MACKENZIE Investments

Tax and Estate Reports

Year-end income tax strategies for Canadians 2019

As the holiday season approaches most of us are focused on spending time with family and friends. It's also the opportune time to implement final income tax strategies and be mindful of how existing and new tax changes can effectively reduce your 2019 tax bill. Here is a laundry list of strategies to consider for 2019.

That's **better** together

Investors should consider the following strategies for their portfolios:

Initiate trades before the investment deadline

If you are planning to sell an investment at a loss in order to offset it against capital gains this year or in the past three years, the settlement date must fall in 2019. For most securities and mutual fund trades, you will need two business days for the transaction to settle. Therefore, place your stock or mutual fund trade by December 27, 2019, so the capital gain or capital loss can be realized in the 2019 taxation year.

Trigger accrued losses before year-end

You may own securities or mutual funds which have dropped in value from the time you purchased them. If so, now might be a good time to review these investments with your financial advisor to determine whether it is prudent to continue to own it. If not, it may be time to sell the investment to trigger the capital loss.

Capital losses are used to offset capital gains and can be carried back three taxation years and carried forward indefinitely. If you have taxable capital gains this year or in the previous three taxation years consider triggering the capital loss before year-end. It is preferable to carry back losses to the earliest year possible since the oldest years will expire first. Additionally, you could have realized capital losses of previous years that can reduce the current year's capital gain. Either way, these strategies will potentially help you reduce your 2019 tax bill. If your intention is to trigger a capital loss this year consider the superficial loss rules as it will deny the capital loss if the same or similar investment is repurchased 30 days before or after the sale by you, or an affiliated person. The denied loss is added to the ACB of the investment which reduces the capital gain when the investment is eventually sold.

Treat capital gains appropriately

Capital gains are realized when capital property is disposed and proceeds in excess of the original cost are received. Capital gains are taxed more favorably compared to fully taxable income. Also there are additional opportunities available to further minimize capital gains tax. Here are some ideas to consider:

1. If you have unused capital losses, they can be used to offset your realized capital gains.

2. Crystallize In-trust for (ITF) accounts where the beneficiary has little or no income. With the use of the basic personal amount 12,069 for 2019 - provincial amounts vary), you may trigger up to $24,138 in capital gains without the beneficiary paying any tax.

3. Consider delaying any sales to early 2020. Doing so allows a one year deferral by pushing your tax bill to April 2021 as the transaction is reportable in the 2020 taxation year.

4. Provided a capital property is disposed of with a significant inherent gain, structure the sale so proceeds are received over a few taxation years. The capital gains reserve can allow 1/5th of the capital gain to be taxable when proceeds are received over a maximum five-year period. See a tax professional who can assist you with this strategy.

5. Claim the $866,912 lifetime capital gains exemption (LCGE) if you're selling qualifying small business shares (QSBC) or $1,000,000 exemption available on the sale of qualified farm / fishing property. Even if you do not plan on selling your QSBC shares, farming / fishing property, consider crystallizing the shares / property in order to bump up the ACB of your shares / property. This is a highly complex area of tax law. It is advisable to speak to a tax professional about this strategy.

6. Investors with non-registered mutual fund portfolios may have been impacted by a fund merger potentially exposing the investor to capital gains tax if the fund appreciated in value from when purchased. To reduce the tax burden, refer to the tax and estate planning white paper on tax strategies for fund mergers.

Transfer investments to a minor child

Consider transferring investments that have dropped in value to a minor child before the taxation year-end. You will trigger a capital loss that can be used to offset realized capital gains this year, in the previous three taxation years or in the future years. In addition, any future growth of the investment is taxable to the minor child, since the attribution rules do not apply to capital gains.

Donate securities to charity

A donation to a registered charity by year-end provides valuable tax credits. If you are planning to donate to charity, consider directly donating publicly traded securities, mutual funds or segregated funds that have appreciated in value, instead of cash. You will receive a donation receipt equal to the fair market value of the investment at that time and any resulting capital gain will be tax exempt.

