The Institute™
for Advanced Financial Education

COMMENT

Compliments of: Raymond Matt, CFP, CLU, TEP, CHS
Tel: 705-526-2807 Cell: 416-452-2334
www.csiplan.ca

Edition 289 – 2015

Changes Underway for Donations

The generosity of Canadians is evidenced by the $8.3 billion of charitable donations made by over five million people in 2012. The reasons are many. Some individuals have a strong desire to share their wealth during their lifetime. Others are reliant on their wealth to fund their retirement, but value the opportunity to share when they die. Some individuals want to ensure that their charitable goals can be continued long after they are gone. Whatever the reason, charitable gifts and bequests are very common.

The federal government and all of the provinces offer a non-refundable tax credit for charitable gifts. Under the current rules, a gift made through a will or through naming a charitable beneficiary of an insurance policy is deemed to have been made by the deceased the moment before death. This means that such gifts are eligible for a tax credit that can be claimed on the deceased's terminal tax return up to the amount of net income. The amount of the donation not claimed on the terminal return can be carried back and claimed on the prior year's tax return.

Under current rules, the tax on income arising on death (due, for example, to the triggering of capital gains and the inclusion of remaining RRSP/RRIF amounts) can be offset by the credit available on charitable donations. In addition, the opportunity to carry back unusable donation credits to the year prior to death can generate a refund of income taxes paid in that year.

New legislation with respect to donations through a will or beneficiary designation will alter how the tax credit can be claimed for deaths after 2015. Donations through a will or beneficiary designation will be deemed to have been made by the deceased's estate at the time the gift is completed, and the new rules add the option of claiming the donation on the estate return provided it is within the required timeframe. This change creates greater certainty with respect to the amount to be claimed because the value of the donation will be established at the time of the gift rather than shortly after the individual passes away. For example, assume Elena leaves one-half of her estate to ABC Charity. Under the current rules, the gift to ABC Charity can be claimed on Elena's terminal and prior year individual income tax returns, but the exact value of the gift may not be easily established until the estate is wound-up. Under the new rules, the valuation date for the gift creates greater certainty and the option of claiming the gift on the estate return.

Provided that the gift is completed within 36 months of the date of death, the executor will have enhanced flexibility as to which return to claim the charitable tax credit on. The charitable tax credit can be claimed on the terminal tax return, the deceased's prior year tax return, the estate return or, where applicable, carried forward to a future income tax return of the estate. The executor will be able to elect how much is claimed on which tax return. This is a significant opportunity which will enhance an estate's ability to fully utilize the tax shield of charitable gifts made through a will or beneficiary designation.

Gifts by Will and Beneficiary Designation

	Current Rules	Proposed Rules
Timing of gift	• Deemed to have been made at the moment before death	• Deemed to have been made when completed. Must be made within 36 months following the date of death.
Choice of tax returns	• Terminal return • Return for year prior to death	• Terminal return • Year prior to death • Estate's tax return

The proposed rules enhance estate planning by making the valuation of charitable donations easier and increasing the number of returns where the charitable tax credit can be claimed.

I/R 1600.01

Tax Return Filing Tips for 2014

Filing a tax return isn't always an easy task. Taxpayers want to ensure they claim every deduction and credit to which they are entitled. This means spending time understanding the opportunities. Reporting income is simplified for many types of income because T-slips are issued to the taxpayer. The Canada Revenue Agency (CRA) is quick to note missing income because the Agency matches the T-slips reported on tax returns to the copies of the slip information filed with the CRA by the reporting employer or financial institution. The following notes are designed to highlight federal deductions and credits that might be of interest.

Updated for 2014 is the **children's fitness amount** which has increased to $1,000 up from $500. The tax credit is available for parents who enrol their children, under the age of 18, in prescribed programs of physical activity.

New for 2014 is the **search and rescue volunteer credit**. Certain search and rescue volunteers are entitled to a tax credit based on a $3,000 amount. A search and rescue volunteer must perform at least 200 hours of eligible services in the year for an eligible search and rescue organization. A similar credit has been in effect for a few years for volunteer firefighters. Taxpayers can claim one or the other, but not both of these credits.

New for 2014 is a $1,000 **exemption for emergency service volunteers**. If a taxpayer has received a payment from a government, a municipality, or another public authority for work as a volunteer ambulance technician, a firefighter, or a search, rescue, or other type of emergency worker, the first $1,000 is exempt from tax. The T4 slips issued by this authority will show the taxable and exempt parts of the payment. It is important to note that if a taxpayer qualifies for this exemption and either of the search and rescue or firefighters' credit, a choice must be made as only one of the three options may be claimed.

