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# 2017 YEAR-END TAX REVIEW AND TIPS

As 2017 draws to a close, it is important to think about your overall financial situation to ensure you have considered year-end tax issues and strategies. We suggest that you review all of the following items to see if any of them apply to you or a family member.

## New for 2017 and 2018

**Changes to Small Business Taxation** – The Finance Minister announced a number of changes designed to increase the amount of taxes payable by owners of shares of private corporations, including professionals such as lawyers, doctors and consultants. The government allowed a consultation period for affected individuals to air their concerns and, after viewing some of the feedback, has softened their stance on some issues. But changes are coming that will have an impact on the tax planning of small business owners and their families. Volumes have been written on the topic. Below are some of the key points:

- **Income Sprinkling** – Starting January 1, 2018, the concept of 'tax on split income' (TOSI, commonly known as the "kiddie tax") will extend to family members aged 18+ who receive income from a business where the recipient is connected to a person with control over the company paying out the income. In short, this would mean these payments would be taxed at the top marginal rate (as opposed to the graduated tax rates that apply to income from all other sources). *The Government has indicated that individuals who make a meaningful impact (in terms of labour and / or capital) will not be impacted*, however the details of how they will implement these new rules remain to be seen. In particular, they have indicated that they will apply a higher standard to individuals age 18 – 24 (typical ages for post-secondary students) receiving income from connected corporations. **If you have a corporation with an adult shareholder who currently does not make a meaningful contribution to the company, consider making a final dividend payment before December 31, 2017,** while this income will still be taxed at progressive rates**.**

- **Passive Investment Income** – The Government initially announced that a higher tax rate would apply to passive investment income (e.g. interest, dividends on publicly-traded stocks) earned on a company's retained earnings, due to concerns that small business owners had an unfair tax deferral advantage over employed individuals. *They have since said that they would limit any such measure* to annual investment income in excess of $50,000 (representing $1,000,000 at a nominal 5% rate of return) *and* they would *grandfather* historical retained earnings. The details of how they will implement these rules remain to be seen, therefore, it is expected that the status quo will remain in effect for 2018.

- **Multiplying Use of Capital Gains Exemption** – The initial plan proposed limiting access to the Capital Gains Exemption for family members who did not make a meaningful contribution to the Company. This proposed change has been removed.

- **Small Business Taxation Rate** - On October 16, 2017, the Prime Minister announced that the Government will be phasing in a reduction to the federal tax rate for income eligible for the small business deduction. The rate will be reduced from 10.5% to 10% effective January 1, 2018 and then to 9% effective January 1, 2019. (This 9% rate is the same as the one proposed by the previous government.)

**Settlement Date for Publicly-Traded Securities –** Effective September 5th, 2017, the settlement date for trades of publicly-traded equities and long-term debts has been reduced from 3 days to 2 days.

**Stock Option Deduction** – In their 2015 election platform, the Liberal Government declared that they would be making changes to limit the amount of benefit a taxpayer could receive under this rule in any one year. It is has now been two years since they last commented on these changes and to this point, they have not indicated when any such changes will be implemented (if at all), except to say that any proposed changes will not apply to previously-granted stock options. Consequently, we continue to anticipate **no changes on the taxation of stock options** for the time being.

**Canada Child Benefit (CCB) –** The Government replaced the taxable UCCB benefit effective July 1st, 2016 with the non-taxable CCB. This benefit could be as high as $6,400 per child under the age of 6 and $5,400 per child between the age of 6 and 17. The benefit is income tested with the maximum payable for families with income below $30,000 and is completely phased out where family income is in excess of $189,000. It is anticipated that the benefit will be indexed starting in 2020.

While the UCCB was replaced effective July 1, 2016, under certain conditions a Canadian resident can apply for retroactive benefits where they were eligible, but did not collect, payments due up to and including June 2016.

**Post-Secondary Students –** The tax credits for the textbook and education amounts (which were both based on the number of months in attendance at a post-secondary institution) have been eliminated effective the 2017 taxation year. However, the tuition tax credit (based on eligible tuition fees paid) remains. Any unused education and textbook credits from previous years can still be carried forward for use in a subsequent year.

**Children's Fitness and Arts Tax Credits** – As announced in prior years, both of these credits were eliminated effective with the 2017 tax year.

