Managing Your Personal Taxes
A Canadian Perspective
Foreword

30 September 2014

Tax. Such a simple word for something so complicated. Those three little letters can induce fear and loathing, cause arguments and even riots, and stress out even the most easygoing among us. But it doesn’t have to be that way.

At EY, we’re committed to doing our part in building a better working world. And we start with the world that matters most to you – your world. No matter who you are or what you do, personal taxes are a big part of your everyday life. So we’re pleased to offer you our popular and helpful annual guide with tips, strategies and suggestions to help you understand your tax situation, plan for the future, benefit from government incentives and – perhaps most important – save you time and money.

New this year is our feature chapter on creating a succession plan for the private business owner.

For more tax-planning ideas and savings, visit us at ey.com/ca/tax, or find the EY office nearest you at the back of this book and contact us.

Unless otherwise noted, all currency figures are in CDN$. 

Your world doesn’t have to be so taxing
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Managing any business involves many challenges. But managing a family business brings with it a unique set of challenges, many due to the close emotional relationships involved. One of the most difficult issues for a family business owner to consider is succession, and how to ensure the long-term success of the company.

Succession planning is not always the top priority for business owners. It's only human to put off thinking about something that's associated with the negative connotations of retirement and death. Considering one's own mortality can be a frightening thought, and there's a propensity for family business owners to avoid these unpleasant considerations. Add to that the perception that succession planning is a lengthy process and you have owners who find it easier to postpone making difficult decisions than make them.

Starting the succession planning conversation early is the key to helping family business owners understand the realities of what's involved in the planning process. Here are some key concepts to consider when embarking on your succession planning journey:

**Preparing for what’s to come**

A prepared, written succession plan outlines the way a business should be managed after the owner's retirement, death or disability. It also entails the effective transfer of management of the business along with its core values, culture and traditions. Embarking on this process helps you determine if you should sell the business or not, and whether the business has the potential to support your family members into the next generation. A strong plan will protect the family's financial interests in the business, and with careful tax planning can help reduce future taxes on the business.

Succession involves much more than just picking a family member as the next CEO and training that person to take over the business. It should be broad in scope and involve all family members, including those who are not actively involved in the business. This helps set the stage so that when the time comes to implement the succession plan, there are no surprises to any members of the family. The goal is to design a plan that will meet the family's expectations and hopes. Therefore, it's
Building a legacy: creating a strong succession planning roadmap

critical to include these important stakeholders in the process. Sometimes when stakeholders are excluded, they don't support the outcome. Thus, an oversight in the process can cause an otherwise good plan to fail. Key non-family management should also be included in the process since their role may be impacted by the nature of the succession.

Clarity for the future

A well-defined succession plan sets out clear expectations and roles played by all family and non-family members in the business. This reduces the potential for future conflict between active and non-active family members, as the transparent nature of the succession process brings to light any sources of contention or ambiguity, which can be managed in the early stages of the planning.

Knowing that the business's long-term strategic objectives are addressed creates confidence among employees, customers, lenders and suppliers. It demonstrates that the business will continue to be managed in a professional manner and that its future leadership will be in good hands.

Succession planning timelines

There is no set amount of time that it takes to create a succession plan. Formulating and documenting a plan can take over a year and fully implementing it can take three to five years. The length of time required often depends on reaching agreement of all parties involved in the process. The key to a smooth transition is starting the planning process early enough to account for all stakeholder concerns and addressing any areas of family conflict that may arise.

Clear timelines for succession are a great way to identify the amount of time required to train a successor for a smooth transition. Not all leaders are created equal, and some successors will require more time than others to really get a handle on the role and requirements. Setting realistic timelines sets up the new leadership for success and helps maintain the longevity of the business.

Estate planning considerations

An essential and integral component of succession planning is estate planning. Though estate planning and succession planning are different tools with unique goals, when considered together they can better prepare you for your eventual exit from the business. Estate planning helps reduce tax on death and defer tax as late as possible. It can protect the company's assets and identify tactics required to meet the unique needs and circumstances of the business and family members. Some of these tactics may include family trusts, holding companies and other components of estate freezes and wills.

Family trusts, holding companies and wills

Estate planning often involves an estate freeze, which allows the current value of the business to be "frozen" at today's value. Future growth can be passed on to the owner's children. It also freezes the company's tax liability today, providing an important measure of certainty for future tax liability. Typically, an estate freeze involves creating a family trust or holding company to enable you and your family to get the most value from the company.

Succession planning is about devising a strategy to ensure that the benefit of your assets passes to the right people at the right time, and that the right controls are in place when that happens. Developing a will in the context of the overall estate plan can provide a clear, comprehensive succession strategy that includes your instructions and protects your estate. It should designate a clear power of attorney and may incorporate spousal and testamentary trusts. In some cases, it's advisable to create both a primary and a secondary will to avoid probate costs. For additional information, see the Estate planning chapter.
Building a legacy: creating a strong succession planning roadmap

When it’s time to let go

When it comes time for you to make the final decision to exit the business, there are a number of options available to you. You need to objectively look at whether the business should be passed down to the next generation, transitioned to a third party or sold altogether. You should consider factors such as age, desire, skill sets, management experience, family dynamics and the current state of the business when making the decision of how the business will be led when you make the final decision to exit.

Starting the succession planning journey early on equips you with the knowledge that allows you to drive the exit process and determine what’s best for the future of the business. Then, as you formulate your exit strategy, build the businesses team and support system and manage the process, you’ll be in a better position to ensure the business will thrive for generations to come.

