2013 Year-End Tax Planning for Individuals:

Opportunities to Be Aware of This Year

October 23, 2013

As the 2013 year is coming to an end, individuals should be mindful of year-end tax planning opportunities that will need to be implemented prior to December 31st. The following are some popular tax planning items that individuals should be aware of this year.

Tax Considerations for Individuals

Tax Loss Selling

Where an individual owns investments with accrued losses, he or she may consider selling these investments before the end of the year in order to offset any capital gains realized in 2013. Any unused capital losses realized can either be carried back three years or forward indefinitely to offset capital gains in any of those years. In order to ensure that trades are settled prior to the end of the year, all trades should take place no later than December 24th, 2013.

Please note that the superficial loss rules will apply to deny capital losses on any investments sold and repurchased within 30 days by either you or an affiliated person (i.e. your spouse, a corporation controlled by you, or a trust where you have a major beneficial interest, including an RRSP or TFSA). If the superficial loss rules apply on the sale and the capital loss is denied, it will be added to the adjusted cost base of the investments for the person who purchased them.

Donating Public Securities with Gains

Where an individual owns publicly traded securities that have appreciated in value, one strategy to consider is to donate the actual shares with accrued gains instead of donating cash. There are two main tax advantages derived from doing so. Firstly, the individual will receive a charitable donation tax credit based on the fair market value of the shares donated. In addition, there will be no capital gains tax payable on the donated shares. Please note that all donations must be made prior to December 31st in order to receive a tax receipt for 2013[1].

First-Time Donor's Super Credit

As part of the 2013 Federal Budget, a temporary first-time charitable donor's tax credit was introduced. First-time donors will be entitled to a 40% federal tax credit on donations of $200 or less, and a 54% federal tax credit on donations that are over $200, but limited to $1,000. The credit will be applicable on donations made on or after March 21, 2013 and can only be claimed once between 2013 and 2018.

[1] Bill C-458 was introduced in October 2012 and proposes to amend the *Income Tax Act* to provide that individuals may claim charitable donation credits for gifts made in the year and in the first 60 days of the following year. Bill C-458 is currently being reviewed by the Parliamentary Finance Committee and if approved will extend the deadline for charitable donations until approximately the end of February.

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An individual qualifies for this tax credit if neither the individual nor their spouse has claimed the charitable donations tax credit or first-time donor's super tax credit in any taxation year after 2007.

Tax Instalments

Individuals may be required to pay income tax instalments if their tax liability is more than $3,000 (*$1,800 for Residents in QC*) for the current year or in either of the two preceding years (*2012 or 2011*). Individual investors are often required to pay tax instalments since tax is not deducted at source on investment income. Tax instalments are due quarterly and the due date for final instalments is December 15, 2013.

Withdrawing From Your TFSA

Any planned withdrawal from your Tax-Free Savings Account ("TFSA") should be done prior to December 31, 2013 to ensure that the withdrawal creates additional contribution room in 2014. If TFSA withdrawals are made in 2014, the contribution room will not be reinstated until the following year. It is important to note that if you withdraw funds from your TFSA and re-contribute in the same year, certain over contribution penalties may apply if there is insufficient contribution room available.

RRSP Contributions

December 31st is the last day for final RRSP contributions for individuals who have turned 71 years of age during the 2013 year. Making a final contribution can be beneficial for individuals who have unused RRSP contribution room remaining as the amount of the contribution can be deducted against income generated in 2013. Thus, this will reduce the individual's 2013 overall tax liability.

Opportunities for Self-Employed Individuals

For individuals who carry on and operate an unincorporated business, some additional tax planning opportunities may be available.

Paying a Salary to Family Members

Consider paying a spouse or a child a reasonable salary based on their involvement in your business. The salary should be a reasonable amount considering the type of work performed and should be comparable to what a third party would be paid to perform the same type of service.

For individuals who originally had little to no income, the salary paid will be taxed at a lower marginal tax rate. In addition, the salary will be considered earned income and will also generate future RRSP contribution room for each of those individuals.

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Deferral of Income

For those individuals who have a larger control over the timing and final delivery of their services, one can consider delaying the final completion of work and billing until after December 31st. Any income received after the year-end will be taxed in 2014 instead, providing a one year deferral of the tax liability.

Purchasing Capital Assets

Purchasing capital assets before the end of the year can provide your business with a deduction for Capital Cost Allowance (CCA). As long as the capital assets are available for use prior to December 31st, the business can claim the CCA deduction in 2013. This idea is suitable in situations where the individual was originally planning to purchase an asset for their business in the near future.

Other Important Items

Income Splitting Loans

On October 1st, 2013, the CRA increased its prescribed interest rate on income splitting loans from 1% to 2%. Many individuals have finalized income splitting loan arrangements prior to this date in order to take advantage and lock into the 1% prescribed rate.

One very important reminder is that the interest payable on these types of income splitting loans must be paid annually by January 30th of the following year (within 30 days after year-end). This is a very important point as many individuals forget to maintain the annual interest payments, which would cause the income splitting plan to be ineffective. Even one late payment can cause the attribution rules to apply for not only that year, but also all subsequent years.

P*lease note that each individual's tax situation is unique and dependent on a variety of factors. Before proceeding with any tax planning, a tax professional should always be consulted. For further information, please contact your Scotiabank representative or wealth advisor.*

***Kevin Y. Tran**, CPA, CA, MAcc, MTax*
Director, Tax Advisory Services
kevin.tran@scotiabank.com