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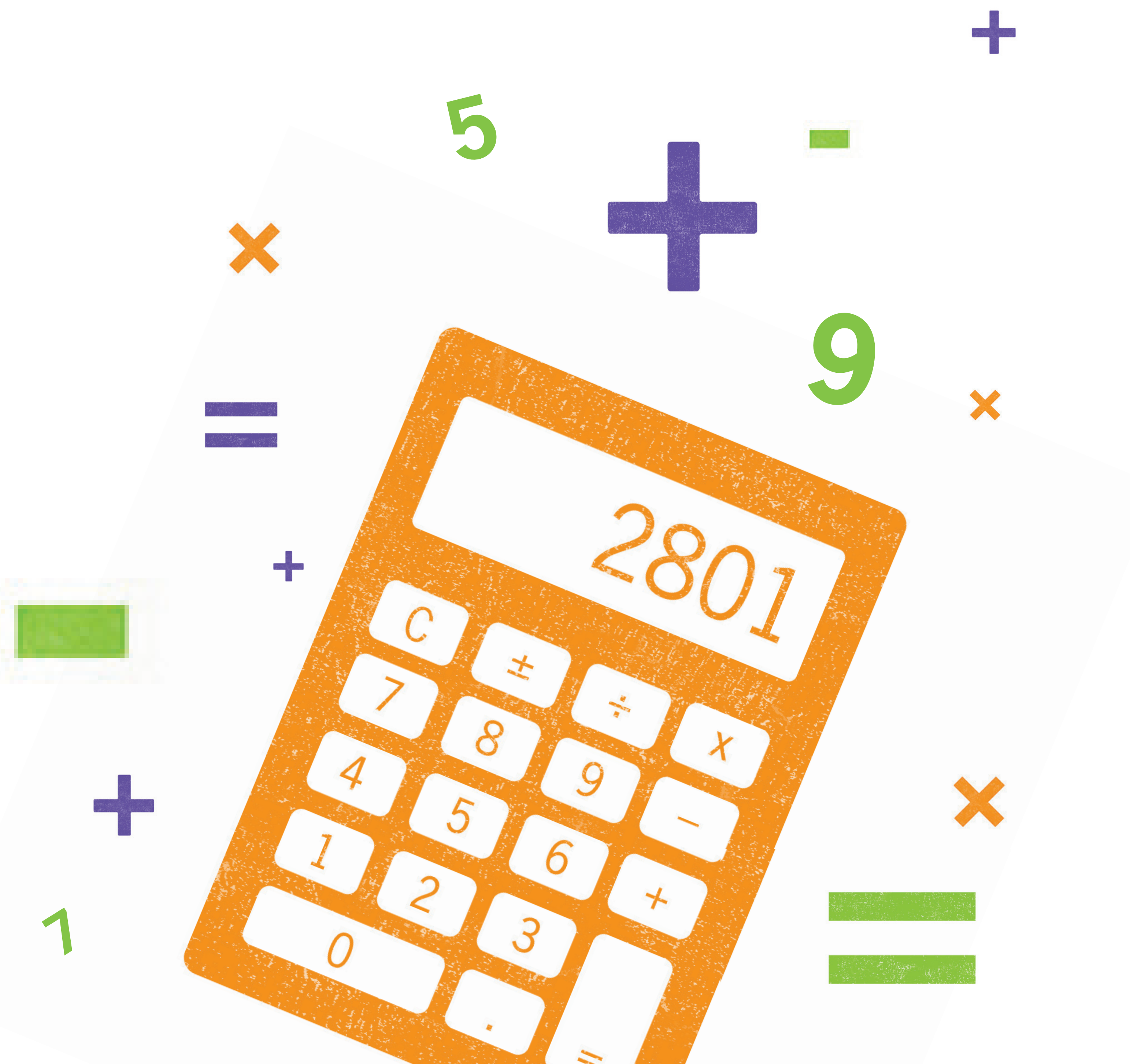
2016 Year-end tax planning guide



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Advice for businesses

Nobody likes to pay too much tax. Luckily, there are a number of tax-saving measures that can help with just that—both for businesses and individuals. But, in order to capitalize on these opportunities, now's the time to review your 2016 tax situation to see if any apply to you.

Salary, bonus or dividends? What's the right compensation strategy for you?

If you're the owner-manager of a closely held Canadian-controlled private corporation (CCPC), you should consider the mix of salary, bonus and dividends in your compensation package. A bonus is often preferred over salary, since the payment can be deferred until after the company's year-end.

Salary and bonus are both considered earned income which is used to calculate your RRSP contribution limit for the subsequent year. For 2016, you will need earned income of $144,500 to make the maximum RRSP contribution for the 2017 tax year of $26,010.

If your spouse and/or children work for you, consider paying them a reasonable salary or bonus as well. This will be beneficial where their marginal tax rate is lower than yours. In addition, it will give them earned income for CPP and RRSP purposes.

Owner-managers of private corporations often declare a bonus at year-end to reduce the corporation's income to the amount that qualifies for the small business deduction. However, a corporation can also pay dividends to its shareholders. Certain dividends qualify as "eligible dividends," which are subject to a lower rate of tax than other (regular) dividends.

For a dividend to be an eligible dividend, it must be designated as such in writing by the corporation paying the dividend. Late-filed designations may be permitted in certain limited situations, provided that the corporation makes the designation no later than three years following the day on which the dividend was paid. Consult with your tax advisor if you want to make a late-filed eligible dividend designation.

Watch your company's taxable capital—aim to maximize the small business deduction.

The first $500,000 of federal active business income of CCPCs receives preferential tax treatment by qualifying for the small business deduction. This deduction begins to be phased out where a corporation's taxable capital (on an associated corporation basis) for the prior taxation year exceeds $10 million and is completely eliminated if it exceeds $15 million. In general, the taxable capital of a corporation is equal to its retained earnings, share capital and long-term debt. As a result, the small business deduction may be reduced for corporations with a significant amount of debt financing.

The taxable capital of a corporation is determined at its year-end. If your company's taxable capital is likely to exceed $10 million, there are strategies available to reduce this amount.

Have you borrowed funds from your corporation?