Additional strategies for investors

Looking for a charitable giving program that helps you minimize your tax liability and make charitable giving easier?

The Mackenzie Charitable Giving Program is a donor-advised giving program designed to provide you with a more focused approach to giving.

With the Mackenzie Charitable Giving Program, you get all the advantages of a private foundation without the upfront costs and administrative responsibilities. It is a simple, convenient and strategic way of giving that combines immediate tax benefits with the ability to support your favorite charities now and in the future.

The Mackenzie Charitable Giving Program allows you to shape and define your legacy. Whatever your interest, whatever your passion, you can make a difference. Sometimes, a well-placed gift of a few hundred dollars can make all the difference to a charity in the delivery of its programs and services. You don't have to be wealthy to act. Speak to your financial advisor about establishing a Mackenzie Foundation account.

Contribute to a Tax-Free Savings Account (TFSA)

Effective January 1st, 2009, annual contributions can be made into a TFSA up to a cumulative total of $63,500 (including 2019). The contribution limit in 2019 is $6,000 which is indexed for inflation. Investment income earned and withdrawals from a TFSA are tax-free, giving you the financial flexibility to save for specific goals without the impediment of taxes. Consider contributing to your Mackenzie TFSA before year-end and consider making your 2020 contribution in January 2020 to take advantage of the tax-free income and withdrawals that a TFSA provides. Also, if you expect to withdraw money from your TFSA in 2020, consider withdrawing the funds by year-end 2019 so that you don't have to wait until 2021 to re-contribute those funds.

Contribute to a Registered Disability Savings Plan (RDSP)

If you or a loved one is a Canadian resident, is less than 60 years of age, has a valid SIN and qualifies for the Disability Tax Credit (DTC) (form T2201 can be filled out by your doctor or nurse practitioner and filed with the CRA), an RDSP may be established to assist in securing the financial future for a beneficiary with a disability. In addition, a beneficiary can access the federal non-refundable disability amount of $8,416 for 2019 resulting in federal tax saving of $1,262 (plus provincial tax savings). While contributions to an RDSP are not tax deductible, investment returns earned inside the RDSP grow on a tax-deferred basis for as long as the funds remain in the plan. There are no annual maximum contribution limits, but rather a lifetime limit of $200,000 that can be contributed at any time up to the end of the year in which the RDSP beneficiary reaches the age of 59.

What makes RDSPs so appealing are the generous government grants and bonds that can go a long way to boosting the savings in the RDSP. Depending on the family net income of the person with a disability, the beneficiary may qualify for matching government contributions in the form of a Canada Disability Savings Grant (CDSG), equal to as much as $3,500 on the first $1,500 of contributions. In addition, the government will provide an annual Canada Disability Savings Bond (CDSB) of up to $1,000 based solely on family net income, and not on contributions. As a result, RDSPs are a great opportunity for beneficiaries with disabilities to increase savings for retirement. Speak to your financial advisor about establishing a Mackenzie RDSP for family members with disabilities.

Maximize RDSP government grant and bond carryforward

RDSP carry forward rules allow you to carry forward unused CDSG and CDSB entitlements for a period of 10 years, to an annual maximum of $10,500 for CDSGs and $11,000 for CDSBs. If you have unused CDSG and/or CDSB entitlements from previous years, a contribution of $3,500 to an RDSP before year-end may entitle you up to $10,500 of CDSGs, and possibly $11,000 of CDSBs if this is a newly established RDSP. This is of particular importance if you are age 49 by the end of this year as this will be your last opportunity to access any unclaimed grant or bond entitlements. Speak to your advisor for more information about kick starting your RDSP.

"Consider donating publicly traded funds that have appreciated in value, instead of cash. Any resulting capital gain will be tax exempt."

