choose to deduct the overcontributed amount on your 2016 (or a future year's) return.

This may not be necessary, however, if you have a younger spouse or partner, since you can still use your contribution room after 2015 to make contributions to a spousal RRSP until the end of the year your spouse or partner turns 71.

Keep more of your RRIF tax-sheltered

The minimum RRIF factors for ages 71 to 94 were reduced in 2015, "to better reflect more recent long-term historical real rates of return and expected inflation." The new RRIF factors start at 5.28% at age 71, rising to 18.79% at age 94, with the cap remaining at 20% at age 95 and older. Figure 1 shows the pre-2015 and new RRIF factors.

Figure 1: RRIF Factors

Age (at start of year)	Previous RRIF Factor (%) (before 2015)	New RRIF Factor (%) (after 2014)
71	7.38	5.28
72	7.48	5.40
73	7.59	5.53
74	7.71	5.67
75	7.85	5.82
76	7.99	5.98
77	8.15	6.17
78	8.33	6.36
79	8.53	6.58
80	8.75	6.82
81	8.99	7.08
82	9.27	7.38
83	9.58	7.71
84	9.93	8.08
85	10.33	8.51
86	10.79	8.99
87	11.33	9.55
88	11.96	10.21
89	12.71	10.99
90	13.62	11.92
91	14.73	13.06
92	16.12	14.49
93	17.92	16.34
94	20.00	18.79
95 & over	20.00	20.00

You only need to withdraw the lower amount, based on the new RRIF factors, by year end. If you withdraw more than the new minimum amount in 2015, you will be permitted to re-contribute any excess (up to the old minimum amount) until February 29, 2016, and the amount re-contributed will be tax deductible in 2015.

4. Registered Investments

RRSP Contributions

Although you have until February 29, 2016 to make RRSP contributions for the 2015 tax year, contributions made as early as possible will maximize tax-deferred growth. If you have maximized RRSP contributions in previous years, your 2015 RRSP contribution room is limited to 18% of income earned in 2014, with a maximum contribution of $24,930, less any pension adjustment.

You can withdraw funds from an RRSP without tax under the Home Buyer's Plan (up to $25,000 for first-time home buyers) or the Lifelong Learning Plan (up to $20,000 for post-secondary education). With each plan, you must repay the funds in future annual instalments, based on the year in which funds were withdrawn. If you are contemplating withdrawing RRSP funds under one of these plans, you can delay repayment by one year if you withdraw funds early in 2016, rather than late in 2015.

TFSA Contributions

There is no deadline for making a TFSA contribution. If you have been at least 18 years old and resident in Canada since 2009, you can contribute up to $41,000 to a TFSA in 2015 if you haven't previously contributed to a TFSA.

If you withdraw funds from a TFSA, an equivalent amount of TFSA contribution room will be reinstated in the following calendar year, assuming the withdrawal was not to correct an over-contribution.

Be careful, however, because if you withdraw funds from a TFSA and then re-contribute in the same year without having the necessary contribution room, overcontribution penalties can result. If you wish to transfer funds or securities from one TFSA to another, you should do so by way of a direct transfer, rather than a withdrawal and recontribution, to avoid an overcontribution problem.

If you are planning a TFSA withdrawal in early 2016, consider withdrawing the funds by the 31st of December, 2015, so you would not have to wait until 2017 to re-contribute that amount.

5. Contribute to an RESP & RDSP

Registered Education Savings Plans (RESPs)

RESPs allow for tax-efficient savings for children's post-secondary education. The federal government provides a Canada Education Savings Grant (CESG) equal to 20% of the first $2,500 of annual RESP contributions per child or $500 annually. While unused CESG room is carried forward to the year the beneficiary turns 17, there are a couple of situations in which it may be beneficial to make an RESP contribution by December 31.

Each beneficiary who has unused CESG carry-forward room can receive up to $1,000 of CESGs annually, with a $7,200 lifetime limit, up to and including the year in which the beneficiary turns 17. If enhanced catch-up contributions of $5,000 (i.e. $2,500 x 2) are made for just over 7 years, the maximum total CESGs of $7,200 will be obtained. If you have less than 7 years before your child or grandchild turns 17 and haven't maximized RESP contributions, consider making a contribution by December 31.

