The Financial Corner with Joanne Vesprini

A quarterly newsletter filled with practical wealth management advice to help understand various aspects of financial well-being.

Winter 2017

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Mukteshwar, India

My thoughts,

As the year draws to a close it's time to reflect and to ask some important questions. Here are some of the events of the past year to reflect on; Donald Trump was sworn in as the US President, the start of Brexit negotiations, German & French Presidential elections, Saudi severe ties with Qatar, tensions rise between the US & North Korea, Myanmar's Rohingyas flee the country, Catalonians vote for independence, Hurricane Irma devastate parts of Florida and Puerto Rico, the Las Vegas shooting, the solar eclipse, terrorist attacks in NY, Barcelona, Paris, England and St. Petersburg, Zimbabwe's President Mugabe resigns after 37yrs as ruler.

While all this was happening the US stock market hit records highs and the Japanese stock market reached levels not seen in 25years.

We are approaching the tenth anniversary of the 2008 global financial crisis. So what will 2018 hold for us? We will certainly hear more about blockchain technology, cryptocurrencies, disruptors, cannabis, electric vehicles, Russian & Irish & Czech presidential elections, Artificial Intelligence (AI) and the convergence of technology and health care.

I think the question most prudent investors are asking is how long can this expansion phase last and when will we see the business cycle turn down?

Our RBC Global Portfolio Advisory Committee for 2018 sees a "synchronized upswing in most major economies" and make the observation that "the US is entering an above-average 9th year of expansion" and they continue to monitor several gauges of US recession risk. Most investors know it's difficult to accurately predict a recession and wise, non-greedy investors can plan for one. If you're not sure how to do that, then please ask me.

I wish you all the best over the holidays with your family and friends and a healthy start to the new year.

Joanne

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Quarterly Tax Instalments

What Are Instalments and When Are You Required to Pay Them?

Instalments are periodic income tax payments that are paid to the Canada Revenue Agency (CRA) by certain dates (March 15, June 15, September 15 and December 15). The CRA requires that your income tax liabilities be paid by instalments throughout the calendar year in which you are earning the income as opposed to making a lump sum payment on April 30 of the following year if your net tax owing (i.e. the amount due on your tax return) is more than $3,000.

a) in the current tax year; and

b) in either of the two preceding tax years.

Calculating Your Instalment Payments

The CRA mails instalment reminders in February and August. These reminders suggest an amount to pay, and provide you with payment options and deadlines for making the payments.

- the no-calculation option;
- the prior-year option; and
- the current-year option.

The instalment reminders sent to you from the CRA are based on the no-calculation option. If you make instalment payments under the no-calculation option by paying the amounts on the instalment reminders by the due dates, the CRA will not charge instalment interest or a penalty, even if the total of the payments is less than the total amount of tax you owe.
Caution: If instead, you choose to calculate your tax instalment requirements using the prior-year or current-year option and your total instalment payments end up being less than the required amount or they are late, you may be subject to instalment interest or penalty charges. Any instalment interest and penalty charges that apply will show on your 2012 Notice of Assessment or Notice of Reassessment.

Should I Just Make the Instalment Payments Suggested bythe CRA?

If your income, deductions and credits stay about the same from year to year, then the no-calculation method may be best for you, and you should simply pay the suggested amount indicated by the CRA on the instalment reminders. However, if your current-year income, deductions and credits are significantly different year to year, you may want to consider the other two instalment options, which may ensure that you do not overpay your tax during the year or have a large amount of tax to pay when you file your return.

When to consider using another instalment option:

- If your 2012 income, deductions and credits will be similar to your 2011 amount but significantly different from those in 2010, you may want to use the prior-year option.
- If your 2012 income, deductions and credits will be significantly different from those in 2010 or 2011, you may want to use the current-year option.

Request or Increase Tax Withholding

You may want to reduce the amount of your instalment requirements, or eliminate the need for them completely, by requesting tax withholding or by increasing the amount of tax currently being withheld. Note that income tax cannot be withheld on certain types of income such as self-employment, investment and rental income, and capital gains.

If your tax situation is complex, you may want to have your tax advisor estimate your tax liability for the year. If you have any questions regarding your requirement to make tax instalment payments, you should contact your personal tax advisor.

Financial planning checklist for seniors – Part 1

Preserving and growing your wealth means taking advantage of tax, investment and estate planning strategies. While some strategies are available throughout your lifetime, others are available only after the age of 65. The following checklist discusses financial planning considerations for seniors and offers an overview of commonly used strategies. 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 and/or legal advisor before acting on any of the information in this article. In this issue we will be covering the topics of Income Splitting, Tax Minimization Strategies, Government Benefits and Tax Credits.

Income Splitting

Pension Income Splitting: If your spouse has a lower marginal tax rate, consider splitting eligible pension income with them to reduce your family's overall tax bill. Eligible pension income includes life annuity payments from a registered pension plan and, when you are 65 years or older, also includes withdrawals from your RRIF and LIF accounts. Withdrawals from your RRSP are not considered eligible pension income. Generally, you can allocate up to 50% of your eligible pension income to your spouse.