Investors should consider the following strategies for their RRSP:

The RRSP contribution deadline is March 2, 2020

RRSP contributions must be made no later than 60 days after the calendar year-end in order to deduct against 2019 earnings. The RRSP contribution deadline is March 2, 2020 and the maximum RRSP contribution limit for 2019 is $26,500. Make your contribution as soon as possible as you will have more money working for you sooner. Refer to your 2018 Notice of Assessment/ Reassessment, which will inform you of your available RRSP contribution limit. Any excess contributions exceeding $2,000 are subject to a 1% per month penalty tax.

Make the most of your unused RRSP contribution room

If you have contributed less than the maximum permitted in prior years to your RRSP, you should have unused RRSP contribution room carried forward to 2019. Consider topping up your RRSP to the maximum possible in order to take advantage of the benefits RRSPs have to offer. If you're short on cash to maximize your RRSP room, consider borrowing to make your RRSP contribution or use TFSA withdrawals to contribute to RRSP. Interest would not be deductible if borrowed capital is used to contribute to RRSP however TFSA contribution room will be recouped next year. Speak to your financial advisor about ways you can maximize your RRSP contribution room.

Contribute to a spousal RRSP

If you have a spousal RRSP established, make your spousal RRSP contribution before year-end to minimize the possibility of having the attribution rules apply on any future withdrawals. For example, if you make a spousal RRSP contribution this year, your spouse can safely withdraw funds from the spousal plan and pay tax on the income as early as January 1st, 2022. A spousal RRSP contribution made in January 2020 will mean that your spouse will have to wait until January 2023 before he/she can safely withdraw funds without the attribution rules applying.

Final contribution to a spousal RRSP by March 2, 2020

Where your spouse/CLP passed away with unused RRSP contribution room this year, the executor of the estate (which may be you) should consider making a final contribution to a spousal RRSP by March 2, 2020. This will provide tax savings as the RRSP contribution can be deducted against income on the deceased's final tax return.

Base withdrawals on age of younger spouse/CLP

If you will be 71 at the end of 2019, you must convert your RRSP to a RRIF and begin drawing an income. Consider basing the minimum RRIF withdrawal on the age of the younger spouse. Your minimum annual RRIF income could be lowered, allowing more money to be retained in your RRIF account, to benefit from a longer tax deferral.

Delay HBP withdrawals until after year-end

The Home Buyer's Plan (HBP) is a great way to help fund a down payment for a home. However, there are some tricky rules that can be handled more easily if you delay your withdrawal until after year-end. Repayments begin two years following the year of withdrawal. Delaying your withdrawal until after year-end allows you more time to purchase a home, make more withdrawals under the plan and extend the time before you must begin repaying funds to your RRSP.

Make your required HBP repayment

You are required to make your HBP repayments in 2019 if you participated in the program prior to 2018. To avoid any unnecessary income inclusion, be sure to make your required repayment and designate it on Schedule 7 of your personal tax return. Check your latest Notice of Assessment from the CRA for more information if you're unsure of your repayment. If you are a first-time homebuyer, don't forget to claim the 15% federal non-refundable tax credit available for up to $5,000 of the purchase cost. The maximum credit is $750.

Consider missing your HBP repayment

As discussed above, failure to meet your minimum HBP repayment creates an income inclusion. However, in some instances it may work to your advantage to intentionally miss the repayment.

Consider this strategy if you are in an unusually low-income year, or where the funds were borrowed from a spousal RRSP and your spouse/CLP is in a lower tax bracket. HBP withdrawals are not subject to the spousal RRSP attribution rules and therefore the income inclusion will fall in the hands of the annuitant spouse – another great way to income split!

Reporting requirements to keep in mind

Did you sell your principal residence in 2019?

Tax rules enacted in 2016 require you to report the sale of real estate dispositions including your principal residence even if the gain is exempt. If a property is not reported, fines amounting to $100/month up to a maximum of $8,000 can be incurred. The "one plus" rule will no longer apply for principal residences acquired in a taxation year in which the purchasing individual was not resident in Canada.

Do you hold foreign property in excess of $100K?

