

TAX PLANNING

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2018 Tax Highlights

- RRSP contribution limit increases to \$26,230
- Employment Insurance Rates rises to 1.66%
- Lowest tax bracket remains at 15%
- Corporate tax rate decreases to 13.5% for Ontario SBC's
- Top Tax bracket starts at income over \$205,842
- No Tax on personal income up to \$11,809
- CPP Rates remain frozen
- OAS repayment threshold increases to \$75,910
- TFSA annual limit is \$5,500
- Sports/Activity credit eliminated

ESTATE INFORMATION RETURNS

Estate administration tax, formerly known as probate fees, is charged on the total value of the deceased's estate. The total value of the estate is the value of all assets owned by the deceased at the time of death, including:

- real estate in Ontario (less encumbrances)
- bank accounts
- Investments (e.g., stocks, bonds, trust units, options)
- vehicles and vessels (e.g., cars, trucks, boats, ATVs, motorcycles)
- all property of the deceased which was held in another person's name
- all other property, wherever situated, including:
 - goods
 - intangible property
 - business interests, and insurance, if proceeds pass through the estate, e.g., no named beneficiary other than 'Estate'.

If the court issued a Certificate of Appointment of Estate Trustee with a Will Limited to the Assets Referred to in the Will, only those assets included in such will, are to be included. If the court issued:

- a Confirmation by Resealing of Appointment of Estate Trustee
- a Certificate of Ancillary Appointment of an Estate Trustee with a Will, or
- a Certificate of Appointment of Foreign Estate Trustee's

Nominee as Estate Trustee without a Will, Only those assets located in Ontario are to be included.

Encumbrances against any assets other than real estate cannot be deducted from the value of the assets.

Assets that the deceased had before death but not at the time of death, such as insurance payable to a named beneficiary, assets where there is joint ownership with right of survivorship and real estate outside of Ontario are not included in the value of the estate.

Who pays estate administration tax?

The tax is imposed on the estate of the deceased person.

The tax is paid as a deposit when the estate representative applies for a Certificate of Appointment of Estate Trustee with the Superior Court of Justice.

Cheques for paying the estate administration tax are made payable to the Minister of Finance.

Tax rates

The current tax rates are:

- 1/2% on the first \$50,000 of the value of the estate, and 1.5% on the value of the estate exceeding \$50,000.

Note: There is no estate administration tax payable if the value of the estate is \$1,000 or less.

Filing an Application for Certificate of Appointment of Estate Trustee

For information about estates and applying for a Certificate of Appointment of Estate Trustee, visit the Ministry of the Attorney General's website.

Filing an Estate Information Return

An Estate Information Return **must be received** by the Ministry of Finance **within 90 calendar days** after a Certificate of Appointment of Estate Trustee has been issued. However, this does not apply to anyone who applied for a Certificate of Appointment of Estate Trustee prior to January 1, 2015.

Exceptions

There is no requirement to file an Estate Information Return with the Ministry of Finance if you have received any of the following:

- a Certificate of Appointment of Succeeding Estate Trustee with a Will
- a Certificate of Appointment of Succeeding Estate Trustee with a Will Limited to the Assets Referred to in the Will
- a Certificate of Appointment of Succeeding Estate Trustee without a Will
- a Certificate of Appointment of Estate Trustee During Litigation.

There is also no requirement to file an Estate Information Return if:

- you applied for the estate certificate prior to January 1, 2015
- you were not issued an estate certificate after an Application for Certificate of Appointment of Estate Trustee was made (e.g., your application was withdrawn), or
- the full amount of estate administration tax has been paid in

How To Change Your Tax Return

If you have filed your return and then determine that you need to make a change, either because you have received another T-slip, or because you didn't claim an expense and later learned it was deductible, you can request an adjustment to your tax return. The time limit for filing adjustments to your tax returns by mail is **ten (10) years**. An adjustment request may be made in 2018 for the 2008 or subsequent taxation years.

You can request the change online for your most recent return, or your returns for the previous two tax years, or by mail, for tax returns for the past ten years.

Requesting a change online

Requesting a change online is very simple, and is done by logging into your account at the CRA My Account page. A separate request has to be filed for each tax year.

