kurt.rosentreter@manulifesecurities.ca
416-628-5761 ext. 230

2016 FIRST QUARTER TAX PLANNING TIPS

NEW FEDERAL LIBERAL GOVERNMENT: Impact on Tax Rules?

On October 19, 2015, the Federal Liberal Party, led by Justin Trudeau, obtained a majority of the available seats, giving the required strength to more quickly pass bills and implement the party platform.

On December 7, 2015, the new Federal Liberal Government introduced a number of provisions in the Federal Liberal campaign platform including:

- Federal Personal Tax Rates – commencing January 1, 2016 the following two changes will take effect:
  - tax rate on incomes in excess of $200,000 will increase by 4%, from 29% to 33%,
  - tax rate on the 2nd income bracket (about $45K – $90K) will decrease by 1.5% from 22% to 20.5% (resulting in a maximum savings of about $670).

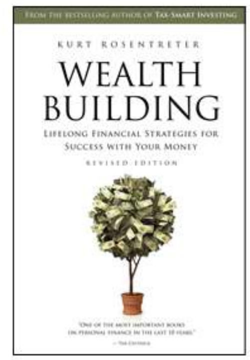
- The TFSA annual contribution limit for 2016 and onwards will be returned to $5,500 from the one-time $10,000 limit in 2015.

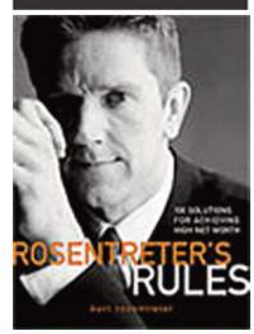
- The federal donation tax credit for donations in excess of $200 (made after 2015) will be increased to 33%, but only to the extent the individual has income subject to the new 33% personal tax rate (income over $200,000 for 2016). All taxpayers will still receive a 15% federal donation tax credit on the first $200 of gifts. Taxpayers who do not have earnings in the top tax bracket of 33% will receive a 29% federal donation tax credit on gifts in excess of $200, which is the same credit that was available in prior years.

  For example, consider a taxpayer that has an income of $225,000, and claims $60,000 of charitable donations. If the donations were made and claimed in 2016, the federal donation tax credit would be $18,732, whereas if the donations were claimed in 2015, the credit would be $17,372.

- Increase of 4% in general to the refundable tax incurred on investment income for Canadian Controlled Private Corporations. These changes will, in effect, eliminate a tax deferral opportunity which would have otherwise been created with the above 4% increase in top personal tax rates.

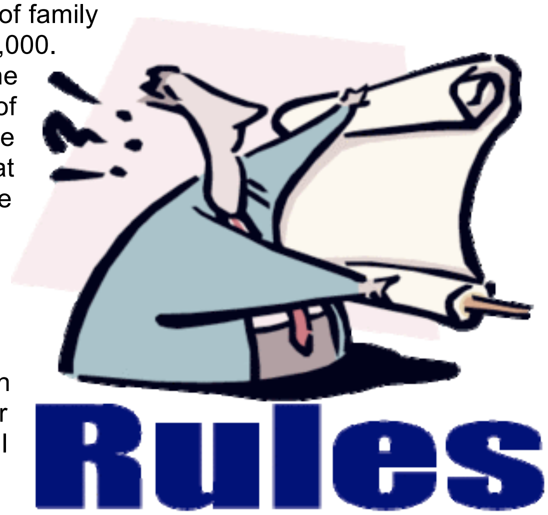
Beyond the above tax related changes which have already been introduced into legislation, the Federal Liberals have also proposed a significant number of other tax related changes in their party platform including:





- **Canada Child Benefit** – The Universal Child Care Tax Benefit, National Child Supplement, and Child Tax Benefit will be rolled into this new Benefit. A base amount of $6,400 per child under 6 and $5,400 per child aged 6 to 17 will be paid. The payments will be reduced based on a percentage of family income level. No reduction will occur for income below $30,000. Amounts will be non-taxable. Per the Liberal campaign materials, the break-even point compared to the previous regime is family income of $150,000. (i.e. Families under $150,000 should fare better under the Liberal platform and vice-versa.) The Benefit will be fully eroded at approximately $200,000, however, this will vary depending on the number and ages of children.

  The Federal Liberal Government announced on December 7, 2015 that this proposed program will begin July 1, 2016.