The T1135 Form was changed in 2015 to introduce a simplified reporting method for individuals who own specified foreign property with a total cost of $100,000 or more but less than $250,000 at any time throughout the tax year. Simplified reporting requires the taxpayer to only declare what types of property are held by the taxpayer (i.e. funds, shares, real property, etc.), the three countries holding the most specified foreign property by cost, the income from the specified foreign property, and the total gains or losses from the disposition of all foreign property in the year. Individuals who own specified foreign property with a total cost of less than $100,000 throughout the taxation year are exempt from T1135 reporting, while individuals who own specified foreign property with a total cost exceeding $250,000 at any point in the taxation year are not eligible for simplified reporting.

Know your U.S. filing requirements

If you are a U.S. person (i.e., citizen, resident or green card holder of the U.S.) living in Canada throughout 2019, be aware of various U.S. reporting requirements in addition to U.S. income tax filings. Some examples include the FinCEN Report 114 (also known as FBAR) if you own financial accounts (registered and non-registered portfolios) in excess of $10,000 USD at any time during 2019, Form 8938 – Statement of Specified Foreign Financial Assets, if you own certain assets that exceed either $200,000 USD at the end of 2019, or $300,000 USD at any time during the year if you live in Canada. In addition, if you are a U.S. person and contribute to, or are a beneficiary of an RESP, you may need to file Form 3520/ 3520-A in the U.S. This form may also need to be filed in the U.S. if you own a Tax-Free Savings Account. These forms have various deadlines and penalties for non-compliance and are dependent on assets you own throughout the year. These are complex issues and should be dealt with by a qualified cross-border tax advisor.

Beware of PFIC reporting obligations

If you are a U.S. person holding a portfolio consisting of Canadian mutual funds and ETFs, in non-registered and certain registered plans, you are considered to be a shareholder of a Passive Foreign Investment Corporation (PFIC) for U.S. tax purposes and are required to file IRS Form 8621 with your U.S. tax return. PFIC shareholders are subject to negative U.S. tax implications. One method to reduce the tax impact and eliminate nasty interest and penalty charges is to file a Qualified Electing Fund (QEF) election when you file your U.S. tax return. QEF elections are only available where mutual fund companies are able to provide you with an Annual Information Statement (AIS) with respect to your investment holdings. Work with your financial advisor to determine whether the PFIC rules apply to you, and what you can do to minimize the tax impact. Mackenzie offers AIS reporting for all mutual funds and ETFs, thus providing investors with the potential opportunity to minimize the U.S. tax implications.

Claim a "Closer Connection Exception"

If you, like many Canadians (i.e., snowbirds) spend on average approximately 4 months in aggregate of the year in the U.S., you may be automatically considered a U.S. resident for U.S. tax purposes if you meet a specific days test in the U.S., known as the "substantial presence test". As a result, you may be subject to U.S. tax and filing requirements even though you are Canadian resident and pay Canadian taxes. However, if you meet this test, you can avoid being considered a U.S. resident by claiming that you actually have a closer connection to Canada. To claim the closer connection exception, you must file Form 8840 with the IRS and meet other conditions. Speak to a tax professional if, during 2019, and in the previous two years, you have spent time in the U.S. and may benefit from this exception.

"Snowbirds that spend 4+ aggregate months in the US may be considered a US resident for tax purposes. Avoid this by claiming a closer connection to Canada, above."

Taxpayers with pensions, income plans and government benefits also have opportunities to minimize tax by implementing the following strategies:

Make an advanced RRSP contribution

If you will be 71 at the end of this taxation year and expect to have earned income in 2019, consider making an RRSP over contribution in December 2019. Earned income in 2019 creates RRSP contribution room for 2020. However, you will not be permitted to contribute to an RRSP next year, since you are required to convert your RRSP to a RRIF before year-end. This strategy does mean that you will have over-contributed for one month and hence subject to a 1% per month penalty tax. However, you will also be entitled to an RRSP deduction in 2020 or future taxation years that will provide tax savings which far outweigh the penalty tax cost. If you took advantage of this strategy in 2019, don't forget to file a T1-OVP form to calculate the penalty tax cost. Speak to your financial advisor about the specifics in your situation.

