The Navigator

2015 Year-End Tax Planning

Opportunities to Reduce your 2015 Tax Bill

As year-end approaches, taking some time to review your financial affairs may yield significant tax savings. To ensure that you leave no stone unturned, we have summarized some common year-end tax planning strategies in the article below.

This article outlines several strategies, not all of which will apply to your particular financial circumstances. The information is not intended to provide legal or tax advice. To ensure that your own circumstances have been properly considered and that action is taken based on the latest information available, you should obtain professional advice from a qualified tax advisor before acting on any of the information in this article.

Tax Loss Selling

If you have sold some assets and realized capital gains during the year, and you are holding other securities with unrealized losses, consider selling them as well. This "tax loss selling" strategy of selling securities at a loss to offset other capital gains realized during the year is a common year-end tax planning technique. Review your portfolio with your RBC advisor to determine if any investments are in a loss position and no longer meet your investment objectives. If the investment still has strong fundamentals and meets your investment objectives, consider all costs, including transaction costs before selling investments solely for the purpose of triggering the tax loss.

When disposing of a security, the sale for Canadian tax purposes will be deemed to have taken place on the "settlement date". Assuming a three-day settlement period, in order to utilize a tax loss selling strategy for the 2015 tax year, transactions must be initiated by December 24, 2015 for Canadian securities and by December 28, 2015 for U.S. securities in order to settle during 2015. Note that since December 28, 2015 is a holiday in Canada (in lieu of Boxing Day on Saturday December 26), you may also want to consider placing any U.S. transactions by 1:00pm on December 24, 2015 to ensure a 2015 settlement. Canadian and U.S. option transactions have a one-day settlement, therefore option transactions must be initiated by December 30, 2015 to ensure a 2015 settlement. Check with your advisor for mutual fund settlement dates.

Superficial Loss Rules

In order to ensure that your capital loss can be claimed, you must be aware of the "superficial loss" rules. A superficial loss will occur when a security is sold at a loss and both of the following occur:

i) During the period that begins 30 days before and ends 30 days after the settlement date of the disposition, you or a person "affiliated" with you (i.e. your spouse, a company controlled by you and/or your spouse, or a trust in which you and/or your spouse are a majority interest beneficiary) acquires the identical property that was sold at a loss.

and

ii) At the end of that period (i.e. on the 30th day after the settlement date of the disposition), you or a person

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affiliated with you owns or has a right to acquire the identical property.

Superficial losses apply across all of your accounts; so if you sell an investment in one account at a loss and you or someone affiliated with you purchase it in another within the 30 day period, you may be offside. If you purchase mutual funds on a pre-authorized contribution plan, be sure to check all of your accounts to make sure you are not buying the same mutual fund you are selling (in a different account perhaps) for tax loss purposes within the 60 days that may trigger a superficial loss.

For more information on superficial losses, please ask your RBC advisor for our article titled *Superficial Loss Rules and Planning Strategies*.

Carryforward / Carryback of Capital Losses

A capital loss must first be applied against any capital gains (including capital gain distributions from mutual funds) of the current year. However, once the capital gains of the current year have been offset, the balance of the loss can be either carried back three years (to capital gains realized in 2012, 2013, or 2014) or carried forward indefinitely to offset future years' capital gains. When you apply a net capital loss back to a previous year's taxable capital gain, it will reduce your taxable income for that previous year. However, your net income, which is used to calculate certain credits and benefits, will not change. Note that this is the last year in which you can carry your losses back to 2012 and offset them against your 2012 capital gains.

If you plan on triggering a capital loss in a corporation, you should speak to your accountant prior to triggering the loss as it may be advantageous to pay out a capital dividend from the capital dividend account (CDA) balance prior to triggering the loss.

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Capital Gains Deferral

Deferring a capital gain to next year is also a common tax planning strategy. As we approach the end of 2015, if you currently have unrealized capital gains you may want to consider deferring the realization of capital gains until 2016 for the following reasons:

a) Your marginal tax rate may be lower in 2016 compared to 2015;

b) Realizing capital gains at the end of this year means that any tax payable associated with the gains would have to be remitted to the Canada Revenue Agency (CRA) by May 2, 2016. Realizing capital gains at the beginning of 2016 means that any tax payable would not have to be paid until May 1, 2017 (unless you are required to make tax instalments); and,

c) If you have net capital losses in 2015, you can carry back those losses against previously realized capital gains in 2012, 2013 and/or 2014. However, before losses can be carried back, they must first be used to offset capital gains in the current year. Therefore, realizing capital gains at the end of 2015 would reduce the amount of capital losses you could carry back.