Tax tips

Here are some tax considerations for setting up an estate plan:

- Split income with low-interest loans (prescribed rate is now 1%)
- Use a holding company for creditor protection as part of an overall estate freeze
- Develop a family trust to give family members access to capital gains exemption ($800,000 each) on a future sale
- Consider whether a re-freeze should be done if the overall business value has declined
- Use life insurance to fund the tax liability that would be fixed after an estate freeze

When developing your estate plan, it’s important to engage trusted advisors to evaluate your specific situation and help you form a plan that fits your unique needs.

Watch our archived webcast

In this June 2014 webcast, EY Partners David Steinberg, National Co-Leader, EY’s Private Mid-Market Practice and Steve Landau, Transaction Tax, have a candid discussion on succession planning for private businesses. The topics addressed include:

- How to embark on a succession planning journey
- Keeping the business within the family
- Overcoming challenges and conflict surrounding succession planning
- Estate planning
- Developing a long-term strategy

View the archived webcast.

To learn more about our Private Mid-Market Practice, visit us at ey.com/ca/pmm.
EY’s *International Estate and Inheritance Tax Guide* summarizes the estate tax planning systems and describes wealth transfer planning considerations in 38 jurisdictions around the world, including Canada, the US, the UK, Australia, France, Germany, Italy, China and the Netherlands.

The guide is designed to enable internationally positioned individuals to quickly identify the estate and inheritance tax rules, practices and approaches in their country of residence. Knowing these various approaches can help you with your estate and inheritance tax planning, investment planning and tax compliance and reporting needs.

The guide provides at-a-glance information as well as details on the types of estate planning in each jurisdiction. It includes sections on the following:

- The types of tax and who is liable
- Tax rates
- Various exemptions and relief
- Payment dates and filing procedures
- Valuation issues
- Trusts and foundations
- Succession, including statutory and forced heirship
- Matrimonial regimes
- Intestacy rules and estate tax treaty partners

Check out our helpful online tax calculators and rates

Frequently referred to by financial planning columnists, our 2014 Personal tax calculator is found on our website at ey.com/ca/taxcalculator. This tool lets you compare the combined federal and provincial 2014 personal income tax bill in each province and territory. A second calculator allows you to compare the 2013 combined federal and provincial personal income tax bill.

You’ll also find our helpful 2014 and comparative 2013 personal income tax planning tools:

- An RRSP savings calculator showing the tax saving from your contribution
- Personal tax rates and credits, by province and territory, for all income levels

In addition, our site also offers you valuable 2014 and comparative 2013 corporate income tax planning tools:

- Combined federal-provincial corporate income tax rates for small-business rate income, manufacturing and processing income, and general rate income
- Provincial corporate income tax rates for small business rate income, manufacturing and processing income and general rate income
- Corporate income tax rates for investment income earned by Canadian-controlled private corporations and other corporations

You’ll find these useful resources and several others – including our latest perspectives, thought leadership, Tax Alerts, up-to-date 2014 budget information, our monthly Tax Matters@EY and much more – at ey.com/ca/Tax.
When you’re making investment decisions, consider the impact of income taxes and the expected rate of inflation on your investments. In other words, think about the after-tax real rate of return of investment alternatives in relation to their associated risk.

When inflation is low, investments offering a lower nominal rate of return can be as attractive as those with higher nominal returns in periods of higher inflation. For example, if you assume a 50% tax rate, a 6% nominal return when inflation is 2% returns 1% in real after-tax terms. Meanwhile, a 12% nominal return when inflation is 8% returns a negative 2% in real after-tax terms.

Interest, dividends and capital gains are subject to different rates of income tax, which vary depending on your province (see Appendix A).

**Interest income**

If you’ve earned interest on investments that is not paid to you on an annual basis, you must include the accrued interest in your income on each annual anniversary of the investment.

**Dividend income**

Generally, if you receive a cash or stock dividend from a Canadian public corporation (eligible dividend) or an eligible dividend from a private Canadian company, you’ll be required to gross up its amount by 38% when calculating your income. However, when computing your income taxes payable you’ll be entitled to a non-refundable federal dividend tax credit of 20.73% of the actual dividend. Combined with a provincial dividend tax credit, this will result in a top tax rate on public Canadian company dividends between 19% and 36%, depending on your province (see Appendix A for rates).

Non-eligible dividends from private Canadian companies are subject to an 18% gross-up when you calculate your income and a 13% non-refundable federal dividend tax credit. Combined with a provincial dividend tax credit, this will result in a top tax rate on private Canadian company dividends between 29% and 41%, depending on your province (see Appendix A for rates).
Dividends from foreign corporations are not eligible for dividend gross-up treatment, and are taxed in the same manner as interest income. If foreign tax is withheld, you may be eligible for a foreign tax credit.

**Capital gains and losses**

When you sell your investments, the difference between the adjusted cost base (ACB) and net proceeds you receive is normally considered a capital gain or loss. Only 50% of the capital gain or loss is included in calculating your income. However, some securities transactions are considered on income account and are fully taxable or deductible.

### Capital gains election

You may elect to have your gains (or losses) realized on the disposition of Canadian securities always treated as capital gains (or capital losses). File form T123, “Election on Disposition of Canadian Securities” (and TP-250.1 in Quebec), with your personal tax return for the year. Once you’ve filed this election, it’s irrevocable. As a result, all gains and losses on the disposition of Canadian securities are treated as capital gains and losses, rather than trading gains and losses.

