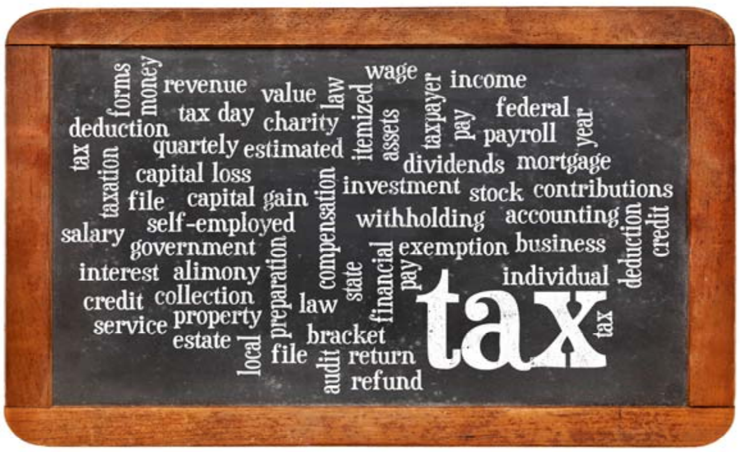
Wealth Consultant

"Helping You Save Strategically" March 2015

Tax Tips



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Preparing your tax return can be a daunting task. We have compiled some tax tips and updates you may wish to keep in mind.

This edition of the Wealth Consultant features:

- Tax saving strategies between spouses
- Planning opportunities for 2015
- And more

How much do you know?

According to a 2011 survey conducted by Leger Marketing for H&R Block Canada, most Canadians didn't know:

- How much a $1,000 RRSP contribution would save them in federal tax
- That the lower-income earning spouse should claim the childcare expenses.
- Did not realize that they are not entitled to claim any tuition or education credits unless their child transfers them

Test your knowledge by taking our **Tax Quiz** featured throughout this report.

1. Canadians can save tax by arranging to share or split different sources of income. What types of income can be shared?
   A. CPP payments
   B. OAS payments
   C. Income from a RRIF (when the recipient spouse is over the age of 65)
   D. Pension income from a Defined Benefit Pension Plan
   E. A, C & D

START PLANNING FOR 2015

In 2013, Canadians bid adieu to the 75 and 100-watt incandescent light bulb. In 2014, we said goodbye to the 40 and 60-watt bulbs. Lighting the way for us in 2015 and beyond will be energy efficient LED and compact fluorescent bulbs.

While lighting standards are certainly important to all, perhaps of more significance is our economy, which may get a slight bump in 2015 due to a new free trade agreement with South Korea. Amongst other things, this will eliminate the 40% tariff that has been imposed on Canadian beef.

On a provincial basis:

- Albertans can expect to pay $250 for paramedics to treat them at the scene of the accident and $385 for a drive to the hospital.
- British Columbians have a new transportation law that includes road-safety measures like slowing down and giving emergency vehicles a wider berth (note that a $173 fine is levied on violators).
- Ontarians can no longer smoke on patios or sports fields.
- Quebec parents will have to pay a little more for day care.

Universal Child Care Benefit (UCCB)

Beginning January 1, 2015, the UCCB is being increased for children under age six. As a result, parents will be eligible for a benefit of $160 (up from $100) per month for each child under the age of six. Under proposed changes to expand the UCCB, parents may also receive a benefit of $60 per month for eligible children ages six through 17. Payments of the additional amount and expanded amount will start in July of 2015. ***Note that the Child Tax Credit will be replaced by the enhanced UCCB for the 2015 and subsequent taxation years.***

Child Care Expense Deduction

A tax deduction is allowed for child care expenses. In 2014, parents were allowed to claim child care expenses of $7,000 per child under age 7 and $4,000 per child aged 7 to 16. Beginning in 2015, these limits are being increased by $1,000 each.

Tax Bracket Increases

Most economists are of the opinion that there is a relationship between marginal tax rates and economic performance, believing that high marginal tax rates negatively impact, entrepreneurship, investment, savings rates, etc… A marginal tax rate refers to the additional tax an individual will owe to the government on the next dollar of income that they earn. Canada has relatively high marginal personal income tax in comparison to many G-7 countries.

Federal Tax Rate	2015	2014
Basic Person Exemption	$11,327	$11,138
15%	Up to $44,700	Up to $43,952
22%	$44,701-$89,400	$43,953-$87,906
26%	$89,401-$138,586	$87,907 - $136,270
29%	Over $138,586	Over $136,270

START PLANNING FOR 2015

Increased TFSA Contribution Amount

The amount that you can contribute annually to your TFSA increased in 2013 by $500 to $5,500 and will remain at that level for 2015. 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, 2015 is now $36,500.