As always, the investment merits of deferring the sale of a security to the following year for the purpose of deferring the realization of a capital gain must be considered first before looking at the tax benefit.

Year-End Bonus Planning

Receiving a bonus prior to year-end creates additional Registered Retirement Savings Plan (RRSP) deduction room for 2016 if you have

If your bonus is deferred to 2016 the amount is deductible to your employer in the year it is declared if it is paid within 180 days of the corporation's year-end.

not yet reached the maximum 2016 RRSP deduction limit. Furthermore, receiving a bonus prior to year-end may also allow greater employee/employer pension and/or employee profit sharing plan contributions for 2016 if these contributions are based on the prior year's total compensation. However, if you will be receiving a year-end bonus, consider deferring the receipt of your bonus (if your employer permits) to early 2016 if you expect to be in a lower tax bracket next year.

If the bonus is paid directly to you there will be withholding taxes at source on the bonus payment. However, if your employer permits, some or all of the withholding taxes on the bonus can be avoided if it is transferred directly to your RRSP. You must have adequate unused RRSP deduction room in the year of transfer.

Note that if your bonus is deferred to 2016 the amount is deductible to your employer in the year it is declared if it is paid within 180 days of the corporation's year-end. The bonus is taxable to you as employment income in the year it is received.

Low-Income Year

If you expect to be in a lower marginal tax bracket in 2015 (i.e., you will be earning less than approximately $45,000 of taxable income) and expect to be in a much higher marginal tax bracket in retirement, then you may want to consider making an early withdrawal from your RRSP before year-end. In general, this strategy only makes sense for those individuals who are primarily growth investors outside their RRSP and are nearing retirement. The advantage of this strategy is that you can avoid a higher tax rate on these RRSP funds if withdrawn in the future when your marginal tax rate may be higher. Furthermore, if the RRSP funds withdrawn are reinvested in a non-registered account, you can take advantage of the preferred income tax treatment on capital gains, Canadian dividends and return of capital. The drawback of this strategy is a prepayment of income tax and lost tax deferral on the growth of the RRSP funds withdrawn.

Tax Instalments

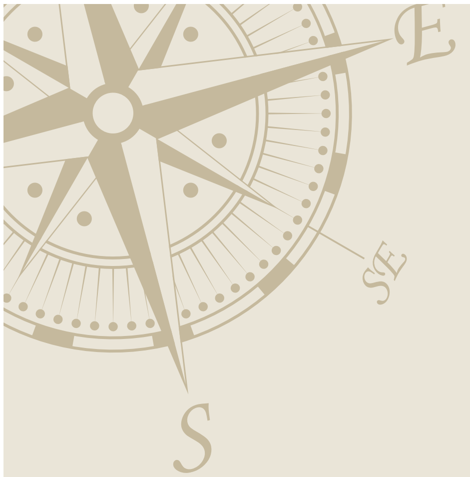
If you are required to make quarterly tax instalment payments to the CRA, you should make your final payment on or before December 15, 2015 to avoid late interest charges. If you missed an earlier instalment payment deadline, then you may want to consider making a larger final instalment payment or make your final instalment payment earlier than the December 15, 2015 deadline to minimize late interest charges.

You may have the opportunity to reduce or defer your tax instalment liability by switching the method you use to calculate your instalments. For example, it may be more advantageous to base your instalments on the current year's estimated taxes, rather than on taxes owing for the prior year. However, you must be very careful when paying less than the amount on the CRA tax instalment statements. If you underestimate your tax instalments for the current year based on your own calculation, you could be subject to interest and penalties for not paying the full amount on the CRA tax instalment reminder statements.

