2017 Year-end tax planning reminders

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As we approach the end of 2017, it's a good time to review one's personal financial objectives, current and proposed tax changes, and deadlines. This is especially true for those with private corporations due to the Department of Finance's summer announcement of tax proposals targeting tax planning using private corporations, which may come into effect in 2018. There is a sense of urgency concerning these changes and how to best address them before 2018. Furthermore, there are other tax planning opportunities and deadlines that can be considered on an ongoing basis.

Important upcoming dates

The following are some of the important dates to keep in mind through the remainder of the year and heading into 2018.

December 27, 2017	Last trading day to settle a trade in 2017
December 31, 2017	Payment deadline for many tax deductions and credits (i.e. charitable donations)
January 30, 2018	Interest payment dead-line on income splitting prescribed rate loans (i.e. spousal loans)
March 1, 2018	Deadline for 2017 RRSP contributions
April 30, 2018	Personal Canadian tax return deadline

Tax changes affecting the 2017 tax return

Personal tax credits

Public transit tax credit

Currently, a federal non-refundable tax credit is available where an individual uses public transportation. For transit usage after June 30, 2017, this credit is no longer available.

Canada caregiver tax credit

A new Canada Caregiver Credit will replace the outgoing Infirm Dependant Credit, Caregiver Credit, and Family Caregiver Tax Credit. The Canada Caregiver Credit will not require the dependant to live with the caregiver, and will increase the income threshold for the dependant at which the credit begins to be phased-out. This new credit will be available for 2017 and subsequent taxation years.

Since the phased-out on the Canada Caregiver Tax Credit is based on the family income assessed on income tax returns, individuals should make sure to file returns in a timely manner to ensure that there is no delay in receiving benefits.

Tuition tax credit

The range of courses qualifying for the Tuition Tax Credit will be expanded to include occupational skills courses that previously may not have qualified for the credit. These changes will be effective as of the 2017 taxation year.

Medical expense tax credit

The application of the Medical Expense

Tax Credit is clarified so that individuals who require medical intervention in order to conceive a child (for example, single individuals and same-sex couples) are eligible to claim the same expenses that would be eligible for individuals on account of medical infertility. These changes will be effective for 2017 and subsequent taxation years.

Disability tax credit

Nurse practitioners are added to the list of medical practitioners who can certify application forms for individuals who are applying for the Disability Tax Credit. This change will be effective for Disability Tax Credit certifications made on or after March 22, 2017.

Individuals should consider the impact of these changes in the process of budgeting their cash-flow.

Tax proposals for private corporations

On July 18, 2017, Finance Minister Bill Morneau released a consultation paper and draft legislation to address certain tax planning opportunities involving private corporations. Later in the year, the Government confirmed their intention to continue with the development of proposals relating to income sprinkling with family members and holding passive investments within a private corporation.

Income sprinkling with family members

The Government announced their intention to simplify the proposed measures relating to income sprinkling with family members. Individuals with family members who are shareholders of their private corporation may consider paying the family additional dividends in 2017 before the new rules come into effect in 2018. The rules refer to a new "reasonableness" test on the dividend income distributed to the family member and income that does not meet this test will be taxed at the top marginal tax rate.

Holding passive investments within a private corporation

The Government proposed to introduce new measures to eliminate the tax-deferral advantage of earning passive investment income within a private corporation. These measures will not apply to the first $50,000 of annual passive investment income accrued by a private corporation. In addition, any past investments and income earned from those investments will be "protected". The new measures will be effective in 2018 on a "go-forward basis", however, further details on the new rules will likely be released in the 2018 federal budget.

Although details of the revised proposals may not be available for some time and there is still a great deal of uncertainty, clients with private corporations should consult with their tax advisors to discuss the potential impact on their personal tax situations.

Decrease in federal tax rate

In a surprise announcement, the Department of Finance also presented plans to reduce the Federal tax rate on small business income from 10.5% to 9% by 2019.

Other year-end tax planning opportunities

Tax loss selling

In the process of rebalancing one's portfolio, it may be beneficial to sell investments with accrued losses before year-end in order to offset any capital gains realized in the year. It's important to keep in mind that settlement of trades must occur in 2017 for realized losses to be captured, therefore, the latest trade date to realize losses in the 2017 taxation year will be December 27th. Any capital losses that aren't used in 2017 can be carried back 3 years or carried forward indefinitely to offset capital gains in other years.

It is also important to ensure that identical securities are not repurchased within 30 days before or after the sale. If this is the case, the loss may be considered a "superficial loss" and denied.

Individuals should speak with their Scotia Wealth Management advisor to determine if this strategy may be beneficial for them.

Income splitting loans

Where one spouse pays tax at a high rate and the other earns little or no income, a relatively simple method to achieve tax savings involves a loan from the high-income earning spouse to the other. The loaned funds are then used by the lower-income earning spouse to purchase investments. Where the loan bears interest at a prescribed rate (currently 1%), income attribution rules should not apply, and therefore investment income, net of the 1% interest expense, can be taxed at lower marginal rates in the low-income spouse's hands.

These types of income splitting loan arrangements can work with other family members as well, such as a trust for the benefit of minor children. For individuals that have previously finalized income splitting loan arrangements with family members, one very important reminder is that the interest payable on these types of income splitting loans must be paid annually within 30 days after year-end. A single late payment can taint the loan and cause the attribution rules to apply for not only that year, but also to all subsequent years, taxing the income in the hands of the lending person as if they earned it themselves.

Charitable donations

The top federal donation credit is 33%, applicable to donations over $200 and limited to the amount of income which was taxed at the 33% rate. The eligible amount of donations can be claimed is limited to 75% of net income.

An additional philanthropic consideration involves shares of publicly traded corporations. Where individuals hold public company shares with large accrued gains, a donation of these investments, in-kind, will not only provide a donation credit based on the fair market value of the shares, but will also avoid taxation on the accrued gains.

Individuals may qualify to claim the First-time donor's super credit one last time in 2017 if they or their spouse are a first-time charitable donor. This credit provides an additional 25% credit on up to $1,000 of donations for any donations made after March 20, 2013.

Where an individual has income over $200,000, they might consider making donations in order to take advantage of the 33% donation credit. Where applicable, one should consider in-kind donations of public company shares with accrued gains.

Summary

This article is only a reminder of the general year-end tax considerations and deadlines. Each individual's situation is unique and any general tax planning opportunity may not benefit every person. **A tax advisor should always be consulted before implementing any tax strategies.**

Overview of 2017 personal tax rates

(Top Marginal Tax Rates)

Provinces	Other Income	Capital Gains	Eligible Dividends	Non-Eligible Dividends
Alberta	48.00%	24.00%	31.71%	41.29%
British Columbia	47.70%	23.85%	31.30%	40.95%
Manitoba	50.40%	25.20%	37.78%	45.74%
New Brunswick	53.30%	26.65%	33.51%	46.25%
Newfoundland & Labrador	51.30%	25.65%	42.61%	43.62%
Nova Scotia	54.00%	27.00%	41.58%	46.97%
Ontario	53.53%	26.76%	39.34%	45.30%
Quebec	53.31%	26.65%	39.83%	43.84%
Prince Edward Island	51.37%	25.69%	42.61%	43.62%
Saskatchewan	47.75%	23.88%	30.33%	39.62%