In general, to avoid tax consequences, debts you owe to your corporation have to be repaid within one year following the end of the corporation's taxation year during which the loan or advance was made to you. However, there are exceptions to this rule. If you have borrowed an amount from your corporation, you should review the tax consequences with your Grant Thornton tax advisor.

Acquiring and disposing of assets—understand the tax implications.

If you are planning to purchase an asset, you should generally acquire it before the end of your fiscal year. However, to benefit from a tax deduction, the asset must be "available for use." On the other hand, the disposal of assets that have appreciated in value can create significant

Within this guide, you'll find that many of these tax-saving measures require implementation before the end of the year or early in 2017. After you've had a chance to review this guide, contact your Grant Thornton advisor to help you implement the measures that apply.

income tax liabilities. Although it's generally recommended that you dispose of an asset at the beginning of the next fiscal period, there may be options available to defer or reduce the potential tax liability on the sale of a significant capital asset.

New rules limiting multiplication of the small business deduction (SBD)

Effective for taxation years beginning after March 21, 2016, new rules have effectively put a stop to certain partnerships and corporate structures that multiply access to the SBD. Professionals providing services through a corporation have been especially impacted by these changes.

If you have implemented a structure using one or more corporations and/or partnership to access the SBD, you should consult with your tax advisor to determine your best course of action going forward. This can include maintaining the existing structure, dissolving the structure or looking at alternative structures. The option that's right for you will depend on your particular situation.

Consider planning options where your business has significant eligible capital property (ECP).

Effective January 1, 2017, the existing eligible capital property (ECP) regime will be repealed and replaced with a new capital cost allowance (CCA) class for depreciable capital property. Some of the more common examples of ECP include goodwill, customer lists, trademarks, franchise rights, farm quotas and some patents (generally, intangible assets of a business).

Under the current rules, if the value of your CCPC is derived mainly from ECP (e.g., goodwill), and you have no immediate need for the sale proceeds, a significant tax deferral can be realized if the business is sold before the end of 2016.

However, under the new rules, the disposition of such property will be taxed as investment income, which is subject to an additional tax (that is not refunded to the corporation until taxable dividends are paid out to the shareholders).

If your business has significant internally-generated goodwill, or accrued gains on other ECP, you should contact your tax advisor to discuss the planning alternatives. If the business cannot be sold before December, 31, 2016, one option would be to realize the accrued gain through an internal reorganization prior to the end of 2016.

Non-taxable gifts for employees—understand the rules.

If you want to give your employees a non-taxable holiday gift, the CRA's current position on what qualifies for tax-free status is as follows:

- Non-cash gifts and non-cash awards to an arm's-length employee, regardless of number, will not be taxable to the extent that the total aggregate value of all non-cash gifts and awards to that employee is less than $500 annually. The total value in excess of $500 annually will be taxable.
- In addition to the above, a separate non-cash long-service/anniversary award may also qualify for non-taxable status to the extent its total value is $500 or less. The value in excess of $500 will be taxable. To qualify, the anniversary award cannot be for less than five years of service, and it must be five years since the employee last received a long-service award.
- Items of an immaterial or nominal value, such as coffee, tea, t-shirts with employer logos, mugs, plaques, trophies, etc., will not be considered a taxable benefit to employees and will not be included in the above $500 threshold.

Although such gifts/awards may not be taxable to your employees, the amount paid can still be deducted as a business expense. Note that gift cards are considered equivalent to cash and do not qualify for tax-free status under these rules.

Performance-related rewards (for example, for meeting a sales target) and cash and near-cash awards (such as gift certificates) will continue to fall outside the administrative policy and will be taxable to the employee. Also, similar to the previous policy, all gifts and awards to non-arm's-length employees will be taxable.

Keep a vehicle logbook to support the business use of a vehicle.

Although there is nothing that requires the completion of a logbook to substantiate business travel, as the percentage of business use increases, more substantive documentation is expected to be available. Where you are self-employed or otherwise carrying on a business, the CRA has published guidance on the documentation that can be kept to support the business use of a vehicle that is used for business and personal purposes. Rather than keeping detailed records showing the usage of the vehicle for the entire year, there is the option to establish the business use of a vehicle in a base year[1] and then keep detailed records for at least one continuous three-month period in each subsequent year. The results can then be extrapolated to provide the business usage for each subsequent year provided certain conditions are met. If you hope to benefit from this optional method, you should start taking steps to get this logbook in place as soon as possible.

Note that this alternative calculation method is not available for employees.

Review your remittance thresholds and determine if you can reduce the frequency of employee source deductions.

The frequency of required remittances of employee source deductions (for income tax, CPP, and EI) depends on what the total average monthly amount of your remittances were for your business two calendar years ago. For example, if this monthly total was between $25,000 but less than $100,000, you are required to remit deductions up to twice a month (depending on how often your employees are paid). For monthly totals of at least $100,000, the required frequency is up to four times a month. There are also special rules for new employers. Consider reviewing your business' remittances to determine if you can reduce the frequency of your business' payroll remittances.

Avoid unpleasant surprises caused by inter-corporate dividend payments.

New rules have adversely impacted the taxation of significant inter-corporate cash or stock dividend payments, by potentially converting all or part of a tax-free inter- corporate dividend into a taxable capital gain. If there are inter-corporate dividend payments within your corporate group, don't hesitate to contact us so we can help to determine how these rules might impact your particular fact situation.

Assess the steps you need to take to avoid having to withhold and remit taxes for qualifying non-resident employees working in Canada.

Where an income tax treaty applies to exempt a non-resident employee's remuneration from Canadian tax, the employee has the option of using a Regulation 102 waiver process to avoid having tax withheld from their employment income. However, for payments made after December 31, 2015, qualifying non-resident employees do not have to obtain a waiver for payments received from a qualifying non-resident employer.[2]

To avoid having to withhold and remit the tax, the non-resident employer must apply for eligibility using Form RC 473, Application for Non-Resident Employer Certification to be a certified employer. The CRA recommends that the application be received at least 30 days before a qualifying non-resident employee starts providing services in Canada.