**Home Accessibility Tax Credit (HATC)** – This is a non-refundable tax credit to assist seniors and those eligible for the disability tax credit for certain home renovations. The available credit is equal to 15% of up to $10,000 of eligible expenses. Eligible expenses include renovations that enable individuals to improve access, mobility and functionality within the home. Certain expenses may qualify for both the HATC and the medical expense tax credit.

**Principal Residence Exemption** – Beginning with the 2016 tax year, CRA policy now requires taxpayers to report *all* sales of residences. Where the property was considered the individual's principal residence during the entire period of ownership, the reporting is straightforward. As always, in cases where the property served as a principal residence for only a portion of the period of ownership, the individual must file Form T2091. Failure to report can result in the possible exclusion of the Principal Residence Exemption and penalties of up to $8,000. The normal 3-year window to become statute-barred is not applicable.

**Employment Insurance** – Changes to the program were announced effective December 3rd, 2017. Parents with new born children can now choose to extend their benefit period for up to 18 months (vs. the standard 12). Note that this option does not increase the total benefits paid; rather it serves to match the period where the benefits are paid to the length of the parental leave period. (These changes will not apply to residents of Quebec, who are covered by PPIP.)

The benefit to parents of critically ill children has been expanded to include other family members (not just the parents). There is also a new 15-week benefit for those caring for a critically ill or injured adult family member.

**Basic Personal Amount** – For 2017, individuals are exempt from Federal tax on their first $11,635 of taxable income. If any family member (e.g. post-secondary student) will have an income below this amount and would have legitimate means to increase his/her taxable income in 2017, consider doing so to utilize or maximize this exemption. Use it or lose it!

## RRSPs and Tax-Deferred Plans

| Maximum contribution limits for tax-deferred plans for 2017 and 2018 are as follows: | | | |
|---|---|---|---|
| **Year** | **Registered Retirement Savings Plan (RRSP) Limit** | **Defined Contribution (DC) Registered Pension Plan (RPP) Limit** | **Deferred Profit Sharing Plan (DPSP) Limit** |
| **2017** | $26,010 | $26,230 | $13,115 |
| **2018** | $26,230 | $26,500 | $13,250 |

- **Contribution Deadlines:**
  - The final day to contribute to an **employer's RPP** is **December 31st, 2017**.
  - The final day for **RRSP contributions** for deduction in 2017 is **March 1st, 2018**.

- **March 1st, 2018** is also the final day to contribute to a surviving spouse's RRSP for a deduction on the final tax return of a deceased taxpayer.

- Note that **December 31st, 2017** is the final day for contributions to your RRSP if you turn 71 this year. *Individuals turning 71 this year DO NOT have the extra 60 days after year-end to make a contribution to their own RRSP*. See below.

- **If you turn 71 in 2017**, you must convert your **RRSP/LIRA** to a RRIF/LIF/LRIF by **December 31st, 2017**. Note that the beneficiary designation for your RRSP/LIRA *does not* automatically transfer to your newly established RRIF/LIF/LRIF. If you want your spouse, partner, or someone else to be the specific beneficiary of your new account, this must be indicated on your application. If you have contribution room available, **make *your final* contribution prior to conversion**.

- **If you have a spouse or partner who is younger than you**, you may base the minimum required annual withdrawals from your **RRIF/LIF/LRIF** on his/her age.

- **Another benefit of having a younger spouse or partner** is that, even if you are older than 71 and consequently can no longer have your own RRSP, you may continue to contribute to his/her spousal RRSP until the end of the year in which *he/she* turns 71, with the amount contributed being based on *your* RRSP limit. You will have the tax deduction for your spousal contribution, and your spouse may also contribute to his/her own RRSP, if applicable.

- **If you turn 71 in 2017 and do *not* have a younger spouse or partner**, you may wish to consider making an over-contribution to your RRSP in December 2017, just before converting to a RRIF. This strategy can work if you have used all your contribution room in 2017 ***and*** have earned income in 2017 that will create contribution room for you in 2018. The over-contribution will be subject to a penalty tax of 1% just for the month of December 2017, but the over-contribution situation is eliminated in January when the 2018 contribution room begins to apply. The undeducted contribution is carried forward, and is deductible in 2018 or a later year. The 1% penalty is a small price to pay to get a deduction next year at your applicable tax rate, as well as allowing the additional amount to work for you sheltered in the new RRIF.

