



Income Tax Update and Year End Tax Planning

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November 23, 2009



Topics for Discussion

- Tax Brackets – 2009 vs. 2010
- Tax-Free Savings Account (TFSA)
- Tax Loss Selling
- Home Renovation Tax Credit
- Tax Effective Gifting to Charities

Tax Brackets and Rates – 2009

Federal Personal Tax Brackets	
	\$0 - \$40,726
	\$40,727 - \$81,452
	\$81,453 - \$126,264
	\$126,265 and over

Top marginal tax rates for 2009	
Salary/wages/interest income	46.41%
Eligible dividends	23.06%
Non-eligible dividends	31.34%
Capital gains	23.20%

Tax Brackets and Rates – 2010 (Anticipated)

Federal Personal Tax Brackets
\$0 - \$40,970
\$40,971 - \$81,941
\$81,942 - \$127,021
\$127,022 and over

Top marginal tax rates for 2010	
Salary/wages/interest income	46.41%
Eligible dividends	26.57%
Non-eligible dividends	32.57%
Capital gains	23.20%

Tax-Free Savings Account



Overview

- Introduced in 2008 budget, the Tax-Free Savings Account (TFSA) is a new saving vehicle starting January 1, 2009.
- Canadian residents 18 and older will be able to contribute up to \$5,000 to a TFSA each year. As with registered retirement savings plans (RRSPs), investment income will accumulate tax-free in the account.
- Unlike RRSPs, the TFSA is a tax-prepaid mechanism: contributions to a TFSA won't be deductible, but withdrawals will be tax-exempt.
- As a result, the investment income that accumulates within a TFSA is never taxed, whereas tax is merely deferred with the RRSP.
- Generally speaking, investments held within a TFSA are the same as those allowed in RRSPs. And as with RRSP fees, any fees paid with respect to a TFSA will be non-deductible.

Overview

- No upper age limit for contributions; contribution limit not based on earned income but is rather universal for all Canadians aged 18 and over.
- Contributions can be made to taxpayer's spouse's TFSA without affecting taxpayer's own contribution room. As no attribution rules are applicable, TFSA can be used to split income between a couple or within a family.
- In contrast with RRSPs, withdrawals will be allowed at any time and contribution room will not be lost upon withdrawal.
- Will allow taxpayer to cash out accumulated gains without impact on income and to contribute again to replace investments at any time (starting in the calendar year after the year of withdrawal).
- Legislative proposal containing TFSA measure has been enacted; Ontario, Quebec and Alberta have announced they will recognize TFSAs for provincial tax purposes.

Taxpayers who will benefit

- From a tax perspective, TFSAs appear to be particularly beneficial for several taxpayer profiles:
 - **Individuals with surplus cash flow and no RRSP contribution room:** even though limited to \$5,000 per year, a contribution to TFSA offers alternative to a non-registered taxable investment account.
 - **Individuals with current low marginal tax rates:** people with reduced income who expect to be in a higher tax bracket in the future (e.g., those on maternity/paternity leave) are generally better off contributing to a TFSA and preserving RRSP contribution room for when their marginal tax rate increases.
 - **Individuals with income tested benefits:** as neither withdrawals from a TFSA nor income earned within are included in net income calculation, this vehicle is a great tool for individuals who receive income tested benefits (e.g., child tax benefit, GST credit, guaranteed income supplement or old-age security).

Taxpayer who will benefit

- **Younger individuals:** liquidity of TFSAs is a great alternative for younger individuals who may not want to restrict access to their money at a period when their need for funds is often greatest (e.g., to establish a career, buy a house or raise young children).
- **Seniors:** as there is no age limit for TFSA contributions, seniors will have access to non-taxable investment income well after the RRSP age limit of 71. That TFSA contribution rights are not based on earned income is also a big advantage for seniors, who may retire before 71 and therefore be unable to contribute to RRSPs.

Tax Loss Selling



Tax Loss Selling

Is this strategy for you?

- Have you had capital gains in the last three years?
- What tax bracket were you in?
- Do you expect to be in a higher bracket in the future?

Tax Loss Selling - Points of Interest

Superficial Losses

- Selling and then buying back an identical investment within 30 days will disallow the loss realized on the initial sale and add the loss to the cost base of the reinvestment

Do you have a loss?

