

# Year-End Tax Planning Tips

Since many tax strategies require foresight to be effective, tax planning should be a year-round activity. However, as year-end approaches there are still opportunities to reduce your 2016 tax bill. Consider the following year-end tax-saving strategies.

## 1. Tax-loss selling – Deadline: December 23

Friday, December 23, 2016 is expected to be the last buy/sell date for Canadian securities to settle in 2016 (based on trade date plus three days). You may want to review your non-registered investment portfolio to consider a sale of any securities with accrued losses to offset any capital gains realized in the year – or the three previous taxation years (if a net capital loss is created in the current year). It is important to ensure that a tax-loss sale makes sense from an investment perspective, since stocks sold at a loss cannot be repurchased until at least 31 days after the sale to be effective.

## 2. Charitable donations and other tax credits/deductions – Deadline: December 31

Instead of donating cash to charities, consider donating appreciated publicly-traded securities. This strategy provides a charitable tax receipt based on the value of the securities donated, while potentially eliminating the capital gains tax otherwise payable on these securities if they were sold. In order to receive a tax receipt for 2016, you must ensure all charitable donations are made before December 31, 2016.

December 31 is also the final payment date in order to receive a 2016 tax deduction or credit for expenses such as childcare, medical and tuition tax credits, as well as the children's fitness and arts tax credits. It's important to note that the maximum amounts for 2016 for the federal children's fitness and arts tax credits have been reduced (i.e., \$500 and \$250, respectively) and these credits will be eliminated for 2017 and subsequent taxation years.

## 3. Pension income - Deadline: December 31

If you are not already taking full advantage of the federal pension income tax credit, consider creating up to \$2,000 of eligible pension income. If you are age 65 or older, converting a portion of your Registered Retirement Savings Plan (RRSP) into a Registered Retirement Income Fund (RRIF) to receive up to \$2,000 of qualifying RRIF income before the end of the year could allow you to benefit from this credit.

## 4. TFSA withdrawals - Deadline: December 31

If you're planning to make a Tax-Free Savings Account (TFSA) withdrawal in the near future, consider making the withdrawal in December instead of waiting until 2017. This way, the amount withdrawn will be added back to your TFSA contribution limit on January 1, 2017 (rather than 2018).

## 5. RRSP contributions for those turning 71 - Deadline: December 31

If you turned 71 years of age in 2016, you must collapse your RRSP by the end of the year. If you have unused RRSP contribution room, consider making a final RRSP contribution before closing your RRSP. And, if you have any earned income in 2016 that will generate RRSP contribution room for 2017, consider making your 2017 RRSP contribution early – in December 2016. While you will be charged a one per cent penalty tax for the month of December, the tax savings on your RRSP contribution (which can be claimed on your 2017 tax return) should exceed the penalty tax.

## 6. Payment of quarterly tax installments – Deadline: December 15

Many Canadian investors are required to make quarterly income tax instalment payments since tax is not deducted at source on investment income. If your estimated income tax payable for the year, or payable for either of the two preceding years, exceeds \$3,000 (\$1,800 for Quebec residents), you may be required to pay income tax instalments. Personal tax instalments are due four times a year, with the final instalment due December 15.

If you fall short on any required instalments, non-deductible interest or penalties may be incurred. Therefore, it is important to determine if your year-to-date instalments are sufficient – in light of these requirements – based on your estimated income tax payable for the year.

## 7. Corporate class mutual funds/Linked Notes – Deadline: December 31

Investors should note two significant changes to the tax legislation which are scheduled to take effect in 2017.

The first change involves corporate class mutual funds – which seeks to curtail the current tax deferral in the case of mutual fund “switches,” by creating a taxable disposition at fair market value when shares of a mutual fund corporation are exchanged upon switching between funds.

