SEGAL

Adding to your success

Year-End Tax Planner

Our latest ideas and tips in reducing your 2018 tax burden

Welcome!

Dear clients and friends, as we approach the end of another year, now would be a great time to consider some tax planning measures that could help reduce your 2018 tax burden. To assist you with this, the following are some ideas you may want to consider. Your Segal advisor can assist you in determining which of these ideas make sense for you

What's New

New Tax Rules Affecting Private Corporations

The federal government introduced new tax legislation that affect private corporations as follows:

- Tax on split income (TOSI)
- Effect of investment income on the small business deduction
- The new refundable dividend tax on hand account

*** For further details on the above, please see the attached link.

New filing deadline for Form T1134

The federal government has proposed to shorten the filing deadline for Form T1134 "Information Return Relating to Controlled and Non-Controlled Foreign Affiliates". Currently the filing deadline for Form T1134 is 15 months from the Company's taxation year end. The new deadline for filing Form T1134 is shortened to 12 months from the corporate's taxation years beginning after 2019, and to 10 months for taxation years beginning after 2020.

New Reporting Requirements for Trusts

- The 2018 budget proposed new reporting requirements for Trusts. The additional information required applies to Canadian residents and non-resident trusts that are required to file a T3 return.
- The new reporting requirements will apply to Trusts effective for 2021 and subsequent years.
- The Trusts will be required to file tax returns on an annual basis.
- Provide on an annual basis, identities of all trustees, beneficiaries and settlors of the trust.
- Provide identity of persons who exercises control over trustee decisions (e.g. a protector).
- The Trusts excluded from these additional reporting requirements are graduated rate estates and qualified disability trusts, mutual fund trusts, segregated funds and master trusts, trusts governed by registered plans, lawyers' general trust accounts, trusts that qualify as registered charities or non-profit organizations and trusts that are in existence for less than three months or hold fair market value of less than $50,000 in certain assets throughout the taxation year.
- Penalties will apply for non-compliance with the new filing requirements.

Inside This Newsletter

New Quebec Sales Tax Registration ("QST")

- On March 27, 2018, Quebec announced the implementation of a new system of collecting Quebec Sales Tax "QST" on certain sales made in Quebec.
- Effective January 1, 2019, non-residents of Canada will be required to register for QST on sales made to specified Quebec consumers (generally, end-users) on sales of digital services & intangible personal property.
- Effective September 1, 2019, residents of Canada but non-residents of Quebec will be required to register for QST on sales to specified Quebec consumers on sales of goods and digital services & intangible personal property.
- Generally, persons that make sales in Quebec for less than $30,000 per annum continue to be excluded from the requirement to register for QST.

Personal Tax Changes

Combined Federal and Ontario Non-eligible dividend tax rates

With the proposed changes to the small business corporate tax rates for 2018 & 2019, the combined Federal and Ontario tax rate for non-eligible dividends at the highest tax bracket will increase as follows:

Non-Eligible Dividends	
2018	**2019**
46.65%	47.40%

Corporate And Business Tax Changes

Reduced Small Business Tax Rate

Currently Canadian-controlled private corporations benefit from the federal and Ontario small business tax rate of 10% and 3.5% respectively. The Federal rate will be reduced to 9% in 2019. As a result the combined Federal and Ontario small business tax rate of 13.5% will be reduced to 12.5% in 2019. The reduction will be prorated for companies with off-calendar year-ends.

Ontario Retirement Pension Plan

The proposed Ontario Retirement Pension Plan scheduled to take effect in 2017 was shelved in favour of an enhanced Canada Pension Plan (CPP). The enhanced CPP will be gradually phased in, beginning in 2019.