Spousal RRSP Contribution: If you project your retirement income to be higher than that of your spouse, consider making contributions to a spousal RRSP. If you are already retired, but still have unused RRSP contribution room and your spouse is not yet 71, you can continue to make spousal RRSP contributions even if you, yourself, are over 71. Making a spousal contribution will provide you with a deduction on your tax return and help you equalize your family's future retirement income.

Pension Sharing: If you and your spouse are both 60 years of age or older and are receiving or are eligible to receive the Canada Pension Plan (CPP) or the Quebec Pension Plan (QPP) benefits, consider sharing your pension with your spouse. By electing to share your pensions, a portion of the higher income spouse's pension may be received by the lower income spouse and taxed in their hands.

Tax minimization strategies

Forgotten RRSP Contribution: If you are turning 71 this year and are still earning RRSP contribution room or have unused room carried forward, consider making a final RRSP contribution (based on your earned income for 2017) by December 31, 2017, before converting to a RRIF. Although you will be subject to a 1% overcontribution penalty for the month of December, the benefit of the tax-deferral and compounding growth in the RRIF may outweigh the penalty.

Tax-Free Savings Account (TFSA) Contribution: Consider contributing to your TFSA. The annual TFSA contribution limit for 2017 is $5,500. Any income earned (including capital gains) in the TFSA and any withdrawals you make from the account are generally tax-free and do not affect your federal government incometested benefits such as Old Age Security (OAS) and the Guaranteed Income Supplement (GIS). The income you earn or withdrawals you make will also not impact your entitlement to federal tax credits such as the age amount. The TFSA can also be used to shelter money that you may not currently need. For example, if you do not require your entire mandatory minimum RRIF payment to fund your expenses, consider contributing any excess after-tax amount to your TFSA. If you have never contributed to a TFSA before, your contribution room could be as high as $52,000 in 2017.

Use Your Spouse's Age for RRIF Minimum Payments: By the end of the calendar year in which you turn 71, you are required to convert your RRSP into a RRIF, purchase an annuity with the RRSP assets or take the value of the RRSP as a taxable lump-sum payment. If you choose to convert to a RRIF, have a younger spouse, and do not need the mandatory annual minimum RRIF payments, consider using your younger spouse's age when setting up the RRIF to minimize your taxable RRIF withdrawals.

Government benefits

Old Age Security: OAS benefits are available to anyone 65 years of age or older who meets the eligibility requirements. The amount of your OAS pension will be determined by how long you have lived in Canada after age 18. You can postpone receiving your OAS payments for up to five years and in turn receive a higher OAS monthly payment. The maximum benefit for January to March, 2017 is $578.53 per month. This income-tested benefit is clawed back at a rate of $0.15 for every $1 of net income over $74,788 and is fully clawed back once your net income reaches $121,071. If your OAS is clawed back this year due to a unique one-time taxable transaction (for example, a large severance payment or a large capital gain from selling your business or real estate property), your OAS payments beginning in July of the following year will also be reduced. If you expect your net income for the next year to be substantially lower than your income for this year, you can submit a request to the CRA to have Service Canada reduce the amount withheld on your future OAS pension payments. You can submit the request by completing CRA Form T1213 (OAS), Request to Reduce Old Age Security Recovery Tax at Source.

Canada Pension Plan and Quebec Pension Plan: If you have ever worked in Canada, you may be eligible to receive CPP or QPP payments. The CPP and QPP payments are based on your past contributions to these programs and are not income-tested. You can start receiving CPP and QPP as early as age 60 but you will receive a reduced pension in this case. The monthly amount you receive will be reduced by a certain percent for each month you receive your pension before age 65. You are also able to delay receiving your CPP or QPP pension in order to receive an increased monthly amount. Your pension will be increased by a certain percent for each month you delay receiving it up to age 70.

Tax credits

Age Amount Tax Credit: If you are 65 years of age or older you may be able to claim the age amount on your tax return. The age amount is a federal non-refundable tax credit of $1,084 (15% of $7,225 for 2017). The credit is reduced by $0.15 for every $1 of net income above $36,430, and is completely eliminated when your net income is $84,597 or higher. You may also be eligible to claim a corresponding provincial or territorial credit. If you do not need to claim all of the credit to reduce your federal taxes to zero, you may transfer any unused amount to your spouse. If you and your spouse cannot use the amount, the amount cannot be carried forward or back to other tax years and will be lost.

Pension Income Tax Credit: You may be entitled to receive a federal non-refundable pension income tax credit on the first $2,000 of eligible pension income you receive in the year. Eligible pension income includes life annuity payments from a registered pension plan and, when you are 65 years or older, also includes withdrawals from your RRIF and LIF accounts. OAS payments, CPP and QPP payments do not qualify as eligible pension income. You may also be eligible to claim a corresponding provincial or territorial credit. If you do not need to claim all of the credit to reduce your federal taxes to zero, you may transfer any unused amount to your spouse. Any unused amount cannot be carried forward or back to other tax years and will be lost.

Our next issue will include details on Trust Planning, Gifting and Estate Planning.

Happy Holidays