The Navigator

Wealth Management

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC WEALTH MANAGEMENT SERVICES

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2017 tax preparation reminders

With the 2017 personal income tax return filing deadline fast approaching, this is a great time to see if you are taking advantage of all the tax benefits to which you are entitled. The following are items you may want to consider when preparing your 2017 personal income tax return. Please note that any reference to a spouse in this article also includes a common-law partner.

Filing deadlines

- Generally, the deadline for filing your 2017 income tax return with the Canada Revenue Agency (CRA) is April 30, 2018. If you or your spouse were self-employed, you will have until June 15, 2018 to file your tax return. Regardless of your filing deadline, your taxes owing for 2017 should be paid on or before April 30, 2018.
- To avoid a late-filing penalty, file your tax return on time, even if you are unable to pay the taxes you owe. The late-filing penalty is a minimum of 5% of the balance owing on your return, plus a further penalty of 1% of the unpaid tax, multiplied by the number of full months the return is not filed (to a maximum of 12 months). The late-filing penalty may be more if you have late-filed in the past.
- If you do not pay your balance owing by April 30, 2018, the CRA will charge compound daily interest on any unpaid amounts at the CRA prescribed interest rate. The CRA will also charge interest on the penalties starting the day after your return is due. If you are self-employed, the CRA will charge compound daily interest on unpaid Canada Pension Plan contributions and employment insurance premiums, if applicable, until you pay all of the amounts owing.
- There is no penalty for late filing if you are entitled to a refund or if you do not owe any tax.

Capital gains and losses

- If, after netting your capital gains and losses realized in the year, you have excess capital losses, consider completing the CRA Form T1A, *Request for Loss Carryback* to carry back the remaining capital losses to offset any capital gains that you have reported in any of the three previous tax years. By doing so, you may receive a refund of some of the taxes you paid in the previous years.
- If you have a taxable capital gain in the year, determine whether you have any unused net capital losses available carried forward from previous years. You may be able to apply these losses against your current year capital gains to reduce your taxes payable.

If you sold your principal residence (or are deemed to dispose of your principal residence) in 2017, you must report the sale on Schedule 3, Capital Gains (or Losses) of your income tax return for the year. You also need to make the principal residence designation in Schedule 3 if you wish to claim the principal residence exemption.

- If you had any securities in a non-registered account that ceased to have value during the year, you should consult a qualified tax advisor to determine whether they are considered "worthless" for tax purposes. If so, you may be eligible to claim a capital loss.
- If you donated a publicly-traded security with an accrued capital gain in-kind to a qualifying charity, you will receive a donation tax receipt for the fair market value of the security and the capital gain may not be taxable to you. Complete the CRA Form T1170, *Capital Gains on Gifts of Certain Capital Property* to calculate the adjusted capital gains on your gifts of publicly-traded securities.
- If you sold securities in the year, verify that the adjusted cost base (ACB) you report on your return is accurate to ensure you are paying the appropriate amount of tax.
- If you sold your principal residence (or are deemed to dispose of your principal residence) in 2017, you must report the sale on *Schedule 3, Capital Gains (or Losses)* of your income tax return for the year. You also need to make the principal residence designation in *Schedule 3* if you wish to claim the principal residence exemption. Where the property was not your principal residence for all of the years that you owned it, you need to complete Form T2091(IND), *Designation of a Property as a Principal Residence by an Individual (Other than a Personal Trust)* to designate the property as your principal residence for the qualifying years and calculate the resulting capital gain.

Pension income splitting

- Consider splitting up to 50% of your eligible pension income with your spouse to lower your overall family tax bill. The pension income splitting rules allow you to allocate certain types of pension income to your lower income spouse so the income is taxed in their hands at their lower marginal tax rate. By splitting your pension income, you may also avoid the Old Age Security (OAS) clawback or the reduction of other income-tested government benefits.

  To split the qualifying pension income you and your spouse have to make a joint election on the CRA Form T1032, *Joint Election to Split Pension Income*. If one spouse passes away during the year, it is still possible to split the pension income. The maximum amount that could be split would be 50% of the eligible pension income, prorated by the number of months (including any part month) that both spouses were alive. For example, if you received eligible pension income for the current year of $60,000 and you had a spouse who died in April of this year, the maximum amount of your pension income that could be split and included on your deceased spouse's terminal return would be $10,000 ($60,000 x 50% x 4/12). You and the legal representative of the deceased spouse must complete and sign this election form.
- If you or your spouse received eligible pension income, you may be eligible for a federal pension income tax credit of up to $2,000. If your spouse does not need to claim all of the credit in order to reduce their federal taxes to zero, they may transfer any unused amount to your return.

Tax credits and deductions

- A federal donation tax credit of 15% is available on the first $200 of charitable donations; for amounts over this level the credit rises from 15% to 29%. To the extent that you have taxable income that is subject to tax at 33%, you can receive a federal donation tax credit at a rate of 33% on donations in excess of $200. To maximize tax savings, you and your spouse can

combine charitable donations and claim them on the higher income spouse's tax return.