Contributing to an Registered Retirement Savings Plan (RRSP)

The maximum RRSP deduction limit for 2014 is $24,270. However, if you did not use your entire RRSP deduction limit for the years 1991- 2014 you can carry forward unused RSP contributions to 2015. In 2015, the maximum RRSP deduction limit increases to $24,930.

New for your 2014 Taxes

Family Tax Cut

Through Canada's Economic Action Plan, the federal government created the Family Tax Cut, a new federal non-refundable tax credit of up to $2,000 for couples who have children under the age of 18. This tax credit is effective for the 2014 tax year. As this tax credit allows for the transfer of up to $50,000 from one spouse to the other, it will benefit families where one spouse earns significantly more than the other. In order to benefit from the Family Tax Cut, each spouse must file a tax return. The chart below depicts the savings associated with the Family Tax Cut.

Spouse 1	Spouse 2	Difference	Split Adjustment	2014 Family Tax Cut
$50,000	$0	$50,000	$25,000	$423
$60,000	$25,000	$35,000	$17,500	$1,123
$70,000	$30,000	$40,000	$20,000	$977
$120,000	$0	$120,000	$50,000	$2,000
120,000	$60,000	$60,000	$30,000	$1,116

Source: www.taxtips.ca

Children's Fitness Amount

Since its introduction in 2006 the Children's Fitness Tax Credit (CFTC) has allowed parents to claim up to $500 of the cost associated with "strenuous" activities for children under 16 (or under 18 with a disability). Historically, this tax credit has been structured as a non-refundable tax credit. A non-refundable credit may not be used to reduce taxes owing to less than zero. While the CFTC remains a non-refundable credit for 2014, the amount of eligible expenses has increased to $1,000. Beginning in 2015, this credit changes to a refundable tax credit. Unlike a non-refundable tax credit, a refundable tax credit is not limited to an individual's tax liability. Thus even if you do not owe any tax, you still receive the tax savings that are associated with the tax credit.

Tax Quiz

2. Which one of the following is not true?
   A. You can have more than one TFSA account.
   B. Interest payments based on money borrowed to contribute to a TFSA and an RRSP is not tax-deductible.
   C. You are not allowed to make an over-contribution without penalty to an RRSP.
   D. If you have never contributed to a TFSA before and are over the age of 25 you can contribute $36,500 to a TFSA in 2015.

New For Your 2014 Taxes

Search and Rescue Volunteers Tax Credit

The 2011 budget introduced the Volunteer Firefighters Tax Credit while the government's 2014 Economic Action Plan announced a 15% non-refundable Search and Rescue Volunteers Tax Credit on an amount of $3,000 for ground, air and marine search and rescue volunteers. This credit will be available to search and rescue volunteers who perform at least 200 hours of service during a year. Individuals who perform at least 200 hours of combined eligible search and rescue services and volunteer firefighting services in a given year will be able to choose between the Volunteer Firefighters Tax Credit and the new tax credit.

Adoption expense tax credit

The maximum eligible adoption expense that qualifies for this tax credit was boosted to $15,000 in 2014, up from $11,669 in 2013. In 2015 and subsequent years, this credit will be indexed to inflation.

Safety deposit box deduction eliminated

As of the 2014 tax year, you can no longer deduct the cost of renting a safety deposit box. Note that this change took effect for corporations in March, 2013.

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 Your 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 spouse's 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 $2,171. A 15% federal tax credit is available on expenses above this amount to a maximum of $10,000. **The list of eligible medical expenses now includes the cost of designing a therapy plan for someone who qualifies for the disability tax credit and the cost of service animals that help those afflicted with severe diabetes.**

Tax Quiz

3. What is the maximum that you can contribute to a Registered Education Savings Plan.
    A. $50,000
    B. $5,000
    C. $2,500
    D. $35,000

Share, Split & Combine

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. 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.

Note that the 2013 Federal Budget also introduced a tax credit for first time donors to charity (defined as individuals who have not donated to charity since 2007). This new super credit supplements the 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.

Beginning Feb. 10, 2014, the value of a cultural property gift made through a tax shelter arrangement is limited to the amount paid by the donor for the donated property.

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

Tax Quiz

4. Withdrawals from a TFSA may result in the claw-back of income tested benefits such as Old Age Security (OAS), Guaranteed Income Supplement (GIS), and Canada Child Tax Benefits (CCTB). True False

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.

Quiz Answers: E, C, A, False