If you employ qualifying non- residents in your business and you want to take advantage of the exemption you should take the steps needed to ensure you are certified by the Minister. You will also need to closely track and monitor the status of your employees to ensure that they continue to meet the qualifying non-resident requirements at the time of payment.

1 This requires the taxpayer to fill out and retain a logbook covering a full 12-month period that is typical of the business. The 12-month period is not required to be a calendar year.

2 A number of conditions need to be met in order to be considered a qualifying non-resident employee and a qualifying non-resident employer. You should consult with your tax advisor.

2 Advice for employees

Minimizing the taxable benefit relating to an employer-provided automobile—consider your options.

If your employer provides you with an automobile, you'll have a taxable benefit included in your income related to the personal use of the automobile. The taxable benefit consists of two components—a "standby charge" and an "operating cost benefit." The standby charge can be reduced if the vehicle is used more than 50% of the time for business purposes and annual personal driving is 20,000 kilometres or less. If you are close to the thresholds for 2016, consider reducing your personal use of the vehicle from now until the end of the year. You must advise your employer in writing by December 31 if you want to use this alternative method to calculate the standby charge. You should keep accurate mileage records to support the amount of business and personal use.

Since the standby charge is calculated based on the original cost of the vehicle, consider purchasing an older vehicle from the company for its current fair market value.

You may also be able to reduce your 2016 operating cost benefit by reimbursing your employer for some or all of the operating costs by February 14, 2017

New tools acquired by tradespersons—watch the timing of purchases to maximize your deduction.

If you are an employed tradesperson, you may be entitled to a tax deduction of up to $500 for the cost of new tools that you are required to purchase as a condition of your employment. This measure applies to new tools other than most electronic communication devices and electronic data processing equipment.

The amount that may be deducted for 2016 (up to the $500 limit) is the amount by which the cost of the eligible tools acquired in the year exceeds $1,161.

If you are an employed tradesperson and have not yet purchased new tools costing at least $1,661 in the year, try to acquire any additional planned purchases before the end of the year.

There is another deduction for the cost of new tools acquired by eligible apprentice mechanics. The deductible amount is determined by a formula that generally allows a deduction for the total cost of eligible tools less the greater of $1,661or 5% of the individual's apprenticeship income for the 2016 year.

New tax credit for teachers-Keep your receipts!

Commencing with the 2016 taxation year, a teacher or early childhood educator employed at an elementary or secondary school or at a regulated child care facility may be able to claim a 15% refundable tax credit on up to $1,000 of purchases of eligible teaching supplies in the taxation year. Therefore, the maximum tax credit is $150 per year. Remember to keep your receipts if you want to claim this credit. The CRA may also ask for certification from the employer attesting to the eligible supplies expense.

3 Advice for investors

Maximizing the tax benefits of your capital gains and losses.

If you have realized a capital gain in 2016 or in any of the last three years (2013–2015), consider if it makes good investment sense to sell investments with accrued losses before the end of the year, so that the losses can be used to offset or reduce the capital gains in those years.

There are rules that will deny the loss if you sell the property to certain related parties. In general, the loss will be denied if you sell the property to your spouse, to a corporation controlled by either you and/or your spouse, to your Tax-Free Savings Account or to your RRSP. A loss will also be denied in certain situations where the property is reacquired within 30 days. However, you can sell or gift the loss property to a child or other family member without being caught by these rules. Before gifting properties to relatives, you should consult your Grant Thornton advisor to discuss the tax consequences.

If your spouse or common-law partner has realized a capital gain and you own investments with an unrealized loss (or vice versa), there are ways to transfer the loss to the spouse with the gain.

When disposing of Canadian shares, remember that the disposition is deemed to take place at the settlement date, which is generally three business days after the trading date. If you want a sale to close in 2016, you should contact your broker to ensure that the transaction settles before the end of the year. Different dates may apply for foreign exchanges.

Purchasing or selling long-term investments or mutual fund units? Timing is key.

In general, individuals must report interest earned on investments on an annual basis, regardless of when the interest is actually paid. If you are concerned about having to pay tax when no income has been received, consider buying investments that pay interest annually. If you will soon acquire or rollover a short-term investment such as a GIC or a T-bill, consider arranging for a maturity date early in 2017. This will allow you to defer the reporting of the interest income until you file your 2017 tax return.

It's important to consider the timing of the purchase or sale of a non-registered mutual fund investment. Since most mutual funds distribute income and capital gains once a year around mid-December, deferring the purchase until January 2017 means that you won't have to report any income for 2016. Alternatively, if you're planning to sell, consider selling before the distribution date.

Consider changes to the taxation of corporate class funds.

One of the key benefits of corporate class mutual funds (or "switch funds") has been the ability to exchange shares of one class of the mutual fund corporation for shares of another class on a tax deferred basis. A capital gain (or loss) did not have to be reported until the holding in the corporation was disposed of. Under new rules, proposed to be effective after 2016, such exchanges will now be taxable.

If you hold corporate class mutual fund investments as part of your non-registered portfolio, you should review your holdings and consider if you need to make any strategic asset allocation changes before the end of 2016.

Consider changes to the taxation of linked notes.

A linked note is a debt obligation in which the return is linked to the performance of one or more reference assets or indexes over the term of the obligation. Although there are tax rules that require an amount to be reported as accrued interest on the disposition of a debt, in the case of linked notes, investors have generally taken the position that so long as the ultimate return on the linked note was not determinable at the time of its disposition – for example, where the note is sold in a secondary market prior to maturity – no amount would be considered to have accrued as interest.

In such cases, any increase in value was reported as a capital gain, only 50% of which was required to be reported as income. For dispositions of linked notes after 2016, new rules provide for a deeming rule that will generally treat any gain realized on the sale of a linked note as accrued interest.

If you hold linked notes with accrued gains in a non-registered account, you should consider whether it would be advantageous to sell the note – and claim capital gains treatment – prior to the end of 2016. However, if you hold linked notes with longer terms, you need to weigh the potential tax savings from such a sale against the potential advantages of

4 Other advice for individuals

deferring the taxation of gains until the maturity of the notes.