Frequent traders may be taxed on income account, and may not be eligible for the preferential capital gains treatment.

The election doesn’t apply to dispositions made by a trader or dealer in securities or to dispositions of certain prescribed securities.

### Capital gains reserve

If you sell capital property and take back a debt – other than a demand promissory note – from the purchaser, you may be able to claim a capital gains reserve for any proceeds not due until a later year. However, in most cases, you must include the entire taxable capital gain in income over a period of up to five years, at a minimum cumulative rate of 20% of the taxable capital gain per year.

This general reserve rule is extended to 10 years — with a minimum of 10% required to be reported each year for dispositions to children or grandchildren living in Canada – of small business corporation shares, a family farm, fishing property, or shares in a family farm or fishing corporation.

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**Tax tips**

- Income tax can represent a substantial cost on your investments. Consider your after-tax returns when evaluating investment options.
- Accrued (but unpaid) interest income on investments you purchased after 1 January 2014 can be deferred for tax purposes until 2015.
- If your sole source of income is eligible dividends, you should consider diversifying your portfolio to reduce any alternative minimum tax obligation.
- You must report the bonus or premium received on maturity of certain investments – such as treasury bills, stripped coupon bonds or other discounted obligations – as interest income. The annual accrual rules generally apply to these investments.
- A reserve for doubtful debts may be available where it is unlikely that the accrued interest income reported on the return will be paid. Alternatively, consider whether the unpaid interest has become a bad debt in the year.

**Tax tips**

- If you’re selling capital property and a portion of the proceeds isn’t due until a later year, plan to have enough cash on hand to pay the taxes due each year during the reserve period.
- If the proceeds are received as a demand promissory note, a reserve will not be available, since the note is considered to be due immediately rather than in a later year.
Loss carryovers
If your allowable capital losses for the year exceed your taxable capital gains, you can carry the excess losses back three years, but you can only apply them against your net taxable capital gains for those years. However, if you claimed the capital gains exemption for a portion of those gains, you should limit the amount carried back to those gains not sheltered by the capital gains exemption. Any amount you don’t carry back will be available indefinitely to shelter your future taxable capital gains.

Tax tips
- Review your tax position to determine the amount and year to realize and claim allowable capital losses.
- If you did not report a capital loss in the year realized, speak to your EY advisor about the options available to you. Capital losses, once realized, do not expire.
- If you have the option to either claim your remaining capital gains exemption or apply net capital loss carry-forwards to eliminate or reduce realized net taxable capital gains, consider claiming the exemption. You can carry forward the net capital losses indefinitely.

Allowable business investment loss
A capital loss realized on the disposition of a debt owed by, or a share of, a small business corporation may give rise to a business investment loss. An allowable business investment loss (ABIL) is one-half of the business investment loss, and is reduced as a result of previous capital gains exemptions claimed.

An ABIL may also arise on a bad debt of a small business corporation, and on a share of a bankrupt or insolvent small business corporation. In certain cases, you may treat a loss suffered by honouring a guarantee as an ABIL.

You may use an ABIL to offset income from any source in the year you incur it. If you don't fully claim the ABIL in that year, you can claim it as a non-capital loss that you can carry back three years and forward 10 years to offset income from any source. When you don't use an ABIL in the carry-forward/carry-back period, it reverts to a net capital loss.

Capital gains deferral for small business investments
In addition to the capital gains exemption, you can elect to defer the gain realized on the disposition of certain small business investments if you reinvest the proceeds in other small businesses. Eligible investments are generally common shares of a small business corporation issued from treasury.
Investors

In addition, there's a size limit on the corporation's assets and a minimum holding period for the shares that were sold. There's no limit on the amount of reinvestment you can make to defer a capital gain, but you must make the reinvestment in the year of disposition or within 120 days after the end of that year. The deferred gain will be deducted from the ACB of the replacement investments acquired.

Disposition of foreign currency, securities held in a foreign currency

When you buy foreign currency or a security denominated in a foreign currency, you'll need to determine the ACB in Canadian dollars, using the foreign exchange rate on the settlement date.

Similarly, when you dispose of the foreign currency or the security, use the foreign exchange rate on the settlement date when determining the proceeds of disposition.

Tax tips

- If you've used your $800,000 capital gains exemption, consider making the capital gains deferral election on the sale of small business corporation shares when you use the proceeds to acquire other small business investments.
- If you carefully plan the timing of your investment dispositions, you may be able to reduce your taxes. Review your tax position and your investment portfolio annually to determine whether it would be advantageous to dispose of any investments with accrued capital gains or losses before the end of the year.
- Dispositions in 2014: If you plan to dispose of any securities on the open market before the year end, sell them on or before the stock exchange's last trading date for settlement in the year. For most North American stock exchanges, settlement occurs three business days after the trade date. (As of the date of publication, 24 December would generally be the last trading date for settlement of a trade in 2014 on a Canadian exchange; 26 December on a US exchange.)
- Using capital losses: Capital gains ineligible for your remaining exemption can be sheltered from tax if you dispose of investments with accrued capital losses before the end of the year. The superficial loss rules will deny the capital loss if you, your spouse or partner, a company that either of you controls or an affiliated partnership or trust (such as your RRSP, RRIF, TFSA or RESP) acquires identical investments during the period beginning 30 days before and ending 30 days after the date the investments are sold, and still owns those investments 30 days after the sale.
  