- If you are required to take a minimum annual withdrawal from your RRIF/LIF/LRIF, and you would prefer not to sell particular assets, you can **make an 'in kind' transfer to your non-registered investment account.** The market value of the assets transferred out will be taxable as a withdrawal, but you will then be able to retain the investment in your non-registered account. If you are considering this, we recommend that you check with your financial institution to ensure they can accommodate your request.

- **Transferring assets into an RRSP or TFSA (contributions in kind) –** You may transfer assets into your RRSP or TFSA as a contribution, and the contribution will be valued at the market value on the date of the transfer. **Note** that any gain on assets transferred into your RRSP or TFSA will be taxable to you in the year of the transfer.

However, losses realized on contributions in kind may not be claimed. Therefore, selling such assets first and then contributing the cash to the RRSP or TFSA will preserve the capital loss. Just *remember not to repurchase identical assets within 30 days*, or the Superficial Loss rules [explained on page 7] will negate the loss. These rules apply to purchases inside or outside of your RRSP or TFSA, *and* to purchases inside or outside of the RRSP or TFSA of your spouse or another 'affiliated person'.

- **Home Buyers' Plan** – If funds were withdrawn from an RRSP prior to 2016 under the Home Buyers' Plan, a repayment equal to 1/15 of the original amount withdrawn must be made by **March 1st, 2018**. Failure to do so will result in the required repayment amount being included as taxable income for 2017. The repayment is not deductible since the withdrawal was not taxable. A repayment is made by making a contribution to *your own* RRSP or applying a portion of your regular contribution (again, to your own RRSP) made during the year. You may opt to allocate more than the required minimum amounts to your HBP (e.g. where you have otherwise overcontributed to your RRSP, but have a HBP balance remaining.)

## Investments

- **Non-registered GICs** – If you have GICs maturing in late 2017, defer reinvesting the proceeds in a new GIC until January 2018. The interest on a GIC purchased in December 2017 will be taxable in 2018, while the interest on a GIC purchased in January 2018 will be taxable in 2019.

- **Non-registered mutual funds** – If you invest in a mutual fund (outside of your registered accounts) between now and **December 31st,** you may be in for a shock when you file your 2017 income tax return. Mutual funds must distribute all interest, dividends and realized capital gains to unit holders in the fiscal year in which they receive them. Many Canadian funds use the calendar year as their fiscal year. A year-end distribution results in you paying tax on the distribution allocated to you, even though it is effectively a return of capital from your investment. You may be best advised to defer the purchase of a mutual fund investment until January.

- **The deadline to contribute to a Registered Education Savings Plan (RESP) for 2017 is December 31st, 2017. You DO NOT have 60 days after the end of the year to contribute,** as with an RRSP. You may also contribute amounts for past years where you have not received the maximum government grant. However, there are limits to the amount of retroactive grants you can receive in any one year, so it might not be advantageous to catch up all unused contributions at one time. Generally speaking, in each year you are limited to claiming one year's worth of retroactive grant (i.e. a $500 grant, based on a $2,500 contribution). If you are several years behind in making RESP contributions, it will take several years for you to catch up on missed grants.

- **Tax Free Savings Account (TFSA)** – Since 2009, Canadian residents aged 18 and older have been eligible to contribute to a TFSA. While there are no tax deductions for contributions, investment income in the account grows tax-free. Any amount can be withdrawn from a TFSA at any time, for any reason, tax-free.

The annual contribution limit for TFSAs is $5,500 for 2017 and 2018.

The total that may be contributed to a TFSA up to and including 2017 is $52,000. An individual's unused contribution "room" is carried forward to future years. These carryforwards do not expire.

Withdrawals will not affect income-tested benefits and credits. Any amounts withdrawn (all tax-free) are added to the individual's cumulative contribution room *in the year following the withdrawal*. Care must be taken to avoid over-contributions created by misinterpreting or misapplying these rules.

If you are planning to make a withdrawal, consider doing so before the end of 2017 (instead of early 2018) in order to restore your contribution room sooner.

