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Marmer Penner Inc. Newsletter

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Year-End Tax and *Guidelines* Income Planning

It is nearly the end of the year and on top of all of your normal deadlines come the added stress of certain financial deadlines. Here, in no particular order, are some that may be of importance to you and your clients:

1) Have your clients pay all arrears spousal and child support in order to gain the tax deduction. While spousal support is obviously tax deductible, the non-payment of child support where spousal support is also owing to the same parent will lead to a grinding down of the deductible spousal support for that year;

2) Finalize written agreements or orders that cover periodic spousal support payments made in 2017 or 2018 in order to make these payments deductible for the payor;

3) Remind your clients to pay discretionary carrying charges in December and not January in order to reduce both taxable income and income for purposes of the *Child Support Guidelines ("Guidelines")* for 2018. These payments include investment counsel fees, loan interest, bank charges and certain legal and accounting fees;

4) Trigger capital losses by selling investments with accrued losses on or before December 24th, as most transactions after this date will not settle until 2019. This may save income tax and reduce *Guidelines* income. Conversely, if your client has realized capital losses in excess of capital

gains in 2018 and pays support, it may be worthwhile to trigger some last-minute capital gains to avoid having an excess of capital losses in the year, which may go unused for *Guidelines* purposes, since the *Guidelines* do not specifically state that capital losses are deducted from Line 150 income to determine a payor's income. However, if both are realized in 2018, the *Guidelines* allow the capital losses to reduce the capital gains;

5) Avoid buying mutual funds which realized gains in 2018, as they will allocate each investor a share of these gains realized in 2018 even if the investor acquired the units late in the year;

6) Clients should consider buying fixed assets if they own a business, as the allowable depreciation is the same whether the asset was owned for one day or 365 days in 2018;

7) If your client was born in 1947, ensure that he/she converts any RRSP accounts into an annuity or an RRIF in order to avoid having the RRSP deregistered and fully included in 2018 income;

8) Here's an old tax trick for clients who turned 71 in 2018 but will continue to earn employment or business income. The *Income Tax Act* requires a taxpayer to wind-up an RRSP at the end of the year but it does not preclude the taxpayer from claiming an RRSP deduction in 2019. The septuagenarian can over-contribute to the RRSP on or about December 29, 2018, shortly before the RRSP is wound up. There will be a 1% penalty for doing so but this amount qualifies to be deducted in 2019. So, a $26,500 over-contribution will create a $265 penalty but also allow the contributor up to $14,185 in 2019 tax savings. Should your client wish to over-contribute for 2019 and 2020 in December 2018? That would lead to double the tax savings over the two years but the penalty will be an extra $3,180. Remember that RRSP tax savings are just temporary as you will start paying it back as soon as RRIF withdrawals commence so paying a $3,180 penalty might be pricey;

9) Charitable donations medical expenses must be paid before year-end in order to receive a 2018 tax receipt;

10) If a client is planning a long winter trip, it may be prudent for them to buy travel health insurance before the end of the year in order to claim it as a medical expense for 2018;

11) If a client's health insurance covers family members' expenses and there is unused coverage remaining, try to pay for covered expenses in December rather than January; and

12) In general, try to avoid TFSA withdrawals but, if your client has done so, the rules regarding recontribution may require him or her to wait until the following year. In addition to the 1% penalty on over-contribution to a TFSA, income attributed to deliberate over-contributions to a TFSA is subject to a 100% tax. Ouch.

From all of us at Marmer Penner, we wish you, your family and friends a happy holiday season! We also would like to announce the following:

a) Claudio Martellacci successfully passed his CBV exam last week and we expect this will merely be the first of his many successes; and

b) As of January 31, 2019, James DeBresser will be leaving our firm. We wish our colleague all the best.