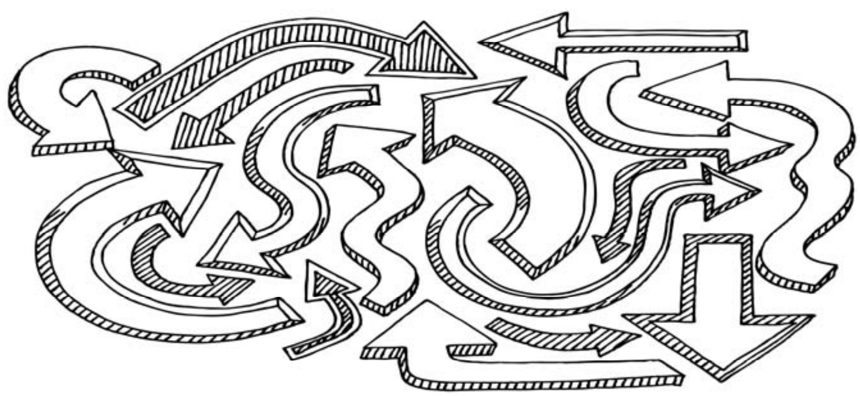
Wealth Consultant

"Helping You Save Strategically" **March 2014**

Navigating through 2014: Opportunities & Strategies



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March is a time when Canadians bundle up, dig out from under the snow and dream of the warm weather. It also marks the end of RRSP season and the beginning of tax season. Navigating through the options and opportunities that are available to you can be daunting. This installment of the Wealth Consultant highlights:

- Tax saving strategies between spouses,
- The "Boring Budget", and
- Planning Opportunities for 2014.

DID YOU KNOW: Lightening Standards

It has now been a year since the Royal Canadian Mint began collecting approximately six billion pennies on Feb. 4, 2013. While there was some thought that the nickel might be the next Canadian standard to vanish it has thus far survived. The incandescent light-bulb however was not so fortunate. Yes it's true, beginning January 1st , 2014 Canadians will be forced to buy more energy efficient alternative sources of lighting as manufacturers can no longer supply us with the 75-watt and 100-watt incandescent bulbs (note that The 40-watt and 60-watt incandescent bulbs will be phased out after Dec. 31st). Instead, Canadians will have to buy compact fluorescent or LED lights.

According to Natural Resources Canada in 2010, Canadians spent $163 billion on energy in order to run homes and offices etc... As lighting accounts for approximately 10 percent of a home's electricity use the hope is that replacing old incandescent bulbs with new efficient bulbs (albeit more expensive) can make a big difference.

SHARE, SPLIT & COMBINE

The following tax savings opportunities and strategies can be either transferred or combined between spouses. Doing so may help you realize more tax savings.

Split Income with a spouse

As withdrawals from all registered plans are taxable, minimizing the tax associated with the withdrawal should be the goal of all savers. One of the best ways to accomplish this is through the use of a Spousal RSP, which allows a spouse in a higher tax bracket to allocate a future tax liability to a spouse in a lower tax bracket. While Canadians have been able to split pension income with their spouses since 2008, they can only split income from a RRIF or from an RSP annuity provided the recipient spouse is over the age of 65. Thus for those Canadians who plan to retire or semi retire before normal retirement age, spousal plans can still be advantageous.

Medical Expenses

Spouses can combine the medical expenses that they have incurred for themselves as well as for those of a dependent child (under the age of 18) on the return of the lower earning spouse. That's because this non-refundable tax credit is based on those eligible medical expenses (such as dental bills and prescription drugs etc.) that are in excess of the lower of 3% of the taxpayers (lower earning spouse) net income or $2,152 ($2,171 for 2014). A 15% federal tax credit is available on expenses above this amount to a maximum of $10,000.

Prescribed Rate Loan

A spousal loan can be used to transfer investment income from a higher earning spouse to that of a lower earning spouse. In practice, the interest rate (that is set by Revenue Canada) paid by the borrowing spouse is a deductible expense once the loan is invested while the interest paid to the lending spouse is taxable to the lender. However, any investment earnings in excess of the prescribed rate are effectively taxed in the hands of the lower income borrower, making this an effective way to split income between spouses.

Charitable Donations

While the first $200 of charitable donations claimed is eligible for a 15% federal tax credit, donations in excess of $200 are eligible for a 29% federal tax credit. As a result, spouses may want to combine their donations in order to take advantage of the higher tax credit on donations in excess of $200. Note that donations can also be carried forward for up to 5 years allowing individuals who donate smaller amounts to combine and claim their donations in a single year to also take advantage of the higher tax credit on donations in excess of $200.

Sharing Your CPP

Sharing your Canada Pension Plan retirement pension with your spouse may also result in tax savings. The portion of your pension that can be shared is based on the number of months you and your spouse lived together while you were still contributing to the CPP.

Don't forget about Transfers

While deductions such as child care expenses should be claimed on the tax return of the lower earning spouse other tax credits that can't be fully used by one spouse may be transferred to the return of the other spouse. Some of these credits include the :

- Pension income amount
- Age amount
- Tuition and education amounts
- Disability amount

The "Boring Budget"

Although Canadian Finance Minister Jim Flaherty tabled what he has labeled as a "boring budget", there are many that will be pleased with it. For instance Beer Brewers will like the fact that the budget proposes to remove the red tape imposed by Food and Drug regulations on the ingredients used in certain craft beers. This means that beers such as Rickard's Cardigan Seasonal Spiced Lager can now call itself beer despite its use of nutmeg. Meanwhile snowmobilers will also be delighted with the $10 million that the budge dedicates to the improvement and expansion of snowmobile trails across Canada over the next two years.