Individuals

Registered Retirement Savings Plans

- The maximum RRSP contribution room for 2018 is limited to the lesser of $26,230 or 18% of your 2017 earned income less your pension adjustment. Your available contribution room should also be printed on the 2017 Notice of Assessment from the CRA.
- The deadline for your 2018 contribution is March 1, 2019. If you have excess cash available, consider making your 2019 contribution early, any time after January 1, 2019.
- A salary of $147,222 is required in 2018 to earn the maximum RRSP contribution room of $26,500 for the 2019 taxation year.
- If you turn 71 years old in 2018, you must terminate your RRSP this year. You can convert the RRSP into a Registered Retirement Income Fund (RRIF), into an annuity, or it can be withdrawn in a lump sum. You must make your 2018 RRSP contribution by December 31, 2018. If you withdraw the RRSP as a lump sum, the amount will be subject to tax as regular income.
- If you are terminating your RRSP in 2018 and you have earned income, consider making an over-contribution to your RRSP. This will result in a tax deduction for 2019 even though you can no longer contribute to your RRSP in that year. Since the over-contribution will be subject to a 1% penalty per month, it is advisable that the contribution be made in December to minimize the penalty.
- Consider making a contribution to a spousal RRSP to achieve income splitting in the future. The contributions will grow tax-deferred until withdrawn and will be taxed in the spouse's hand at that time. The contributor is entitled to the deduction at the time the contribution is made

- A spousal RRSP is particularly useful if you are over 71 but your spouse is younger than 71. Although you may not be permitted to contribute to your own plan, you are permitted to make contributions to a spousal plan until the end of the year in which the spouse turns 71 years of age.
- Even if your children have no tax to pay, you may wish to file tax returns on their behalf. If they have earned income, they will generate RRSP contribution room which can be carried forward indefinitely.

Registered Disability Savings Plans

- The RDSP program is available to any Canadian resident eligible for the Disability Tax Credit.
- The temporary measure to allow certain family members such as a spouse, common law partner, or parent of a disabled individual to become the plan holder of a RDSP as agent for an adult individual who might not be able to enter into a contract has been extended from the end of 2018 until the end of 2023.
- The RDSP or RRIF of a deceased individual can be rolled over to a RDSP of a financially dependent infirm child or grandchild, subject to certain conditions.
- The RDSP beneficiaries with shortened life expectancies can withdraw more of their RDSP savings without triggering the 10-year repayment rules, subject to certain conditions.

Registered Education Savings Plans

- Transfers between individual RESPs for siblings are allowed, subject to certain restrictions. This is intended to permit the same flexibility regarding the allocation of RESP assets among siblings as exists for RESP family plans.

Tax-Free Savings Accounts

The Tax-Free Savings Account program permits Canadian residents 18 years of age or older to contribute $5,500 to their TFSA.

- If you have not contributed towards your TFSA since 2009, you will be eligible to contribute up to $57,500 by the end of 2018.
- For 2019 the allowable TFSA contribution room is increased to $6,000.
- A TFSA is similar to an RRSP as income and capital gains earned within the TFSA will not be taxable. However, unlike an RRSP, the contributions will not be deductible, and withdrawals will not be taxable.
- Funds can be given to a spouse or children over 17 years of age to establish their own TFSA and the normal attribution rules will not apply.

Make A Charitable Donation

If your contributions are in excess of $200, you will benefit from a greater level of tax savings. Since the CRA permits either spouse to claim a donation, one spouse should claim all donations made by both spouses.

- If you have little or no tax owing this year, you may choose not to claim the charitable donation tax credit. Unclaimed charitable donations can be carried forward 5 years. Consider saving your unclaimed donations for a future year.
- One advantage of having the lower-income spouse claim all of the donations is that the lower-income spouse may receive a tax refund that can be reinvested without the attribution rules applying that would otherwise tax the investment income in the hands of the higher income spouse.
- Donations to US charities can only be claimed on your Canadian tax return if they were made to a prescribed university or to the extent that you have US source income.
- Instead of cash, donate stocks or mutual fund units that have unrealized capital gains. Capital gains taxes are eliminated on gains that are generated when publicly traded securities are donated directly to a charity, or to a private foundation.

Income-Splitting

- Consider making an investment loan to your lower-income spouse to split income earned on non-registered assets and reduce taxes on the income. The CRA allows these loans as long as you charge at least the CRA prescribed interest rate on the loan and document the interest payments. Currently the prescribed rate is 2%. The set interest rate will apply for the duration of the loan. Payment of the interest is due at the end of the calendar year and must be paid no later than January 30th of the following year.