  If your spouse or partner owns investments that have decreased in value, but they cannot use the capital loss, consider taking advantage of the superficial loss rules by purchasing the investments from your spouse or partner at fair market value and elect out of the automatic roll-over provisions. On the subsequent sale to an arm's-length party, you can claim the capital loss.
- Using ABILs: If you own shares of an insolvent small business corporation or hold bad debts, consider making a special election to realize an ABIL or capital loss without selling the shares or disposing of the debt.
- Determining cost: If you're acquiring property identical to property you currently own, consider having your spouse or partner, your investment holding company, or other separate entity acquire the property. This will allow you to determine your gain or loss based on the sale of a specific property.
Investors

Capital gains exemption

Canadian residents are entitled to a lifetime cumulative exemption from tax on $800,000 of net capital gains (actual gains less actual losses) realized on the disposition of certain property.

Tax tips

- If you own shares in a CCPC carrying on business in Canada:
  - Ensure it is and stays a qualified small business.
  - Consider crystallizing the capital gain now.
  - Consider planning to permit your family members to also use their capital gains exemptions.
- A cumulative net investment loss (CNIL) will reduce your ability to use your remaining capital gains exemption. Consider converting salary from your corporation to dividend or interest income to reduce or eliminate the CNIL.
- If your net capital gain position does not result in the full use of your capital gains exemption, consider triggering capital gains.
- If you claim the capital gains exemption, it may give rise to an alternative minimum tax liability.
- If you're planning to sell an unincorporated business, consider incorporating beforehand to benefit from the capital gains exemption.

Qualified small business corporation shares

A small business corporation is generally defined as a Canadian-controlled private corporation (CCPC) that uses all or substantially all of the fair market value of its assets principally in an active business carried on primarily in Canada, or owns shares or debt of such companies (this allows shares of holding companies to qualify).

A capital gains exemption of $800,000 is available for capital gains arising on the disposition of qualified small business corporation shares that have only been held by you (or a person or partnership related to you) throughout the immediately preceding 24 months.

In addition, during those 24 months, more than 50% and at the time of disposition, approximately 90% or more – of the fair market value of your corporation’s assets must be attributable to assets used principally in an active business.

When you sell shares of a qualified small business corporation and claim the capital gains reserve, the capital gains reserve included in income in subsequent years is eligible for the capital gains exemption.

Qualified farm or fishing property

If you own qualified farm or fishing property, you’re eligible for the $800,000 capital gains exemption.

- **Eligible farm property** includes real property used in a farming business, shares of a family farm corporation, an interest in a family farm partnership, and certain eligible capital property used principally in the farming business.

- **Eligible fishing property** includes real property, fishing vessels, depreciable property and eligible capital property used principally in a fishing business in Canada in which you (or your spouse or partner, parent, child or grandchild) were actively engaged on a regular and continuous basis, as well as shares of the capital stock of a family fishing corporation, and an interest in a family fishing partnership.

To qualify, various conditions must be met.

2014 federal budget proposal: farming and fishing businesses

Budget 2014 proposes to extend eligibility for the intergenerational rollover and capital gains exemption to taxpayers involved in a combination of farming and fishing. This proposal applies to dispositions and transfers that occur in 2014 and later taxation years.
**Tax tip**

- If you have farm or fishing property, you can transfer it to a child at any value between cost and fair market value. Consider transferring the property to your child at a value that will allow you to realize sufficient capital gains to use your exemption. Your child will then have a higher adjusted cost base for a future disposition.

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**General rules**

There are general rules that affect your ability to claim the capital gains exemption on qualified small business corporation shares, and qualified farm or fishing property.

**Eligibility:** Corporations, partnerships or trusts cannot claim the capital gains exemption. However, eligible capital gains allocated or otherwise flowing out of partnerships or trusts do qualify for the exemption in the hands of the individual partners or beneficiaries.

**Amount:** Your available capital gains exemption is reduced by the amount of the exemption you claimed in previous years, including years before 1995, when the exemption was applicable to gains on most capital property.

**Losses:** Your net taxable capital gains eligible for the exemption are reduced by any claims made in the year for net capital losses of the current year, other years, and for ABILs.

**Discretionary deduction:** The capital gains exemption is a discretionary deduction. You may claim an amount less than the maximum, or no exemption, in a particular year. This allows you to maximize the use of other non-discretionary deductions and to preserve your remaining exemption for future years.

**Cumulative net investment loss (CNIL):**

A CNIL balance will reduce your claim for a capital gains exemption.

A CNIL arises if you’ve deducted, in aggregate after 1987, investment expenses in excess of investment income. A CNIL is generally increased by investment expenses such as:

- Interest on money borrowed for investment purposes, including an investment in a partnership if you’re not actively engaged in the business of the partnership
- Investment counsel fees
- One-half of most resource deductions claimed
- Property losses or rental losses from property owned by you or a partnership if you’re not actively involved in the business of the partnership

A CNIL is generally reduced by investment income such as:

- Interest and dividend income, including the dividend gross-up for dividends from taxable Canadian corporations
- Property income or rental income from property owned by you, or by a partnership if you’re not actively involved in the business of the partnership
- Net taxable capital gains that are ineligible for the capital gains exemption

For Quebec tax purposes, certain eligible deductions specific to Quebec are not taken into account in computing the CNIL.
Investors

Interest expense

Generally, if you borrow money to buy an income-earning investment, any interest expense incurred is deductible. It’s not necessary that you currently earn income from the investment, but it must be reasonable to expect that you will. Income for this purpose includes interest and dividends, but not capital gains. Interest expense on money you borrow to buy common shares is generally deductible because common shares have the potential for paying dividends.

