

# The Navigator



Wealth  
Management

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC WEALTH MANAGEMENT SERVICES

## Early 2018 tax tips

Many investors are aware of the importance of tax planning near the end of the year to minimize their income tax liability. However, often-neglected areas of tax planning include meeting the important deadlines for implementing tax planning strategies that may only be available early in the new year. The purpose of this article is to summarize some of the strategies that have deadlines in early 2018.

### 2017 RRSP contribution deadline

The deadline for you to make a contribution to a registered retirement savings plan (RRSP) that can be claimed as a 2017 RRSP tax deduction is generally the 60th day after the year-end, which falls on Thursday, March 1, 2018.

If you do not 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. Be aware that you may not want to contribute a security in-kind that is in a loss position as your ability to claim that loss will be denied.

Also, depending on your specific circumstances, it may make sense to borrow funds to catch up on unused RRSP contributions or to fund this year's contribution. It is 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. Remember that interest

paid on money borrowed to make an RRSP contribution is not deductible for tax purposes.

### 2018 RRSP contribution room

It is 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. January 1st is the earliest day you can make a 2018 RRSP contribution using the new room that is created from your prior year's earned income without triggering an over-contribution penalty.

If you wish to make an RRSP contribution early in the 2018 calendar year, you may need to estimate your 2018 RRSP deduction limit. This is because you may not have received your 2017 notice of assessment (NOA) which provides a statement of your 2018 RRSP deduction limit. To estimate your 2018 RRSP deduction limit, take 18% of your previous year's (2017) earned income up to the RRSP dollar limit of \$26,230 for 2018, and subtract any 2017 pension adjustment.

If you are unsure of your earned income amount or the results of your

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If you did not use your contribution room in a previous year, the unused room is carried forward indefinitely.

calculation, you should wait until you receive your 2017 NOA from the Canada Revenue Agency (CRA).

### **Tax-Free Savings Account (TFSA)**

Consider making a contribution to your TFSA early in the 2018 calendar year to maximize the tax-free growth in your plan. The TFSA contribution limit was \$5,000 per year for the years 2009 to 2012, \$5,500 for 2013 and 2014, \$10,000 for 2015 and \$5,500 for 2016, 2017 and 2018. If you have been eligible to open a TFSA since 2009 and have not yet contributed to one, your contribution limit would be \$57,500 as of January 1, 2018.

If you did not use your contribution room in a previous year, the unused room is carried forward indefinitely. In addition, if you withdrew an amount (that is not a withdrawal of excess TFSA contributions) from your TFSA in 2017 or prior years, you can re-contribute this amount to your TFSA as of January 1, 2018. Be extra careful to calculate your room properly when re-contributing to your TFSA as the CRA can charge penalties for over-contributions.

If you do not 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 will not be able to use the loss to offset your capital gains.

### **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 previously set up a prescribed rate loan, it is critical that the annual interest on the loan be paid on or before January 30, 2018.

If you miss the January 30th deadline, attribution may apply to you, the

lender, for the 2017 taxation year and all future years that the loan is in place. This would defeat the purpose of setting up such an income-splitting strategy since the income and/or capital gains may be taxed in your hands. Make sure that your spouse, your other family members or family trust actually issues a payment from their account to yours for the interest payment. A cashed cheque may provide evidence that the interest was paid and received by you.

### **Eligible retiring allowance**

If you received a retiring allowance in 2017, you have until March 1, 2018 to transfer the eligible portion to your own RRSP without affecting your RRSP contribution room. Your eligible retiring allowance cannot be transferred to a spousal RRSP. This transfer will allow you to defer taxation on the eligible retiring allowance received until it is withdrawn from your RRSP in the future.

Unlike regular unused RRSP deduction room that you can carry forward each year, if you do not transfer your eligible retiring allowance by March 1, 2018, 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 2017 and 2018, you will still be able to transfer the portion received in 2018 to your RRSP any time in 2018 or early in 2019.

### **Labour-Sponsored Venture Capital Corporations (LSVCCs)**

A strategy for reducing your 2017 income tax liability after the year-end is to consider purchasing approved shares of LSVCCs. If you are 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 into 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 a LSVCC at the beginning of the year, the CRA allows you to report the credit on your previous year's tax return. If you do not report all or a portion of the amounts on your 2017 return, you are allowed to carry them forward and claim them on your 2018 return. For example, if you acquired \$8,000 of approved stock between January 1, 2018 and March 1, 2018, you are allowed to report \$5,000 of that amount and claim the \$750 credit on your 2017 income tax return. You are also allowed to report the remaining \$3,000 on your 2018 return and claim a \$450 tax credit for that year.

The tax advantage of purchasing a 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 total amount of tax credits you received. Speak with your RBC advisor to determine if an investment in a LSVCC is 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 2018, you may want to consider doing so in January 2018, 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 RLIF in the first month of the year may allow you to ultimately withdraw more funds for that first

year. No proration is required in the first year for an Alberta, British Columbia, Manitoba, New Brunswick, or Quebec LIF.

Note that in the calendar year when the locked-in plan is converted to a LIF or RLIF, there is 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, 2018 has its first anniversary on January 15, 2019.

Assume you purchase that strip coupon on January 16, 2018 with a January 16, 2021 maturity date. You are required to report the accrued interest from January 16, 2018 to January 15, 2019 on your 2019 income tax return. Since you purchased the fixed income instrument after the anniversary date, you have no interest to report in 2018, 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, your 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 now, 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 2017, 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, 2017 year-end. It can pay you a bonus in January 2018 for services rendered in 2017. Your corporation can deduct this bonus on its 2017 corporate tax return and you will report this bonus on your 2018 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, 2018. 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 2017 and realized capital gains that cannot be fully exempt under

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the \$835,716 lifetime capital gains exemption. If this is the case, you may be able to defer all or some portion of the taxable capital gain 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, consult 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, 2017, you will need to pay the remainder of the tax your company owes by February 28, 2018. The corporate taxes can be due three months after the corporation's year end (March 31, 2018) in certain circumstances.

#### Conclusion

This article covers some common tax planning strategies 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 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 and/or legal advisor before acting on any of the information in this article.*



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