Apply for government benefits (OAS & CPP/QPP)

If you have reached age 60 in 2019, consider applying for your CPP/QPP retirement pension benefit. When you apply for CPP before the age of 65, your pension will be adjusted to reflect a longer time period that you will receive benefits. There are new rules that apply to those collecting CPP benefits early, including changes to how your pension is adjusted and also the continuation of paying premiums if you continue to work prior to age 65.

If you have reached age 65 in 2019, you should also apply for Old Age Security (OAS) benefits as soon as possible. Do not delay your application after turning 65, since retroactive payments are only available for up to 11 months plus the month in which you apply for OAS. You may also choose to delay your OAS for up to five years and receive increased benefits.

Create eligible pension income

Rules were introduced in 2006 that allow for spouse's/CLP's to allocate up to 50% of pension income that qualifies for the existing pension income tax credit to their spouse/CLP, as a means of income splitting. If you are 65 this year or more and have no other eligible pension income, consider drawing on your RRIF in order to take advantage of the income splitting opportunity presented with these rules. Additionally, if your spouse / CLP is also over the age of 65, you and your spouse/CLP will both qualify for the pension income tax credit. Therefore, in addition to the tax savings from income splitting, you will receive tax savings from the pension income tax credit – a double benefit! Speak to your financial advisor about applying this strategy in your specific situation.

Opt out of CPP premium payments

Under new rules for CPP retirement benefits, pensioners receiving CPP prior to age 65 and still working are required to continue paying CPP premiums. If you turn age 65 this year, continue to work and are collecting CPP, consider filing an election to cease CPP premium payments. The election is CRA form CPT30 and must be filed with your employer and the CRA. Discuss the pros and cons of opting out of CPP premiums with your advisor.

CPP enhancement (after 2018)

Effective January 1, 2019, contributions and benefits under CPP will increase, from one-quarter to one-third of pensionable earnings each year. These changes consist of two phases. The first phase will start from 2019 to 2023. CPP contribution rate currently is 5.10%, which will be increased by 0.15% in 2020, by 0.20% in 2021 and by 0.25% in each of 2022 and 2023. So, by 2023 and every year thereafter, each employee and employer will be contributing 5.95% annually, for a combined total of 11.9%. Phase two is a two-year phase of increasing YMPE limit. It will be set to 7% over YMPE in 2024, and then be set to 14% over YMPE in 2025 and later, which means that the extended earning range will be increased by 14% (2024-2025), projected YMPE to be $82,700 in 2025. This new policy will provide more retirement security for Canadians, which might affect your retirement planning.

"If you turn age 65 this year, continue to work and are collecting CPP, consider filing an election to cease CPP premium payments."

Employees receive a number of taxable benefits that can be dealt with tax efficiently by following some of these strategies:

Pay interest on loans

If you have received an employee loan, a taxable benefit may exist if you pay anything less than the prescribed interest rate set by the CRA. To avoid the taxable benefit, ensure any interest owing on the loan is paid by January 30, 2020.

Reduce the stand-by charge and operating benefit

Employer provided vehicles are a great perk, but can have nasty taxable benefits in the form of a standby charge and operating benefit if you're not careful about tax planning. To reduce the possible stand-by charge, reduce the number of days between today and year-end that the car is available to you. Also, the operating benefit could be reduced to half of the standby charge if the vehicle was used 50% or more of the time for business purposes. Finally, consider reimbursing your employer for any operating costs by February 14, 2020.

Reduce source withholdings

If you expect a refund when you file your tax return, due to RRSP contributions, interest deductions on investment loans, charitable donations, alimony or maintenance payments, consider speaking to your employer about reducing source deductions from your pay. Alternatively, consider filing form T1213 with the CRA so that you can reduce your tax bill now, rather then waiting until April 2020 to get your refund.

