Invesco

Tax & Estate

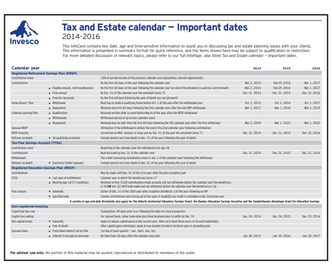
Last 12 tax tips for 2016

As year-end approaches, the natural inclination for many of us is to start winding things down. But when it comes to tax planning, this is the time to perk up and take action.

With that in mind, we present here our last 12 tax tips for 2016, conveniently grouped based on personal taxpayer characteristics. Some of these are new for 2016, for others this will be the last we'll see of them, and still more are recurring reminders. Whichever they may be, time is of the essence.

For more information on the tax rules and other considerations, please refer to our *Tax & Estate InfoPage* below, which is available on our website.

Tax and Estate calendar – Important dates
2014-2016


Tax and Estate calendar – Important dates
2014-2016

ISTECCE(01/16)

Long-term investors

1. Mutual fund corporations

Investors in share classes of a mutual fund corporation have historically been able to rebalance and carry their adjusted cost base from one class fund to another. For personal non-registered accounts and private corporation investors, the benefit was a deferral of capital gains recognition rather than a taxable disposition.

Following on the announcement in the 2016 Federal Budget, these transactions will be taxable dispositions beginning January 1, 2017. Note, however, that class funds continue to be valuable in limiting capital gains distributions and efficiently managing high-tax income. (See the article "Mutual fund corporation tax changes," published in April 2016.)

2. Capital gain/loss selling

If you have realized capital gains this year or in any of the preceding three years (back to 2013), you may apply capital losses realized this year against those gains. Be sure to execute the trade by Friday, December 23 to allow for the three business days for settlement by Friday, December 30, the last business day of 2016.

With respect to class funds discussed above, investors should be especially careful to adhere to these timelines, else their transaction results in a taxable disposition if settlement occurs in 2017.

Note that the industry will be moving to a "T+2" standard next year, meaning the latest last trade date to settle in 2017 will be Wednesday, December 27.

3. Paying investment expenses

Expenses related to earning investment income must be paid by Saturday, December 31 to be deductible in 2016. This applies to interest and investment advisory fees, so in the latter respect this is also a reminder to advisors to render those invoices with sufficient notice so investor clients can make those payments by year-end.

Families and children

4. Children's fitness and arts credits

This will be the last year that parents will be able to claim these credits. As well, their value has been halved from 2015 values, from $1,000 to $500 for the fitness credit (though it remains refundable) and $500 to $250 for the arts credit. Effective 2017, both credits are eliminated. However, if a program begins in 2016 and extends into 2017, payments made in 2016 will qualify for the credit.

5. Education and textbook amount

This will be the last opportunity to make use of the education credit and textbook credit, both of which are eliminated after 2016. For full-time students, these credits are respectively worth $400 and $65 for each month a student is in school. Unused education and textbook credit amounts carried forward from years prior to 2017 will remain available to be claimed in 2017 and subsequent years. The tuition credit remains in place.

6. Grants on registered education savings plan (RESP) contributions

Grants for RESPs depend on an eligible child's age, meaning parents who delay may lose out on some of what is available. The maximum annual amount that may be claimed in a year is $1,000, and the lifetime maximum is $7,200. If RESP contributions do not begin by age 11, some of that grant money will be forgone. Furthermore, if certain minimum contributions have not been made by age 15, grant money may not be given for a child age 16 or 17. For more, see our *InfoCard* titled *Registered Education Savings Plans*.

Persons with disabilities

7. Home accessibility tax credit (HATC)

For 2016 and following years, the HATC is available for amounts expended to support a person age 65 or over who is eligible to claim the disability tax credit. Amounts must be spent on permanent alterations or renovations to a dwelling, the purpose of which is to improve that person's access to or function within that dwelling.

The credit may be claimed by that individual, a spouse or a caregiving relative (i.e., someone who could claim the individual as a dependant or could claim the caregiver amount). It applies on up to $10,000 in qualifying expenses, making it worth up to $1,500 in a year.

8. Effective use of registered disability savings plans (RDSPs)

Those who claim the disability tax credit may make use of RDSPs. These plans offer tax-sheltering of investment income and growth, and may attract both free government bond additions and matching government grants. Those grants and bonds are available only up to the end of the year the beneficiary turns 49, but personal contributions may be made up to the end of the year the beneficiary turns 59. The maximum lifetime contribution is $200,000, with no annual limits applying.

Retirees and seniors

9. Spousal registered retirement savings plan (RRSP) contributions and withdrawals

Income attribution to an RRSP contributor spouse will apply if the annuitant spouse makes a withdrawal before the end of the second calendar year following contribution. Consider a contribution made in January 2017, entitling the contributor to a deduction against 2016 income; it will be subject to attribution if withdrawn by the spouse before 2020. If that same contribution had been made in December 2016, a withdrawal with no attribution could be made in 2019.

10. Final RRSP contributions at age 71

Contributions to an RRSP may only be made up to December 31 of the year in which a person turns 71, making it difficult to use room earned in that year since it is credited after year-end. One approach is to make the contribution in December, suffer the 1% over-contribution penalty for that month, then be back onside in January when the room is credited. (If there is a younger spouse, another option is to contribute to a spousal RRSP in the new year when the contribution room is credited.)

Estate planning

11. Life insurance

Deposits made into life insurance policies in excess of annual premium obligations may be accorded tax-free growth within the policy. In 2017, the formula for determining the maximum amount of any excess deposits is tightening up. Policies issued before the end of 2016 will continue to operate under the more generous pre-2017 rules, but policy changes made after 2016 may cause the policy to fall under the new rules.

If a policy change is contemplated in the near term, the insurance company should be consulted to determine what the effect will be and whether the change can occur before 2017, if so desired.

12. Testamentary trust tax changes since 2015

Up to the end of 2015, testamentary trusts (those created using a Will) were entitled to graduated-tax-bracket treatment, similar to an individual's personal tax treatment. With the exception of qualifying disability trusts and the first 36 months of an estate, those trusts are now subject to top-bracket treatment with a calendar year-end.

That first year-end is 2016, so trustees, beneficiaries and their advisors should be discussing the whether, what and when of any changes. At the very least, the investment policy of those trusts should be reviewed to assure that it is informed by this new tax environment.

And for those at the estate-planning stage (i.e., before a death has brought the trust into existence), past plans might warrant reconsideration, including considering the use of lifetime trusts either in place of, or coordinated with, any Will provisions.

While not an exhaustive list, these 12 topics highlight key issues relevant to investors as year-end approaches. To discuss these tips – and for industry-leading advisor support throughout the year – our *Tax & Estate InfoService* is available via e-mail at *inquiries@invesco.ca* and by phone at 1.800.874.6275.

Contact
Invesco Canada Ltd.

5140 Yonge Street, Suite 800
Toronto, Ontario M2N 6X7

Telephone: 416.590.9855 or 1.800.874.6275
Facsimile: 416.590.9868 or 1.800.631.7008

inquiries@invesco.ca
invesco.ca

For more information about this topic, contact your advisor, call us at 1.800.874.6275 or visit our website at invesco.ca.

 ISFT11E(11/16)