Tax Loss Selling

- Consider triggering capital losses before the end of the year to offset any capital gains that were realized in 2018 or in one or more of the last three years.
- Beware that specific rules prohibit you or an affiliated person from buying an identical asset within 30 days of the sale.
- Normally, stock transactions are settled within two business days. Due to weekends and holidays, consider completing all trades by December 27, 2018.

Adjust Your December Instalments

If your income has decreased since last year, you may be able to decrease your December instalment payment. Use caution since any under-payment will result in penalties and non-deductible interest charges.

Adoption Expense Tax Credit

The maximum amount of eligible expenses for the Adoption Expense Tax Credit is increased to $15,905 per child for the 2018 taxation year.

Child Care Expense Deduction

Currently, the maximum annual amount that can be claimed under the Child Care Expense Deduction is limited to the least of:

- The total amount spent on child care expenses;
- Two-thirds of the lower income spouse's earned income; and
- The total of the maximum dollar limits for all children, or $8,000 per child under the age of seven, $5,000 per child aged 7 to 16, and $11,000 for children that are eligible for the Disability Tax Credit regardless of age.

*** Please ensure you keep all your receipts.

Medical Expenses

- You are permitted to select any 12-month period ending in 2018 when claiming medical expenses.
- You can plan for the timing of certain medical expenses since they are claimable based on when they are paid. For example, you may wish to pay for orthodontic treatment in full before the end of the year, even if the treatment will span the next year.
- A caregiver can claim eligible expenses under the medical expense tax credit (METC) for a dependent relative. There is no restriction on the amount paid.

Tuition Tax Credits

- Individuals will still be able to claim the federal tuition tax credit. However, the Ontario tuition tax credit was eliminated in September 2017.
- Fees paid for an examination to obtain professional status recognized by federal and provincial statutes can be claimed as a tuition tax credit.
- Examination fees paid to an educational institution, professional association, or provincial ministry will qualify.

Other Suggestions

- If income in an inter-vivos trust is to be taxed in a beneficiary's return, the income must be paid or payable to the beneficiary by December 31, 2018.
- Consider purchasing assets eligible for capital cost allowance before year-end.
- Up to $30,733 of non-eligible dividends can be received by an Ontario resident who has no other income, without any income tax liability resulting. The Ontario Health Premium of $300 will still be payable.
- Up to approximately $51,809 of eligible dividends can be received by an Ontario resident who has no other income, without any income tax liability. The Ontario Health Premium of $600 will still be payable.

Corporate

Corporate Tax Rates

Previously announced changes will decrease the corporate tax rate after 2018. The combined federal and Ontario tax rate on active business income for a Canadian Controlled Private Corporation ("CCPC") will be reduced to 12.5% for 2019 (26.5% if active business income exceeds $500,000). For investment corporations, the tax rates remain unchanged from prior year at 50.17%.

Consider deferring taxable income until 2019 due to the reduction of small business tax rates. This can be achieved by claiming deductions in 2018 or deferring work until 2019.

Capital Gains

- If you do not receive all of the proceeds of sale upon closing, you may be able to defer some of the tax for up to five years. This can be extended to 10 years for farm property.
- Capital gains on the sale of shares of a qualifying corporation may be sheltered by the capital gains exemption (“CGE”), with a lifetime limit of $848,252 for 2018 and indexed for subsequent years.
- If you have previously claimed an allowable business investment loss (ABIL) or if you have a cumulative net investment loss (CNIL), your ability to claim the capital gains exemption in 2018 may be restricted. Steps should be taken to rectify this issue in order to claim the capital gains exemption.

Shareholder Loans Should Be Repaid

- If you or your family members have borrowed money from a corporation in fiscal 2018, the loan must be repaid by the end of fiscal 2019. If the loan is not repaid at that time, it will be treated as income for 2018.
- Also, remember to pay any interest owing to the corporation by January 30, 2019 in order to avoid receiving a taxable benefit.

