2016 YEAR-END TAX PLANNING CHECKLIST

Financial planning is time sensitive. While the following list is not exhaustive, here are some items that must be considered, incurred or paid prior to year-end in order to be included in your 2016 tax return.

Sale of a Principal Residence

On October 3rd, 2016, the federal government announced an administrative change to the reporting of the sale of your principal residence. Previously if the gain on a principal residence was entirely exempted, taxpayers were administratively not required to report the disposition in their tax return.

For sales occuring in 2016 and future tax years, all taxpayers are now required to report the disposition on form T2091 to be considered eligible for the exemption. If a principal residence is owned in a trust, you should contact your tax professional to see if new changes apply and whether your situation qualifies to take advantage of available transitional rules.

Are you an executor?

When completing the tax return for any estate with its first year-end occuring in 2016 and future years, ensure you elect on the first T3 trust tax return to be treated as a “graduated rate estate” to be eligible for individual graduated tax rates to apply for up to 36 months. Certain other restrictions apply. Speak to a tax professional to ensure this is completed correctly. If there are multiple wills, ensure you consult a tax professional to avoid inadvertently losing graduated rate estate status.

Prior to December 23, 2016

- ❑ Put tax loss selling strategies to work by following these steps:
  1. Calculate the capital gains that you have realized for 2016.
  2. Identify and sell investments that are in a loss position. Trades entered by December 23 will settle funds in the account prior to December 31.
  3. Net your capital losses against capital gains on your 2016 tax return.

  Note: If your spouse has unrealized capital losses, extra steps can be taken to incorporate them in your tax planning. *In all cases, you should be aware of the superficial loss rules when employing these strategies.*

Prior to December 31, 2016

- ❑ Contribute the maximum amount possible to your TFSA.
- ❑ Make charitable donations. Donating qualifying securities instead of cash can increase your tax savings.
- ❑ Contribute to your child’s RESP/RDSP.
- ❑ Withdraw funds from a TFSA, if needed. Any withdrawals will increase your contribution room in 2017.
- ❑ Withdraw funds from your RRSP if you are in a low tax rate for the 2016 tax year.
- ❑ If you are age 71 this year, you must convert your RRSP to a RRIF. Consider the following:
  - Use your younger spouse’s age for minimum payment calculations.
  - Make an advance contribution to your RRSP for earned income from this year.
- ❑ Pay all tax deductible expenses.

For January 2017

- ❑ Remember to pay interest on prescribed rate loans (e.g. spousal loans) prior to January 30.

For February 2017

- ❑ You have until March 1, 2017 to make your RRSP or a spousal RRSP contribution, and deduct the amount on your 2016 tax return (subject to your RRSP contribution limits).

Prior to December 31, 2016 for Corporations

- ❑ Consider paying an employee a non-cash gift or award of up to $500. This amount may be deductible to you and non-taxable to the employee.
- ❑ Consider declaring dividends for any amounts borrowed from the corporation if you have a calendar year end. If you have a year ending after December 31, 2016, declare the dividend after the calendar year to defer personal tax by one year.
- ❑ If you claim the small business deduction, contact your tax professional to determine if new limitations will apply to you.

Ongoing reporting obligations

- ❑ **If you hold foreign property with a cost base greater than $100,000**, file the Foreign Income Verification Statement (CRA Form T1135). As of June 2014, new rules apply to the disclosure of this information.
- ❑ **If you are a U.S. Person for tax purposes**, understand your IRS reporting requirements. U.S. Persons (even those who are resident in Canada) have tax reporting requirements in the U.S. For example, U.S. persons are required to report any holdings in Passive Foreign Investment Companies (PFICs).

  Note: Beginning in 2014, Canadian financial institutions are required to report certain information on U.S. persons as a result of the U.S. Foreign Account Tax Compliance Act (FATCA).

Changes implemented by the Liberal government for 2016 and future years

- Reduction of the TFSA annual contribution limit from $10,000 to $5,500;
- Increase of the federal tax rate by 4% to 33% for individuals with taxable income over $200,000;
- A 1.5% reduction in the federal tax rate to 20.5% for individuals with taxable income between $45,282 and $90,563;
- Elimination the family tax cut as introduced in 2014, for taxation years 2016 and forward;
- Replacement of the Universal Child Care Benefit and the child tax benefit with a new income tested Canada Child Tax Benefit;
- Elimination of the Children's Art Credit and the Children's Fitness Credit for taxation years 2017 and forward.

We recommend you discuss these strategies with your professional investment, tax and legal advisors prior to implementation to ensure they fit within your overall wealth plan.

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