



# TaxNewsFlash Canada

## 2016 Year-End Personal Tax Planning Tips

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As another year draws to a close, now is a good time to take stock and consider ways to improve your tax position for 2016. The top federal tax rate has gone up from 29% to 33% and if you are in the top tax bracket, you should bear in mind that while 2016 tax rates are higher than in previous years, the flip side is that tax deductions can be more valuable. Similarly, the value of charitable donation tax credits have also increased for 2016, (see KPMG's *TaxNewsFlash-Canada* 2016-48, "[Making the Most of Your Charitable Gifts for 2016](#)" for more about tax savings on donations to charities). If you pay tax at the new top marginal tax rate, you may qualify for a 33% federal charitable donation tax credit—or up to a 54% combined federal and provincial credit, depending on your province of residence.

To assist you in assessing your tax situation for 2016, KPMG has prepared this checklist that you can use to help ensure that you are making the most of your potential tax savings this year. Use this document to review your investments, family tax situation, retirement and estate planning, and to remember key CRA deadlines that must be met to realize 2016 tax savings. Although these tips can be helpful at year-end and when you file your tax return, don't forget to consider effective tax planning all year round.

If you sold your principal residence in 2016, due to recently announced changes you will now have to report information related to that sale on your personal income tax return, even if that gain is fully exempt on your principal residence. Starting in 2016, if you fail to report the sale of your principal residence on your income tax return (as required) you will not be entitled to the principal residence exemption on any capital gain (see KPMG's *TaxNewsFlash-Canada* 2016-46, "[Finance Tightens Principal Residence Exemption](#)").

For more details on these opportunities, as well as other tax planning ideas, see KPMG's *Tax Planning for You and Your Family*. The 2017 edition will be available soon in bookstores across Canada, or directly from Carswell at 1-800-387-5381.

See the appendix on the last page for a list of the 2016 top marginal income tax rates for individuals in each province.

## Your Investments

### Do you have unrealized capital losses?

If you own investments with unrealized capital losses, consider selling them before year-end to realize the loss and apply it against any net capital gains you have realized during the year or in the three prior years. Make sure you don't run afoul of special tax rules designed to stop the artificial creation of tax losses (e.g., the superficial loss rules). If you intend to do any last-minute 2016 trades, consider completing all trades before December 23, 2016 and be sure to confirm the settlement date with your broker (see section 6.2.2 of *Tax Planning for You and Your Family 2017* for more on capital losses).

### Have you maximized your TFSA contribution yet?

You can contribute up to \$5,500 to a TFSA for 2016, as long as you are 18 or older and resident in Canada (remember that this is a decrease from the \$10,000 TFSA limit that was available in 2015). If you have not made any TFSA contributions in previous years, you may be able to contribute a total of \$46,500.

### Do you have investments in mutual fund corporations?

If you own investments in mutual fund corporations, now is a good time to review your investment portfolio and make adjustments to your investments. Currently, investors can exchange shares of one class of a mutual fund corporation for another class of the same mutual fund corporation, with no taxable gain being realized on the switch transaction. Starting January 1, 2017, the exchange of shares of a mutual fund corporation that results in the investor switching between classes will generally be considered a disposition at fair market value for tax purposes. As such, any capital gain realized will be taxable.

## Family Tax Considerations

### Have you thought about family income splitting?

The CRA's low prescribed interest rate offers a great opportunity to enter into income-splitting loan arrangements with family members or a family trust. By locking in a family loan at the 1% rate before the first quarter of 2017, and by having the family member invest the borrowed funds at a higher rate of return, you can transfer future investment income earned on the funds to your spouse or another family member who has little or no other income and thus pays little or no tax. If properly implemented, you can effectively arrange for all investment income earned over 1% to be taxed at the lower-income-earning family member's tax rate while the loan is outstanding (see chapter 5 of *Tax Planning for You and Your Family 2017* for more on family income splitting). With the increase to the top marginal tax rates for 2016, the benefits of family income splitting are even more valuable to you.

### Can you benefit from the New Canada Child Benefit?

The Child Benefit is based on family income in the preceding year, so make sure that you and your spouse or common law partner have filed your tax returns for 2015 so that the CRA can determine whether you qualify for the benefit for the July 2016 to July 2017 period. To continue receiving the benefit, you must file your income tax returns every year. Even higher income earners may qualify for some Canada Child Benefit payments, depending on how many children you are raising and depending on your adjusted family net income. For example, a family with an adjusted net income of \$170,000 and three children ages 7-17 may be entitled to a \$1,150 benefit.

### Moving to a new province?

Are you planning to move to another province at the end of the year? If so, remember that your province of residence on December 31, 2016 will generally be the province that you pay your taxes to for all of 2016. If you're moving to a higher-tax province, you may want to delay your move until the new year, if possible. If you're moving to a lower-tax province, you may want to take up residence there by December 31, 2016, if practical. (See chapter 13 of *Tax Planning for You and Your Family 2017* for more on the tax implications of moving and check out the appendix to see the difference in top marginal tax rates between provinces.)

If you are planning on selling your primary residence this year, remember to save your documents so that you can report information related to the sale on your

personal income tax return and be eligible for the principal residence exemption on any capital gain from the sale.