- **Corporate Class Mutual Funds** – Changes were announced effective January 1st, 2017 so that any switch in corporate class mutual funds will now result in a disposition for tax purposes.

- **Permanent Life Insurance** – Changes were announced effective January 1st, 2017 to limit the amount that can accumulate tax-free in a permanent (whole life) insurance policy. These changes will *not* affect life insurance policies that were in force prior to that date.

## Capital Gains and Losses

Generally, the tax strategy discussed the most in the month of December is 'tax loss/gain selling'. As the factors surrounding this issue are based on individual circumstances, please contact your E.E.S. consultant to determine how any tax benefits may apply to you.

- **The disposition of securities** is deemed to take place not on the day that the order is placed, but rather on the 'settlement date'. For most securities, settlement occurs two business days after placing a sell order. As such, to be included on your 2017 tax return, transactions should be completed by **December 27th, 2017**.

- **Capital Gains and Losses** – 50% of your **capital gains** are included in your income. Net **capital losses** may be carried back and claimed against any net capital gains reported in the previous three years (2014, 2015 or 2016) or carried forward indefinitely. *However, your current year's losses must be used first to offset your current year's gains (if any).*

- **Capital Gains and Charitable Donations** – See commentary under the heading *Charitable Donations* on Page 8.

- **Currency** may, in certain circumstances, be considered a capital property, and holdings of currency other than Canadian currency can result in a capital gain or capital loss from fluctuations in foreign exchange rates.

- **Employer stock options** (see commentary on page 9) are taxed as employment income, ***not*** capital gains. Hence, capital losses cannot be applied to reduce the tax payable due to the exercise of stock options.

- **Deemed Disposition** – Be aware that you may trigger a deemed disposition even though no transaction occurs. Examples include: death, a marriage break-up, entering or leaving Canada, RRSP or TFSA contributions 'in kind', corporate reorganizations and 'change of use' of assets.

- The **Superficial Loss Rule** can negate the tax benefit of selling at a loss if you, your spouse or common-law partner, or another related entity acquires an identical security in the 30 days preceding *or* following the sale of the security on which you are claiming the loss. Note that an **RRSP or TFSA** is considered to be a related entity [see related item on page 4: *Transferring assets into an RRSP or TFSA].*

  However, **you can use the Superficial Loss rule to your advantage** – Assume you are holding a stock with a book loss and you do not have any gains against which you can use the loss, but your spouse does. If you sell your stock on the open market and within 30 days your spouse acquires the same stock, you trigger the Superficial Loss Rule. You have forfeited the use of your loss as your sale price is assumed to be your (higher) cost base. The extension is that your spouse is deemed to have acquired the stock at your (higher) cost. Your spouse then retains the stock for at least 30 days, sells and now has the loss in his/her hands.

- **Lifetime Capital Gains Exemption** – For disposition of qualified small business shares, individuals can claim an exemption from tax on capital gains up to a lifetime limit of $835,716 (indexed from $824,176 in 2016). For qualified farm and fishing property, the limit is $1,000,000.

## Borrowing for Tax Purposes

- **Carrying Charges** – As a general rule, interest is deductible for tax purposes as long as the proceeds of the loan are used for the purpose of earning income from a business or property. This is often referred to as a 'carrying charge'. Several tax cases exist regarding the application of this rule. Québec has rules in place which limit the amount of deductible interest charges to the investment income earned in the taxation year.

- **Spousal Loans –** For any such loan made at CRA's prescribed interest rate (done to achieve income splitting between spouses/partners), interest accrued to December 31st, 2017 must be paid by **January 30th, 2018.** The current prescribed rate is 1%, effective until December 31st, 2017. The prescribed rate changes on a quarterly basis, however this only applies to new loans. As an example, a loan done at today's 1% rate will continue to be onside with CRA's rules for the duration of the loan, even if CRA increases the prescribed rate in the future. CRA has set the prescribed rate for the 1st quarter of 2018 at 1%.

## Charitable Donations

- **Share Security and Option Donation –** Consider making a charitable donation of a security with an accrued capital gain instead of using cash. As a result of donating the security instead of cash, none of the gain will be included as taxable income instead of the standard 50% inclusion. A tax receipt will be issued for the entire fair market value of the donated security.