New for 2014 is the **family tax cut** which provides a tax credit of up to $2,000 for eligible couples with minor children based on the net reduction of federal tax that would be realized if up to $50,000 of an individual's taxable income was transferred to the individual's eligible spouse or common-law partner. This is not simply a non-refundable tax credit – the calculation will require completion of new Schedule 1-A (Family Tax Cut) when filing the 2014 federal income tax return.

Increasing for 2014 is the **adoption expense tax credit** for costs unique to adopting a child, now of up to a maximum of $15,000. In addition, the type of adoption-related expenses that will qualify for the credit has been expanded.

Watch for the following changes in a taxpayer's situation:

If the **taxpayer turned age 65** in 2014, he or she:

- becomes entitled to the age credit, which is calculated based on a $6,916 amount. Reductions of the amount occur for incomes in excess of $34,873.
- may become entitled to the pension income credit, because at age 65 the definition of qualifying income is expanded.
- may be able to split his or her pension income with a spouse, because at age 65 the definition of qualifying income is expanded.

If the **taxpayer turned age 71** in 2014:

- check for unused RRSP contribution room. A spousal RRSP contribution can be made until the end of the year in which the spouse turns age 71 and the deduction taken immediately or over time depending on the circumstances.

If a **taxpayer's children turn 18** many deductions and credits are no longer available to the parent. Some may continue if the child is financially dependent by reason of mental or physical disability.

Locate those receipts

Keeping track of receipts ensures taxpayers have the information they need to make appropriate claims. While electronic filing means taxpayers no longer submit receipts with the tax return, retaining receipts is essential because the CRA commonly requests proof to substantiate a claim. Examples where receipts are required include:

- The transit credit
- Charitable donations
- Political donations
- Medical expenses
- Childcare costs

Locate last year's notice of assessment

- Tuition, education and book credits must be claimed by the student before being transferred to a parent or spouse. Any carry-forward amounts can only be claimed by the student. The carry forward amounts are shown on the student's notice of assessment.
- RRSP contribution room is tracked on the notice of assessment. This is very important because an over-contribution penalty of 1% per month can apply.

Odds and Ends

For 2014 the **universal child care benefit** (**UCCB**) is a monthly payment of $100 per eligible child under the age of 6 years, and is made to a parent regardless of income level. The universal child care benefit is being increased in 2015 to $160 per month.

Tax planning should be a year-round exercise; however, when it comes time to file your tax return, care should be taken to ensure that all opportunities are identified and maximized.

I/R 7401.00

Dividend Taxation

The system in place to tax Canadian dividend income is designed to achieve "integration." The intent of integration is to ensure that the combined total personal and corporate tax imposed on different types of income received directly or from a corporation is roughly equal. In other words, integration tries to ensure that there is no tax advantage to be gained by having income earned through a corporation.

There are two types of dividends: eligible and ineligible. *Eligible dividends* are those paid from public companies, along with dividends paid by private companies where the dividend arises from income taxed at regular rates (i.e., without any tax preferences). *Ineligible dividends* are dividends paid by a private company that arose from income that received some type of special tax preference (such as the small business deduction).

Eligible dividends are grossed up to 138% of actual value, and ineligible dividends are grossed up to 118%, and tax is calculated on these grossed-up amounts.

Dividends also generate a dividend tax credit. The dividend tax credit is intended to approximate the corporation's income tax paid. The dividend tax credit reduces the shareholder's income taxes otherwise payable and leaves the shareholder with a net effective income tax liability on dividends received.

The following table shows the dividend tax credit for the federal and each provincial government for eligible and ineligible dividends.

The table in Figure 1 highlights the significant variations in rates across the provinces. Some of the variation reflects the different corporate tax rates and some of the variation is about each province's need for tax revenue.

Let's look at two examples that compare the tax consequences of dividend income, assuming the dividend is taxed at the top marginal rate.

Figure 1

2014				
Dividend Gross-Up	38%		18%	
	Tax credit on taxable eligible dividend (%)	Top Effective tax rate on eligible dividends (%)	Tax credit on taxable ineligible dividend (%)	Top Effective tax rate on ineligible dividends (%)
Federal	15.02		11.02	
Alberta	10.00	19.29	3.10	29.36
British Columbia	10.00	28.68	2.59	37.99
Manitoba	8.00	32.26	.83	40.77
New Brunswick	12.00	27.35	5.30	36.02
Newfoundland and Labrador	5.40	30.20	4.10	32.08
Nova Scotia	8.85	36.06	5.87	39.07
Ontario	10.00	33.82	4.50	40.13
Prince Edward Island	10.50	28.71	3.20	38.74
Quebec	11.90	35.22	7.05	39.78
Saskatchewan	11.00	24.81	3.40	34.91

Figure 2 starts with a $10,000 eligible dividend received by two individuals – one in Alberta and one in Manitoba. The net combined federal and provincial tax payable differs significantly - $1,929 paid in Alberta on the receipt of the $10,000 dividend, whereas the liability increases to $3,226 in Manitoba. This differential is highlighted through the calculation of the effective tax rate. The individual living in Alberta pays an effective tax rate of 19.29% compared with the individual living in Manitoba where the rate jumps to 32.26%.