You can also use the online request if you forgot to apply for the GST/HST [tax credit](#) when you filed your tax return.

Requesting a change by mail

You can obtain a form T1ADJ from the CRA web site, complete it and mail it in, along with documents supporting your change request.

ESTATE INFORMATION RETURNS (CONTINUED)

respect of a deceased's estate, and there is no change to be reported about the assets of the estate, but a subsequent estate application is required to be filed (such as to appoint a succeeding Estate Trustee), and no additional tax is payable.

How to file an Estate Information Return

You can file the Estate Information Return online. You'll receive immediate email confirmation of your submission, and the opportunity to save a copy of your return.

Alternatively, you can print and submit the return using one of the following options: by mail or fax to:

Ministry of Finance
Compliance Branch
33 King Street West
PO Box 625
Oshawa
ON L1H 8H9
Fax: 1-866-888-3850

in person or by courier to:

Ministry of Finance
33 King Street West
Oshawa
ON L1H 8H9
8:30 a.m. to 5:00
p.m., Monday to
Friday

in person at select ServiceOntario locations.

For any questions about online filing, or to receive a printed copy of the return and guide, call the Ministry of Finance at 1-866-ONT-TAXS (1-866-668-8297) / TTY toll free 1-800-268-7095.

Due dates

If any due date falls on a weekend or a holiday, the due date is extended to the next business day.

The initial Estate Information Return **must be received** by the

Ministry of Finance **within 90 calendar days** following the issuance of the Certificate of Appointment of Estate Trustee.

Amending a return

An amended Estate Information Return may be submitted online or on paper. If submitting online, and the initial Estate Information Return was submitted on paper, all sections of the online amended return must be completed.

Additional deposit or tax paid

If additional deposit or tax is paid after delivering the initial Estate Information Return, an amended information return setting out the particulars of the deposit or payment must be received by the Ministry of Finance **within 30 calendar days** after the deposit or payment.

Actual value after estimated value given

If you estimated the value of the estate when applying for an estate certificate, and gave an undertaking to the court to return with the actual value subsequently ascertained of the estate, you must provide the Ministry of Finance with at least two information returns.

The initial Estate Information Return **must be received** by the Ministry of Finance **within 90 calendar days** of the issuance of the estate certificate. This return should include estimated values for any assets for which a final value is not yet available. **You must attach** a copy of the undertaking to this return.

An amended Estate Information Return, showing the final value of the estate, details of the fulfillment of the undertaking and

any additional tax paid, must be received by the Ministry of Finance **within 30 calendar days** of fulfilling the undertaking

Incorrect or incomplete information

If, within four years of the issuance of an estate certificate, an estate representative becomes aware that information given to the Ministry of Finance on an Estate Information Return is incorrect or incomplete, an amended information return must be received by the ministry **within 30 calendar days**.

If more than four years have passed, there is no requirement to file an amended information return.

The four year period is not extended following an issuance of a revised or succeeding estate certificate.

Subsequently-discovered property

An estate representative must file a statement disclosing the subsequently discovered property with the court within six months of the discovery, and file an amended Estate Information Return with the Ministry of Finance **within 30 calendar days** after the statement is delivered to the court.

Refunds

If a full or partial refund of deposit is received after delivering an estate information return, an amended Estate Information Return setting out the details of the refund must be received by the Ministry of Finance **within 30 calendar days** of receiving the refund. Such a refund would have been paid by the Superior Court of Justice in Ontario where your deposit of estate administration tax was paid.

TAKING EARLY RRSP WITHDRAWALS/POSTPONING CPP/OAS

For some, taking early withdrawals from an RRSP to smooth out annual income over retirement years, thereby reducing taxes overall, can make good financial planning sense.

Drawing down an RRSP, particularly when combined with the decision to defer Canada Pension Plan (CPP) and even old-age security (OAS) benefits until as late as age 70, could help avoid both a big tax hit

and an OAS claw-back down the line while maximizing government pensions for life. If you retire early and haven't begun receiving CPP and OAS benefits, you should really be thinking long and



hard about taking some early RRSP withdrawals and deferring some government pensions.