In Quebec, the deduction of investment expenses (including interest expenses) is limited to the amount of investment income you earned in the year. Any investment expense that's not deductible in a year, as a result of this limitation, can be carried back to the three preceding years or carried forward to any subsequent year.

If you incur a loss on the disposition of an investment, interest on any remaining related borrowing continues to be deductible if you use the proceeds to pay down the related debt or to purchase another income-producing investment.

Interest on the money you borrow for contributions to a registered retirement savings plan (RRSP), registered pension plan (RPP) or deferred profit-sharing plan (DPSP), tax-free savings account (TFSA), registered education savings plan (RESP), registered disability savings plan (RDSP), or for the purchase of personal assets such as your home or cottage, is not deductible.

You can deduct interest expense on a paid or payable basis, provided you follow one basis consistently. Note, however, that compound interest must be paid in order to be deductible.

Tax tips

- If you're claiming a deduction for interest expense on a paid basis, make all necessary payments by 31 December.
- Consider converting non-deductible interest into deductible interest by using available cash to pay down personal loans and then borrowing for investment or business purposes.
- Use your excess funds to pay down personal debt, such as mortgages or credit card balances, before investment-related debt.
- To reduce the cost of non-deductible debt, pay off your most expensive debt first. Consider refinancing expensive debt like credit cards with a less expensive consumer loan.
Investment funds

Mutual funds

Usually structured as open-end trusts, mutual funds are a pooling of resources of many taxpayers with a common investment objective. Money managers buy and trade investments in the fund. Any interest, dividends, foreign income and capital gains from these investments, net of management fees and other fund expenses, are allocated to unitholders. The value of mutual fund units or shares, regularly quoted in newspapers and magazines, represents the value of the underlying investments.

You must include the income allocated to you annually from a mutual fund in your net income, even if you don’t receive the distributions because you’ve chosen to have them automatically reinvested in the same fund.

You can also realize capital gains or losses from mutual funds by the sale or redemption of fund units or shares. This gain or loss is the difference between your redemption proceeds and the ACB of the units or shares. The ACB of your mutual fund unit is determined by dividing the total purchase cost – including commissions and other front-end fees – plus reinvested distributions, less returns of capital, by the number of units or shares you own just prior to redemption. Any deferred charges or redemption fees reduce the proceeds on redemption.

Segregated funds

Segregated funds, or seg funds, are similar to mutual funds, but include an insurance element, which guarantees the return of principal on maturity or your death. You purchase a contract with the seg fund, which owns units of a mutual fund trust.

Seg funds allocate to contract holders distributions from the underlying mutual fund, and capital gains or losses realized from the sale of underlying mutual fund units. Unlike mutual funds, seg funds can allocate capital losses to contract holders.

Any guarantee paid on maturity of the contract or on your death (the payment in excess of the investment’s net asset value) is taxable as a capital gain. However, this is offset by a capital loss on the disposition of the contract (cost in excess of net asset value).

Exchange-traded funds

An exchange-traded fund (ETF) is an investment fund that combines many of the attributes of mutual funds and individual stocks.

Typically, an ETF is similar to a mutual fund because it tracks an index, a commodity or a basket of assets. However, like stocks, ETFs experience price changes throughout the day as they are bought and sold, and they can be sold long or short.

Because it trades like a stock, an ETF does not have its net asset value calculated every day like a mutual fund does.

ETFs are normally structured as trusts and the income from their investments, net of management fees and other fund expenses, are distributed or allocated to the unitholders either on a monthly, quarterly or annual basis. Generally, if the ETF is a Canadian-resident trust, its underlying assets dictate whether the income reported by unitholders is categorized as interest, dividends, foreign income or capital gains.

You can also realize capital gains or losses from ETFs by the sale or redemption of the units. This gain or loss is the difference between your redemption proceeds and the ACB of the units.

Tax tips

- Keep records of the adjusted cost base of your mutual funds, exchange-traded funds, income trusts, limited partnerships and flow-through shares so you can report accurate capital gains and losses on the redemption.
- Evaluate whether the benefit of the seg fund’s guarantees offsets the fund’s higher fees.
- The ability to designate a named beneficiary of a seg fund provides the additional benefit of avoiding probate fees on death.
Income trusts and real estate investment trusts

Income trusts and publicly traded limited partnerships are classified as specified investment flow-through entities (SIFTs). SIFTs were originally designed to attract investors seeking stable and predictable cash flows.

Since 2011, a distributions tax has applied to SIFTs, treating them more like corporations. This distribution tax effectively eliminates their tax advantage, and in some cases may reduce the amount of cash available for distribution to investors.

One important exception to the SIFT rules concerns qualified real estate investment trusts (REITs). REITs continue to be flow-through entities for tax purposes. As a result, many SIFTs have converted to corporations. Rules were introduced that allow these conversions to take place on a tax-deferred basis without any immediate tax consequences to investors.

Real estate rental property

If you own property and rent it as a source of revenue, the income or loss must be reported on your tax return. If a net rental loss results, it can generally be deducted against other sources of income for the year.

Expenses you incur to earn rental revenue can generally be deducted against this revenue. These expenses can include mortgage interest, property taxes, insurance, maintenance and repairs, utilities, advertising and management fees.

