

TAX & BUSINESS

Planning for 2017

Tax planning is a prudent and necessary procedure for both the individual and corporate taxpayers due to the complexities and constant changes in our income tax legislation. Although tax planning is something which should be considered throughout the year, towards year end it becomes more common to evaluate certain tax planning ideas which may result in a reduced or deferred tax burden.

Most tax planning transactions should be reviewed with your professional tax advisor as the proposals incorporated in this year's Federal and Provincial budgets may not necessarily be the same as when they ultimately become law. Further changes which may have occurred to previously available tax planning measures may need to be reviewed.

RRSP Contributions

If you haven't yet contributed to your RRSP for 2016, don't wait until the end of February 2017, contribute now. The earlier you contribute to your RRSP, within the allowable limits, the more quickly the capital to finance your retirement will grow, sheltered from tax.

Your maximum contribution for 2016 is 18% of income earned in 2015, principally from employment or a business, up to a maximum of \$25,370 (compared to \$24,930 in 2015). The maximum RRSP contribution for 2016 applies to earned income of \$140,945 in 2015. If you participate in a pension plan, you should keep the pension adjustment in mind — and the pension adjustment reversal, if applicable. To find out the exact amount that you can contribute, look at the "RRSP Deduction Limit Statement for 2016" section of your federal assessment notice for 2015.

Consider transferring securities which have an accrued gain to your RRSP and using capital losses during the year to shelter the gain. You will get an RRSP deduction equal to the fair market value of the property up to your contribution limit.



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EI Premium Decrease for 2017

The maximum insurable earnings for 2017 will increase to \$51,300 from \$50,800. EI employer premiums are reduced to \$1.78 per \$100 in Quebec and \$2.28 per \$100 in all other provinces.

QPIP rates (Quebec only) to remain the same in 2017 at 0.548% for employees & 0.767% for employers.

RRSP Contributions (cont'd)

The RRSP limit is indexed in 2016. If you have your own corporation, have no other source of earned income, and are able to do so, pay yourself a salary of at least \$144,500 this year if you wish to ensure that you can contribute the maximum amount of \$26,010 to your RRSP for 2017.

If you contributed less than the maximum allowable amount to your RRSP in a previous year, and if you can afford it, contribute an additional amount equal to the unused RRSP contribution amount.

The law allows you to contribute up to \$2,000

over the authorized maximum. Do not exceed this limit, because the penalty of 1% per month on excess contributions can add up fast, and the administrative formalities to recover over contributions are relatively complex. However, no deduction is permitted on any excess contribution over the limit.

If your spouse is younger than you and you anticipate that his or her retirement income will be less than yours, consider creating a spousal RRSP. If you have earned income and thus contribution room after age 71, you can make contributions to the RRSP of a spouse who is 71 or younger.

Use Your Capital Losses

Under the tax rules governing capital losses, you can use unused capital losses to decrease the current year's taxes if you have realized any capital gains.

Many taxpayers also sell their investments that results in capital losses before the end of the year if they have realized gains earlier in the year. But be careful! If, within the 30 days prior to or following the sale of an asset that resulted in a capital loss, you purchase an identical asset, the superficial loss rules prevent you from claiming the capital loss on an asset you clearly intended to continue holding.

This rule also applies if your spouse or a company under your control purchases the identical asset.

Stagger Taxation of Certain Capital Gains

If you dispose of property on which you realize a capital gain, you can stagger the taxation of this gain over up to five years if you allow the purchaser to stagger the payment of the proceeds from the sale over at least a five year period as well. The term is increased to 10 years for the transfer of farm or fishing property, shares from a family farm or fishing corporation, or from a small business corporation when this transfer is carried out in favour of a child, a grandchild or a great grandchild living in Canada.

Timing of Acquisition of Assets

Accelerate the acquisition of depreciable property used in carrying on a business otherwise planned for the beginning of the next year. This will allow additional depreciation to be available to be claimed in the current year. The "available-for-use rules" should be considered (generally requiring the depreciable property to be used in operations for the depreciation deduction to be allowed). This will also allow full capital cost allowance deduction in 2017.

Consider delaying until the subsequent year the acquisition of depreciable property in a class that would otherwise have a terminal loss.

Declaring Bonuses & Shareholder Loans

The small business deduction (SBD) is available to Canadian-controlled private corporations with taxable income less than \$500,000 in 2016. (NOTE: Quebec Budget 2016-2017 changed the SBD eligibility criteria; see our *Quebec Budget 2016-2017 Newsletter* for more details) If the active business taxable income in your company exceeds the \$500,000 threshold it may be good tax planning for the corporation to pay out a bonus to bring its taxable income below the threshold. Your company will be able to claim the tax deduction if

the bonus is paid within 180 days of your corporation's fiscal year-end.