Declare A Bonus

A CCPC can take advantage of lower corporate tax rates if their taxable income is below $500,000. If a bonus is declared and accrued in order to bring taxable income down to this level, the bonus must be paid within 179 days after the fiscal period.

Interest Expense

Interest may be deductible if it is incurred for the purpose of earning income from a business or from property. Interest on money borrowed for personal purposes is not deductible. Any excess cash should be applied first against paying off your non-deductible loans. Consider restructuring your borrowings such that the interest incurred is tax deductible.

Gst/Hst Election For Closely Related Persons

Supplies of most property and services made between closely related parties (e.g. where 90% or more of the ownership is held by one corporation of another corporation) that are resident in Canada and exclusively engaged in commercial activities are not subject to GST/HST if an election is completed and filed with the CRA.

- A prescribed election form is required to be filed with the CRA by the first date on which any of the parties to the election is required to file a return. Parties to this election will be jointly and severally liable for any GST/HST owing on supplies.

Partnerships

Deferral opportunities for corporations with a significant interest in a partnership that have a different fiscal period than the partnership are limited. Corporations are required to accrue income for the portion of the partnership’s next fiscal period that falls within the corporation’s taxation year.

Trusts & Estates

Now is the time to review your trust arrangement and to make sure all documentation is up-to-date and to ensure that all transactions are completed and recorded on a timely basis.

- Graduated tax rates for graduated rate estates are available for first 36 months after the death of the testator. After that period, the estate is subject to tax at the highest marginal tax rate and will be required to adopt a December 31 year-end.
- Donations made pursuant to the Will will be treated as having been made by the estate at the time the property is transferred to a qualified donee. Where the transfer is made within 60 months following an individual’s death, the estate may claim the donation tax credit either in the year the donation is made or in an earlier year of the estate. Alternatively, the estate may deem the deceased individual to have made the donation in the year of death or the previous year.
- With various court decisions affecting the trust’s residency, it is important that you review the arrangement for family trusts set up abroad or in another province in determining where a trust is resident for Canadian tax purposes.

About Segal LLP

Established in 1976, Segal LLP is a leading Canadian accounting firm and one of the largest independent firms in the Greater Toronto Area. Offering integrated solutions in business advisory, assurance, and taxation, Segal delivers a comprehensive approach in developing solutions and providing reliable advice. Adding to your success isn't just our motto, it's our mission.

Our results-oriented team takes a hands-on approach to developing personalized solutions for you and your business. Drawing on our experience and ability to create opportunities through insight, we will assist you in every step of the way in executing your short and long-term goals.

You and your business aren't limited by a border and neither are we. Our membership in Moore Stephens International Limited gives us the ability to serve you in over 105 countries.

Our services are continuously monitored and adjusted to meet our clients' changing needs. We keep ourselves adaptable and up-to-the minute so you can stay one step ahead. Our talented team is able to provide services in the following areas:

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• TAXATION •

• ESTATE AND PERSONAL FINANCIAL PLANNING •

• MERGERS & ACQUISITION •

• BUSINESS ADVISORY •

• FINANCIAL REPORTING •

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Appendix I - Key Deadlines

Due Dates	Items To Be Filed/Payments to be Made
December 15, 2018	• Final quarterly tax installment due for individuals for 2018
December 27, 2018	• Final trading day on which to settle a trade in 2018 for Canadian stock exchanges
December 31, 2018	Last day to make certain payments in order to claim tax credits or deductions on your 2018 individual tax return • RRSP contributions if you turn 71 by December 31, 2018 • Charitable and Political donations • Child-care • Investment counsel fees • Medical expenses • Moving expenses • Tuition fees and interest on student loans • Alimony and maintenance payments
January 30, 2019	• Interest due on family loans (to avoid attribution of income)
February 28, 2019	• Last day to file: T4, T4A, T4A-NR and T5 Summary and Supplementary forms
March 1, 2019	• Deductible contributions to your own RRSP or spousal RRSP (for 2018 deductions) • RRSP Home Buyer's Plan repayment due (to avoid 2018 inclusion)
March 15, 2019	• First quarter tax installment due for individuals for 2019 income tax
April 1, 2019	• Last day to file income tax returns for inter vivos trusts without penalty • Last day to file NR4 Summary and Supplementary forms regarding amounts paid or credited to non-residents of Canada
April 30, 2019	• Last day to file personal tax returns • Last day to pay 2018 personal income tax Note: Self-employed individuals or spouses of self-employed individuals - the deadline to file your personal tax return is June 17, 2019. Any tax owing must still be paid no later than April 30, 2019. The filing deadline for personal returns may be later if an individual or spouse died during the year (terminal return).