Structure your loans correctly and deduct the interest.
In general, interest is deductible for income tax purposes provided it is paid or payable in the year, there is a legal obligation to pay the interest and the interest was incurred on money borrowed to earn business or property income (other than capital gains). Therefore, borrow the maximum amount for business and investment purposes, and as little as possible for personal reasons. Conversely, when repaying debt, always pay off loans on which interest is non-deductible before you repay those on which interest is deductible.

Selling a business? Reinvest the proceeds in another small business and defer the tax.
If you realize a capital gain on the sale of an eligible small business investment, and invest some or all of the proceeds in another eligible small business investment, you may be able to defer taxation on some or all of the gain. To qualify, the proceeds must be reinvested in an eligible business at any time during the year of disposition or within 120 days after the year-end. Eligible investments are newly issued common shares in a small-business corporation with assets (including assets of related corporations) not exceeding $50 million immediately before and after the investment.

Loan money to your spouse or common-law partner and split the income.
With current interest rates at low levels, you might want to consider loaning funds to a spouse or common-law partner who is in a lower marginal tax bracket than yourself. Your spouse or common-law partner can invest the loan proceeds and include any income/capital gains in his/her income, provided you are paid interest on the loan at the prescribed rate in effect at the time the loan is made. For example, the prescribed rate in effect for the fourth quarter of 2016 is 1%. This rate will remain in effect for as long as the loan is outstanding—even if rates increase in the future.

To avoid negative tax consequences, your spouse or common-law partner must pay you the interest owing on the loan for 2016 by no later than January 30, 2017. This requirement to pay interest on the loan by January 30 of the following year applies on an annual basis for as long as the loan is outstanding.

Registered Retirement Savings Plan (RRSP)—contribute and save.
You must make your 2016 RRSP contribution by March 1, 2017. However, if the beneficiary of the plan turned 71 in 2016, the contribution must be made by December 31, 2016. When planning your RRSP contributions, you should consider the following:

- Any amount can be contributed, up to your maximum to your own RRSP, an RRSP set up for your spouse or common-law partner or a combination of both. You should check your 2015 Notice of Assessment to confirm your RRSP contribution room. If you are 71 or over, but you have earned income and your spouse or common-law partner is under the age of 71 at the beginning of the year, you can still make a spousal contribution to his or her plan.

- Contributions to a self-administered RRSP do not have to be in the form of cash. Qualified investments can also be transferred to your plan.

- There are rules on the types of assets your RRSP can hold. If your plan has acquired assets that don't qualify, you should remove them from your plan as soon as possible. For example, shares in companies in which you (and related parties) have an interest of 10% or more are "prohibited investments" for RRSP purposes and may have to be removed from your plan to avoid penalties. If you have private company shares in your RRSP[3] you should contact your tax advisor to assess the impact that these rules have on you.

- You can over-contribute to your RRSP—within limits—without having to pay a penalty tax. In general, the cumulative amount you can over-contribute to your plan is $2,000.

3 The rules apply equally to RRIF investments and can also apply to public company share investments

- Consider delaying your RRSP contribution if you expect to be in a higher tax bracket in the near future. Alternatively, make the maximum contribution each year, but don't claim the amount as a deduction until a future year when your taxable income is higher.

- If you've received an amount that qualifies as a retiring allowance, a special RRSP contribution may be available that is over and above your regular contribution room.

- Although your RRSP funds are intended to provide retirement income, you might consider withdrawing funds from your RRSP in a year of low income.

- There are rules that provide for the rollover of a deceased individual's RRSP proceeds to the RDSP of a financially dependent infirm child or grandchild. Check with your professional advisor for more details on these rules.

Consider taking advantage of the Home Buyer's Plan.

If you are a first-time home buyer, consider participating in the Home Buyer's Plan (HBP), under which you may be eligible to withdraw up to $25,000 from your RRSP to finance the purchase of a qualifying home. Where you have a spouse or common-law partner, this limit is effectively doubled, providing up to $50,000 towards the purchase of a home. Note that contributions made to your RRSP less than 90 days before the withdrawal are not eligible for an RRSP deduction.

The qualifying home must be purchased by October 1 of the following year. Repayments are not required until the second calendar year following the year of withdrawal, and minimum payments must be made over a period of up to 15 years. Therefore, if possible, consider deferring the withdrawal until 2017 to extend both the home purchase deadline and the repayment deadline by one year.

If you are required to make repayments under the HBP for 2016, to avoid an income inclusion, the minimum repayment must be made by the deadline for making your RRSP contribution for 2016 (see above). Your minimum payment required for 2016 can be found on your 2015 Notice of Assessment.

Why limit yourself to RRSPs? Consider making contributions to other registered plans.

You may be able to make contributions to other registered plans such as the Registered Education Savings Plan (RESP), the Registered Disability Savings Plan (RDSP) and the Tax-Free Savings Account (TFSA). Unlike an RRSP, the contributions to these plans are not deductible for tax purposes.

There is no tax on the income earned in an RESP or RDSP until the amounts are withdrawn. The plans may also be eligible for government grants. The amount of the grant is based on the amount contributed to the plan and the family income (up to a maximum).

Any income earned in a TFSA is never taxed, even when it's withdrawn.

If you require funds for personal purposes, consider withdrawing the amount from your TFSA. You will not be subject to tax on the amount withdrawn, and it can be re-contributed to the plan when you have sufficient funds. However, withdrawals from your TFSA will not be added back to your TFSA contribution limit until January 1 of the following year. Therefore, to avoid penalties, you must be careful not to exceed your limit when re-contributing to your plan.

For example, if you contributed the maximum amount to your TFSA in the years 2009 to 2016 inclusive, and you withdrew an amount from your plan in 2016, the amount withdrawn should not be re-contributed to your TFSA until January 1, 2017 (or later) or else you will be subject to a penalty tax.

Time the commencement of your Canada Pension Plan (CPP) payments.

You can start to collect CPP benefits beginning as early as age 60 and as late as age 70. You no longer have to retire to begin receiving payments.[4]

If you are between 60 and 65 years of age, you need to decide if you want to start collecting benefits. Although you no longer have to cease work to qualify for CPP benefits, your pension will be reduced by 0.6% for each month you

4 If you receive CPP benefits but are still working, you are still subject to CPP premiums if you are under the age of 65. If you are between the age of 65 and 70, you are subject to CPP premiums as well but you can elect out of CPP premiums by filing a special election.