Capital expenses, such as the cost of the building (but not land), furniture and equipment, may be deducted through capital cost allowance (depreciation) over a period of years. However, capital cost allowance may only be claimed to the extent of rental income before any claim for capital cost allowance. In other words, you cannot create or increase a rental loss through the deduction of capital cost allowance.

Tax tip

- If you own more than one rental property, you may deduct automobile expenses incurred to collect rents, supervise repairs or provide general property management.

If you rent units in a building in which you live, you can deduct a reasonable portion of expenses relating to common areas.

There are some pitfalls to avoid in property investments:

- You must have a source of income or potential to earn income against which to claim expenses. There is some uncertainty about whether a reasonable expectation of profit is required if losses continue over an extended period of time.
- If you rent property to a relative or close friend at less than market rates, any rental loss you incur could be denied.
Investors

Registered retirement savings plans

Many Canadians use an RRSP to hold a significant portion of their investment assets. When the RRSP is self-administered, it can hold a wide range of eligible investments.

In determining the most appropriate mix of investments for your self-administered RRSP, you need to consider a number of factors, including the tax attributes of RRSPs.

Another factor to consider is how much growth you’ll need in the RRSP to fund your retirement. In some circumstances, you may want to hold riskier growth-oriented investments in your RRSP to maximize its value. Generally, a lengthy holding period is necessary for this strategy to offset the effects of the higher tax applicable to RRSP withdrawals than to capital gains or dividends.

All distributions received from an RRSP are fully taxable as income. Any beneficial treatment accorded to dividends and capital gains held personally is lost when securities are owned by an RRSP. However, this disadvantage may be outweighed by the tax deferral on income and gains accumulating within the RRSP. The value of the deferral will depend on your age and the expected timing of withdrawal.

There is no tax on earnings in an RRSP, and interest receives no preferential tax treatment when held outside an RRSP. Therefore, you should consider holding your interest-bearing investments inside your RRSP.

Your RRSP can acquire investments in the marketplace or, alternatively, you may transfer qualified investments outside your plan to your RRSP. You can make this transfer in the form of a deductible contribution-in-kind for the year. For tax purposes, this may result in a capital gain because the assets transferred to the plan are deemed to be disposed of at fair market value. Any capital losses will be denied.

Anti-avoidance rules extended to RRSPs and RRIFs

A series of new anti-avoidance rules for RRSPs and RRIFs became law on 15 December 2011, with retroactive effect to 22 March 2011. These rules impose a 50% penalty tax on both prohibited investments and non-qualified investments held by an RRSP or RRIF, as well as a separate 100% penalty tax on certain “advantages” from transactions that exploit the tax attributes of an RRSP or RRIF. Similar rules already existed for tax-free savings accounts.

Tax on prohibited and non-qualified investments

The penalty tax applies to prohibited investments acquired after 22 March 2011, and those acquired before 23 March 2011 that first became prohibited after 4 October 2011. A prohibited investment may generally be described as an investment to which the annuitant of an RRSP or RRIF is closely connected – including, for example, a debt obligation of the annuitant or a share of, an interest in or a debt of a corporation, trust or partnership in which the annuitant (or a non-arm's-length person) has a significant interest (generally 10% or more).

In the case of non-qualified investments, the new penalty tax applies to non-qualified investments acquired after 22 March 2011, and to those acquired before 23 March 2011 that first became non-qualified after 22 March 2011.

The tax may be refunded if the prohibited or non-qualified investment is removed before the end of the calendar year subsequent to the acquisition year.

Tax on advantages

Subject to certain transitional relief, the advantage tax generally applies to benefits obtained from transactions occurring, income earned, capital gains accruing and investments acquired after 22 March 2011.

An advantage can be broadly defined as any benefit obtained from a transaction that is intended to exploit the tax attributes of an RRSP or RRIF. Examples include benefits attributable to prohibited investments, swap transactions, RRSP strips and deliberate overcontributions.

Transitional relief from the advantage tax may be available if you filed an election on or before 2 March 2013. The election was available if your plan held a prohibited investment on 23 March 2011 and continued to hold it in the year. It allowed you to elect not to have the 100% advantage tax apply to income and gains accrued after 22 March 2011 and attributable to a prohibited investment held on 23 March 2011. To qualify for this relief, you must have filed the election form (Form RC341) by 2 March 2013 and withdrawn the income or gains attributable to the prohibited investment annually within 90 days after the end of the calendar year in which they are earned or realized. The amount withdrawn is taxed at your marginal tax rate, like any regular withdrawal from the plan.

Filing obligations

If you owe tax under any of these rules, you must file Form RC339, Individual Return for Certain Taxes for RRSPs or RRIFs, and pay that tax no later than 30 June of the following year (e.g., 30 June 2015 for the 2014 taxation year).

Possible waiver of tax

The CRA may, at its discretion, waive all or a portion of the penalty taxes if it considers it just and equitable to do so.

If you believe you may be subject to any of these penalty taxes, speak to your EY advisor.
It's important that your RRSP holds qualified investments only. If your RRSP acquired a non-qualified investment prior to 23 March 2011, the value of the investment was included in your income. In addition, any income earned on the investment was taxable to you in the year it was earned. However, once you disposed of the non-qualified investment in your plan, you were allowed to claim a deduction in your return equal to the lesser of the proceeds of disposition and the prior income inclusion.

These rules were modified under new anti-avoidance rules that were introduced for non-qualified investments acquired after 22 March 2011, and investments acquired before 23 March 2011 that became non-qualified after 22 March 2011 (see Anti-avoidance rules extended to RRSPs and RRIFs for details).

