2014 Year-end Tax Planning for Individuals

Opportunities to Be Aware of This Year

November 17, 2014

As 2014 begins to wind down, now is a good time to reflect on year-end tax planning opportunities that will need to be implemented prior to December 31st. The following are some popular tax planning items that you 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 2014. 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, 2014.

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 2014.

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 Quebec) for the current year or in either of the two preceding years (2013 or 2012). 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, 2014.

Withdrawing From Your TFSA

Any planned withdrawal from your Tax-Free Savings Account ("TFSA") should be done prior to December 31, 2014 to ensure that the withdrawal creates additional contribution room in 2015. If TFSA withdrawals are made in 2015, 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.

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RRSP Contributions

December 31st is the last day for final RRSP contributions for individuals who have turned 71 years of age during the 2014 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 2014, thus, reducing the individual's 2014 overall tax liability.

For all other individuals, March 2nd, 2015 is the last day for making an RRSP contribution for the 2014 taxation year.

Income Splitting Loans

In general, income splitting and tax savings can be achieved for higher income individuals by lending funds at the CRA prescribed interest rate to their spouse, who otherwise earns little to no income. These funds are then used to purchase income producing assets and thereby shifting investment income from an individual normally taxed at a higher marginal tax rate to a spouse who is taxed at a lower marginal tax rate. The CRA prescribed interest rate is currently at 1% until December 31, 2014. If a loan is implemented prior to the year-end, the interest rate will be locked in at 1% until the loan is fully repaid even if the prescribed rate increases in the future.

For individuals that have previously finalized income splitting loan arrangements with family members, 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, taxing the income in the hands of the original transferor as if they earned it themselves.

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.

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 2015 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 2014. 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

Family Income Splitting

On October 30, 2014, Prime Minister Stephen Harper revealed a new federal non-refundable Family Tax Cut Credit that will create tax savings for families with children less than 18 years of age. Effective 2014, the family income splitting measures allow a higher income spouse to allocate up to $50,000 of income to the lower income spouse for the express purpose of determining this new federal tax credit. The maximum allowable benefit that can be attained from this transfer is a $2,000 non-refundable federal tax credit. Please note that the Family Tax Cut Credit can only reduce federal income tax at this point and there is currently no reciprocal provincial tax credit.

Child Fitness Tax Credit

The Federal Government has also doubled the Child Fitness Tax Credit to $1,000 starting for the 2014 taxation year for families who enroll their children in eligible fitness activities. In addition, this tax credit will be refundable starting in 2015.

Please 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 Wealth Advisor.

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