## Retirement and Estate Planning

### Have you maximized your RRSP contributions?

Three factors limit the amount you can contribute to an RRSP: a dollar limit (\$25,370 for 2016 and \$26,010 for 2017); a percentage of the previous year's "earned income" (18%); and your pension adjustment, which represents the notional value of pension contributions made by you and your employer in the year. You have until March 1, 2017 to make your 2016 RRSP contribution.

Deducting your RRSP contribution when computing your taxable income reduces your after-tax cost of making that RRSP contribution. For example, if the top marginal tax rate applies to you, and you are a resident of Nova Scotia (where the top marginal tax rate is 54%), a \$100 RRSP contribution only costs you \$46 after tax savings.

If you did not deduct your 2015 RRSP contribution last year (in order to take advantage of the deduction at higher tax rates for 2016) remember to consider deducting that amount this year when filing your 2016 personal tax return.

### Is it time to wind up your RRSP?

If you turn 71 and must wind up your RRSP in 2016, remember that you only have until December 31, 2016 (and not March 1, 2017) to make a contribution to your RRSP for 2016 (see section 20.4 of *Tax Planning for You and Your Family 2017* for more on maturing your RRSP).

## Key Tax Deadlines and Administrative Considerations

### Can you reduce the taxable benefit for your company car?

If you drive an automobile owned or leased by your employer, your taxable benefit for your use of the car may be reduced for 2016. The taxable benefit consists of two elements: the standby charge and the operating cost benefit. The stand-by charge is based on the cost of the automobile (or leasing cost, if it is leased) to your employer. If certain conditions are met, your employer can reduce your standby charge by a percentage equal to your personal-use kilometres driven divided by 20,000 km (assuming the car was available to you for the full 12 months). The standby charge may be reduced by any reimbursement you make in 2016 for your use of the car other than reimbursements of operating costs. If you think you may qualify for a reduced stand-by charge, be sure to contact your employer to discuss these

opportunities well before your employer issues T4 slips for 2016 at the end of February 2017.

The taxable benefit for operating costs is 26¢ per kilometre of personal use for 2016. If your employer pays any operating costs during the year for your personal use of an employer-provided car and you don't fully reimburse your employer by the following February 14, the 26¢ rate applies (less any partial reimbursement that you pay your employer by this date). If you are impacted by this, make sure you remember to act before the February 14, 2017 deadline. (For more planning ideas for using a company-owned car, see section 12.2 of *Tax Planning for You and Your Family 2017*.)

□ **Are you meeting the CRA deadlines for 2016 savings?**

If you plan to make payments that may be eligible for tax deductions or credits on your 2016 income tax return, keep in mind that you'll need to make many of these payments by December 31, 2016. Other payments due during the first 60 days of 2017 may also be eligible for 2016 tax savings.

See below for a list of important deadlines to keep in mind as you review your tax position for the year.

***Payments due by December 31, 2016***

- Charitable gifts
- Medical expenses
- Union and professional membership dues
- Investment counsel fees, interest and other investment expenses
- Certain child and spousal support payments
- Political contributions
- Deductible legal fees
- Interest on student loans
- Contributions to your RRSP if you turned 71 during 2016 (you will also have to wind up your RRSP by this date)

***Payments due by January 30, 2017***

- Interest owed on intra-family loans
- Interest payable by you on loans from your employer, to reduce your taxable benefit

***Payments due by February 14, 2017***

- Reimbursement of personal car expenses to your employer to reduce your taxable operating benefit from an employer-provided automobile

***Payments due by March 1, 2017***

- Deductible contributions to your own RRSP or a spousal RRSP
- Contributions to federal or provincial labour-sponsored venture capital corporations
- RRSP repayments under a Home Buyers' Plan or a Lifelong Learning Plan.

**Have you paid your personal tax instalments?**

If you are required to pay 2016 personal tax instalments, remember that your final instalment must be paid by December 15, 2016 to avoid interest and penalty charges. If you're behind on your 2016 instalments, you may be able to reduce or eliminate non-deductible interest and penalties by making a "catch-up" and advance payment now (as soon as possible but before December 15). If you make an extra or early instalment payment, the "contra-interest" rules will apply to offset some or all of the non-deductible interest that will otherwise be assessed (see section 9.2.2 of *Tax Planning for You and Your Family 2017* for more on paying instalments).

**We can help**

Tax planning should be an important part of your efforts to get the most out of your financial resources. Though you only have to file your tax return once a year, it's the tax planning steps you take throughout the year that will help you save money at tax time.

Your KPMG adviser can help you review your personal or business tax situation and determine what steps you can take before the year-end and early in the new year to help you with the taxes you'll pay for 2016.

For details, contact your KPMG adviser.

## Appendix

### Combined Federal and Provincial Top Marginal Tax Rates for Individuals – 2016<sup>a</sup>

Province	Top Rate on Regular Income
British Columbia	47.7%
Alberta <sup>b</sup>	48.00
Saskatchewan	48.00
Manitoba	50.40
Ontario <sup>c</sup>	53.53
Quebec	53.31
New Brunswick	53.30
Nova Scotia	54.00
Prince Edward Island	51.37
Newfoundland	49.80

- a) The combined top marginal rate is the rate an individual will pay on income that falls into the top federal tax bracket of income over \$200,000.
- b) This rate applies to Alberta's top tax bracket of income over \$300,000.
- c) This rate applies to Ontario's top tax bracket of income over \$220,000.

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