While the intent of Flaherty's 10th budget was to balance Federal spending by 2015, he also introduced measures to balance the glee experienced by Beer Brewers and snowmobilers with the grief of public servants and smokers. This was accomplished through the first increase to the tobacco tax since 2002 which adds an extra $4 to a carton of smokes and brings the government an estimated extra $3 billion in revenue over the next 5 years as well as the public sector who will now be asked to pay half – instead of a quarter – of the Public Service Health plan cost. The budget also again targets the Governor General who this year in addition to having to pay income taxes (Budget 2012 mandated this for the first time) will also have to pay duty on imported items.

Although this boring budget was not focused on personal tax, there are a few tidbits that taxpayers should be aware of, such as:

Medical Expense Tax Credit

The budget makes eligible the cost of service animals used to aid those with severe diabetes as well as the cost of individualized therapy plans such as those created to help children with autism.

Charitable Donations

The budget increases the flexibility of estate executers dealing with donations made through the will or through beneficiary designation by allowing them to allocate the donation to the current tax year or to that of the deceased's previous two returns.

Use of Testamentary Trusts

Testamentary trusts have and continue to be a great estate planning tool. However, the budget also addresses the rate that Testamentary Trusts are taxed at, by adjusting the tax rate from the graduated rates that they currently pay tax at to a flat 29%. This rate will apply after "a reasonable period of administration" of 36 months. Exempt from this top rate tax of 29% are testamentary trusts created to provide for the benefit of disabled individuals.

Start Planning for 2014

Increased Capital Gains Deduction Limit

The 2013 Federal budget increased the capital gains exemption from $750,000 to $800,000 on the sale of qualified property beginning in 2014. This should please small business owners, farmers and fishermen. The budget also proposes to index this amount to inflation, a component not previously contemplated in the exemption amount.

Higher Payroll Taxes

In its annual New Year's Tax Changes report, the Canadian Taxpayers Federation calculated that employment insurance (EI) taxes will go up $23 in 2014 to $914. They have also estimated that the federal government expects to collect $4.2 billion more in EI taxes in 2014 than they pay out in benefits. Meanwhile employees earning more than $52,500/year will also pay $70 more to the Canada Pension Plan than they did in 2013.

Tax Bracket Increases

Former US Supreme Court judge Oliver Wendell Holmes, Jr. said it best about taxes when he said that "Taxes are the price we pay for civilization." A 2011 Fraser Institute (an independent Canadian public policy research and educational organization) report found that a Canadian family earning $72,393 spent 41.3 percent of its income on taxes, while spending 34.0 per cent on the necessities of life (food, clothing, and shelter).

Federal Tax Rate	2013	2014
Basic Person Exemption	$11,038	$10,822
15%	Up to $43,561	Up to $43,953
22%	$43,562 - $87,123	$43,954-$87,907
26%	$87,124 - $135,054	$87,908 - $136,270
29%	Over $135,054	Over $136,270

Increased TFSA Contribution Amount

The amount that you can contribute annually to your TFSA increased in 2013 by $500 to $5,500 and remains at that level for 2014. For someone who has never opened a TFSA before and was at least age 18 in 2009, your total cumulative TFSA contribution room starting January 1, 2014 is now $31,000.

Contributing to an Registered Retirement Savings Plan (RSP)

The maximum RSP deduction limit for 2013 is $23,820. However, if you did not use your entire RSP deduction limit for the years 1991- 2013 you can carry forward unused RSP contributions to 2014. In 2014 the maximum RSP deduction limit increases to $24,270.

Start Planning for 2014

Making an "In-Kind" Contribution to your RSP

If you can't contribute cash to your RSP you may want to consider transferring existing investments in non-RSP plans to your registered plan. The market value of the investment at the time it is transferred will become the RSP contribution amount and if the investment has appreciated in value a taxable capital gain will be triggered. Note that although a capital gain can be triggered upon the transfer of an investment from a non registered investment to an RSP a capital loss is not triggered through such a transaction. Therefore if the investment in question is in a loss position, consider selling it and making a cash contribution to your RSP using the proceeds of the sale.

First-time charitable donors

The 2013 Federal Budget also proposed a tax credit for first time donors to charity (defined as individuals who have not donated to charity since 2007). For these budding philanthropists, the new credit supplements the existing charitable donation tax credit with an additional 25% tax credit on up to $1,000 in cash donations, entitling donors to a 40% federal tax credit for donations of $200 or less, and a 54% federal credit for the portion of donations over $200.

Safety deposit box deduction

If you keep your family jewels in a safety deposit box you used to be able to deduct the rental fee associated with that cost. No more, as beginning January 1st, 2014 the cost associated with the rental of a safety deposit box is no longer considered an eligible deduction. If you did rent a safety deposit box in 2013 you may still deduct any associated costs on your 2013 income tax return.

Important Dates

April 30, 2014 - Income Tax Filing Day (Individual)
June 15, 2014- Income Tax Filing Day (Self Employed)
April 30,2014 - Income Tax Owing (Self Employed)