- Generally, in order to claim a medical expense tax credit, your eligible medical expenses have to be more than 3% of your net income or $2,268, whichever is less. Any amount above this threshold is eligible for the non-refundable credit. As such, to maximize tax savings, consider claiming your family's medical expenses together on the lower income spouse's tax return, assuming that the lower income spouse is required to pay at least some taxes.
- If you, your spouse, or your dependants are suffering from a prolonged and severe mental or physical impairment, you may be eligible to claim the Disability Tax Credit (DTC). To determine eligibility, you will need to complete the CRA Form T2201, *Disability Tax Credit Certificate* with a medical practitioner and submit it to the CRA for approval.
- If you have a child or grandchild that is attending a qualifying educational institution, they may be eligible for tuition credits. If your child or grandchild has little or no income and is therefore unable to use some or all of these credits, they can transfer up to $5,000 of credits to you. You must use the transferred credits in the year the expenses are incurred. If the amounts are not transferred, your child or grandchild can carry forward unused credits to future years in which they have taxes payable. Please note that the education and textbook credits have been eliminated effective January 1, 2017. Students will still be able to carry forward any unused education and textbook credit amounts to 2017 and subsequent years.
- You may be able to deduct a portion of the child care expenses you incurred to earn employment or business income, pursue education or perform eligible research. For example, payments made to caregivers, day nursery schools, daycare centres, and education institutions (for the part of the fees that relate to child care services) qualify for the deduction. The maximum deduction is $8,000 for each child under the age of seven, $5,000 for each child between the ages of seven and sixteen (where the child turned sixteen in the year), and $11,000 for children who are eligible for the DTC. Generally, the lower income spouse should claim this deduction.
- If you purchased certain public transit passes (i.e., monthly passes or passes of longer duration) for unlimited travel within Canada, you may be able to claim a 15% non-refundable federal tax credit for the cost of the passes. The passes must be used by you, your spouse or your children (or children of your spouse) who are under 19 years old. You should keep your receipts and passes as proof of purchase to substantiate your claim for this tax credit. The 2017 budget eliminated this non-refundable public transit credit for amounts paid after June 2017.
- There are additional credits and deductions that could potentially reduce your tax bill. Speak to your qualified tax advisor to ensure you are claiming all the credits and deductions that you are entitled to.

Reorganizations

- If you received a taxable foreign dividend in the year as a result of an eligible foreign spin-off, consider filing a section 86.1 election with your tax return to treat the dividend as non-taxable. By making this election, you may allocate the cost of your original shares between your original shares and the spin-off shares. Consult with a qualified tax advisor to determine whether the foreign spin-off is eligible for this election.
- If a security you hold undergoes certain types of reorganizations, you may be able to defer the tax consequences by filing the appropriate election. For example, a subsection 85(1) election allows you to exchange your old shares for new shares of an acquiring corporation on a tax-deferred basis where the transaction meets certain conditions. Consult with your qualified tax advisor to determine whether the reorganization is eligible for tax-deferred treatment.

Foreign reporting requirements

- If you owned specified foreign property with a total cost of more than $100,000 (Canadian) at any time during the year, you are required to complete the CRA Form T1135, *Foreign Income Verification Statement*. Among other items, specified foreign property includes shares of foreign corporations, even if held in a Canadian investment account, foreign mutual funds and exchange traded funds listed on a foreign exchange. This form is due by your filing deadline. The penalty for failing to file this form on time is $25 per day, subject to a minimum penalty of $100 and a maximum penalty of $2,500.

Other considerations

- Issuers such as income trusts, mutual funds and limited partnerships tend to issue tax slips later than most other investments. You may want to delay filing your tax return until closer to your tax filing deadline to ensure you have received all of the information you need to file a complete return.
- Even if you did not receive a tax slip or a tax slip was not issued to you because you earned less than $50 of investment income during the year, you must still report all of your

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investment income earned during the year on your tax return.

- If you received a tax refund from the CRA for the prior year, check your 2016 Notice of Assessment to determine if you received any interest on your refund. If you have, you will need to report this interest as income on your current year tax return.
- If you receive a tax slip after filing your tax return, be sure to report the missed income as soon as you can by amending your tax return. Failure to report income may result in penalties.
- After filing your income tax return, be sure to keep the supporting documents in a safe place. Generally, you should keep these documents for at least six years after the end of the tax year to which the documents relate. If the CRA selects your return for review, you will need these records to support your claims.
- The CRA has a service available called My Account for individual taxpayers. This online service allows you to view previous returns, certain tax slips, RRSP room, TFSA room and more. If you have not already done so, speak with your tax advisor about signing up as it will allow you to view your tax information immediately and may help you when filing your 2017 tax return.

Conclusion

While there are numerous tax planning strategies you may implement during the year, this article highlights key points that you should be aware of when preparing your tax return. For more information about any of the tips mentioned in this article, please talk to your RBC advisor. It is also recommended that you speak with your qualified tax advisor for help in preparing your income tax return.

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Wealth Management

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