You can apply to split your CPP income equally with your spouse or common-law partner if you're both at least 60 years of age.

start to receive benefits before age 65 (this equates to 7.2% per year).

On the other hand, if you're 65 years of age or older and have not yet started to collect CPP payments, you may be able to increase your pension entitlement if you wait to start collecting payments. Your monthly pension entitlement will increase by 0.7% per month for each month between your 65th birthday and the month the pension becomes payable (this equates to an increase of 8.4% per year).

Timing when to start receiving your CPP benefits has become a more complex planning issue than in the past.

Consider applying to split Canada Pension Plan (CPP) payments with your spouse.

You can apply to split your CPP income equally with your spouse or common-law partner if you're both at least 60 years of age. Tax savings arise if your spouse or common-law partner is in a lower tax bracket than you. In some cases, CPP splitting can also increase the amount of Old Age Security you retain.

Consider delaying receipt of Old Age Security (OAS) payments

You can now delay receipt of your OAS pension for up to five years (60 months) after the month you turn age 65. For every month that you delay receipt of your OAS benefits, an additional 0.6% is added to your pension entitlement. If you would otherwise be subject to a full clawback of your OAS benefits, deferring receipt of the payments will be beneficial with no attached risk or cost. Your tax advisor can assist in determining if this strategy makes sense based on your particular situation.

Consider the new Home Accessibility Tax Credit

Beginning in 2016, a new home accessibility tax credit is available for qualifying individuals[5] for eligible expenditures incurred to improve the accessibility of the principal residence of those individuals. Certain conditions will apply. This 15% credit will apply to an annual maximum of $10,000 of eligible expenditures. To qualify, the work must be performed and paid for or the goods acquired in the taxation year. If you are considering making such renovations, consider making them before the end of 2016 to the extent needed to qualify for the maximum credit. And if renovations will be significant, consider deferring some of the expenses to 2017, so that an additional amount can be claimed next year (provided that it is safe and feasible to do).

Check your instalment requirements.

Instalments are required if the difference between your combined federal and provincial tax, and the amount of tax actually withheld at source, was greater than $3,000 in either 2014 or 2015 and will be greater than $3,000 in 2016. This last test requires an estimate in advance of the actual calculation of your 2016 tax.

If you're required to make quarterly tax instalments, you should review your expected 2016 tax liability before remitting your final instalment (which is due December 15, 2016). This will be especially important where your mix of salary/dividends has changed from year to year, or where you had unusual income inclusions last year or expect increased deductions this year. The CRA charges interest on late or deficient instalment payments.

If you discover during the year that you should have been making higher instalments, it's possible to catch up because the CRA will calculate credit interest on overpayments and apply that against interest deficiencies.

Pay your expenses in 2016. And don't forget your receipts!

Before the end of the year, you should make certain payments and obtain your receipts so that you can claim all of the credits and deductions to which you are entitled for 2016. In particular, consider:

- medical expenses for you, your spouse or common-law partner, minor children, as well as amounts paid by you or your spouse or common-law partner for another dependant[6] (ask your pharmacist, dentist and specialist to give you your receipts for the year);
- physical fitness costs paid for your children under 16 years of age (under 18 years for disabled children);
- registration costs paid for artistic, cultural, recreational or development

5 Eligible seniors and persons with disabilities, or certain relatives of such qualifying individuals.

6 Medical expenses that you pay for another dependant are restricted based on that dependant's net income

In general, charitable donations over $200 result in tax savings at the highest marginal tax rate.

activities for your children under 16 years of age (under 18 years for disabled children);

- public transit costs incurred by you, your spouse or your dependant children under 19 years of age;[7]
- investment costs (interest and brokers' fees);
- moving costs;
- tuition fees and interest on student loans; and
- charitable and political donations.

Maximize your tax benefits—give to charities.

In general, charitable donations over $200 result in tax savings at the highest marginal tax rate. Donations do not have to be in the form of cash. However, if capital property is donated to a charity, the amount that is claimed as a donation must also be reported as your proceeds of disposition of the property—which may result in a capital gain. With the exception of the donation of certain flow-through shares, there is no tax on the capital gain for publicly traded securities (such as shares, bonds and mutual fund units, listed on certain stock exchanges) that are donated to charity. If you have charitable objectives, this is a significant planning opportunity. Similar rules exist where you exercise a stock option in order to donate the share to a charity. Keep in mind that to benefit from these rules you must donate the shares to the charity. You cannot sell the shares for cash and donate the cash.

7 Only certain costs qualify. Generally, the transit pass must be valid for a period of at least 28 days. It also includes electronic payment cards where the cost relates to the use of public transit for at least 32 one-way trips during an uninterrupted period not exceeding 31 days. Certain short term passes may also qualify

Are you a first-time donor? Claim the First-Time Donor's Super Credit

If you and your spouse (or common-law partner) have not claimed the charitable donations tax credit in the past five years, you are eligible to claim a one-time only First-Time Donor's Super Credit (FDSC).

The FDSC provides for an additional 25% tax credit on up to $1,000 of donations. Couples can share the FDSC but the total amount cannot exceed the $1,000 maximum allowed when only one person claims the credit.

This new super credit can only be claimed once and it expires in the 2017 taxation year.

Moving to another province? Timing is key.

Unless you earn only self-employed business income, provincial tax is based on your province of residence on December 31. If you are transferring to a province with a lower tax rate, you should consider accelerating your departure to arrive before the end-of-year deadline. Conversely, if a move to a province with a higher tax rate is in your future, consider postponing your relocation until after the year-end.

Manage your net income to avoid the Old Age Security "clawback."