  This special tax treatment is also available for proceeds received through the exercise of employee stock options if the proceeds are donated directly by the exercising broker within 30 days of acquisition.

- **First-Time Donor's Super Credit –** 2017 will be the last year this credit can be claimed. A First-Time Donor is an individual who (along with a spouse or common-law partner) has not claimed a tax credit for charitable donations for any year after 2007. The credit is worth an additional 25% (on top of regular charitable donation tax credit rates) for monetary donations up to $1,000.

- **High Rate for Federal Donation Tax Credit –** Announced effective with the 2016 tax year for income in excess of $200,000 (which would also be subject to the higher Federal tax rates). These individuals will receive a tax credit of 33% for any charitable donations in excess of $200, *to a maximum of the amount by which their taxable income exceeds $200,000*.

  By way of example: an individual with taxable income of $215,000 who made charitable donations of $20,000, would receive a Federal credit of: i) 15% on the first $200, plus ii) 33% on the next $15,000 (the amount by which taxable income exceeds $200,000), plus iii) 29% on the difference between $200,000 and the first $200.

  *This rate will not apply for donations made prior to 2016*. However, for an individual with large donations who might have taxable income in excess of $200,000 in some years (but not others), he/she should speak to his/her E.E.S. consultant to optimize his/her claim for charitable donations.

  While many provinces have introduced similar 'high income' tax rates, generally speaking, the provincial tax credits for charitable donations have not followed the Federal model of giving additional tax relief to donors affected by these new tax brackets. (e.g. a taxpayer in Ontario would be subject to provincial tax at a rate of 13.16% for income over $220,000, but would only receive a provincial charitable donations tax credit of 11.16%.)

- **Other Donations In-Kind –** Preferred tax rates are available where a taxpayer donates ecologically sensitive land and / or certified Canadian cultural property. (Note: the 2015 Federal Budget had also proposed preferred tax rates for donations of proceeds of sale of real estate and / or shares of a small business corporation. However, the Federal government has since abolished these proposals and, therefore, no special tax treatment is available in these situations.)

## Employment Related Items

- **Stock options** give employees the right to purchase shares of their employer's company at a set price, known as the exercise price. The difference between the fair market value and this exercise price is taxed as employment income (*we emphasize: this is **not** a capital gain*). Most employees can claim a deduction of 50% of the taxable benefit on qualified options, resulting in only 50% of the stock option benefit being taxed. (Different rules apply in Quebec.)

- **If you received a loan from your employer**, and you did not use the proceeds for the purpose of generating investment income; you can reduce the amount of the taxable benefit by making an interest payment before **January 30th, 2018**.

- **If you have a company car,** there is a taxable benefit attributable to your use of the vehicle that is reported on your T4 and Relevé 1. Keep a log of your personal and business-use kilometres for your company vehicle to ensure easy reconciliation for your tax return. You may qualify for a reduced *standby charge* and *operating cost benefit* based on usage.

- **Employees who use their own car for business purposes** can receive a tax-exempt allowance from their employer if the allowance is based on the kilometres driven for business purposes, as opposed to a lump-sum allowance. The 2017 limit is 54 cents for the first 5,000 kilometres and 48 cents thereafter.

- **If you have eligible employment expenses or work from home more than half of the time**, your employer may be required to provide a form T2200, *Declaration of Employment Conditions*. Be sure you obtain a T2200 if it is applicable.

## Taxation of Trusts

- **Testamentary Trusts –** Since January 1st, 2016, all testamentary trusts are subject to the top marginal tax rate and will have a year end of December 31st, with the exceptions of: a) 'graduated rate estates' (for up to 36 months after the date of death); and b) testamentary trusts where the beneficiary qualifies for the disability tax credit.

- **Graduated Rate Estate** – There may be only one GRE per deceased individual. The deceased's estate must designate itself as a graduated rate estate.

- **Stub Period** – Once a GRE has been in existence for 36 months, it will be required to file a return for the "stub period" between the 3rd anniversary of the date of death and December 31st of that same year. Thereafter, the trust will have a December 31st year end (and be subject to tax at the top marginal rate).

- **Inter Vivos Trusts**, such as many family trusts, continue to be taxed at the top marginal tax rate, as has been the case for several years. The year-ends continue to be December 31st.