An RRSP must be converted to a RRIF or an annuity by the end of the calendar year in which you turn 71. Making decisions about whether to withdraw from an RRSP prior to that deadline and how much to withdraw involves taking into account the individuals circumstances, including annual income requirements, current tax bracket and total assets - among other considerations. Managing income levels during retirement is the key to maximizing tax savings

Taking a larger withdrawal from an RRSP may make sense, even if the income is not needed, if that income will be taxed at a lower tax rate than if the withdrawal is made later.

For example, if you require \$40,000 a year in income but the combined federal/provincial tax bracket tops out at \$46,600, withdrawing the extra \$6,600 from the RRSP may be beneficial from a tax savings perspective. If you wait until after age 71, at which time you must make minimum withdrawals from your RRIF, you may have

to pay taxes at a higher rate on the same amount.

Withdrawing funds from an RRSP earlier in retirement may also help you avoid the effect of the OAS pension recovery tax (the claw-back), which begins at a threshold of \$75,910 (for the 2018 income year), later in retirement.

When you combine your CPP, OAS and the required minimum amount you must take from your RRIF, you ideally want the total to be below the OAS threshold. You can also consider converting a portion of an RRSP to a RRIF well before age 71. Doing so could create pension income eligible for the pension income credit, which provides a non-refundable tax credit on the first \$2,000 of eligible pension income. In addition, up to 50% of eligible pension income, including from a RRIF, may be used to split income with a lower-income spouse.

It is typically desired to have at least \$200,000 of RRSP savings before being in a position to consider a strategy of funding your early retirement years primarily with RRSP withdrawals rather than with government pensions.

Beginning CPP and OAS benefits

as late as age 70 will allow you to increase benefit payouts significantly and provide yourself with two guaranteed streams of income that function as insurance against longevity risk. Deferring the CPP until after age 65 will result in an increased payout of 0.7% for each month of deferral up to age 70. At 70, the CPP payout amount will be 42% higher than the amount would have been had benefits begun at 65. For OAS, each month deferred after 65 results in an increased payout of 0.6%. At 70, the OAS amount is 36% higher than it would have been had benefits begun at age 65.

Expressed as an equivalent investment return, the benefit of delaying CPP payments until age 70 is equivalent to an 8.4% increase in payout per year deferred. So, you are better off drawing from your RRSPs first unless you're confident of an equal or better return in your portfolio.

It is always recommended that you discuss the scenarios with your financial planner before acting on any course of action.

POWER OF ATTORNEY

Common mistakes:

Making a quick decision: Many people name their POAs without thinking about their choice's financial capability, much less their ability to get along with other family members.

Assuming family is always the best choice: It's far more important to choose someone who truly has your best interests at heart.

Waiting too long: If there's already a question of diminishing capacity, it's likely too late to make a Power of Attorney ironclad.

Not reviewing it: Changing life circumstances and new provincial legislation can make an old POA invalid.

Cross Border POA's

Most Canadian provinces and territories, as well as some U.S. states, have laws that recognize POAs that have been validly created elsewhere. Yet despite such legislation, practical limitations on the actual use of POAs in a foreign jurisdiction arise frequently.

For example, legislation for the recognition of foreign POAs in Florida and Arizona only applies to instruments executed in another U.S. jurisdiction. Moreover, organizations like banks and title companies may insist that POAs conform to local law (e.g., some jurisdictions require that a notary public be a witness, which is not a requirement in Ontario, for example). And financial institutions often want their own forms used. Be careful and make sure to have POA's that will apply to the multiple jurisdictions you may reside in. A practical approach is to prepare local POAs in each jurisdiction where a person has assets and/or spends a significant amount of time.

It is always best to seek legal counsel regarding your POA. You should revisit it periodically if there are any changes in your circumstances.

REPORTING FOREIGN INCOME/EXPENSES

When foreign amounts, including income, expenses, and foreign taxes paid, are reported on your Canadian personal or corporate income tax return, they must be reported in Canadian dollars.

Investment income is reported on Schedule 4 of the personal tax return. If you are using a software package to do your tax return, record the information from your tax slips in the tax slips area of the return. The amounts on your foreign tax credit is calculated on Schedule T2209, and at least a portion of it should reduce your taxes payable. The provincial or territorial foreign tax credit is calculated on Schedule T2036.