A non-qualified investment is any property that is not a qualified investment. Qualified investments generally include:

- Cash
- Term deposits
- GICs
- T-bills
- Any security (other than a futures contract) listed on Canadian stock exchanges and most foreign stock exchanges
- Most government bonds
- Most Canadian mutual funds and segregated funds
- Options for the purchase of qualified investments
- Shares of certain private corporations in limited circumstances

Self-administered RRSPs investing in shares of private corporations

The new anti-avoidance rules for post-22 March 2011 investments have made it more difficult for private corporation shares to be considered qualified investments for RRSPs. Shares in Canadian corporations carrying on active businesses not listed on a prescribed stock exchange may qualify for RRSP investment if the corporation is a small business corporation (SBC) and you and related parties own less than 10% of the shares.

Note that unless the corporation retains its SBC status at all times, its shares will be prohibited investments for RRSPs. Any pre-23 March 2011 RRSP investments in private corporations should be monitored to ensure they don’t become prohibited, and you should consider the implications of removing any offside investments.

Tax tips

- In determining the mix of investments held by your self-administered RRSP, consider:
  - Your retirement cash-flow needs
  - The length of time before you expect to withdraw funds
  - The marginal tax rates applicable to interest, dividends and capital gains
  - Holding investments intended for capital growth outside your RRSP (to benefit from lower tax rates on capital gains and eligible dividends) and holding interest-generating investments inside your RRSP
  - Holding strip bonds inside your RRSP, since the interest earned would otherwise be annually subject to tax even though it’s not received until maturity
  - Holding capital investments eligible for your remaining capital gains exemption outside your RRSP in order to use the capital gains exemption on the sale (these are qualified RRSP investments in limited circumstances)
- Qualified employee stock options may be transferred to an RRSP – but this involves an element of double taxation.
- Before trying to rebalance the mix of investments held in your RRSP based on the above considerations, consider whether any transfers would fall offside of the punitive swap or advantage tax rules.
- If you believe your private company shares held in an RRSP have, or may become, prohibited, speak to your EY advisor about the rules for, and implications of, removing them from the plan.
Tax-free savings account

Every Canadian resident (other than US citizens and green card holders) aged 18 and older should include a tax-free savings account (TFSA) as part of their investment strategy. The tax benefit of these registered accounts isn’t in the form of tax-deductible contributions, but in the tax-free earning on invested funds.

For US citizens and green card holders, the decision is more complex, as income earned in the TFSA must be reported on the individual’s US personal income tax return, so the tax savings may be limited and there will be additional US filing disclosures.

The mechanics of the TFSA are simple:

- You can contribute up to $5,500 annually ($5,000 prior to 2013). If you contribute less than the maximum amount in any year, you can use that unused contribution room in any subsequent year. The cumulative contribution limit for 2014 is $31,000.
- Income and capital gains earned in the TFSA are not taxable, even when withdrawn.
- You can make withdrawals at any time and use them for any purpose without attracting any tax.
- Any funds you withdraw from the TFSA – both the income and capital portions – are added to your contribution room in the next year. This means you can recontribute all withdrawals in any subsequent year without affecting your allowable annual contributions. Recontribution in the same year may result in an overcontribution, which would be subject to a penalty tax.

Permitted investments for TFSA are the same as those for RRSPs and other registered plans. And, like RRSPs, contributions in kind are permitted. But be aware that any accrued gains on the property transferred to a TFSA will be realized (at the time of transfer) and taxable, while any accrued losses will be denied.

As with RRSPs and RRIFs, a special 50% tax applies to a prohibited or non-qualified investment held by a TFSA, and a special 100% tax applies to certain advantages received in connection with a TFSA.

Tax tips

- Gift or loan funds to your spouse or partner so they can make their own contribution. The income earned on these contributions will not be attributed to you while the funds remain in the plan.
- You can also gift funds to an adult child for TFSA contributions. An individual cannot open a TFSA or contribute to one before the age of 18. However, when you turn 18, you will be permitted to contribute the full TFSA dollar limit for that year (currently $5,500 as of 2013).
- To pass your TFSA to your spouse or common-law partner, designate them as the successor holder so the plan continues to accrue tax free without affecting their contribution room.
- Your annual contribution limit is composed of three components:
  - The annual TFSA dollar limit of $5,500 ($5,000 prior to 2013)
  - Any unused contribution room from a previous year
  - The total amount of withdrawals from your TFSA in the previous year
- You can maintain more than one TFSA, as long as your total annual contributions do not exceed your contribution limit.
- You can view your TFSA transaction summary on the CRA’s website. Go to My Account to see all of the contributions and withdrawals made from your TFSA.
- If you become a nonresident of Canada:
  - You will not be taxed in Canada on income earned in the TFSA (foreign tax may apply) or on withdrawals from your plan.
  - No contribution room will accrue for any year throughout which you are a nonresident. In the year of your emigration or immigration, the annual dollar limit of $5,500 ($5,000 prior to 2013), without proration, applies.
  - If you re-establish Canadian residence, any withdrawals while you were a nonresident will be added back to your TFSA contribution room in the following year.
- Consider holding your non-tax-preferred investments – those that give rise to interest and foreign dividends – in your TFSA.
- Neither income earned in the TFSA nor withdrawals from it affect your eligibility for federally income-tested benefits (i.e., Old Age Security, the Guaranteed Income Supplement) or credits (i.e., GST/HST credit, age credit and the Canada Child Tax Benefit).
Investors

The CRA will track your contribution room and report it to you annually as part of your income tax assessment. If you over-contribute, as with RRSPs, the over-contribution will be subject to a penalty tax of 1% per month while it remains outstanding. If you become a nonresident of Canada, a similar 1% penalty tax will apply to any contributions you make to your TFSA while you are a nonresident.