- **The deadline for filing any T3 return for 2017 with a December 31st, 2017 year end is April 2nd, 2018**.

## Source Deductions

- If you have **tax-deductible expenses** such as RRSP contributions, support payments, childcare expenses, investment carrying charges, rental losses, etc., application can be made to the CRA or Revenu Québec to reduce your tax deductions at source for 2018. If approved, your employer may reduce the tax withheld at source, resulting in increased cash flow for the employee. The approval process generally takes approximately six weeks.

## Alternative Minimum Tax

- Certain tax-deductible items may expose you to **Alternative Minimum Tax (AMT)**. While this tax may be carried forward and applied over the next 7 years, it can be lost if you leave Canada and have no further taxable Canadian income. Residents of Québec can lose the provincial AMT simply by leaving the province.

## Income Tax Instalments

- If the difference between your federal tax payable and your income tax withheld at source is greater than $3,000 ($1,800 if you are a resident of Québec), you are generally asked to make income tax instalment payments. The reporting notices provided by the CRA can be confusing. If you expect that your liability will be more or less than previously calculated, you may want to adjust your final payment accordingly. While you do not want to overpay your tax, the CRA will charge you interest, and possibly penalties, if you underestimate the amount owing. The final federal income tax instalment for 2017 is due December 15th, 2017, payable to the Receiver General for Canada.

- If you were reassessed for 2016 for additional income, this may affect your 2017 tax instalment payments.

- If the difference between your **Québec tax payable** and your Québec tax withheld at source is greater than $1,800, you are generally asked to make instalments. The final Québec income tax instalment for 2017 is due **December 15th, 2017**, payable to le Ministère du Revenu. The penalty for late or insufficient Québec instalment payments is an extra 10% in addition to the normal interest rate (when you have made less than 75% of the instalments required).

- If you think your December payment should be adjusted, contact your E.E.S. consultant for assistance with the calculation, as you do not want to find yourself 'off-side' with the tax department.

## Business Owners

- **For business owners** who employ family members, pay salaries by **December 31st, 2017** to add to their reported earned income for RRSP and CPP/QPP contributions.

- **Owner managers** with control over their income may want to ensure that they have enough employment income to maximize their **RRSP contributions**. In order to reach the maximum contribution level for 2018 ($26,230), you must have had $145,723 of *earned income* in 2017.

- If **purchasing capital assets** (such as computers, furniture or equipment) in the near future, consider making the purchase(s) before the calendar year end, or fiscal year end for corporations, as applicable. This will allow for a depreciation claim on your 2017 return.

- If you took a **shareholder loan** from your corporation in fiscal 2017, repay it, if possible, before the end of the next fiscal year end. If not repaid, it will be taxable as income in 2017.

- For corporate owned life insurance policies in the event of the insured's death, the death benefit minus the adjusted cost basis is considered a capital dividend. Under the rules introduced in 2017, it will take longer for the ACB to be reduced to zero.

## Québec Differences

- **Health Services Fund** – The 2017 Québec Budget eliminated these contributions (for individuals) as of January 1st, 2017. Furthermore, they announced retroactive adjustments to the required contributions for 2016 for individuals whose incomes were less than $134,095 (No contributions are required) and whose incomes were between $134,095 and $159,095 (a reduced rate of contributions is applicable). The retroactive adjustments were to be done automatically, so that affected individuals would not be required to resubmit their tax returns. If this situation applies to you, please review your most recent 2016 Notice of (Re)assessment to ensure your health contributions were calculated correctly.

- The **stock option deduction** for Québec provincial tax purposes is 25%, compared to 50% for federal tax purposes.

- **RénoVert Tax Credit** – Was introduced for the 2016 and 2017 tax years, as a temporary refundable tax credit for carrying out eco-friendly home. **It has been extended to include the 2018 tax year**. The credit will be capped at $10,000 and will correspond to 20% of the portion in excess of $2,500 of qualified expenses paid for before January 1st, 2019 (was October 1st, 2017). Qualifying expenses would include renovations to principal residence or cottage which has a positive energy of environmental impact. *The renovation work must be contracted after March 17th, 2016 and completed by April 1st, 2018*. The credit is available in the year the expense is paid.