Charitable Donations

Making a charitable donation is one of the ways that you can significantly reduce the personal tax you pay. The final day to make contributions to a registered charity in order to claim the donation tax receipt on your 2015 income tax return is December 31, 2015. Due to the calculation of the donation tax credit, donations above $200 can result in a tax savings equal to the top marginal tax rate in your province of residence (except in Alberta, New Brunswick, Ontario, British Columbia and Quebec where the donation tax credits are 50%, 46.95%, 46.41%, 43.70% and 48.22% respectively). For example, a donation of $10,000 can result in tax savings of approximately $4,640 for residents of Manitoba.

As an alternative to cash, you can also donate publicly listed securities in-kind to qualified charities without being subject to tax on the realized capital gain. You will receive a



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donation tax receipt equal to the fair market value of the security at the time of the donation, which can help reduce your total taxes payable. Speak to your RBC advisor on the investment merits of donating securities in-kind to a charity prior to year-end. If you plan on donating securities in-kind before year-end, then due to the administration involved in processing an in-kind donation, ensure that you start this process well in advance of the year-end to ensure that the in-kind donation is recorded as a 2015 donation.

If you have thought about leaving a legacy but are unsure of the best way to accomplish this, speak to your RBC advisor on the benefits of donating cash or securities in-kind to your own charitable foundation which can be facilitated through programs such as the RBC Charitable Gift Program.

RRSP Contributions

You have until February 29, 2016 to make a contribution to your RRSP, or a spousal RRSP, and deduct the amount on your 2015 tax return. However, by contributing to your RRSP before December 31, 2015, you will benefit from two extra months of compounding tax-free growth which will ultimately increase your savings for retirement.

RRSP Contributions if You are Turning 71 in 2015

If you are turning age 71 in 2015, you must convert your RRSP, Individual Pension Plan (IPP), Locked-in Retirement Account (LIRA) or Locked-in RRSP to one of the maturity options that are available by December 31, 2015. Keep in mind that if you would like to make a final contribution to an RRSP of which you are the annuitant and be able to claim the deduction on your 2015 tax return, you DO NOT have the extra 60 days after 2015 to make your RRSP contribution. Contributions are not permitted to a RRIF.

Likewise, if you are turning age 71 and have earned income in 2015, consider making your 2016 RRSP contribution before your RRSP is converted to a RRIF. You will have to make this contribution by December 31, 2015 because the new contribution room based on your 2015 earned income will not be created until January 1, 2016 at which point your RRSP will have already been converted to a RRIF. This early contribution (sometimes called the "forgotten RRSP contribution") will allow you to claim the RRSP deduction on your 2016 income tax return.

If you have already made the maximum contribution for the current year, the CRA will consider your early contribution to be an excess contribution that is subject to the over-contribution penalty of 1% of the excess amount per month. On January 1, 2016 the early RRSP contribution you made will no longer be considered an over-contribution because your new contribution room will be realized based on your earned income from this year.

It is likely that the tax savings realized by deducting the contribution on your tax return will far outweigh the one-month penalty. For example, if your RRSP contribution limit for 2016 will be $25,370, in December of 2015 you may want to contribute that amount to your RRSP in advance. You will have a one time penalty of approximately $234 (1% of $25,370-$2,000), taking into account your allowable lifetime over-contribution limit of $2,000. However the tax savings on the $25,370 RRSP deduction in 2016 could be as high as $12,685 (depending on your province of residence).

If you have a younger spouse, consider

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making your RRSP contributions to a spousal RRSP until the year your spouse turns age 71, thereby avoiding the over-contribution penalty.

TFSA Contributions

If you have not yet done so, you can now make your Tax-Free Savings Account (TFSA) contribution for 2015 (up to $10,000) and catch up on any unused contribution room from 2009-2014. The TFSA enables you to earn tax-free investment income, including interest, capital gains and dividends, which results in greater growth compared to a regular taxable account. You can make tax-free withdrawals any time, for any reason, and any amount you withdraw is added back to your available contribution room on January 1 of the following year. If you are thinking of making a withdrawal from your TFSA in the near-term, consider doing so before December 31. This will allow you to recontribute the amount withdrawn as early as January 1, 2016 rather than having to wait to 2017 to recontribute.

RESP Contributions

A Registered Education Savings Plan (RESP) is not only an excellent way to save for a child or grandchild's post-secondary education costs, but it is also a good income splitting strategy. The lifetime contribution limit is $50,000 per beneficiary and there is no annual contribution limit.