Currently, certain Canadian mutual funds structured as a corporation allow the tax-deferred exchange of shares of one class of the mutual fund corporation for shares of another class in order to switch their economic exposure between the mutual fund corporation’s different funds. As of January 1, 2017, proposed tax legislation will curtail this deferral such that an exchange of shares of a mutual fund corporation that results in the investor switching between funds will be considered a disposition at fair market value for tax purposes. However, this proposed measure will not apply to switches where the mutual fund shares received in exchange differ only with respect to management fees, and otherwise derive their value from the same portfolio or fund within the mutual fund corporation (i.e., the switch is between different series of shares within the same class).

The second change involves Linked Notes, which are debt obligations, whose return is linked in some way to the performance of one or more reference assets or indexes over the term of the obligation, such as a “principal-protected note” or “principal at-risk note.” Currently, any gains on the sale of a Linked Note in the secondary market prior to maturity is generally treated as a capital gain for tax purposes, while the gains of a Linked Note at maturity would be treated as interest income. If the proposed legislation is implemented in its current form, effective January 1, 2017 any gain realized on a secondary market sale of a Linked Note would be deemed to be the interest that accrued on the Linked Note up to the date of sale, and would not be treated as a capital gain. In effect, the positive return on a Linked Note would always retain the same character, whether earned at maturity or received as proceeds in a secondary market sale by the holder of the Linked Note.

Investors may wish to speak to their BMO financial professional and tax advisor to discuss any planning strategies to undertake before the end of the year, in light of these upcoming changes.

## 8. Small businesses – Sale of goodwill – Deadline: December 31

Eligible capital property (ECP), for income tax purposes, includes intangible property such as goodwill, which can arise when a company is sold for a premium value over its tangible assets, for example, due to brand recognition or its position in the marketplace. As originally announced in the 2014 federal budget, the Liberal government intends to proceed with changes to the ECP regime effective January 1, 2017. This may impact future sales of privately held Canadian corporations where a significant portion of the company’s value is attributable to goodwill. In particular, these proposed forthcoming tax changes for 2017 will reduce the tax benefits of an asset sale involving the sale of goodwill. Impacted business owners currently contemplating a sale involving a significant goodwill component, should consult with a tax advisor to consider their ability to take advantage of the current 2016 tax treatment.

## 9. Tax changes affecting life insurance – Deadline: December 31

The tax legislation governing the income taxation of insurance is changing, effective January 1, 2017, with specific changes impacting the taxation of prescribed annuity payments and the taxation of corporate-owned life insurance policies.

### Taxation of prescribed annuity payments

Prescribed annuities provide a reliable stream of tax-efficient income that can be used to help supplement your other sources of retirement income. Beginning January 1, 2017, prescribed annuity payments will be calculated using an updated mortality table which will result in a higher taxable portion included in the annuity payment, and the age at which the taxable portion of the annuity payments becomes \$0 will be increased versus the current calculation.

### Taxation of corporate-owned life insurance policies

One significant benefit enjoyed by the owners of a Canadian-Controlled Private Corporation (CCPC) is the Capital Dividend Account (CDA). Any balance in a CDA, including life insurance death benefit proceeds, can be paid out to shareholders of the corporation as a capital dividend on a tax exempt basis. Beginning January 1, 2017, the Adjusted Cost Base calculation used to determine the amount of life insurance proceeds that can be credited to the CDA is changing, and could result in a decrease in the amount that can be credited to the CDA.

For more information about the upcoming legislative changes to life insurance, and whether acting before January 1, 2017 could be beneficial if you are considering the purchase of a prescribed annuity or corporately owned life insurance, please contact your BMO financial professional who will refer you to an Estate and Insurance Advisor (Financial Security Advisor in Quebec) from BMO Nesbitt Burns Financial Services Inc.

### Seek professional advice

Please speak to your BMO financial professional if you would like more information on these year-end strategies.

These tips are neither a comprehensive review of the subject matter, nor a substitute for professional tax advice. Be sure to consult with your tax advisor to confirm the suitability of any of these strategies for your personal situation.

Please note that December 31 is the deadline for many of the planning tips discussed in this article. Since December 31, 2016 falls on a Saturday, the last business day in 2016 is Friday, December 30 and investors should plan accordingly.



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