Families have a number of last minute ideas that can help reduce total combined tax. Here are a few ideas:

Identify income-splitting opportunities

Families have the ability to creatively split income so that their tax bill can be reduced. Here are some popular ways families can income split to reduce taxes for 2019 and subsequent taxation years:

a. Set up a prescribed rate loan with your spouse / CLP

b. Create second generation income

c. Swap assets with family members

d. Transfer assets to adult or minor children

e. Contribute to a spousal RRSP

f. Apply for CPP retirement pension sharing

g. Consider RESPs for a child's education

h. Consider splitting up to 50% of eligible pension income

Please see Mackenzie's "Income Splitting Brochure" for more information on these and other great income splitting strategies.

Contribute to an RESP

In addition to the income splitting opportunities available with the use of RESPs, there are other important benefits of RESPs that you should take advantage of before year-end. Contributions to an RESP entitle you to a grant, known as the Canada Education Savings Grant (CESG) of up to $500 per year, or $1,000 if there is unused grant room to a maximum of $7,200 per beneficiary. Consider contributing at least $2,500 to an RESP by year-end to receive the maximum CESG for this year, or possibly more if you have unused grant room from previous years.
If you haven't started an RESP for your growing children it may not be too late to maximize the CESG. In fact, if your child is age 10 or younger, you still have the opportunity to maximize the CESG. Also, if your child is age 15 and you have never started an RESP for that child, consider contributing at least $2,000 by year-end. Otherwise, your child is not eligible to receive any CESG at age 16 or 17, regardless of whether RESP contributions are made in those years. In addition, RESP incentives programs are provided by different provinces: Québec Education Savings Incentive (QESI), and British Columbia Training and Education Savings Grant (BCTESG). Speak to your financial advisor about obtaining as much grant as possible for your RESP.

Families have a number of last minute ideas that can help reduce total combined tax. Here are a few ideas (continued):

Consider prescribed rate loans to spouse/CLP

If you are in a higher marginal tax bracket than your spouse/CLP, consider making a prescribed rate loan (currently 2%) to your spouse/CLP. With the funds, the spouse can purchase mutual funds or other investments and any investment income earned will be taxed in the lower income spouse's hands. The interest paid on the loan must be included in the higher taxed spouse's income and is deductible to the lower income allowing a deduction against investment income earned. It is important to ensure that the interest is paid by January 30th of the next calendar year to avoid income attribution. This strategy makes sense if the rate of return exceeds CRA's prescribed interest rate.

Do you have non-deductible debt?

Have you incurred debt for personal and investment purposes? Interest on personal debt is not deductible so consider paying off personal debts first before debts incurred for investment purchases. Interest incurred to earn income from a business or property is generally deductible against the income.

Do you have deductions that will be worth more if made next year?

Consider the timing of a deduction - perhaps a deduction is worth more to you next year provided you fall in a higher tax bracket. This can be useful for RRSP planning.

Installment payments

Based on your 2018 taxes payable, you may have been required to make 2019 installment payments. CRA submits a recommended payment schedule; this does not need to be followed if you expect your 2019 tax bill to be far less, therefore your Dec 15th installment payment may not be required.

Take advantage of various tax credits

The tax credit for teachers and early childhood educators provides a 15% federal refundable tax credit on the cost of supplies up to $1,000.

The Federal tuition non-refundable tax credit can reduce the students tax bill first and up to $5,000 can be transferred to certain individuals. If you are in a trade or taking a language course, you may also qualify. Speak to your financial advisor for more information.

The Home Accessibility Tax Credit (HATC) is a federal non-refundable tax credit (max $1,500) that can be claimed by an eligible individual for expenses (max $10,000) intended to improve accessibility to a home for a person 65 or over or a person eligible for the disability amount. Home accessibility expenses can also be eligible for the medical expense tax credit allowing you to double dip on eligible expenses. In addition, the Canada Caregiver Credit is a 15% non-refundable tax credit and is also available if you support a family member with a mental or physical disability. The credit will be reduced on a dollar-for-dollar basis where the dependent's net income exceeds 16,766 for 2019 (indexed for inflation for subsequent taxation years).

