

TAX & BUSINESS

2019 Year End Tax Planning

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 2019, don't wait until the end of February 2020, 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 2019 is 18% of income earned in 2018, principally from employment or a business, up to a maximum of \$26,500 (compared to \$26,230 in 2018). The maximum RRSP contribution for 2019 applies to earned income of \$147,222 in 2018. 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 2019" on your federal notice of assessment for 2018.

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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RRSP Contributions (cont'd)

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The RRSP limit is indexed in 2019. 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 \$147,222 in 2018 if you wish to ensure that you can contribute the maximum amount of \$26,500 to your RRSP for 2019.

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 a period of 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 2020.

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 2019. (NOTE: Quebec Budget 2017-2018 changed the SBD eligibility criteria; see our *Quebec Budget 2017-2018 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 2018, repay it before the end of 2019. If you delay, the full amount of the loan may be added to your income for 2019. 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.

REDUCTION OF THE HEALTH SERVICE FUND CONTRIBUTION

The employer HSF contribution rate is generally 1.95% for employers whose total worldwide annual payroll for all associated corporations is \$1M or less. The rate is reduced to 1.45% for employers in the primary and manufacturing sectors. When the payroll exceeds \$1M, the rate increases gradually up to 4.26% when the payroll reaches \$6M in 2019. The payroll threshold for application of the 4.26% rate will be increased to \$6M in 2019 and it will be raised again to \$6.5M in 2021 and \$7M as of 2022.

Donations

If you have not already done so, now is an ideal time to reconsider your donation plans for 2019 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. 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.

Did You Turn 71 in 2019?

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 \$866,912 for the 2019 tax year.

Claiming this exemption often requires good 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 2019, 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, 2019 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 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 \$6,000 for 2019, plus any withdrawals and unused contribution room of 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 2019 is \$63,500, increasing to \$69,500 on January 1, 2020.

U.S. Citizens and Taxpayers—Wherever You Are

The Bank Secrecy Act may require you to report yearly with the Financial Crimes Enforcement Network (FinCEN), which is a bureau of the Treasury Department by filing a Report of Foreign Bank and Financial Accounts (FBAR). The FBAR filing requirement is not part of filing a tax return. The FBAR Form 114 is filed separately and directly with FinCEN.

United States taxpayers (not only US citizens) are required to file an FBAR if:

- The taxpayer 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 must be filed with the Financial Crimes Enforcement Network (FinCEN), which is a bureau of the Treasury Department. The form must be filed electronically and is only available online through the BSA E-Filing System website. You may not request an extension for filing the FBAR. The FBAR must be received by the Treasury Department on or before April 15 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.

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.

For more information, visit our website to get a copy of our detailed Newsletter "Tax Rules and Guidelines for Canadians Travelling to the US."

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.

New Measures Introduced in the 2018 Fall Economic Statement

On November 21, 2018, the Federal Minister of Finance, Bill Morneau, presented the 2018 Federal Fall Economic Statement. The economic statement includes:

- Accelerated Investment Incentive which will provide an increased first-year capital cost allowance (CCA) deduction for “eligible property” acquired after November 20, 2018 and available for use before 2028. The AII will apply to all capital property subject to the CCA rules, except:
 - M&P and specified clean energy equipment (see below for the enhanced rules that apply to these properties)
 - property previously owned by the taxpayer or a non-arm’s length person
 - property transferred to the taxpayer on a tax-deferred “rollover” basis

For eligible property that becomes available for use before 2024, the incentive will provide a maximum first-year CCA deduction on the net additions to a CCA class that is 1.5 times the standard CCA deduction for that class, subject to a maximum of 100% (effectively suspending the half-year rule and providing a CCA deduction that is up to three times the usual first-year maximum).

Alert Dates

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| December 16, 2019 | Final 2019 installment due for individuals required to make income tax instalments. |
| February 28, 2020 | Deadline for filing 2019 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 2019 contributions to an RRSP. |
| March 16, 2020 | First personal income tax installment for 2020 is due. |
| March 31, 2020 | Deadline for filing income tax returns for trusts with a December 31, 2020 year end.

Filing due date for T5013 (Partnership Information Return) |

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