If you wish to obtain more information on any of the above, please contact your advisor at Segal LLP to review your situation and determine what steps might be taken before the year-end and in the new year to minimize your taxes.

Appendix II - 2018 Personal Tax Rates

	Ordinary Income & Interest Income	Capital Gains	Canadian Dividends (Eligible)	Canadian Dividends (Non-Eligible)
Federal Only	33.00%	16.50%	24.81%	26.64%
Alberta	48.00%	24.00%	31.71%	41.64%
British Columbia	49.80%	24.90%	34.20%	43.73%
Manitoba	50.40%	25.20%	37.78%	45.92%
New Brunswick	53.30%	26.65%	33.51%	46.88%
Newfoundland and Labrador	51.30%	25.65%	42.61%	43.81%
Northwest Territories	47.05%	23.53%	28.33%	35.98%
Nova Scotia	54.00%	27.00%	41.58%	47.34%
Nunavut	44.50%	22.25%	33.08%	36.78%
Ontario	53.53%	26.76%	39.34%	46.65%
Prince Edward Island	51.37%	25.69%	34.22%	44.25%
Quebec	53.31%	26.65%	39.89%	44.83%
Saskatchewan	47.50%	23.75%	29.64%	39.60%
Yukon	48.00%	24.00%	28.93%	41.42%

If you wish to obtain more information on any of the above, please contact your advisor at Segal LLP to review your situation and determine what steps might be taken before the year-end and in the new year to minimize your taxes.

Appendix III - 2018 Corporate Tax Rates

<table>
<tr><th rowspan="3"></th><th rowspan="3">General</th><th rowspan="3">Manufacturing & Processing (M&P)</th><th colspan="3">Canadian-Controlled Private Corporations (CCPCs)</th></tr>
<tr><th colspan="2">Active Business Income</th><th rowspan="2">Investment Income</th></tr>
<tr><th>< $450,000</th><th>$450,000-$500,000</th></tr>
<tr><td>Federal</td><td colspan="2">15.00%</td><td colspan="2">10.00%</td><td>38.67%</td></tr>
<tr><td>Alberta</td><td colspan="2">27.00%</td><td colspan="2">12.00%</td><td>50.67%</td></tr>
<tr><td>British Columbia</td><td colspan="2">27.00%</td><td colspan="2">12.00%</td><td>50.67%</td></tr>
<tr><td>Manitoba</td><td colspan="2">27.00%</td><td>10.00%</td><td>22.00%</td><td>50.67%</td></tr>
<tr><td>New Brunswick</td><td colspan="2">29.00%</td><td colspan="2">12.62%</td><td>52.67%</td></tr>
<tr><td>Newfoundland and Labrador</td><td>30.00%</td><td>20.00%</td><td colspan="2">13.00%</td><td>53.67%</td></tr>
<tr><td>Northwest Territories</td><td colspan="2">26.50%</td><td colspan="2">14.00%</td><td>50.17%</td></tr>
<tr><td>Nova Scotia</td><td colspan="2">31.00%</td><td colspan="2">13.00%</td><td>54.67%</td></tr>
<tr><td>Nunavut</td><td colspan="2">27.00%</td><td colspan="2">14.00%</td><td>50.67%</td></tr>
<tr><td>Ontario</td><td>26.50%</td><td>25.00%</td><td colspan="2">13.50%</td><td>50.17%</td></tr>
<tr><td>Prince Edward Island</td><td colspan="2">31.00%</td><td colspan="2">14.00%</td><td>54.67%</td></tr>
<tr><td rowspan="2">Quebec</td><td colspan="2" rowspan="2">26.70%</td><td colspan="2">17.24% (Non- M&P)</td><td rowspan="2">50.37%</td></tr>
<tr><td colspan="2">Prince Edward Island</td></tr>
<tr><td>Saskatchewan</td><td>27.00%</td><td>25.00%</td><td colspan="2">12%</td><td>50.67%</td></tr>
<tr><td rowspan="2">Yukon</td><td rowspan="2">27.00%</td><td rowspan="2">17.50%</td><td colspan="2">12% (non-M&P)</td><td rowspan="2">50.67%</td></tr>
<tr><td colspan="2">Saskatchewan</td></tr>
</table>

