Wealth Management

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC WEALTH MANAGEMENT SERVICES

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Early 2019 tax tips

When the end of the year approaches, many individuals turn a greater focus to tax planning to minimize their income tax liability. Beyond the end of the year, however, there are some areas of tax planning that often get neglected. For example, there are tax planning strategies that may only be available early in the new year. With that in mind, this article summarizes some of the strategies that have deadlines in early 2019.

2018 RRSP contribution deadline

The deadline for you to make a contribution to a Registered Retirement Savings Plan (RRSP) that can be claimed as a 2018 tax deduction is generally the 60th day after the year-end, which falls on March 1, 2019.

If you don't have sufficient cash on hand to make an RRSP contribution, you can consider making an in-kind contribution of eligible securities from your non-registered account to your RRSP or to a spousal RRSP. If the securities are in a gain position, you will realize a capital gain when you make the contribution. Also be aware that you may not want to contribute a security in-kind that's in a loss position, as your ability to claim that loss will be denied.

Alternatively, depending on your specific circumstances, you may want to consider borrowing funds to make an RRSP contribution. It's important to note that using borrowed money to finance a purchase of securities involves greater risk than a purchase using your existing resources. Your responsibility to repay the loan and pay interest as required by its terms remains the same even if the value of the securities you purchased declines. Further, the interest paid on money borrowed to make an RRSP contribution is not deductible for tax purposes.

2019 RRSP contribution room

It's generally a good idea to contribute to your RRSP as soon as possible to maximize the tax-deferred growth in your plan and to avoid the stress of trying to meet a last-minute deadline. Keep in mind that January 1 is the earliest day you can make a 2019 RRSP contribution using the new room that's created from your prior year's earned income without triggering an over-contribution penalty.

If you want to make an RRSP contribution early in the 2019 calendar year, you may need to estimate your 2019 RRSP deduction limit. This is because you may not have received your 2018 notice of assessment (NOA), which provides a statement of your 2019 RRSP deduction limit. To estimate your 2019 RRSP deduction limit, take 18% of your previous year's (2018) earned income up to the RRSP dollar limit of $26,500 for 2019, and subtract any 2018 pension adjustment.

If you're unsure of your earned income for 2018 or the results of your calculation, you should wait until

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you receive your 2018 NOA from the Canada Revenue Agency (CRA).

Tax-Free Savings Account (TFSA)

Consider making a contribution to your TFSA early in the 2019 calendar year to maximize the tax-free growth in your plan. The TFSA contribution limit (per year) was $5,000 for the years 2009 to 2012; $5,500 for 2013 and 2014; $10,000 for 2015; $5,500 for 2016, 2017 and 2018; and $6,000 for 2019. If you've been eligible to open a TFSA since 2009 and have not yet contributed to one, your contribution limit would be $63,500 as of January 1, 2019.

If you didn't use your contribution room in a previous year, the unused room is carried forward indefinitely. In addition, if you withdrew an amount from your TFSA (that's not a withdrawal of excess TFSA contributions) in 2018, you can re-contribute this amount to your TFSA as of January 1, 2019. Any prior year withdrawal (that's not a withdrawal of excess TFSA contributions) is added back to your TFSA contribution room for the following year. Be extra careful when calculating your room when re-contributing to your TFSA, as the CRA can charge penalties for over-contributions.

If you don't have sufficient cash on hand to make a TFSA contribution, you can consider making an in-kind contribution of eligible securities from your non-registered account to your TFSA. As with RRSPs, if you contribute securities that are in a loss position, you won't be able to use the loss to offset your capital gains. If the securities are in a gain position, you will realize the gain for tax purposes in the year of contribution.

Family income-splitting loans

A potential way to split income with family members involves setting up a prescribed rate loan with your spouse, adult family members or minor children through a family trust. If you've previously set up a prescribed rate loan, it's critical that the annual interest on the loan be paid on or before January 30, 2019. The borrower, whether they are your spouse, your other family members or family trust should issue a payment from their account to yours. A cashed cheque may provide evidence that the interest was paid and received by you.

If you miss the January 30 deadline, attribution may apply to you, the lender, for the 2018 taxation year and all future years that the loan is in place. This would defeat the purpose of setting up this type of income-splitting strategy, since the income and/or capital gains may be taxed in your hands.

Eligible retiring allowance

If you received a retiring allowance in 2018, you have until March 1, 2019, to transfer the eligible portion to your own RRSP without affecting your RRSP contribution room. This transfer will allow you to defer taxation on the eligible retiring allowance received until it's withdrawn from your RRSP in the future. Keep in mind that your eligible retiring allowance can't be transferred to a spousal RRSP.

Unlike regular unused RRSP deduction room that you can carry forward each year, if you don't transfer your eligible retiring allowance by March 1, 2019, you will lose the opportunity to do so forever. That said, if your eligible retiring allowance is paid to you over two years, for example in 2018 and 2019, you will still be able to transfer the portion received in 2019 to your RRSP any time in 2019 or early in 2020.