You will need to provide original copies of receipts to claim any of these tax credits.

Canada Child Benefit (CCB)

The UCCB was replaced with the CCB starting July 2016. The CCB is a tax-free monthly payment made to eligible families, of $6,639 per year for each eligible child under the age of six and $5,602 per year for each eligible child aged 6 to 17. An additional benefit of $2,832 for a child eligible for the disability tax credit. The benefit is reduced when adjusted family net income exceeds $31,120 and is dependent on the number of children per family. The max is phased out when adjusted family net income is $67,427.

Pay child care expenses to adult children

Consider paying your adult children (over age 18 in the year) for any qualifying child care services they provided to you for your younger children (age 16 or younger) throughout the year. The services must be incurred to allow you, the parent, to earn employment or business income. Qualifying child care expenses are tax deductible in the year they are paid. The income is taxable to the adult child, who is likely taxed at a very low to zero tax rate. This is a great way to income split with your family. The maximum child care expenses that can be claimed is $8,000 per child under 7, $5,000 for children between 7 and 16 and $11,000 for children eligible for the disability tax credit. Usually child care expenses must be claimed by the lower income spouse.

Have you moved residences to start a new job?

If the move allows you to be 40 km closer to the new work location you could be eligible to deduct real estate fees on the sale of the old residence and land transfer taxes on the purchase of the new residence (other expenses available). The matter can get complicated so it is best to discuss with your tax professional to see if you qualify.

Families have a number of last minute ideas that can help reduce total combined tax. Here are a few ideas (continued):

Accelerate medical expenses

Medical expenses can be claimed for any 12-month period up to the end of the year and only provide tax savings where they exceed the lesser of a) 3% of your net income or b) $2,352. Therefore, accelerate medical expenses for you, your spouse / CLP and children before year-end in order to maximize tax savings.

Review trust income

Trusts are established for a variety of purposes. Consider working with your financial advisor or tax professional to determine how much income was earned in the trust and how much income, if any, should be flowed out to the beneficiaries. Special care should be taken where Henson Trusts are established to ensure distributions from the trust do not affect any government disability benefits for the beneficiary with a disability.

Incorporated business owners also have tax planning opportunities. The following are some last minute tax saving ideas with the use of corporations:

The new rules targeting active businesses that invest passively

Starting in 2019, earning too much passive income otherwise known as aggregate investment income (interest, rent, royalties, foreign income and dividends, taxable capital gains net of allowable capital losses and expenses) in a private corporation may impact a business owner's ability to access lower tax rates on active business income up to the $500,000 annual small business limit (SBL). When adjusted aggregate investment income (AAII) (aggregate investment income plus portfolio dividends) of a corporation (or associated corporation) exceeds $50,000 in a tax year, each dollar of AAII over the threshold will reduce the SBL by $5. Therefore, the SBL may be fully eliminated when AAII reaches $150,000. In addition, the AAII earned in the prior taxation year is calculated to determine the available SBL for the current taxation year. Therefore, the AAII earned in the 2019 taxation year will be used to calculate the SBL for tax year 2020. A reduction of the SBL means that your corporation may lose some or all of the ability to pay tax at the lower tax rate, and instead may be subject to tax at the higher general corporate tax rate on active income that exceeds the available SBL. Tax efficient investment strategies, including corporate class mutual funds, will be critical in helping to reduce the annual AAII for purposes of lowering the overall corporate tax liability, as well as protecting the SBL. Speak to your financial advisor about specific strategies that suit your situation.

Business owners donating in-kind securities

If an appreciated security is donated in-kind to charity, the capital gain is not taxable and therefore, 100% of the capital gain (as opposed to 50%) is added to the corporations Capital Dividend account (CDA) allowing the value to be paid tax-free to shareholders. In addition, the corporation will receive a charitable donation receipt equal to the value of the security donated which can be used to reduce income for taxation purposes from all sources. Consider the Mackenzie Charitable Giving Foundation if you are looking to create a legacy.