By making RESP contributions, you may be eligible to receive the Canada Education Savings Grant (CESG). The government will match 20% of the first $2,500 in annual contributions to a maximum grant of $500 ($2,500 x 20%) per beneficiary, per year. The government will also allow you to catch up on one past year of missed contributions, each year, to the same 20% matching of contributions up to $2,500. This could get you an annual CESG maximum amount of $1,000. Each beneficiary can receive a lifetime maximum CESG of $7,200. You should consider contributing to the RESP by December 31 if you haven't maximized your contributions. Any unused CESG room can be carried forward until the year the beneficiary turns 17, subject to annual maximums.

Additionally, if you have a child or grandchild who turned 15 this year and has yet to benefit from an RESP, then December 31 is your last opportunity to contribute a minimum of $2,000 to an RESP so that your child or grandchild can benefit from the 20% CESG for 2015 and then establish CESG eligibility for 2016 and 2017.

Capital Gains in a Trust

Individuals, including minor children, with no other taxable income can realize approximately $22,000 of capital gains tax-free each year (the amount varies by province) due to their basic personal exemption. If the trust is properly structured, capital gains realized by the trust may be allocated to and taxed in the hands of the individual with little or no taxes payable. If you still favour the security, it can be bought back immediately within the trust, thereby increasing the adjusted cost base (ACB) of the security. The higher ACB going forward may mean less taxes payable in the future. Of course, a potential disadvantage of this strategy is the incremental transaction fees, if any, associated with the sale and re-purchase. Also note that even though there may be no tax payable on the sale, extra tax return preparation fees may result from this strategy.

Timing of Mutual Fund Purchases

If you purchase mutual funds near year-end in a taxable account you may face a tax liability next April. This would occur if the mutual fund makes a distribution of taxable income and capital gains ('distribution') late in the calendar year. Not all mutual funds make this type of distribution; it occurs only when taxable income and realized capital gains have accumulated within the mutual fund over the course of the year. The problem is that the distribution is paid to all unit holders, even those who only recently purchased units.

Once the distribution is made, the Net Asset Value of your mutual fund

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is reduced by the amount of the distribution. Generally the distributions are reinvested which means you'll have additional units with a lower unit price. Although the distribution does not affect the total value of your investment, it will increase your ACB which reduces future capital gains, but it leaves you with a tax liability in the current tax year.

There are ways to avoid the distribution. For new purchases, you could delay the mutual fund purchase until after the distribution is paid. If you already own the fund you could sell before the distribution is made and buy units back once the distribution is made. Note that if you purchase units on a pre-authorized payment (PAP), you will need to stop those purchases for the month the distribution occurs.

Before selling units or stopping your PAP, take into account any capital gain/loss you will trigger upon selling; whether there are any costs involved and the risk of the losing out on any capital growth between your sale and repurchase dates. Transferring to another fund within the same family of funds can help you to avoid redemption fees, but superficial loss rules will still apply if you were in a loss position and you transfer back into the original fund within 30 days.

Funds that make regular monthly or quarterly distributions are less likely to have large year-end distribution but it is still worth a checking with your advisor on the fund history of distributions.

Tax Shelters

Many high-income earners will consider purchasing a tax shelter such as limited partnership units or flow-through shares before year-end in order to receive significant tax deductions. A tax shelter is generally structured so that the expenses incurred by the tax shelter in the first few years are flowed directly to you, the individual investor, so that you may deduct them against any of your taxable income.

As with any investment, the investment potential of the tax shelter and not just the initial tax savings should be your prime consideration when deciding whether to invest in a tax shelter. For more information on flow-through shares, ask your RBC advisor for our article titled *Flow-Through Shares and Limited Partnership Units.*

Moving Within Canada

Individuals are subject to provincial taxes based on their province of residence on December 31st. Since marginal tax rates vary from province to province (e.g., the top combined federal and provincial tax rate in Alberta is 40.25% and the top rate in New Brunswick is 54.75%), if you are moving to a province with a lower tax rate, you may consider moving prior to year-end. If you are moving to a province with higher tax rates, you may consider delaying your permanent move until early 2016.