Figure 2 – Eligible Dividend Comparison

	Alberta	Manitoba
Eligible Dividend	$10,000	$10,000
Gross Up	38%	38%
Taxable Dividend	$13,800	$13,800
Top Marginal Tax Rate	39.00%	46.40%
Taxes Payable	$5,382	$6,403
Federal Dividend Tax Credit Rate	15.02%	15.02%
Provincial Dividend Tax Credit Rate	10.00%	8.00%
Total Dividend Tax Credit	$3,453	$3,177
Net Taxes Payable	**$1,929**	**$3,226**
Effective Tax Rate	**19.29%**	**32.26%**

Figure 3 depicts the outcome of a $10,000 ineligible dividend received by individuals in British Columbia and Prince Edward Island. The total taxes payable on the dividend are quite comparable at $3,798 in B.C. and $3,912 in PEI. As you might expect, the effective tax rate is also quite similar at 37.98% in B.C. and 38.74 in PEI.

Figure 3 – Ineligible Dividend Comparison

	B.C.	PEI
Ineligible Dividend	$10,000	$10,000
Gross Up	18%	18%
Taxable Dividend	$11,800	$11,800
Top Marginal Tax Rate	45.80%	47.37%
Taxes Payable	$5,404	$5,590
Federal Dividend Tax Credit Rate	11.02%	11.02%
Provincial Dividend Tax Credit Rate	2.59%	3.52%*
Total Dividend Tax Credit	$1,606	$1,716
Net Taxes Payable	**$3,798**	**$3,874**
Effective Tax Rate	**37.98%**	**38.74%**

* PEI has a surtax that increases the value of their dividend tax credit.

The federal and provincial governments are constantly tinkering with their dividend tax credit rates. In some situations, a taxpayer may be in a position to delay or accelerate dividends depending on which direction the change is heading.

I/R 7401.00

Government Pension Plans: Benefits and Contributions for 2015

Contributions and benefits under government pension plans are adjusted periodically to reflect increases in the Consumer Price Index or the average Canadian wage. The new amounts, commencing January 1, 2015, are shown in the table below. Each benefit is subject to income tax when received, with the exception of the Guaranteed Income Supplement and the Allowance. All benefits shown are paid monthly unless otherwise indicated, and are the maximum amounts.

CPP / QPP benefits (for new beneficiaries)	**CPP**	**QPP**
Retirement pension (at age 65)	$1,065.00	$1,065.00
Post-Retirement benefit (at age 65)	$26.63	n/a
Retirement Pension Supplement	n/a	$20.42
Disability pension	$1,264.59	$1,264.56
Disabled contributor's child benefit (each child)	*$234.87	*$74.57
Survivor's*** pension		
• under age 65	**$581.13	**$865.19
• age 65 or over	$639.00	$639.00
Surviving child's benefit (each child)	*$234.87	*$234.87
Death benefit (lump sum)	$2,500.00	$2,500.00
Combined benefits		
• survivor's*** pension and disability (under age 65)	$1,264.59	n/a
• survivor's*** pension and retirement (age 65 and over)	$1,065.00	$1,065.00
Annual CPP contribution		
Self-employed (9.9%)	$4,959.90	
Employee (matched by employer) (4.95%)	$2,479.95	
Annual QPP contribution		
Self-employed (10.50%)		$5,260.50
Employee (matched by employer) (5.25%)		$2,630.25

Notes:
* flat benefit amounts

** these amounts may vary depending on whether the survivor is under age 45, disabled, or with or without children

***a survivor is the spouse or common-law partner of a deceased individual

I/R 3201.01 and 3201.03

Old Age Security (OAS)	**OAS**
January to March 2015	$563.74
Guaranteed Income Supplement (GIS)	
January to March 2015	
• spouse/common-law partner receives OAS or Allowance	$506.86
• single person (or spouse/common-law partner receives neither OAS nor Allowance)	$764.40
Allowance	
January to March 2015	
• age 60 to 64, and spouse/common-law partner receives OAS and GIS	$1,070.60
• age 60 to 64, survivor's*** Allowance	$1,198.58

***a survivor is the spouse or common-law partner of a deceased individual

Contributors to this issue of Comment:

James W. Kraft, CPA, CA, MTAX, TEP, CFP, CLU, CH.F.C.

Deborah Kraft, MTAX, TEP, CFP, CLU, CH.F.C.

Published by:
The Institute
390 Queens Quay West, Suite 209,
Toronto, Ontario M5V 3A2
T: 416.444.5251 or 1.800.563.5822
F: 416.444.8031
www.iafe.ca • info@iafe.ca

Publication Agreement # 40069004