Also, if your child or grandchild turned 15 this year and has never been a beneficiary of an RESP, no CESG can be claimed in future years unless at least $2,000 is contributed to an RESP by the end of the year. Consider making your contribution by December 31st to receive the current year's CESG and create CESG eligibility for 2016 and 2017.

If your child (or grandchild) is an RESP beneficiary and attended a post-secondary educational institution in 2015, consider having Educational Assistance Payments (EAPs) made from the RESPs before the end of the year. Although the amount of the EAP will be included in the income of the student, if the student has sufficient personal tax credits, the EAP income will be effectively tax-free.

If your child (or grandchild) is an RESP beneficiary and stopped attending a post-secondary educational institution in 2015, EAPs can only be paid out for up to six months after the student has left the school. You may, therefore, wish to consider having final EAPs made from RESPs of which the student is a beneficiary.

Registered Disability Savings Plans (RDSPs)

RDSPs are tax-deferred savings plans open to Canadian residents eligible for the Disability Tax Credit, their parents and other eligible contributors. Up to $200,000 can be contributed to the plan until the beneficiary turns 59, with no annual contribution limits. While contributions are not tax deductible, all earnings and growth accrue on a tax-deferred basis.

Federal government assistance in the form of matching Canada Disability Savings Grants (CDSGs) and Canada Disability Savings Bonds (CDSBs) may be deposited directly into the plan up until the year the beneficiary turns 49. The government will contribute up to a maximum of $3,500 CDSG and $1,000 CDSB per year of eligibility, depending on the net income of the beneficiary's family. Eligible investors may wish to contribute to an RDSP before December 31 to get this year's assistance, although this may be less of a priority since unused CDSG and CDSB room can be carried forward for up to ten years.

RDSP holders with shortened life expectancy can withdraw up to $10,000 annually from their RDSPs without repaying grants and bonds. A special election must be filed with Canada Revenue Agency by December 31 to make a withdrawal in 2015.

6. Certain Payments Must Be Made by December 31

Charitable donations

December 31 is the last day to make a donation and get a tax receipt for 2015. Keep in mind that many charities offer online, internet donations where an electronic tax receipt is generated and e-mailed to you instantly.

Both the federal and provincial governments offer donations tax credits that, in combination, can result in tax savings of up to 50% of the value of your gift in 2015. You may also be able to claim the federal First-Time Donor's Super Credit (FDSC) if neither you nor your spouse or common-law partner has claimed the donations tax credit from 2008 to 2014. The FDSC provides an additional 25% tax credit on total monetary donations up to $1,000.

Gifting publicly-traded securities, including mutual funds, with accrued capital gains to a registered charity or a foundation not only entitles you to a tax receipt for the fair market value of the security being donated, it eliminates capital gains tax too.

This year's federal budget proposed a measure to provide similar tax relief where the proceeds from the sale of appreciated private company shares or appreciated real estate are donated to a charity. Any capital gain realized on the sale of private company shares or real estate will not be subject to tax so long as they are sold after 2016, the proceeds are donated to a charity within 30 days of the sale, and the shares or real estate are not acquired by someone not dealing at arm's length with either the donor or the charity. Although this measure has not yet been enacted, you may want to consider delaying donations of appreciated private company shares or appreciated real estate to potentially eliminate tax on capital gains.

Pay expenses by year end

Certain expenses must be paid by year end to claim a tax deduction or credit in 2015. This includes investment-related expenses, such as interest paid on money borrowed for investing and investment counseling fees for non-RRSP / RRIF accounts. Other expenses that must be paid by December 31st include child care expenses, interest on student loans, spousal support payments and medical expenses.

For medical expenses, it may be worthwhile to look for unclaimed expenses prior to 2015 as well. The medical expense tax credit (METC) may be claimed for eligible medical expenses that were paid during any 12-month period that ended within the calendar year (extended to 24 months when an individual died in the year.)

Prepayments

While expenses must be paid by December 31 to claim a tax deduction or credit in many cases, the related good or service does not always need to be acquired in the same year. This provides an opportunity to prepay certain items and claim the tax benefit currently.