Defer your income

Consider delaying certain income you expect to receive during the remainder of this year until 2020. For example, bonuses are deductible by the corporation provided they are paid 180 days after the business year-end which means a bonus payable in 2019 could be paid in 2020 allowing a tax deferral.

Pay salaries and/or dividends to family members

Income splitting among family members is a strategy available to many incorporated business owners and professionals. Consider paying family members (i.e. spouse / children) a reasonable salary or wage for

Incorporated business owners also have tax planning opportunities. The following are some last minute tax saving ideas with the use of corporations (continued):

services provided to the corporation this year. This can shift income into the hands of family members who pay lower tax rates. In addition, this provides an opportunity for children to start building RRSP contribution room. Dividends paid to adult family members may also be an effective income splitting strategy. If your spouse, common-law partner or adult children are in a lower tax bracket than you, the payment of dividends can result in tax savings for the family.

It is important to note that effective January 1, 2018 and beyond, taxable dividends paid to adult family members may also be subject to top rate taxation, unless the adult family members meet certain tests or exclusions set out in the Income Tax Act. For example, dividends may be paid to adult family members who make meaningful contributions to the business, or meet certain share ownership and age tests. Paying dividends to adult family members is still available, however you should obtain appropriate tax advice to ensure you are onside with the new rules. It is important to note that, related family members not involved in the business can make use of the LCGE and not have TOSI apply when selling shares of the family business.

Determine compensation mix

As a shareholder, you could be compensated by your corporation either in the form of salary, eligible, non-eligible or capital dividends. The optimal compensation mix can only be determined after considering your financial and tax position and that of your corporation. Speak with your corporate accountant about determining what compensation mix is most appropriate in your situation.

Purchase a vehicle from your company

Consider purchasing the vehicle that the company has provided you if the car has depreciated in value since the taxable stand by charge will continue to be calculated using the original cost and not the depreciated value. This will potentially allow you to avoid the annual taxable benefits and begin receiving a tax-free car allowance from the corporation for business use of your vehicle.

Claim an ABIL

A business investment loss may be available to you if you lent money to, or invested in shares of a small business corporation that has become insolvent or bankrupt. The allowable business investment loss (ABIL) is equal to 50% of the loss and does not only offset capital gains, but can be applied against any other type of income. The ABIL rules can be quite tricky, so be sure to speak to a tax professional about your ability to claim an ABIL this year.

Shareholder loans to your company

Consider reclassifying payments made to you throughout the taxation year by your corporation as a repayment of a shareholder loan owing to you. Shareholder loan payments are tax-free and a very tax efficient way of drawing money out of the corporation with excess cash.

Shareholder loans from your company

If you have borrowed money from your corporation in the prior taxation year, you should consider repaying the loan in full before the corporate year-end. Otherwise, you will face an income inclusion on your personal tax return for the value of the outstanding loan.

Make a gift or award to an employee

As an employer, you are entitled to provide unlimited non-cash gifts or awards annually to employees provided the aggregate cost of the gifts, including HST / GST, do not exceed $500. If you are planning to provide gifts or awards to your employees, be sure not to exceed the $500 threshold, since amounts over $500 would be taxable to the employee.

2019 is quickly coming to an end, therefore, if you wish to consider any of these strategies, contact your financial advisor who can assist you in implementing any strategies that benefit you.

1109297

MACKENZIE
Investments

GENERAL INQUIRIES
For all of your general inquiries and account information please call:

ENGLISH	1-800-387-0614
BILINGUAL	1-800-387-0615
ASIAN INVESTOR SERVICES	1-888-465-1668
TTY	1-855-325-7030 416-922-4186
FAX	1-866-766-6623 416-922-5660
E-MAIL	service@mackenzieinvestments.com
WEB	mackenzieinvestments.com

Find fund and account information online through Mackenzie Investments' secure InvestorAccess.

Visit mackenzieinvestments.com for more information.

TE1019 11/19