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TaxNewsFlash Canada

2018 Personal Tax — Time Sensitive Tips

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Now that the year is winding down, you may want to assess your finances and consider ways to improve your tax position. Remember, several major tax changes were introduced in 2018 and they could affect you if you own a private company. Although some of these changes have already impacted certain taxpayers, others won't begin to apply until 2019. As a result, you should consider available opportunities and planning choices before the end of this year to ensure you are dealing with these changes in a tax effective manner.

Below, we have included a checklist to help you make sure you are making the most of your potential tax savings opportunities for 2018. The checklist is broken down into sections that look at some key deadlines, your investments, your family's tax situation and your retirement and estate planning. Keep these in mind to save taxes in 2018.

While these suggestions can be helpful both at year-end and when you file your tax return, don't forget to consider effective tax planning all year round.

See the appendix on the last page for a list of the 2018 top marginal income tax rates for individuals in each province and look at TaxNewsFlash-Canada *No. 2018-42, "Making the Most of your Charitable Planning" for information about the tax savings available to you when you make donations to charities.*

Key Tax Deadlines

☐ Are you meeting deadlines for 2018 savings?

If you plan to make payments that may be eligible for tax deductions or credits on your 2018 income tax return, you'll need to make many of these payments by December 31, 2018. Other payments due during the first 60 days of 2019 may also be eligible for 2018 tax savings.

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

Payments due by December 31, 2018

- 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 2018 (you will also have to wind up your RRSP by this date).

Payments due by January 30, 2019

- 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, 2019

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

Payments due by March 1, 2019

- Deductible contributions to your own RRSP or a spousal RRSP
- Contributions to provincial labour-sponsored venture capital corporations

RRSP repayments under a Home Buyers' Plan or a Lifelong Learning Plan.

Your Investments

☐ Do you hold your investments in a corporation?

If you have passive investment income earned through a private corporation that operates an active business, you may be adversely affected by the new passive investment income rules. If these rules do affect you, remember that they will generally apply to tax years that begin after 2018. As a result, you need to consider if there is any planning that you should implement before December 31, 2018. Under these new rules, the small business deduction is reduced on a straight-line basis for affected companies with between $50,000 and $150,000 of investment income, so that the small business deduction is completely eliminated for corporations earning passive investment income of $150,000 or more. Because these new rules apply to associated corporations and certain related corporations, isolating passive investments in a separate corporation may not prevent a reduction to a company's small business deduction. Also, under the new rules, a private company will need to pay non-eligible dividends to obtain dividend refunds of certain taxes that could previously have been refunded when an eligible dividend was paid.

☐ Have you maximized your TFSA contribution yet?

You can contribute up to $5,500 to a TFSA for 2018, as long as you are 18 or over and resident in Canada. If you have not made any TFSA contributions in previous years, and you are 27 or older in 2018, you may be able to contribute a total of $57,500. Now is also a good time to contact your investment advisor to determine whether it is more beneficial for you to own dividend paying stocks or stocks that are expected to appreciate quickly, in your TFSA. If you need to withdraw funds from your TFSA, consider withdrawing funds in 2018 rather than deferring to early 2019 because withdrawals from a TFSA are not added back to your TFSA contribution limit until the beginning of the year following the year you made the withdrawal.

☐ Have you considered selling your investments with 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 past three 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 2018 trades, consider completing all trades on or before December 21, 2018 and be sure to confirm the settlement date with your broker. On the other hand, if you have investments with unrealized capital gains that cannot be offset with capital losses, consider selling those investments after 2018 so that you will be taxed on the income in 2019 instead of 2018. Of course, tax considerations should not override investment decisions.

Family tax considerations

☐ Have you thought about family income splitting?

The CRA's low prescribed interest rate offers an opportunity to enter into income splitting loan arrangements with family members or a family trust. By locking in a family loan at the 2% rate before the end of the last quarter in 2018, and by having the family member or family trust 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 2% to be taxed at the lower-income-earning family member's tax rate while the loan is outstanding.

Note that income splitting loans between an individual and a private company may be subject to the new Tax on Split Income (TOSI) rules.

☐ Can you benefit from the Canada Child Benefit?

