# Planning**Matters**

Leith Wheeler INVESTMENT COUNSEL LTD.

Quiet Money.

**Contributing Writer:**
David J.A. Badalucco, CPA, CA
Senior Tax Manager

**Editor:**
Andrew Hoffman, CFA
Vice President, Portfolio Manager

Download previous newsletters at:
**LeithWheeler.com**

WINTER **2016** EDITION

## "Justin" Time For Tax Time

**On December 7, 2015, Justin Trudeau's Liberal government brought forward a motion to the House of Commons with the government's plan to:**

1. **Lower personal income tax for the middle class, while raising it for the highest income earners;**
2. **Reverse the conservative government's increase to the Tax-Free Savings Account;**
3. **Repeal income splitting for families with children.**

So what do these changes mean for you and what, if anything, can you do to work with or around them?

### Personal Income Tax Changes

The government announced a reduction to the second personal federal income tax bracket from 22% to 20.5%. Specifically, all taxpayers with taxable income in 2016 over $45,282 will benefit from a 1.5% reduction in the federal tax rate on income between $45,282 and $90,563, for a maximum savings of $680. Offsetting this for higher income earners, a new federal tax rate will be introduced on income over $200,000 that will increase the top rate from 29% to 33%. Both of these rate changes will be effective for 2016.

Below is a comparison of the BC, Alberta and Ontario top personal tax rates in 2015 with the newly announced 2016 rate (assuming the BC temporary rate and tax bracket will be rescinded in 2016 as originally planned):

| 2015 | Top Personal Rate | 2016 | Top Personal Rate |
|---|---|---|---|
| **BC** | 45.80% | **BC** | 47.70% |
| **AB** | 40.25% | **AB** | 48.00% |
| **ON** | 49.53% | **ON** | 53.53% |

The combined top marginal tax rates on different sources of income for individuals in 2016 for BC, Alberta and Ontario will be as follows:

| | Interest and Employment | Capital Gains | Eligible Dividends | Non-Eligible Dividends |
|---|---|---|---|---|
| **BC (>$200k)** | 47.70% | 23.85% | 31.30% | 40.61% |
| **AB ($200k to $300k)** | 47.00% | 23.50% | 30.33% | 39.08% |
| **AB (>$300k)** | 48.00% | 24.00% | 31.71% | 40.25% |
| **ON (>$220k)** | 53.53% | 26.76% | 39.34% | 45.30% |

In conjunction with the introduction of the new 33% top personal income tax rate, the government also announced several other changes impacting a number of existing tax rules. These additional changes will all be effective for 2016:

- Trusts - The tax rate applicable to trusts (other than qualified disability trusts) and estates (other than graduated rate estates) will be the new top federal personal tax rate of 33%;

- "Kiddie tax" - Under the existing rules, certain "split income" paid or payable to a minor child is taxed at the highest federal personal income tax rate. A minor child to whom the "kiddie tax" applies will be taxed at the new rate of 33%. Generally, split income would include taxable dividends received either directly or indirectly in respect of certain unlisted shares, capital gains from the disposition of such shares to persons not dealing at arm's length with the minor, as well as certain types of trust or partnership income;

- Charitable Donations - A new tax credit of 33% will apply to charitable gifts in excess of $200 but only where the taxpayer has taxable income that is subject to the new 33% tax rate;

- Investment Income of Private Corporations will be subject to the following tax rate increases effective January 1, 2016:

    - Refundable Part I surtax from 6.67% to 10.67%;
    - Refundable Part IV tax on portfolio dividends received from 33.33% to 38.33%;
    - Refundable portion of Part I tax from 26.67% to 30.67%;
    - Dividend refund rate of Refundable Dividend Tax on Hand ("RDTOH") from 33.33% to 38.33% of dividends paid.

## Personal Tax Planning Tips:

The rate changes most likely will result in your tax bill increasing if you earn more than $200,000 annually. Although some of the strategies of shifting 2016 income into 2015 may be too late to take advantage of, the following list of possible actions could potentially still work:

1. Declare a bonus or pay out a dividend from a privately held corporation prior to the end of the 2015 year;
2. Consider carrying forward your 2015 RRSP contributions and claiming the deductions in 2016;
3. Defer claiming any discretionary business deductions such as Capital Cost Allowance and certain tax reserves;
4. Consider if a shareholder loan should be taken into income in 2015 and then a repayment and related deduction taken in 2016 or subsequent tax year;
5. Choose to pay taxable dividends over capital dividends for 2015.