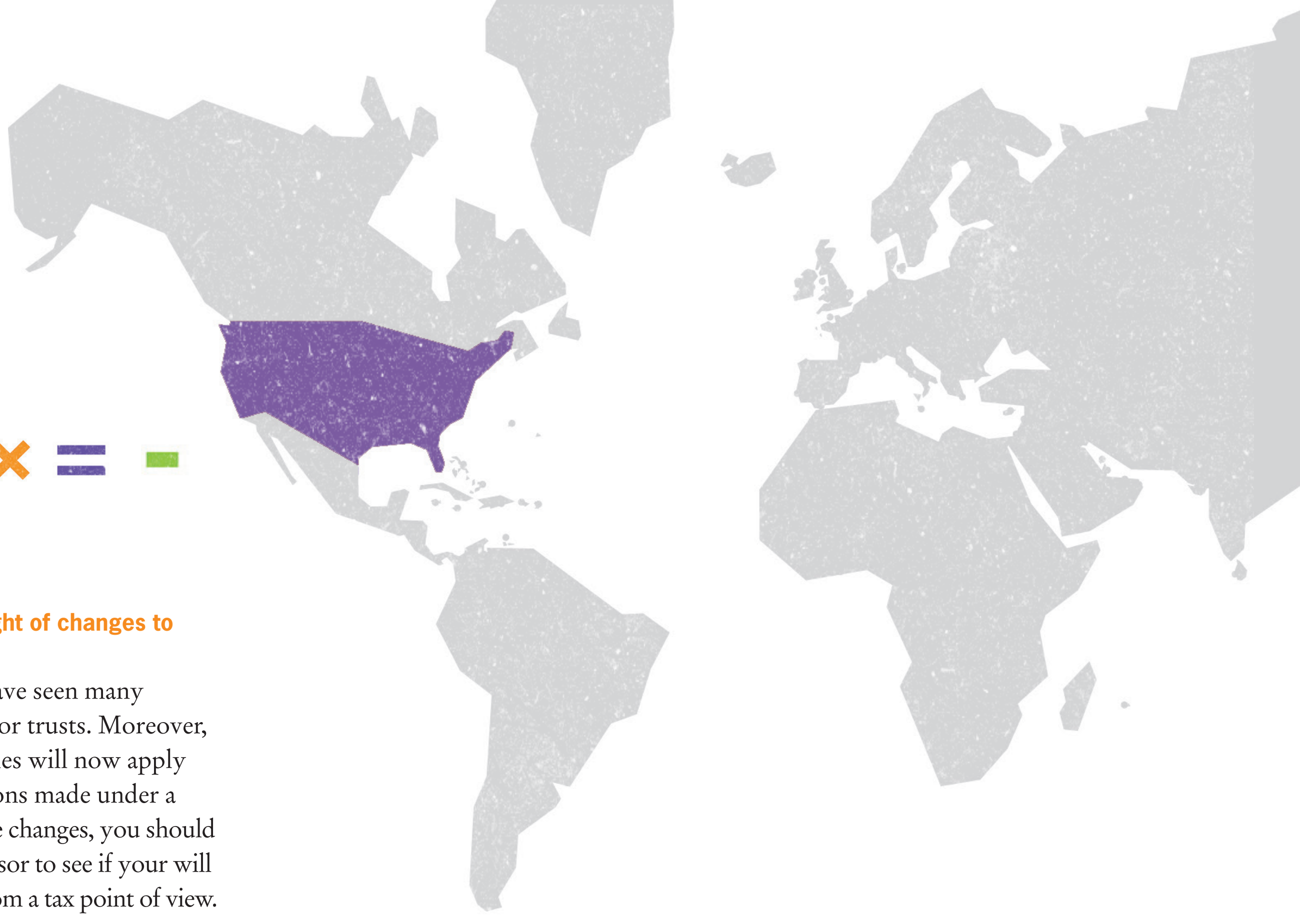
The government imposes a special tax—the "clawback"—on your Old Age Security (OAS) payments if your net income for the year exceeds a certain annual threshold. For 2016, the threshold is $73,756. The full amount will be eliminated when your net income reaches approximately $119,600. If you have the ability to manage the amount of income you receive in a year, keep these thresholds in mind. Pension splitting with your spouse is one strategy that you may be able to use to reduce your net income below the income threshold.

Make a timely refund request—the 10-year rule.

The fairness rules allow individuals and testamentary trusts to request a refund for prior taxation years. However, such adjustments are limited to the 10 prior years. If you think you may be entitled to a refund for the 2006 taxation year, you should make sure that the request is made before January 1, 2017.

Are you a trustee of a testamentary trust or estate?

Beginning with the 2016 tax year, testamentary trusts and estates (created upon the death of an individual) will be taxed at the highest marginal tax rate (with certain limited exceptions). They were previously taxed at graduated tax rates, just like individuals. If you are a trustee of such a trust or estate, contact your tax advisor to determine what kind of planning can be available to mitigate the effect of this change.



Review your will in light of changes to the trust rules.

The past few years have seen many changes to the rules for trusts. Moreover, new more flexible rules will now apply for charitable donations made under a will. Given all of these changes, you should check with your advisor to see if your will is still advantageous from a tax point of view.

Upcoming changes for life insurance

New rules for life insurance will take effect on January 1, 2017. Some of the changes could have a significant impact on estate plans utilizing certain insurance strategies. Policies issued prior to January 1, 2017 will generally be grandfathered under the existing rules.

If you are considering making insurance a part of your estate plan, this year may be a good time to take advantage of the existing rules and ensure that your plan is eligible for grandfathered treatment.

If you own property in the United States, consider your US estate tax exposure.

If you die owning certain US property, your estate could be subject to US estate tax. Estate tax applies to the fair market value of the US property at the time of your death. Although US citizens are subject to estate tax on their worldwide estates, Canadian residents who are not US citizens and not domiciled in the United States are only taxed on certain US properties, such as US real property, shares of US companies, tangible personal property located in the United States and debts issued by US residents, including the US government.

A person's exposure to US estate tax has gradually declined over the past several years. Effective January 1, 2016, the exemption amount and maximum rate are US $5.45 million (for a US citizen) and 40%, respectively. Residents of Canada may be entitled to a pro rata portion of the exemption to which a US citizen is entitled pursuant to the Canada–United States income tax treaty.

If you own, or are about to acquire property situated in the United States, consult with your tax advisor to review your exposure to this tax. Planning strategies are available to defer, reduce or eliminate this potential liability.

US citizens and green card holders living in Canada—are you aware of your US tax obligations?