If you took a loan from your corporation in 2015, repay it before the end of 2016. If you delay, the full amount of the loan may be added to your income for 2016. An exception is available if the loan was made to an employee-shareholder for purchasing a residence, securities issued by the employer, or a car for work purposes. However, other restrictions apply to these types of loans.

Donations

If you have not already done so, now is an ideal time to reconsider your donation plans for 2016 and benefit from the charitable donation tax credits.

Another very interesting tax strategy, for both you and the charity, is to donate publicly traded company shares from your portfolio, especially if these shares include a significant gain. In fact, no income tax is payable on a capital gain realized when shares of a publicly listed company are donated to a charitable organization. At the same time, you benefit by paying no tax on the disposition and receiving a charitable donation receipt for the fair market value of the share at the time of the donation.

First-Time Donor's Super Credit

To encourage charitable giving by new donors, the Federal government has introduced a new temporary First-Time Donor's Super Credit (FDSC). The FDSC will provide for an additional 25% tax credit for a first-time donor on amounts up to \$1,000 of donations. Only donations of money will qualify for the FDSC.

An individual will be considered a first-time donor if neither the individual nor the individual's spouse or common-law partner has claimed the Charitable Donation Tax Credit in any taxation year after 2007.

RenoVert Home Renovation Tax Credit

This refundable tax credit has been designed to encourage Quebec individuals to undertake environmentally friendly renovation work carried out by recognized contractors.

The tax credit will apply for one year from March 18, 2016 to March 31, 2017.

The RénoVert refundable tax credit will equal 20% of eligible home renovation expenditures incurred by an individual in excess of \$2,500, up to a maximum of \$10,000. The maximum value of the tax credit will be reached when eligible renovation expenditures reach \$52,500 during the measure's application period.

To benefit from the tax assistance provided by the RénoVert refundable tax credit, individuals must enter into a contract with a recognized contractor to have the renovation work on their home done.

Did You Turn 71 in 2016?

An RRSP must be matured before December 31 of the year in which the annuitant turns age 71. **DO NOT MISS THIS LEGISLATED DEADLINE.** If you do, all accumulated funds in your RRSP will be included in your taxable income in the year following the year you turn 71. You will have no recourse for correcting this oversight. There are three main maturity options that apply to non-insurance type RRSPs:

- Receive an annuity
- Transfer the accumulated RRSP funds into a Registered Retirement Income Fund (RRIF) from which a periodic retirement income is received.
- Collapse the RRSP and receive a lump sum after paying the relevant tax.

Claim the Lifetime Capital Gains Exemption

The maximum LCGE for individuals who realize capital gains on the disposition of qualified farm or fishing properties (QFFP) is \$1,000,000. The maximum LCGE for individuals who realize capital gains on the disposition of qualified small business corporation shares (QSBC) is \$824,176 for the 2016 tax year.

Claiming this exemption often requires a good dose of planning and help from your tax advisor. If you have already used this deduction, consider the capital

gains deferral election—using the proceeds to acquire other small business investments.

If you plan to use this exemption in 2016, check with your tax advisor to find out whether you have realized an allowable business investment loss (ABIL) in prior years or have cumulative net investment losses (CNILs) as at December 31, 2015 as these will be taken into account, and it is possible that you will not be able to claim the full deduction.

Registered Education Savings Plan (RESP)

Under a RESP, contributions are made to the plan, intended to pay for the post-secondary education of designated beneficiaries, usually the taxpayer's children or grandchildren. Although contributions are not tax-deductible, income earned in the plan is not taxable until distributed, at which time it is taxed in the hands of the beneficiary.

The accumulated income is forfeited if the beneficiary(ies) does not undertake post-secondary education. However, certain plans allow the substitution of other children, grandchildren, nephews/nieces and even non-related persons.

Tax-Free Savings Account (TFSA)

Canadian residents who are 18 years of age or older are eligible to contribute up to \$5,500 for 2016, plus any withdrawals from previous years, to a TFSA. The TFSA is a flexible, registered, general purpose account that allows Canadians to maximize their savings by earning tax-free investment income.

Contributions to a TFSA are not tax-deductible, but investment income earned in a TFSA, as well as TFSA withdrawals, are tax-free. If you have never contributed to a TFSA, your limit for 2016 is \$46,500, increasing to \$52,000 on January 1, 2017.