Careful consideration must be given to the proposed corporate tax changes, as they may complicate the evaluation of income shifting strategies noted above. **You should consult with your tax advisor as soon as possible to determine if any of the above-noted strategies would provide tax savings.**

## Tax Free Savings Account (TFSA)

In 2015, the former Conservative government increased the TFSA annual contribution limit from $5,500 to $10,000. As promised in the Liberal's election platform, the new government has moved forward with its motion to reverse that increase. The TFSA annual contribution limit will be $5,500 for 2016, and will be indexed to inflation in subsequent years.

### Personal Tax Planning Tips:

1. The TFSA annual contribution limit for 2015 remains at $10,000 so you may still take advantage of this room if you have not already done so;
2. Contributing to a TFSA makes sense for individuals that have sufficient resources to maximize contributions to all available types of registered savings plans (RSP). Since a large number of individuals are not in a position to do this, a choice must be made among the available alternatives.

In comparing RSP and TFSA alternatives, the most significant differences are as follows:

- Contributions to an RSP are tax deductible while contributions to a TFSA are not, which means TFSA's are funded with after-tax dollars;
- Withdrawals from an RRSP are taxed as income while withdrawals from a TFSA are not. As a result, TFSA withdrawals do not affect the Old Age Security (OAS)/ Employment Insurance (EI) clawback or government benefits such as the Goods and Services Tax (GST) credit.

## Income Splitting for Families

The Family Tax Cut measure effectively allowed an amount of income to be transferred from a high income spouse to a low income spouse resulting in a reduction of taxes of up to $2,000. For 2016, this measure will be cancelled.

### Personal Tax Planning Tips:

Prior to the introduction of the Family Tax Cut, several provisions in the Income Tax Act provided some relief and these are still available:

1. The use of a spousal RRSP provides a limited amount of income splitting.  However, splitting here is limited to the annual maximum contribution ($24,930 for 2015 and $25,370 for 2016). Unlike the pension income splitting provision which is only available to couples who have eligible pension income, a spousal RRSP is an income splitting plan that is available to all couples. In situations where one spouse or common-law partner is likely to have either no retirement income or a significantly lower amount, having the spouse or common-law partner with the higher expected retirement income make contributions to a plan in which the spouse or common-law partner is the registrant will generally result in the withdrawals from the plan being taxed at lower rates;
2. This repeal will not change the current legislation allowing couples to split pension income. In general, most types of pension income other than OAS and CPP can be split for those 65 and over. However, lump sum payments from Registered Pension Plans or lump sum withdrawals from Registered Retirement Savings Plans do not qualify for the splitting provision.

There are other more sophisticated and complex techniques that implement income splitting through the use of corporations, partnerships and trusts. **You should consult with your tax advisor as soon as possible to determine if any of the above-noted strategies would provide tax savings.**

## About the Author:

**David J.A. Badalucco** , CPA, CA
Senior Tax Manager

David Badalucco received his chartered accountant designation in 2007 and joined Rolfe, Benson LLP in 2015, bringing over 10 years of tax experience to the firm. David offers advice to clients on corporate income tax and commodity tax matters with a focus on corporate reorganizations and Canadian tax issues relating to international and cross-border transactions. David's work also encompasses personal income tax planning for Canadian and foreign clients, including estate freezes, the establishment, operation and reorganization of estate planning structures, and business and wealth succession planning. David has extensive experience with tax compliance and resolving disputes at the audit and appeals levels within the Canada Revenue Agency.

604.694.7409
DBadalucco@rolfebenson.com



WINTER **2016** EDITION

LeithWheeler.com

**Vancouver Office**
Suite 1500
400 Burrard Street
Vancouver, British Columbia
V6C 3A6
Tel: 604.683.3391
Fax: 604.683.0323

**Calgary Office**
Suite 570
1100 1st Street SE
Calgary, Alberta
T2G 1B1
Tel: 403.648.4846
Fax: 403.648.4862

**Toronto Office**
Suite 1801
145 King Street W
Toronto, Ontario
M5H 1J8
Tel: 416.646.8240
Fax: 416.646.8249

Leith Wheeler
INVESTMENT COUNSEL LTD.
Quiet Money.