US citizens, even if they maintain dual citizenship in another country, continue to be subject to the US income and estate tax laws no matter where they live and work. As such, US citizens living in Canada are generally required to file annual US tax returns and have other US financial reporting requirements regarding their non-US assets. Individuals holding a US permanent resident visa (green card) are also generally subject to US income tax on their world incomes and may be subject to US estate tax on their worldwide estates. Significant penalties can result from non-filing. In addition, having US citizenship (or green card status) and being subject to US taxation can influence the tax effectiveness of many plans undertaken to improve your Canadian income tax position and may require these plans to be modified accordingly.

The Internal Revenue Service (IRS) has introduced two special voluntary disclosure programs, one of which may allow non-resident US tax filers who have not been up-to-date in their US tax filings to catch up without incurring significant penalties (although US tax plus any arrears interest on US tax owing must still be paid). There are some conditions that must be met in order to be eligible for either program. Also, although the IRS has indicated that there is no set deadline for an individual to apply under either program, the terms could change at any time, including a complete termination by the IRS.

If you are a US citizen, you should consult with a tax advisor with experience in US tax law and related cross-border issues to discuss your US filing obligations.

5 Sales tax advice

The end of the year is a good time to review your GST/HST and provincial sales tax practices to maximize recoveries and ensure compliance.

HST rate changes

Three provinces introduced HST rate increases in 2016:

1. Newfoundland and Labrador – from 13% to 15%, effective July 1, 2016
2. New Brunswick – from 13% to 15%, effective July 1, 2016
3. Prince Edward Island – from 14% to 15%, effective October 1, 2016

Transitional rules outline how this increase will apply to a number of specific situations. The purpose of these rules is to determine whether the new 10% provincial component of the HST will apply to transactions that straddle the implementation date. The increase in the HST rate will also require an adjustment to the specified factors used to compute taxable benefits for employees and shareholders.

Businesses that transact in any of these provinces will need to ensure that they have adjusted their systems and processes for the rate increase.

New proposed drop shipment rules

The drop shipment rules (1) provide an anti-avoidance rule requiring GST/HST to be charged and collected on the fair market value of goods sold to a non-resident and delivered to a third party in Canada, and (2) provide relief if the goods are ultimately exported or used by a GST/HST registrant exclusively in commercial activities.

On July 22, 2016, Finance introduced a number of changes to these rules. Some of the proposals are effective from July 22, 2016 onwards, whereas others are applicable on royal assent. As a result of these changes, some Canadian suppliers may be required to collect GST/HST from their non-resident clients, whereas others may have improved eligibility for issuing a drop shipment certificate or a new owner's certificate. If your business has transactions subject to the drop-shipment rules with non-residents or if it issues or accepts drop-shipment certificates, you should review the proposed changes with your sales tax advisor to determine how they might impact your tax obligations.

Proposed amendments relating to pension plans

On July 22, 2016, Finance introduced proposals relating to pension plans, including those that use master trusts or master corporations. In addition to other technical amendments that may affect the GST/HST obligations and calculations of employers and pension entities, the proposals also provide for a joint election that can eliminate double taxation in certain situations where a participating employer makes taxable supplies of property or services for consideration to a master pension entity (i.e., an actual supply and a deemed supply).

While many of the July 22, 2016 amendments will generally apply to fiscal years starting after July 22, 2016, some changes could affect GST/HST returns and pension rebates related to previous reporting and claim periods. Participating employers and other affected parties should contact their advisors to closely review all of the draft amendments to determine the impact that they will have based on their particular circumstances.

Other sales tax matters

Other sales tax items to consider include the following:

- Reviewing the filing periods for the businesses in an associated group to ensure they're all consistent and based on the combined Canadian sales volume. Each entity in the associated group must file quarterly if the combined annual Canadian taxable (including zero-rated) sales of the associated group is greater than $1.5 million, and monthly if taxable sales for the group are in excess of $6 million. Smaller businesses under $1.5 million in annual taxable supplies for the associated group file annually unless they elect to file more frequently. Financial institutions can choose to file annually regardless of their sales.

- Voluntarily changing your filing frequency to monthly or quarterly to get your refunds earlier if you're in an input tax credit (ITC) refund position

- Reviewing your obligation to electronically file your GST/HST returns. GST/HST registrants with a threshold amount[8] greater than $1.5 million are required to file their GST/HST returns electronically.

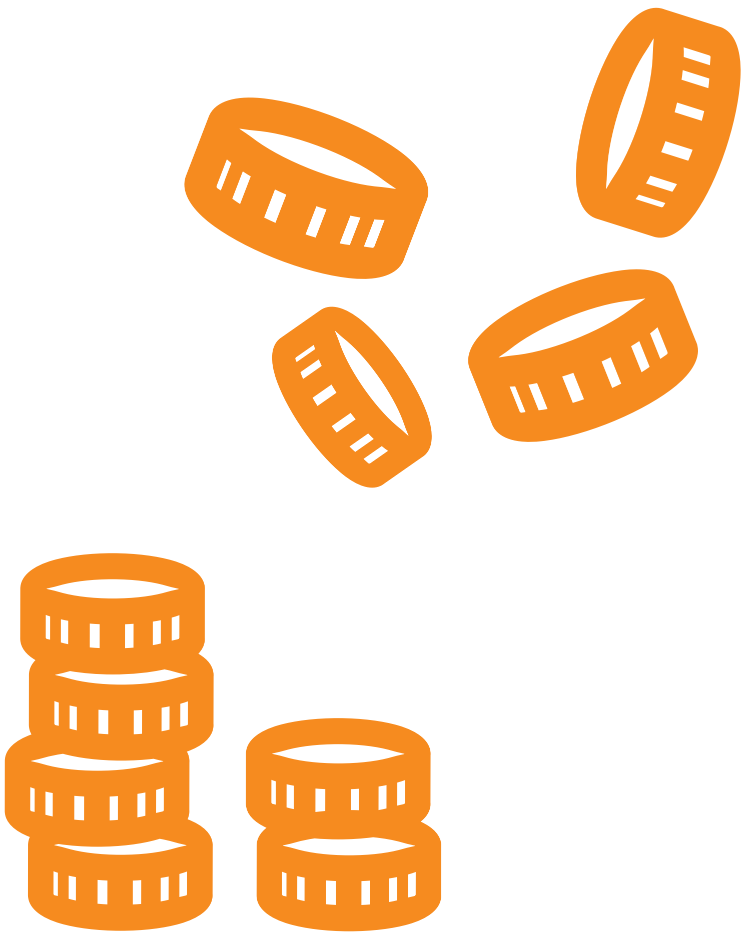
- Reviewing your obligation to make tax instalments. If you're an annual filer, you are required to make quarterly tax instalments. If the net tax for the year is less than $3,000, no instalments are required.