U.S. Citizens—Wherever You Are

The Bank Secrecy Act may require you to report yearly to the Internal Revenue Service by filing Form TD F 90-22.1, Report of Foreign Bank and Financial Accounts (FBAR).

United States persons are required to file an FBAR if:

- The United States person had a financial interest in or signature authority over at least one financial account located outside of the United States; and
- The aggregate value of all foreign financial accounts exceeded \$10,000 at any time during the calendar year to be reported.

The FBAR is not filed with the filer's federal income tax return. You may not request an extension for filing the FBAR. The FBAR must be received by the IRS on or before June 30 of the year following the calendar year being reported. Consult your tax advisor for more information concerning the need to file FBAR reports and other IRS and US filings. In addition, a new US filing requirement is now in force—the Foreign Account Tax Compliance Act (FATCA) filing requirement which is similar but not the same as the FBAR.

Canadians Vacationing in The U.S. & Abroad

Canadians who spend on average more than 120 days a year in the United States run the risk of being considered a U.S. resident for U.S. tax purposes. If you are caught under the specific rules, but have spent less than 183 days in the U.S. in the current year, the "Closer Connection Exemption" may apply. The exemption is claimed by filing IRS form 8840 on a timely basis, generally by June 15 of the following year. For more information, visit our website to get a copy of our detailed Newsletter "*Tax Rules and Guidelines for Canadians Traveling Abroad.*"

Quebec Medicare Eligibility

To maintain your Quebec Medicare eligibility, the total number of days of absence in a given calendar year must be less than 183 days.

However, absences of 21 days or less do not count towards the total number of days absent. Also, the date of departure and the date of arrival do not count.

Wills & Living Wills

Do you have a current will?

Advice should be sought on how the family wealth should be dealt with in an unfortunate circumstance. Proper planning can minimize the tax burden on death.

Equally as important is the Living Will or Mandate of an individual who may become incapacitated without notice or warning. To minimize the strain on your family at a difficult time, a Living Will can prove to be an invaluable solution.

Do you have children who are US citizens or residents?

Proper planning can reduce or avoid US Estate Taxes.

LEVI & LEVI

is a firm of Chartered Professional Accountants that traces its origin in Montreal to 1970. We pride ourselves on being more than just an accounting firm. We offer an effective blend of personalized service, experience and technological leadership, coupled with steadfast commitment to consistently deliver excellence. The members of our firm possess unique talents, expertise and experience, giving our client access to a knowledge base of considerable breadth and depth.

Home Accessibility Tax Credit for Seniors and Persons with Disabilities

For 2016 and subsequent years, Budget 2015 introduced a non-refundable Home Accessibility Tax Credit (HATC) for qualifying expenses incurred for work performed or goods acquired in respect of a qualifying renovation of an eligible dwelling of a qualifying individual. A qualifying individual is an individual who is eligible to claim the disability tax credit at any time in a tax year, or an individual who is sixty-five years of age or older at the end of a tax year.

A qualifying renovation for the 2016 and subsequent tax years is a renovation or alteration that is of an enduring nature and is integral to the eligible dwelling. The renovation must:

- Allow the qualifying individual to gain access to, or to be mobile or functional within, the eligible dwelling; or
- Reduce the risk of harm to the qualifying individual within the eligible dwelling or in gaining access to the dwelling.

A maximum of \$10,000 per year in qualifying expenses can be claimed in respect of a qualifying individual, resulting in a maximum non-refundable tax credit of \$1,500 (\$10,000 x 15%).

Alert Dates

December 15, 2016	Final 2016 installment due for individuals required to make income tax instalments.
February 28, 2017	Deadline for filing 2016 remuneration slips to employees (T4-RL-1) and independent sales representatives (T4A-RL-1), slips for payments of dividends and interest (T5/RL-3); including related summaries to the respective governments. Deadline for 2016 contributions to an RRSP.
March 15, 2017	First personal income tax installment for 2016 is due.
March 31, 2017	Deadline for filing income tax returns for trusts with a December 31, 2016 year end. Filing due date for T5013 (Partnership Information Return)

LEVI & LEVI

1303 Greene Avenue
Suite 400
Westmount, Quebec
H3Z 2A7

Phone: 514-931-7600

Fax: 514-931-3600

Website: www.levifca.com

Philip C. Levi, CFE, FCPA, FCA, CPA/CFF, FCA-IFA
plevi@levifca.com

Jeremy Levi, CPA auditor, CGA
jeremy@levifca.com

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