- **Charitable giving –** As of the 2016 taxation year, there is no longer a limit on the amount of charitable donations a resident of Québec can claim on his or her tax return.

- For **investors in Québec**, the amount of **deductible interest and carrying charges** is **limited** to the amount of investment income, including capital gains, realized in the taxation year. Rental losses and active business losses are exempt from this limitation. These expenses can be carried back three years or carried forward indefinitely to apply against investment income and capital gains. Be aware that many tax shelter write-offs are included in the limitations and may not be deductible, depending on your circumstances.

- **Eligible childcare expenses –** Unlike the federal treatment of childcare expenses as a deduction, eligible expenses for Québecers are claimed as a refundable tax credit.

## U. S. Citizens, Residents and Green Card Holders

- If you are a U.S. citizen, resident or green card holder, you are obliged to file a tax return with the IRS and possibly state tax returns. Several other information returns may also be required. Failure to provide the necessary filings can result in serious interest and penalties. *You should discuss your situation with your E.E.S. consultant as soon as possible to ensure your affairs are in order.*

- As income earned within a Tax-Free Savings Account (TFSA) is not sheltered from tax for U.S. income tax purposes, it is advisable for those subject to U.S. income tax reporting ***NOT*** to own a TFSA.

- Similarly, income earned within a Registered Education Savings Plan (RESP) is not sheltered for U.S. purposes. Therefore, those subject to U.S. income tax reporting are advised ***NOT*** to set up an RESP to save for children's education unless there is someone else not subject to U.S. income tax reporting who can be designated as the trustee.

- If you are not a U.S. citizen, resident or green card holder, **but hold U.S. assets**, you should contact your E.E.S. consultant to confirm all requisite filings are in order.

- For those who are using Individual Taxpayer Identification Numbers (ITINs), the IRS announced in June 2014 that they will start deactivating ITINs that have not been used on at least one tax return in the past three years. **All ITINs not used on a U.S. federal tax return at least once in the last three years will expire on December 31, 2017**. Individuals with deactivated ITINs will need to reapply for ITINs.

- The IRS has indicated that all ITINs issued before 2013 with middle digits of 70, 71, 72 or 80 (Example 9XX-70-XXXX) will expire at the end of 2017. **If you need to *file* a tax return during 2018 (including a 2017 tax return) and you or someone listed on your return has an ITIN with a middle number of 70, 71, 72 or 80, the IRS recommends you submit Form W-7 now to renew your ITIN**. ITINs that have previously expired can still be renewed.

- As a client of E.E.S. we have been counseling you to review your status as it relates to U.S. holdings and the onerous, penalty riddled filing requirements. ***If you believe the IRS touches you in any way, please ensure you have brought these issues to the attention of your E.E.S. consultant.***

## Canada Pension Plan (CPP)

- ***Adjustments for Early and Late Take-Up*** – The ‘normal’ age an individual is eligible for CPP is age 65. An individual can also choose to start benefits as early as age 60, subject to an early take-up reduction of 0.6% per month prior to age 65. There is also an option to defer benefits as late as age 70, with a late take-up increase of 0.7% per month. If you are eligible to apply for CPP, speak to your E.E.S. consultant about what is the best age for you to apply.

- ***Participation of Working Beneficiaries*** – If you are working and are between the age of 60 and 65 you are required to continue to make CPP contributions. If you are age 65 to 70, receiving retirement benefits from CPP and still working, you can continue to contribute in order to increase your benefits (a ‘Post-Retirement Benefit’). If you are working beyond age 65 and **no longer want your employer to withhold contributions, you will have to file form CPT30 with CRA to cease contributions.**

## Old Age Security (OAS)

- ***Timing of commencement of receipt of OAS benefits* –** Since 2013, an individual has been able to elect the exact month to begin receipt of OAS benefits, any time between the months following the 65th and the 70th birthdays. There are a number of factors that can determine the optimal timing to begin receipt of this benefit, including the possibility of minimizing the “clawback” of the amount received. *Review this with your E.E.S. consultant well before applying for the commencement of OAS benefits in order to determine the optimal month to begin the benefit.*

**Please contact your E.E.S. Consultant for further details concerning any of these tax topics.**