- Considering if you can make a section 156 election so that supplies between members of a closely related group can be made to each other without having to collect GST/HST. If eligible, any new elections must be filed with the CRA on or before the due date for the relevant reporting period in which the election is made.

- Considering if should elect to use the "Quick Method." You can elect to use this method if your business has $400,000 or less in tax inclusive revenue (this limit includes the combined revenues of all associated entities). This election must be filed early in the year. If you already use the Quick Method, make sure you are still eligible to do so. Consult with your sales tax advisor to determine if this option makes sense for your business.

- Considering if you should use the "simplified ITC calculation." Certain businesses with taxable supplies (on an associated basis) of $1 million or less and purchases of $4 million or less in the preceding year can calculate ITCs by applying an appropriate factor to taxable purchases. The factor varies by province. There is no need to file an election, but you must keep your invoices showing GST/HST paid. Consult with a sales tax advisor to ensure that your ITC calculation method is appropriate.

- Reviewing the allocation method you use to claim ITCs to ensure you are maximizing your tax recovery. This will be important where you have a mix of taxable and exempt revenues.



8 Total taxable and zero- rated supplies made in Canada in the previous fiscal year (on an associated group basis)

- Reviewing your business' obligation to recapture ITCs under the recaptured input tax credit (RITC) rules. These rules apply to large businesses—generally, those making taxable supplies of more than $10 million annually for the associated group—and certain financial institutions.

  The following purchases in Ontario and Prince Edward Island are subject to these restrictions:

  - certain telecommunication services;
  - most energy, food beverages and entertainment;
  - certain road vehicles and services and parts for those vehicles, and in Ontario, fuel to power those vehicles.

    Quebec has similar rules regarding refunds of QST paid on certain purchases. If your business is impacted by these rules you should consult with a sales tax specialist to ensure you are onside. Failure to recapture ITCs in the appropriate reporting period may expose your business to interest and penalties.

- The recapture rate for large businesses in Ontario began to be phased out on July 1, 2015. Starting July 1, 2016, the second stage of this recapture rate phase out commenced (from 75% to 50%)—with the change in rate being reflected in the first return due for periods starting July 1, 2016. If the adjustment was not made as required and the ITC has continued to be recaptured at the rate of 75 or 100%, it will be necessary to write to the assigned CRA tax centre to request that the return for the period in question be amended. Large businesses in Ontario should ensure that their systems have been appropriately updated to correctly account for the adjusted recapture rate. The next rate reduction to 25% will take place July 1, 2017.

- Considering if your business should use the optional proxy percentages to determine the portion of certain expenses that will not be subject to the RITC rules. In some cases, an election may have to be filed. There is another election if your business wants to use an estimation and reconciliation approach to account for the RITCs during the year.
- Considering the impact of purchasing property from outside the province or removing property from the province. For all harmonized provinces (ON, QC, NS, NB, NF and PEI), purchases from another province or outside of Canada may be subject to self-assessment tax if the goods or services are imported for exempt purposes or from a lower GST/HST jurisdiction. You may also need to consider if you are entitled to a rebate for the provincial component of the HST if property is removed from the participating province or used or consumed in another province.

- Remembering to adjust for the 50% add-back for GST/HST paid on meals and entertainment (M&E) if you have

The 2016 standby charge and operating cost benefit:	Standby charge	Operating cost benefit
GST provinces	4/104	3%
Ontario	12/112 or 4/104, 6/106, 8/108[9]	9% or 7.2%[9]
Quebec	13.975/113.975	9%
Prince Edward Island	13.25/113.25 or 4/104[9]	10.25% or 6.63%[9]
Nova Scotia	14/114	11%
New Brunswick and Newfoundland and Labrador	13/113[10]	10%[10]

9 The lower factors apply to a registrant that is a "large business" for HST purposes. For the Ontario standby charge, the rate to use (4/104, 6/106 or 8/108) depends on when the vehicle was purchased.
10 Expected to be 13/113 and 10% for 2016.

Remember to self-assess and remit GST/HST with respect to employee taxable benefits.

claimed 100% throughout the year. This adjustment is made on the return filed for the first reporting period immediately after the fiscal year-end. As an added complexity, businesses subject to the RITC rules (discussed above) are subject to the 50% add-back for the HST payable on M&E, and will have to recapture any remaining provincial portion.

- Remembering to self-assess and remit GST/HST with respect to employee benefits for the period that includes the last day of February of the following year. The amount to be remitted is calculated by multiplying the amount of the taxable benefit for income tax purposes by a specified factor. The GST/HST to be remitted for automobile benefits is calculated by a formula that varies with the nature of the benefit and whether the employee or shareholder who is being taxed on the benefit works or lives in a participating province. The remittance for 2016 is calculated according to the factors in the chart.

- Reviewing your requirement to register for other provincial sales taxes if you've expanded your business and have customers in other provinces. Registration may be required regardless of whether you have a permanent establishment in that province.

- Determining if your business is subject to the place of supply rules. These rules determine if a business is required to collect the GST or the HST on its supplies made in Canada. If it's the HST, you need to ensure the correct HST rate is used. If you're a GST/HST registered business that supplies goods or services in more than one province, you should consult with a sales tax specialist to determine if your systems are correctly collecting the appropriate tax.

- Reviewing your business' pension plan, health and welfare plan, deferred profit sharing plan or other benefit plans to determine if you are reporting for them correctly. The sales tax rules in this area are complex and assistance from a sales tax specialist is highly recommended.

Contact your Grant Thornton advisor for assistance with respect to any of the information listed above.

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