- **Family Tax Cut** – The Federal Liberal Government announced on December 7, 2015 their intention to eliminate the Family Tax Cut for 2016 and subsequent tax years. The pension income split will remain.
- **CPP Benefits** – Increases to benefits contemplated.
- **EI Premiums** – To be reduced from $1.88 to $1.65 per $100 by 2017. Increased availability and flexibility to be introduced.
- **RRIF** – The reduction to the minimum withdrawal rates to be maintained in accordance with the 2015 Budget.
- **Teacher and Early Childhood Educator School Supply Tax Credit** – The Federal Liberal party platform noted this proposed refundable credit is planned to be effective for 2015. That said, there has been no announcement by the Government as of January 6, 2016 to formalize this credit for the 2015 year. The credit is to be valued at a maximum of $1,000 x 15% = $150. It is uncertain whether receipts would be required or not.
- **Guaranteed Income Supplement** – The supplement is proposed to be increased by 10% for single, low-income seniors.
- **Northern Residents' Deduction** – The deduction is proposed to be increased by approximately 1/3rd and indexed annually for inflation. The amount available for those living in the Intermediate Zone will increase by the same proportion.
- **Home Buyers' Program** – Flexibility to be increased for those that have experienced sudden and significant life changes (e.g. job relocation, death of a spouse, marital breakdown etc.).
- **Deduction for Stock Options** – Consideration has been given to a cap on the 50% deduction, however, the first $100,000 annually would still qualify. According to the Minister of Finance, the changes will not impact stock options already in effect.
- **Labour-Sponsored Venture Capital Corporation Tax Credit** – To be reinstated. Under the Harper Government this Credit was scheduled to be phased out by 2017.
- **Education and Textbook Credits** – To be cancelled in favour of increasing student grants. The Tuition Credit will remain.

NEW – HOME ACCESSIBILITY TAX CREDIT: Renovations that Pay Off!

This new non-refundable credit will provide federal tax relief of 15% on up to $10,000 of eligible expenditures per calendar year, per qualifying individual (a person 65 years of age or older at the end of the particular taxation year or a person eligible for the Disability Tax Credit). If there is more than one eligible individual in a residence, the maximum eligible expenditure for that property will be $10,000.

A qualifying renovation 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.

The credit is eligible for expenditures after 2015. This credit may be compounded with the similar provincial credits offered in BC, Ontario, and New Brunswick.

CAREGIVERS FROM OVERSEAS: Child Care Expenses

In an August 14, 2015 Technical Interpretation, CRA noted that costs incurred to hire a child care worker would be eligible child care expenses. Such costs include fees to an immigration lawyer and to Service Canada to obtain a labour market opinion, advertising expenses, placement agency fees, and mandatory registration fees.

CRA PROJECT: Small business Deduction

The accounting community across Canada has recently noted a series of correspondence from CRA requesting details of corporate businesses operations in connection with a review of the small business deduction claim for some clients. If a business is determined to be a Personal Services Business (PSB) or a Specified Investment Business (SIB), the small business deduction is denied, and additional taxes are applied. A PSB is often referred to as an "incorporated employee". Basically, it exists where an individual provides employee-like services through a closely held corporation, rather than providing them directly as an employee. Generally, a corporation earning investment income (interest, real estate rental, royalties, capital gains and dividends) is generating SIB income.

Many of these letters appear directed to corporations in the real estate sector like real estate agents and those earning rental income. It has also been noted that letters have begun to be issued in respect of other sectors as well.

CRA SELECTION FOR AUDIT: Why Me?

CRA audits are now generally selected by CRA's Business Intelligence Units. Selection for audit usually means that CRA has already identified the taxpayer as being at higher risk of non-compliance. For example, this could mean that your business falls within a CRA target area, or, perhaps, that you are claiming a credit in which CRA has historically found high levels of non-compliance. At a recent forum, CRA indicated that since the implementation of their focus on higher risk taxpayers, 33% of audits have discovered unreported income.

HOW KURT AND TEAM CAN HELP YOU WITH TAXES

- **Oversee annual tax return preparation**
- **Thorough personal and business tax planning opportunity reviews**
- **Implementing life insurance to cover taxes at death**
- **Tax smart portfolio investment strategies**
- **Small business advanced tax planning**
- **Tax effective design of retirement cash flows**
- **Tax wise Will design**

The Wealth Management Practice of Kurt Rosentreter Kurt Rosentreter, CPA, CA, CFP, CLU, TEP, FMA, CIMA, FSCI, CIM
Senior Financial Advisor, Manulife Securities Incorporated
Certified Financial Planner, Manulife Securities Insurance Inc.

T: 416-628-5761 ext. 230 F: 416-225-8650
TF: 1-866-275-5878 (1-866-ASK-KURT)
kurt.rosentreter@manulifesecurities.ca www.kurtismycfo.com