

## 2007 Year-End Tax Tips

The end of another year is once again upon us. And while tax planning is a year-round activity as part of the financial planning process, now's the time to pay special attention to various tax issues before it's too late. To that end, this issue of *Year-End Tax Tips* briefly outlines some of the more common items that may need consideration and some changes for 2008.

**Note:** These points are by their nature general and brief, and not applicable to all situations. Your tax advisor can assist in determining if any of these points are relevant to specific situations.

### Securities Trading

- **Consider realizing losses**, particularly if there will be a net loss that can be carried back to reduce taxable capital gains in the prior three years. Losses not carried back can be carried forward indefinitely against future years' capital gains. Don't forget to watch out for the superficial loss rules if the individual or the individual's spouse or related corporation acquired the same security within 30 days of the sale (the rules will work to prevent the immediate claiming of the loss). To maximize the loss, consider deferring sales of securities with gains until January (this could also be used to defer tax where there are no accumulated losses).
- It is important to note that dispositions of securities by individuals that are repurchased by their RRSP **will** be subject to the superficial loss rules.
- Final trade date for security transactions for Toronto trades is December 24, 2007. Final trade date for securities transactions through New York is December 26, 2007. Key: *Settlement* must take place not later than December 31<sup>st</sup>.
- Consider delaying the purchase of annual pay/accrual fixed income securities (e.g. 1 year T-Bill or annual pay GIC) until 2008, thereby deferring the taxation of the income by a year.
- Election to defer the income inclusion of stock option benefits must be filed with the individual's employer by January 16, 2008 (Form T1212).

### Registered Plans

- Deadline for 2007 RRSP contributions is February 29th, 2008.
- **Reminder:** The annual contribution limit for 2007 is the lesser of 18% of 2006 earned income up to a maximum of \$19,000 (increased from \$18,000 in 2006), less the Pension Adjustment for 2007. The 2006 Notice of Assessment will indicate the allowable amount along with any unused amounts from prior years.
- If the annuitant turns 71 in 2007, RRSPs must be terminated and, to avoid being fully taxable in 2007, converted to a RRIF and/or annuity by December 31. Note: Contributions to the plan must be made by December 31, not 60 days after year end as the plan won't exist after December 31! Where the individual still has contribution room, contributions can continue to be made to a spousal plan if the individual's spouse is not over 71.
- The RRSP limit for 2008 will be \$20,000.
- The overcontribution limit is \$2,000. If this is exceeded the penalty is 1% per month.
- The 2007 federal budget increased the maturity age from 69 to 71. So if you are between the ages of 69 and 71 and have unused contribution room from previous years, consider converting your RRIF back to a RRSP (or open a new RRSP) and make a contribution to your plan to create a tax savings.



- Contribute to RESPs no later than December 31 to maximize the income deferral and benefit from the Canada Education Savings Grant (20% of contribution to maximum of \$500 per year if beneficiary is under 18). Note: The maximum lifetime contribution limit is \$50,000 per beneficiary.

## Personal Payments

- Final tax instalment payment for 2007 is December 15.
- Remember: In addition to non-deductible interest on late or deficient instalments (currently 9%), if your instalment interest charges are more than \$1,000 the penalty is calculated by first determining which is higher, \$1,000 or one-quarter of the instalment interest. Then the higher amount is subtracted from the instalment interest and the difference is divided by two.
- Charitable donation payments must be made before the end of the year. The maximum annual claim is 75% of net income. Unused amounts can be carried forward up to five years. Where publicly listed shares are donated, the gain is no longer taxable.
- Eligible medical expenses can be claimed for any 12 month period ending in the calendar year. Only amounts in excess of the lesser of 3% and \$1,896 are eligible.
- Beginning this year, parents of children under the age of 16 are entitled to a non-refundable tax credit of up to \$500 for each child registered in an eligible program of physical activity.
- Other payments that must be made by December 31 to be considered in the 2007 tax return include
  - investment management & custody fees
  - loan interest
  - safety deposit box
  - alimony/maintenance payments
  - political contributions
  - tax shelter payments
  - tuition fees
  - child care
  - professional fees
- Interest on family loans (generally at the prescribed rate) must be paid by January 30, 2008 to avoid income attribution. Consider new arrangements while the prescribed rate is low – currently 5%
- Review family trusts for any action that's required by December 31.

## Stock Option Deferral

- Stocks acquired (through stock option plans) but not sold during 2007 can have the benefit deferred on amounts up to \$100,000 in total fair market value (based on the fair market value at the time the options were granted)
- Your employer must be notified of your wish to defer before January 16, 2008.

## Transit Pass Tax Credit

- A non-refundable tax credit is issued for the cost of public transit passes (yearly, monthly, weekly and cost-per-trip electronic cards) provided that certain conditions are met.
- The amount claimed is multiplied by the lowest personal income tax rate for the year (currently 15.5%) and then deducted from the amount of taxes otherwise payable.



## Shareholder Loans

- Shareholder loans not repaid before the year-end may result in the full amount of the loan being fully taxable on your 2007 tax return. If the loan was made to help with the purchase of a home, automobile for work, or corporate shares an exemption would apply.

## Mutual Fund Purchases

- Defer the purchase of non-registered mutual fund units near the year-end to avoid having to report year-end distributions.

## Check whether Interest on your Loans is Deductible

- If not, and you have investments outside a RRSP or RRIF, consider liquidating some of the investments (calculating the tax cost first) and use the proceeds to pay down the debt. Then re-borrow to replace the investments.

## Allocate Pension Income to your Spouse

- You are able to allocate up to one-half of your income that qualifies for the existing pension income tax credit to your resident spouse/common-law partner. This may result in greater after tax income from your retirement plans.
- Pension income eligible will vary depending on age:
  - **For people age 65 and older**, eligible pension income includes payments from a registered pension plan (RPP – a pension from an employer-sponsored defined benefit plan or a defined contribution plan), income from a registered retirement savings plan (RRSP) annuity, a registered retirement income fund (RRIF), a LIF (a locked-in RRIF), or a deferred profit sharing plan (DPSP) annuity.
  - **For individuals younger than 65**, eligible pension income includes only payments from a registered pension plan (RPP – defined benefit or defined contribution).
  - **Ineligible income includes**, guaranteed income supplement (GIS), old age security (OAS), RRSP withdrawals and income from retirement compensation agreements (RCAs).

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