Tax & Estate matters

Last 10 tax tips for 2013

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With a new year just around the corner, it's time once again to present you with our year-end tax planning checklist. These tips are generally time-sensitive matters that need to be addressed before calendar year-end, and, in most cases, the proverbial ball needs to get rolling well before we welcome in 2014.

1 **Capital gains/loss selling** – For realization of capital gains or losses on mutual funds, allow the trade date plus three business days to settle by December 31. Depending on what weekday the 31st falls in a given year, that could mean anywhere from December 22 to 24. This year the last trade date is Tuesday, December 24.

2 **Spousal prescribed rate loans** – This is a fixture in our year-end reminders, making sure qualified taxpayers are aware of the 1% rate (the lowest possible) that has been available almost continuously since 2009. The string was broken in the fourth quarter of 2013 when the formula (based on Treasury bill auction rates) moved the rate up to 2%. Fortunately for those who thought they had completely missed the boat, that same formula will bring the rate back down to 1% in the first quarter of 2014. And remember, the rate established at inception can be used for the life of the loan, so long as interest is paid annually (or by 30 days after year-end).

3 **Spousal RRSP contributions** – Income attribution to a registered retirement savings plan (RRSP) contributor spouse will apply if the annuitant spouse makes a withdrawal before the end of the second calendar year following contribution. The rule works on a last-in/first-out basis, counting from the date of contribution, not the tax filing year for which the related deduction may have been claimed. For example, a contribution in January 2014 entitles the contributor to a deduction against 2013 income, but will be subject to attribution if withdrawn on or before December 31, 2016. If that same contribution had been made in December 2013, attribution would only apply if the withdrawal is made on or before December 31, 2015.

4 **TFSA withdrawals** – The formula for calculating tax-free savings account (TFSA) contribution room includes withdrawals made in the preceding calendar year. If a TFSA withdrawal is planned for early 2014, it may be prudent to make that withdrawal before the end of 2013. That way, the contribution room credit will allow for re-contribution in 2014 (assuming, of course, that cash is available for the purpose), rather than having to wait until 2015. By the way, the annual allotment of TFSA contribution room increased to $5,500 in 2013.

5

Final RRSP over contribution for persons aged 71 – Contributions to an RRSP may only be made up to December 31 of the calendar year in which a person turns 71. Earned income in that age-71 year will not give rise to RRSP contribution room until the next year. Assuming this person is up to date with contributions, the person could still use this room by contributing the future entitled amount in December. The 1% per month over-contribution penalty will apply for that month, but the person will be back onside come January once the newly earned room is credited.

6

Registered plan rollovers on death – A deceased's RRSP/RRIF (registered retirement income fund) may be transferred on a tax-deferred basis to a spouse, dependent minor child or dependent disabled child. If a death occurred in 2012, the last date for election of the tax deferral is December 31, 2013. Though missing this deadline may seem unlikely, one situation recently hit the headlines. A financial institution did not carry out a widower's instructions in time to obtain the rollover, and ended up footing the bill for the ensuing $35,000 tax that resulted.

7

Beginning public pensions – Someone commencing Canada Pension Plan (CPP) payments under age 65 in 2013 faces a per-month penalty of 0.54%. In 2014, it will increase to 0.56%, eventually reaching 0.6% in 2016. For those planning to begin a CPP pension imminently, delaying past the new year could be costly. On the other hand, deferring CPP after age 65 entitles the person to a 0.7% per month premium, up to age 70. And don't forget that as of July 1, 2013, Old Age Security may also be deferred by up to five years, entitling the pensioner to a 0.6% premium for each month deferred.

8

Dividends from closely held corporations – In the 2013 Federal Budget, the government noted there is an over-integration of taxes (i.e., an advantage) on ineligible dividends, being those where the corporation has made use of the small business tax rate. To address this, the gross-up and tax credit have been adjusted (and provinces have followed suit), such that a shareholder will pay a little more tax (about 1% to 3% depending on the province and income level) on the payment of ineligible dividends beginning in 2014.

9

Lifetime capital gains exemption (LCGE) increased – The 2013 Federal Budget increased the LCGE from $750,000 to $800,000 in 2014, with indexing to apply annually thereafter. For share sales slated to close in 2013, delaying the transaction to 2014 may be worth considering – consult your legal or tax counsel. As well (and this is not contingent on year-end), the increase may prompt some to undertake an estate freeze or re-freeze.

10

FATCA: U.S. taxpayers take notice – This is the *Foreign Account Tax Compliance Act* (FATCA), by which the United States requires the reporting of certain foreign account holdings of U.S. individual taxpayers, including Canadian residents. Phased-in implementation runs from 2014 to 2017, though the commencement date has been extended from January 1 to July 1, 2014. Those with U.S. tax reporting obligations should familiarize themselves with these new rules that may require reporting both by that individual and the financial institutions with which he or she deals.

While not an exhaustive list, these 10 topics highlight key issues relevant to investors as year-end approaches. To discuss these tips – and for industry-leading advisor support throughout the year – our T*ax & Estate InfoService* is available via e-mail at *inquiries@invesco.ca* and by phone at 1.800.874.6275.

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