If you wish to obtain more information on any of the above, please contact your advisor at Segal LLP to review your situation and determine what steps might be taken before the year-end and in the new year to minimize your taxes.

Further Information On New Tax Rules Affecting Private Corporations

Tax on Split Income

The Government released a number of rules that are effective in 2018 regarding the taxation of dividends, interest and shareholder benefits. The focus of the rules is to reduce those situations where income can be split with family members. Where dividends are subject to the tax on split income, the individual pays tax at the top tax rate. In very general terms, a dividend can be paid to any active family member over 17 years old. Active is defined as being full time which means 20 hours or more work per week throughout the year. If a family member works less than 20 hours per week throughout the year they can still be paid an amount that is reasonable to the contributions that they have made to the company. Moreover, in certain situations such as those where the company is not a professional corporation and whose revenue is less than 90% from service revenue and the revenue is all or substantially all from unrelated sources, dividends may be paid where the family member owns 10% or more of the votes and value of the company.

The rules are extremely complicated and should be reviewed before any dividends are paid in 2018 and onwards.

Effect of Investment Income on Small Business Deduction

In the February 2018 budget, the government proposed new rules that will reduce the amount of small business deduction available based on the amount of investment income of an associated group. These rules will apply to taxation years starting after 2018. The investment income of an associated group will reduce the small business deduction available for the associated group starting at investment income of $50,000. The entire small business deduction would be eliminated at investment income of $150,000. The amount of investment income is based on the year before. Therefore, even though these rules come into effect in 2019, the investment income earned in 2018 will determine the small business deduction available for that first year. The reduction of the small business deduction is basically $5 for each dollar of investment income earned above $50,000. The amount of investment income is adjusted for various items including a reduction in the investment income for any capital gains on the sale of business assets or shares of companies that qualify as shares of a qualified small business corporation. Added to this investment income will be dividends from non-connected corporations and any capital losses carried forward and applied in the year to reduce taxable income.

Managing the amount of investment income earned in the year will help to manage the small business deduction available.

The above new rules will be effective for corporate taxation years beginning in 2019 or later.

In November 2018, the Ontario government announced that it would not be implementing these changes at the Provincial level. Consequently, these changes will only affect the federal tax rates.

The New Refundable Dividend Tax on Hand Account

In the February 2018 Budget, the government proposed new rules with regard to the interaction between eligible dividends and the refund of refundable dividend tax on hand (“RDTOH”). In the past, any taxable dividend paid would recover a portion of the RDTOH. The integration system was set up on the assumption that the tax on the dividend received by the individual was at the top tax rate. However, if an eligible dividend is paid the tax rate is approximately 7.5% lower than a non-eligible dividend. Therefore, the government has come up with rules that, on a go forward basis, RDTOH can only be recovered if non-eligible dividends are paid unless it is a recovery of Part IV tax on eligible dividends received.

There are transitional rules that allow current RDTOH to be recovered by current available eligible dividends. However, as RDTOH accumulates in the future, eligible dividends will not be available to recover the RDTOH unless the eligible dividends were received from non-connected companies or the eligible dividends received from a connected company to the extent that the payor received a dividend refund from its eligible RDTOH balance.

Planning must be considered with regards to when to pay current eligible dividends as well as ensuring that there is a matching of the eligible dividends and RDTOH in those situations where there are parent companies and subsidiary companies.

The above new rules will be effective for corporate taxation years beginning in 2019 or later.