Interest on Family Loans

If you set up a spousal loan, or funded a family trust with a prescribed rate loan, remember to pay the interest owing by January 30, 2016. The borrower will be able to claim a deduction for the interest paid on their tax return. The lender will have an income inclusion on their tax return. The timing of the income deduction and inclusion depends on the year the interest is related to, when the interest is paid, and the method (cash vs. accrual) you regularly follow in computing your income.

Year-End Expenses

Since on your personal income tax

As a shareholder and an employee of your business, you have the option of considering an Individual Pension Plan (IPP) as a method of saving for retirement.

return you can generally deduct what you paid in the year, remember to pay all investment management fees, tuition fees, deductible accounting and legal fees, childcare expenses, alimony, medical expenses and any business expenses (if deductible on your personal tax return) by year-end if it is your intent is to deduct them on your 2015 tax return.

Re-Filing your Tax Waiver

If you normally file a tax waiver (CRA Form T1213 "Request to Reduce Tax Deductions at Source") to have your employer reduce taxes withheld at source from your pay, don't forget to re-file this form as it must be submitted and approved by the CRA annually. If you have not filed this form in the past, consider doing so if you normally receive a tax refund when you file your tax return. This will allow you to have more cash flow during the year to accomplish various financial goals such as making monthly RRSP contributions, making additional mortgage payments, or reducing or eliminating other personal loans or credit card debt.

The CRA will normally approve the tax waiver for individuals who expect the following types of deductions: RRSP contributions, alimony payments, carrying charges, childcare expenses, and employment expenses, among others. Approval of the tax waiver by the CRA usually takes about six weeks; therefore, for the 2016 tax year you should start applying in late October/ early November 2015.

Tax Planning For Business Owners

Consider an Individual Pension Plan

As a shareholder and an employee of your business, you have the option of considering an Individual Pension Plan (IPP) as a method of saving for retirement. An IPP is a registered defined benefit pension plan, similar to many large company sponsored plans, except it is established and sponsored by your company and designed for you as the only member. IPPs generally have only one plan member except certain family members may also participate if they are employees of the company.

In order to establish a plan you must receive employment income from your company which is reported on a T4. An IPP is most suitable for those who have significant T4 income and are at least forty years of age.

If your company is incorporated and you are looking for both year-end corporate income tax deductions and a structured retirement savings plan for yourself, consider establishing an Individual Pension Plan (IPP). Speak to your RBC advisor if you require more information on the benefits and considerations of an IPP and to learn how RBC can help you establish an IPP.

Pay Salaries/Dividends Before Year-End

If you operate your own business then consider paying salaries to yourself and family members before year-end. This year-end payment will give your family member earned income so they can make an RRSP contribution the following year. The payment will also give your business a tax deduction in the current year. The salary paid must be reasonable based on the services performed by your family member. A good rule of thumb is to pay your family member what you would have paid someone who isn't related to you.

If your incorporated business has family member shareholders in a lower tax bracket, consider paying them a dividend to income split. Depending on their province of residence, adult children or spouses with no other income can receive between $9,000 and $50,000 in eligible dividends without triggering tax.

Declare a Bonus Before Year-End

If you are a business owner and require income, declare a bonus before the end of your corporation's tax year and pay the amount no later than 180 days after year-end. Assuming your corporation's year-end is December 31, if your corporation declares a bonus on December 31, 2015, it will get a tax deduction for 2015 and the tax you will have to pay will be deferred if you receive it at the beginning of 2016.

Please contact us for more information about the topics discussed in this article.

Shareholder Loans

If your business loaned you money, ensure that the loan is repaid before the end of the year after the year the loan was granted to avoid having to include the value of the loan as income on your personal tax return.

Purchase Assets for Your Business

If you intend on purchasing assets for your business (i.e., computer, furniture, equipment, etc.), you should consider making this purchase before year-end. If the asset is available for use, this year-end purchase will allow the business to claim depreciation on the asset for tax purposes. However, generally only half of the regular allowable depreciation can be claimed for tax purposes in the first year of an asset purchase.

Conclusion

This article covers some common individual tax planning strategies that you should consider before year-end. For more information on any of these topics, please speak with your RBC advisor.

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