A tax credit can be claimed when total medical expenses exceed the lower of 3% of your net income or $2,208 in 2015. If your medical expenses will be less than this minimum threshold, consider prepaying expenses that you would otherwise pay in 2016. For example, if you expect to pay monthly instalments for your child's braces in 2016, consider paying the full amount up front in 2015 if it will raise total medical expenses over the threshold.

Prepayments can also be used for expenses that qualify for the non-refundable children's arts credit, based on up to $500 of qualifying expenses, and the children's fitness tax credit, which as of 2015 is based on up to $1,000 of qualifying expenses and is refundable. For example, if you plan to enroll your child in baseball or guitar programs for 2016, you can claim the credit(s) in 2015 if you pay for the activities by December 31.

7. Delay Expenses Until Next Year

Home renovation

Seniors and individuals who are eligible for the disability tax credit may want to wait until 2016 to start home renovations.

This year's federal budget introduced a new non-refundable Home Accessibility Tax Credit, beginning in 2016, to assist seniors and those eligible for the disability tax credit with certain home renovations. Those entitled to the credit include not only seniors and those eligible for the disability tax credit, but also many people related to such a person.

The tax credit will be equal to 15% of up to $10,000 of expenses per year towards renovations that permit these individuals to gain access to, or to be more mobile or functional within, their home, or reduce their risk of harm within their home or from entering their home.

The Home Accessibility Tax Credit will apply in respect of eligible expenditures for work performed and paid for and/or goods acquired after 2015. A single expenditure may qualify for both this new tax credit, and the medical expense tax credit, and both may be claimed.

Examples of expenditures that will qualify for this new tax credit include: the installation of grab bars, wheelchair ramps, and walk-in bathtubs and showers. Some expenses such as those for routine maintenance, household appliances, or those made with the primary intent of improving or maintaining the value of the property will not qualify.

8. Strategies for Business Owners

Purchase of business assets

If you're self-employed or a small business owner, you may wish to consider accelerating the purchase of new business equipment or office furniture that you may be planning to purchase in 2016. Under the "half-year rule", you are permitted to deduct one half of a full year's tax depreciation (capital cost allowance) in 2015, even if you bought it on the last day of the year. For 2016, you can then claim a full year's depreciation.

Consider taking dividends from your corporation

Business owners may wish to discuss with their tax advisors whether it would be beneficial to take dividends in 2015 for two reasons.

First, accelerating dividend payments in 2015 (and years after) may avoid the higher taxation of non-eligible dividends in subsequent years.

The small business tax rate, which is the tax rate applied to the first $500,000 of active business income earned by a Canadian-controlled private corporation, is currently 11%. This rate will be reduced to 9% by 2019.

In conjunction with this, the effective tax rate on non-eligible dividends, which are generally dividends from corporate income that was originally taxed at the small business tax rate, will increase. Although the gross-up factor for non-eligible dividends (which determines the taxable amount included in income) will decrease, this will be accomplished by a gradual decrease in the dividend tax credit (DTC) for non-eligible dividends.

The combined effect of this measure is shown in Figure 2.

Figure 2: Small business tax rate reduction and DTC adjustment for non-eligible dividends

	2015	2016	2017	2018	As of 2019
Small business tax rate (%)	11	10.5	10	9.5	9
Gross-up (%)	18	17.0	17	16.0	15
DTC (%)	11	10.5	10	9.5	9

Second, as discussed in our report, TFSAs for Business Owners… A Smart Choice[1], investing in a TFSA will likely leave you with more in your pocket than leaving funds in your corporation for investment. If you are a business owner who wants to get the most from your investments over the long run and your portfolio earns a combination of interest, eligible dividends and capital gains, you should probably consider withdrawing sufficient corporate funds to maximize your TFSA contributions, rather than leaving the funds inside the corporation for investment.

9. Life Interest Trusts

Beginning in 2016, changes in tax laws could prevent an estate from passing to beneficiaries of certain trusts in the way it might have been intended. The trusts that are impacted are commonly referred to as "life interest trusts" because only the individual who established the trust (and / or his or her spouse or common-law partner), referred to as the "life interest beneficiaries," are entitled to receive all the trust's income and capital during their lifetime(s). Any remaining capital goes to other beneficiaries after the death(s) of the individual and spouse or common law partner.