Make sure that you and your spouse (or common law partner) file your tax returns for 2018 — the Canada Child Benefit is based on a family's income from the previous year. The CRA needs your tax return from 2018 to determine whether you qualify for the benefit for the July 2019 to July 2020 period. You must file your income tax return every year to receive the benefit. Remember, you can qualify for some Canada Child Benefit payments even if you are a higher-income earner, depending on how many children you are raising, their age, and your adjusted family net income.

☐ Moving to a new province?

If you are planning on moving to another province, remember that your province of residence on December 31, 2018 may be the one that you pay your taxes to for all of 2018. 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, 2018. Please see the Appendix at the end of this document for all the provinces' top marginal tax rates for individuals.

☐ Have you sold your principal residence?

If you sold your primary residence this year you must report certain information about the sale on your 2018 personal income tax return. Keep any documents related to the sale on-hand for when you prepare your personal income tax return. Failing to report the sale may cause the sale to become taxable because you will not qualify for a “principal residence exemption” on any capital gain that arises 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 ($26,230 for 2018 and $26,500 for 2019)
- A percentage of your previous year's "earned income" (18%)
- 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, 2019 to make your RRSP contribution for 2018.

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 combined top marginal tax rate is 54%), a $1,000 RRSP contribution only costs you $460 after tax savings.

☐ Is it time to wind-up your RRSP?

If you turned 71 in 2018 you need to wind-up your RRSP. Remember that you only have until December 31, 2018 to make a contribution to your RRSP for 2018 (and not March 1, 2019).

Administrative Considerations

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

If you drive an automobile that is owned or leased by your employer, you might be able to reduce the taxable benefit for your use of the car in 2018. The taxable benefit is made up of two elements: a stand-by charge and an operating-cost benefit. The stand-by charge is based on the cost of the automobile to your employer (or the leasing cost, if it is leased). 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 2018 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 2018 at the end of February 2019.

The taxable benefit for operating costs is 26¢ per kilometre of personal use for 2018. 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, 2019 deadline.

☐ Have you paid your personal tax instalments?

If you have to pay your 2018 personal tax in instalments, avoid interest and penalty charges by paying your final instalment by December 15, 2018. If you're behind on your 2018 instalments, you can reduce or eliminate non-deductible interest and penalties by making a "catch-up" and advance payment now (or any time before December 15). If you make an extra or early instalment payment, you can offset some or all of the non-deductible interest that you would have otherwise been assessed.

☐ Do you need to make a taxpayer-relief request?

You have until December 31, 2018 to make a taxpayer-relief request related to 2008. The December 31 deadline specifically applies to relief requests that relate to the 2008 tax year and any reporting period that ended during the 2008 calendar year, as well as any interest that accrued during the 2008 calendar year for any tax year or reporting period.

We can help

It's true that you only have to file your tax return once a year, but taking tax planning steps throughout the year will help you save money at tax time. Your KPMG advisor can help you review your personal or business tax situation and help you decide which steps you can take before the year-end to help you with the taxes you'll pay for 2018.

For details, contact your KPMG advisor.

Appendix

		Interest and Regular Income	Capital Gains[1]	Eligible Dividends	Non-eligible Dividends
British Columbia		49.80%	24.90%	34.20%	43.73%
Alberta		48.00	24.00	31.71	41.64
Saskatchewan		47.50	23.75	29.64	39.60
Manitoba		50.40	25.20	37.79	45.92
Ontario		53.53	26.76	39.34	46.84
Quebec[2]	Amounts received before March 28, 2018	53.31	26.65	39.83	43.94
	Amounts received after March 27, 2018	53.31	26.65	39.89	44.83
New Brunswick		53.30	26.65	33.51	46.88
Nova Scotia		54.00	27.00	41.58	47.33
P.E.I.		51.37	25.69	34.23	44.26
Newfoundland and Labrador		51.30	25.65	42.62	43.81

Notes

(1) The lifetime capital gains exemption limit for qualified farm property, qualified fishing property and qualified small business corporation shares increased to $848,252 (from $835,716) for 2018. An additional lifetime capital gains exemption of $151,748 is available for qualified farm or fishing property disposed of in 2018.

(2) Quebec's 2018 budget proposed changes that could change the effective tax rates for eligible and non-eligible dividends received after March 27, 2018. It is uncertain whether these changes will be legislated as the Coalition Avenir Québec (CAQ) Party was elected to replace the Quebec Liberal Party on October 1, 2018. The 2018 budget tabled by the Quebec Liberal Party on March 27, 2018 was not passed into law before the election.

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