Labour-sponsored venture capital corporations (LSVCCs)

A strategy for reducing your 2018 income tax liability after the year-end that you may want to consider is purchasing approved shares of LSVCCs. If you're the first registered holder of the approved share, you may be able to take advantage of the 15% federal tax credit on investments up to $5,000 per year. This translates to a maximum federal annual tax credit of $750. An additional provincial tax credit may also be available depending on your province or territory of residence and the type of approved share you purchase. You can purchase LSVCCs in your registered and non-registered accounts.

If you purchase an LSVCC at the beginning of the year, you can choose to claim the credit on your previous year's tax return. For example, if you acquire $8,000 of approved shares between January 1, 2019, and March 1, 2019, you are allowed to report $5,000 of that amount and claim the $750 credit on your 2018 income tax return. You are also allowed to report the remaining $3,000 on your 2019 return and claim a $450 tax credit for that year.

Keep in mind that the tax advantage of purchasing an LSVCC must be weighed against the investment merits (generally higher risk) and the requirement to hold the investment for a set time period, often eight years. If the shares are sold before this holding period has expired, you may need to repay the tax credits you received. Speak with an RBC advisor to determine if investing in an LSVCC may be suitable for you.

Locked-in plan conversion

If you have a locked-in plan such as a locked-in retirement account (LIRA) or a locked-in RRSP and are planning to convert it to a life income fund (LIF) or restricted life income fund (RLIF) in 2019, you may want to consider doing so in January 2019, rather than later in the year. This is because the maximum payment available in the first year of the plan may be prorated based on the months remaining in the current year, with any part month being equal to a full month, depending on which jurisdiction governs your locked-in plan. As such, converting to a LIF or an RLIF in the first month of the year may allow you to ultimately withdraw more funds for that first year.

Note that in the calendar year when the locked-in plan is converted to a LIF or an RLIF, there's no minimum payment that must be withdrawn.

Fixed-income purchases

When you purchase interest-accruing securities, such as T-Bills or strip bonds, in a non-registered account, consider purchasing ones with a January maturity date to maximize the tax-deferral on interest accruals. Even though you only receive the proceeds when you sell the security or the security matures, the Canadian tax rules require that you report the accrued interest annually based on the anniversary date of the security. The anniversary date is every calendar year on the day before the issue date. For example, a strip coupon issued on January 16, 2019, has its first anniversary on January 15, 2020.

Assume you purchase that strip coupon on January 16, 2019, with a January 16, 2021 maturity date. You are required to report the accrued interest from January 16, 2019, to January 15, 2020, on your 2020 income tax return. Since you purchased the fixed-income instrument after the anniversary date, you have no interest to report in 2019, the year of purchase.

Ensure that the tax advantages of timing your non-registered account fixed-income purchases do not override the investment merits of the fixed-income instrument.

Mutual fund purchases

When you purchase a mutual fund part way through the year, the purchase price includes any accumulated income and gains that have not yet been distributed. When the fund makes a distribution, the distribution includes these accumulated earnings and is fully taxable even though you purchased the accumulated earnings with your after-tax dollars. One way to avoid receiving this distribution is to simply purchase the fund after the distribution date. If you delayed purchasing mutual funds last year to avoid the year-end distributions, consider purchasing mutual funds early in the new year.

Review your portfolio with your RBC advisor to determine if the mutual fund purchase makes sense for you.

Business owners

Paying a bonus

If your corporation declared a bonus in 2018, remember to pay that bonus within 179 days after the corporation's year-end. Canadian tax rules allow a corporation to deduct a bonus declared to an employee on the corporation's previous year's tax return, as long as the bonus is paid within 179 days after the corporation's year-end. The employee must report the bonus on their personal tax return in the year they receive the bonus.

For example, assume your corporation has a December 31, 2018 year-end. It can pay you a bonus in January 2019 for services rendered in 2018. Your corporation can deduct this bonus on its 2018 corporate tax return and you will report this bonus on your 2019 tax return.

T4 filing deadlines for employers

If you have employees in your business or you employ a nanny or babysitter, you must file the appropriate T4 forms to the CRA by February 28, 2019. A copy of the T4 slip must also be delivered or mailed to your employee(s) by this date. If you, as an employer, fail to file the appropriate T4 forms to the CRA by this deadline, you may be subject to penalties.

Sale of private company shares

You may have disposed of "qualified small business corporation" shares in 2018 and realized capital gains that cannot be fully exempt under the $848,252 (2018 threshold) lifetime capital gains exemption. If this is the case, you may be able to defer all or some portion of the taxable capital gains if you reinvest the proceeds in a new eligible small business corporation any time in the year of disposition or within 120 days after the end of that year. As these deferral rules are complex, it's crucial to consult with

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

a qualified tax advisor if you intend to explore this option.

Deadline for corporate taxes

Generally, corporate taxes are due two months after the corporation's year-end. If your corporation's year-end is December 31, 2018, you'll need to pay the remainder of the tax your company owes by February 28, 2019. The corporate taxes can be due three months after the corporation's year-end (e.g. March 31, 2019, for those with a December 31, 2018 year-end) in certain circumstances.

Conclusion

This article covers some common tax planning strategies and reminders that you may want to consider early in the new year. For more information on any of these topics, please speak with your RBC advisor or a qualified tax advisor.

This article may contain several strategies, not all of which will apply to your particular financial circumstances. The information in this article is not intended to provide legal, tax, or insurance 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, legal, and/or insurance advisor before acting on any of the information in this article.