There are three common types of life interest trusts: Alter Ego Trusts, Spousal Trusts or Common-law Partner Trusts, and Joint Spousal or Common-Law Partner Trusts.

Capital gains or losses are recognized at the time that the last surviving life interest beneficiary of the trust dies, and are based on the increase in value of the assets of the trust from their value at the time they were first purchased.

Who is responsible for paying the tax on any capital gains that are realized on trust assets at the time the last surviving life interest beneficiary passes away? Prior to 2016, this tax must be paid from the assets left in the trust, which is logical since these trust assets give rise to the capital gain.

After 2015, however, the estate of the last surviving life interest beneficiary is responsible for the tax on the capital gain arising from the trust assets.

This can be particularly problematic if the beneficiaries of the estate are not the same as the remainder beneficiaries of the life interest trust. As a result, the remainder beneficiaries of the trust property could receive their "inheritance" tax-free and the estate of the last surviving life interest beneficiary must pay the trust's tax liability before the estate beneficiaries get their inheritance.

Individuals with life interest trusts should consider having their estate plans reviewed before 2016.

10. Shift Income and Expenses

It may be worthwhile to shift income and expenses between 2015 and 2016, where feasible, if you anticipate that your income tax rates will be substantially different in those years.

You may expect that your tax rate could increase in 2016 if, for example, you plan to return to work, or expect to receive deferred compensation or exercise stock options. Conversely, you may anticipate that your tax rate could decrease in 2016 if you plan to retire or if you received a bonus in 2015 that may not reoccur.

Legislative developments can also cause changes in income tax rates. Here are three examples of

upcoming changes that may impact your 2015 year-end tax planning.

- Federal tax rates on non-eligible dividends will be increasing after 2015, as discussed above in the section titled "Consider taking dividends from your corporation"
- In B.C. the temporary high-income tax bracket, with a provincial tax rate of 16.8%, will be eliminated in 2016, decreasing income tax rates for individuals with income exceeding $151,050 in 2015
- In Alberta, personal tax rates will increase in 2016 for individuals with income exceeding $125,000. The increase will range from 1.5% with taxable income up to $150,000, to 3.75% with taxable income exceeding $300,000

If you expect your income tax rate will increase in 2016, you may wish to realize income in 2015 by taking steps such as selling investments with a capital gain, exercising stock options or taking bonuses, where feasible, in 2015 rather than 2016. As discussed above in the section titled "Consider taking dividends from your corporation", owner-managers may wish to take dividends from their corporations in 2015. It may also make sense to defer deductible expenses until 2016 where possible.

Conversely, if you expect your tax rate will decrease in 2016, you may wish to defer income by taking steps such as waiting to sell investments with a capital gain, exercise stock options, take bonuses or distribute dividends to owner-managers from a corporation, where feasible, in 2016 rather than 2015.

Conclusion

These tips highlight just a few of the ways you can act now to benefit from tax savings when you file your return. But keep in mind that tax planning is a year round affair. Speak to your tax advisor well in advance of tax filing season if you want information on reducing your taxes.

Jamie.Golombek@cibc.com

Jamie Golombek, CPA, CA, CFP, CLU, TEP is the Managing Director, Tax & Estate Planning with CIBC Wealth Advisory Services in Toronto.

[1] The report *TFSAs for Business Owners…* A Smart Choice is available online at https://www.cibc.com/ca/pdf/small-business/tfsas-for-business-owners-en.pdf.

Disclaimer:

As with all planning strategies, you should seek the advice of a qualified tax advisor.

This report is published by CIBC with information that is believed to be accurate at the time of publishing. CIBC and its subsidiaries and affiliates are not liable for any errors or omissions. This report is intended to provide general information and should not be construed as specific legal, lending, or tax advice. Individual circumstances and current events are critical to sound planning; anyone wishing to act on the information in this report should consult with his or her financial advisor and tax specialist.

CIBC Cube Design & "Banking that fits your life." are trademarks of CIBC.