- A loss occurs when you sell an asset for less than you purchased it for
- Even if the value of the investment has dropped substantially, it is your original cost which matters

For foreign securities, watch exchange rates

- Losses may be larger, smaller or may actually be a gain

Home Renovation Tax Credit



Home Renovation Tax Credit

- **Maximum**

- \$10,000 in eligible expenses

- **Minimum**

- First \$1,000 is excluded from the calculation

- **Maximum Claim**

- $(\$10,000 - 1,000) \times 15\%$

- \$1,350

Home Renovation Tax Credit

Facts:

- Family based
 - One claim per family including spouse/common law partner and children over 18.
- If two families share a dwelling
 - Each family can claim their own credit, each up to \$1,350 maximum.

Two Key Criteria

Eligible Dwelling

- You must own it
- Normally live in it at some point throughout the year
- If you own a cottage and a house
 - eligible expenses incurred for both properties will generally be eligible to a maximum of \$10,000 of expenses and \$1,350 tax credit

Eligible Expenses

- “incurred in relation to a renovation or alteration to an eligible dwelling”
- Generally must be permanent and integral to the dwelling

Examples of Eligible Expenses

- Windows and doors
- New flooring - carpet, linoleum, hardwood, floating laminate, etc.
- Electrical wiring in the home (e.g., changing from 100 amp to 200 amp service)
- Home security system (monthly fees do not qualify)
- Painting the interior or exterior of a house
- A new driveway or resurfacing a driveway
- Permanent hot tub and installation costs
- Landscaping: new sod, perennial shrubs and flowers, trees, large rocks, permanent garden lighting, permanent water fountain, permanent ponds, large permanent garden ornaments
- Associated costs such as installation, building plans, permits, professional services, equipment rentals, and incidental expenses
- Fixtures - blinds, shades, shutters, lights, ceiling fans, etc.

Examples of Ineligible Expenses

- Furniture, household appliances, and electronic home-entertainment devices
- Purchasing of tools
- Carpet cleaning
- House cleaning
- Maintenance contracts (e.g., furnace cleaning, snow removal, lawn care, and pool cleaning)
- Financing costs
- Amount paid as part of the purchase of your new house, including “upgrades”
- Expenses to acquire goods that have been previously used or leased by you or an eligible family member (e.g., hot water tank)
- Expenses incurred to the rental and/or business part of an eligible dwelling

Who performs the work

If you perform the work yourself

- The eligible expenses include expenses for building materials, fixtures, equipment rentals, building plans and permits. However, eligible expenses would not include the value of your labour or tools.

If a family member does the work

- Must have a GST number to claim an expense for goods and services they provide

Acceptable Documentation

- Must include:
 - Vendor's name, business address and GST business number (if applicable)
 - Description of work, including address of where the work was performed
 - Date
 - Proof of payment

Tax Effective Gifting to Charities



Minimize tax while maximizing charitable gift

Tax Benefit / Background

- Previously, donations of securities with accrued gains would trigger a reduced capital gains tax but new rules enacted in 2008 allow you to support your favourite charity without triggering tax on the inherent gain
- Requires a direct donation of qualifying securities as opposed to selling securities and donating cash
- Only certain stocks, bonds, mutual funds, warrants and some derivatives qualify for this special tax treatment

Comparison – Gifting Securities and Gifting Cash Proceeds

Key Assumptions:

FMV of Securities	\$10,000
Tax Cost of Securities	\$ 4,000
Accumulated Gain	\$ 6,000
Estimated Capital Gains Tax @ 23.2%	\$ 696

Top rate individual - Ontario resident

	Gifting Cash Proceeds from Sale of Securities	Gifting Securities Directly
Amount of Donation	\$10,000	\$10,000
Donation Tax Credit	(\$ 4,600)	(\$ 4,600)
Tax on Capital Gain	\$ 696	\$ 0
Net Cost of Donation	\$ 6,096	\$ 5,400

Minimize tax while maximizing charitable gift using flow through securities

Facts

- Tax deduction to individual of \$20,000
- Inherent capital gain of \$20,000 on security due to mechanism allowing full deduction of purchase price (FMV ~ \$20,000, ACB \$Nil)
- Taxable capital gain is nil if donated to registered charity (end of two year period)
- Top rate individual – Ontario resident

Cost of Donation

Cash Cost of Acquiring Security	\$ 20,000
Tax Savings on Flow through Deduction	(9,200)
Tax Savings on Donation at FMV	<u>(9,200)</u>
Net Cost of Donation	<u>\$ 1,600</u>

Questions?



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