TAX

Planning Letter

Midyear 2015
Ying Yang, Chartered Professional Account, Inc.
info@yangaccounting.ca

For favourable tax results in 2015,

----------schedule a midyear planning review

Favourable tax results begin with planning ---and planning midyear gives you ample opportunity to start trimming this year's tax bill. Here are suggestions to get you started.

Section #2 --Reduce income tax rate lower

In this section, four issues will be focused for reduce both individual and business income tax.

- **RRSP**

An RRSP is a retirement saving plan that is registered under you, your spouse , or common-law partner. RRSP contributions can reduce your tax, and any income you earn in the RRSP is usually exempt from tax as long as the funds remain in the plan.

Generally, there are two types of RRSP :

- First, the RRSP accounts are managed by the financial institutions:

- Your RRSP account: managed by the financial institution team with a annual report annually.
- Spousal or common-law partner RRSP account: managed the same as your RRSP, but the retirement income can be evenly split between you and your spouse. So, the high-income contributor receives the benefit of the tax deduction.

Based on the lower interest rate considered as a standard of return usually, the expected return from this type of RRSP in recent a couple of years is almost zero or negative in fact, think about the influence of growing inflation rate each year.

- Second, a self-directed RRSPs that is build and managed by yourself. Currently, more and more people are trying to use this type of RRSP, and I will published some successful cases of my clients or my opinions based on an accountant perspective irregularly.

  Advantages:
  - no more management fee;
  - more information and tools are available now and later such as the convenient on-line direct investment from banks;
  - flexible to change the investment funds in order to reduce risk;
  - much more return than it is managed by a financial institution with your accumulated knowledge and experience.

  Disadvantages:
  - high risk without professional guide.

Using RRSP to reduce your tax :

- Limit for contribution RRSP--I prefer my client to optimize their RRSP contribution rather than maximize them as reviewing their assessments of CRA in the midyear. The reason? To achieve the minimize tax rate lifelong.
- For instance, set up the second type of RRSP with a feasible tax planning. A modest-income family can save tax up to $3,000.
- Set up a combined RRSP: one is managed by the financial institution, another is managed by yourself with a short term (two or three years) and long term(over 10 years) targets you expected. Comparing the return through the past several years, some of my clients are controlling their RRSP themselves successfully.
- No longer contributing to a RRSP and instead getting ready to transition from your job and tap into exiting assets and benefits? midyear tax planning can

establish the timing of your distributions and deciding when to begin receiving social security, so maximize the deferral is your goal.

Hire your children

- Family tax saving are available when your child works full-or part time for your business. That will shifting your higher tax bracket to your child's lower one.
- The Kiddie Tax applies to these types of income : taxable dividends and taxable capital gains; shareholder benefits ; partnership or trust income in general. Earned income as well as wages you pay to your child for working in your business is not subject to the kiddie tax. In addition, your child can claim the standard deduction --$11,327 before owing federal income tax.
- Even better, depending on how your business is organized such as CCPC, you may be able to save EI tax.
- One more benefit for hiring your child is that the reasonable wage offers other tax benefits for fund the RRSP. During 2015 your child can deposit and deduct for following years tax return.

Home Buyers' Plan--HBP

The Home Buyers' Plan (HBP) is a benefit program that supports more Canadians has their own place to live. Canadian resident who can participate it then withdraw up to $25,000 in a calendar year from your RRSP for purchasing your home. Some conditions should be met as well as resident of Canada, first time home purchase, without tax withhold for the withdrawal, complete the apply form, etc.

Generally, you have up to 15 years to repay to your RRSP the amounts you withdrew from them under the HBP.

I strongly recommend participate the HBP for the first home purchase. Because you borrow money from RRSP that is lower your tax rate in your contribution year, and without tax withhold in your withdrawal year. In addition, federal and province government have the irregular support for this program. For example, in 2014 you can claim an amount of $5,000 for the purchase of a qualifying home and there is a non-refundable tax credit up to $750.

If you missed both benefits I mentioned, call us as soon as possible.

Investment -- Capital Gain (50% taxable) or on account of Income (100% taxable)

Generally, capital gains or losses result from the disposition of capital property such as shares, real estate, art, a machine, a house, a cottage, or another property of personal or business. Individual and business capital gain has different tax law and characteristics, so they will be discussed separately as follows:

<u>Individual</u>

The common investments of individual are classified as : Personal-use property such as house, cottage; Listed personal property such as works of art; Other property such as shares, bonds, real estate. Each classes assets have its own definition for its transaction. According to the general rule, the proceeds for each classed transaction should be 50% taxable in your income.

However, often CRA has required more official documents to support the natural of transactions after individual tax return, then the result of later assessments are: the proceeds is on account of income rather than capital gain recent years.

Even worse, effective Feb.3, 2015, CRA released a new Income Tax Folio regarding the principal residence: Where the gain from the sale of a taxpayer's personal residence results <u>in business income</u> (as opposed to a capital gain), the gain cannot be exempt form income tax as a result of the principal residence.

According to the Canadian Income Tax Act, whether an individual will be considered as a "dealer" or a investor based on his or her past and present trading activities. For example, some shares are traded daily on the stock market, that will be reassessed as business income .

The best approach to achieve the capital gain rather than on account income is dependent on a number of factors--and should be determined at the outset of any interaction with CRA.

<u>Business</u>

The investment of business varies, so the law, General anti-avoidance Rule (GAAR), applies for it. It contains three main factors to be considered:

1. Primary intention
2. Secondary intention

3. Badges of trade or behavioural factors

In this Part II, RRSP, Hire your child, HBP, Investment are introduced briefly. These are just a few tax strategies you should consider. To discuss those tax–saving options suitable for your circumstances, contact us for a midyear review

NOTE:
This newsletter is published first to provide you with information about minimizing your taxes and maximizing your return. Do not apply this general information to your specific situation without additional details that cannot be summarized easily. For details and guidance in applying the tax rules to your individual circumstances, please contact with us.
yy@yangaccounting.ca
289-291-3924
647-989-1276