Converting to Canadian Dol-

lars

The foreign exchange rate used to convert the foreign currency transaction into Canadian dollars is either :

the rate in effect on the date of the transaction, or the average annual exchange rate for the taxation year

as published by the Bank of Canada (noon rate), as per s. 261(1) of the Income Tax Act. The Bank of Canada publishes the noon rate in its historical lookup tables, and also publishes the average annual exchange rate for the taxation year based on the noon rate. However, effective March 1, 2017, the *Bank of Canada will be changing how it publishes foreign exchange rate*

data. It will be publishing a single rate reflecting the daily average exchange rate *each day at 4:30 PM ET*

If any income or expense that you have received or paid was converted to Canadian dollars as part of the transaction, then the Canadian dollar amount that you actually received or paid would be reported as your income or expense. For example:

If you have paid tax-deductible expenses by using your credit card, which converts the amounts into Canadian dollars, you would use the Canadian \$ amount that you actually paid.

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FILING DEADLINES

April 30th is the filing deadline for 2017 tax returns. The self-employed must file by June 15th, 2018. All taxpayers will incur interest charges on any unpaid balances after April 30th, 2018. Don't miss your deadline as there is an automatic 5% late penalty levied against unpaid balances.

APPEALS

Appeals of tax reassessments for prior years must be filed within 90 days of the mailing date of the reassessment. The deadline for objecting to an assessment of the 2017 filing is 90 days from the date of the assessment or 1 year from the filing deadline of April 30th, 2018, whichever is later.

INSTALLMENTS

If your tax balance owing is greater than \$2,000 in current year and one of 2 preceding years, Revenue Canada will request that you make quarterly tax installment payments based on the balance owing in the upcoming year.

PDL Financial Consulting & Valuations Inc. specializes in the areas of Income tax planning and preparation, Real Estate appraisal, acquisition, management, Mortgage analysis, Financial Consulting & Investment Planning, Business start up, registration & planning.

FOREIGN INCOME (CONTINUED)

If your foreign dividends are received in a Canadian \$ account, so that they are converted automatically, the amount you would report as a dividend is the Canadian \$ amount that you actually received.

Historic foreign exchange rates can be downloaded from various websites using a google web search.

2017 US Exchange Average Rate

The annual average rate for converting US dollars for 2017, as

per the Bank of Canada, was 1.2986 (1.32480640 for 2016). To convert US dollar amounts to Canadian dollars for 2017, multiply the US \$ amount by 1.2986. The annual average exchange rates for years up to and including 2016 are now considered "legacy" rates, and can be downloaded from the Bank of Canada Legacy Noon and Closing Rates.

Reporting Foreign Assets

If you own foreign assets with a cost basis exceeding \$100,000 Canadian *at any time in the*

year, this must be reported on the T1135, foreign asset verification statement. This form must be filed by Canadian resident individuals, corporations and trusts, as well as many partnerships.

Tax Tip: You may be able to recover some of the foreign tax paid, by claiming a foreign tax credit..

2018 FEDERAL TAX RATES

- 15% **on the first** \$46,604 of taxable income, +
- 20.5% **on the next** \$46,604 of taxable income (on the portion of taxable income over \$46,604 up to \$93,208), +
- 26% **on the next** \$51,281 of taxable income (on the portion of taxable income over \$93,208 up to \$144,489), +
- 29% **on the next** \$61,353 of taxable income (on the portion of taxable income over \$144,489 up to \$205,842), +
- 33% on taxable income over \$205,842

CANADA REVENUE AGENCY CONTACT NUMBERS:

T.I.P.S.	1-800-267-6999
INDIVIDUAL INCOME TAX	1-800-959-8281
TELEREFUND	1-800-959-1956
BUSINESSES AND SELF EMPLOYED	1-800-959-5525
UNIVERSAL CHILD CARE BENEFITS	1-800-387-1193
GST/HST CREDIT	1-800—959-1953
FORMS & PUBLICATIONS	ORDER ONLINE
PAYMENT ARRANGEMENTS	1-888-863-8657