Investment holding companies

In the past, many individuals have incorporated their investments in an investment holding company (IHC) to benefit from the tax deferral on income earned in a corporation. This deferral advantage was largely eliminated with the imposition of an additional tax on investment income of CCPCs. In all provinces, there is a cost to earning investment income in an IHC rather than directly as an individual. However, an IHC may still be useful in the following circumstances:

- Income and capital gains splitting
- Probate fee planning
- Sheltering assets from US estate tax
- Facilitating an estate freeze
- Deferring tax by selecting a non-calendar taxation year
- Reducing personal net income to preserve certain tax credits and social benefits

- Converting what might otherwise be non-deductible interest into tax-deductible interest
- Holding shares in operating companies that pay dividends

Investing offshore

Canadian residents are taxed on their worldwide income. As a result, you can’t avoid Canadian tax by investing funds, directly or indirectly, outside Canada.

There are a variety of complex tax rules and reporting requirements aimed at offshore investments. These include:

- Rules that result in an annual income inclusion for Canadian tax purposes from a foreign investment entity, even though there may be no income distribution
- Rules that deem a foreign trust to be resident in Canada, and therefore taxable in Canada
- Annual foreign investment reporting for individuals who own foreign investment property with an aggregate cost in excess of $100,000

- If you’re thinking of winding up your IHC, consider the possible benefits of IHCs and be aware that there may be significant tax costs associated with the wind-up.

Tax tips

- If you hold foreign investment property with an aggregate cost in excess of $100,000 in 2014, the required form T1135 has been revised to include more detailed information on those investments. For more information, see our Tax Alert 2014 No. 38, Revised Form T1135: CRA announces permanent relief for 2014 and later years.
- Tax shelters are investments intended to offer a tax deferral.
- In determining the tax benefit available from a tax shelter, consider:
  - The at-risk rules, which may reduce deductions available to investors in limited partnerships by preventing tax write-offs in excess of amounts invested or earned
  - The requirement to recognize as a capital gain any negative adjusted cost base in a limited partnership interest
  - Minimum tax, which may result when you have significant tax shelter write-offs
  - Rules that require the cost of investments that finance another taxpayer’s business expenses in exchange for a right to receive future income to be prorated over the life of that income stream
  - Limitations on the depreciation claim for computer software tax shelters to the amount of the related income
Professionals and business owners

If you’re a professional or you own a business, there are many valuable tax-planning opportunities available to you.

Business expenses

In general terms, all reasonable expenses you incur to earn business income are deductible in computing business income for tax purposes. However, there are some specific restrictions:

- For business meals and entertainment, you can generally only claim a maximum of 50% of the expenses as a business expense.
- If you use your car for your business, you can claim business-related operating costs, including fuel, maintenance, repairs, licence and insurance. In addition, you can claim depreciation or lease costs subject to prescribed maximum amounts. Keep in mind that the business portion of these expenses will generally be computed by reference to business kilometres over total kilometres driven in a year. Driving between your home and your business premises is not considered business travel. To support your claim for automobile expenses, keep a record of your total kilometres and business kilometres driven in the year.
- If you operate your business from your home office (and you don’t have an office elsewhere, or you use your home to meet clients, customers or patients), you can claim a reasonable portion of mortgage interest or rent, property taxes, utilities, and repairs and maintenance. A “reasonable portion” is generally based on the amount of office space to total space in your house that is used as office space (special rules apply in Quebec). You can even claim depreciation on your house in relation to your business space, but this is generally not advised as it may limit your principal-residence claim when you sell the home.
- You can claim the cost of attending conventions relating to your business or profession. However, you’re limited to two conventions per year, and they must be held at locations within the scope of your business or professional organization. As discussed above, there will also likely be limitations on the deductibility of meals and entertainment costs at the conventions.
Professionals and business owners

Private health-care premiums

Unincorporated business owners, including all self-employed individuals, may generally deduct premiums paid for private health and dental plans.

To be eligible for the claim, the private health-care costs must be paid to third parties who provide such plans and, to the extent that you claim these costs as a business expense, you cannot include them with your medical expense tax credit claim. However, costs in excess of deductible amounts are eligible for the medical expense tax credit.

This deduction is not available for Quebec tax purposes.

Partnerships

When two or more individuals combine their assets or business operations, or embark on a joint business without incorporating, they generally form a partnership. Although a partnership is not a taxable entity, income or loss is computed at the partnership level and flows through to the individual partners in the proportion agreed upon in their partnership agreement. Income from a partnership retains its character when allocated to and reported by a partner.

When a partnership has at least one individual partner, its year end must be 31 December, except when the alternative method election is available (discussed below).

However, if all the partners are corporations, any year end could be selected, and many corporate partners used to be able to obtain a tax deferral on partnership income by selecting a partnership year end after a corporate partner’s year end. For tax purposes, the corporation would report partnership income for the fiscal period that ends in the corporation’s taxation year.

The 2011 federal budget eliminated this partnership income deferral for corporate partners, together with affiliated and related parties, that are entitled to more than 10% of either the partnership’s income or net assets. The changes apply to taxation years of the corporation ending after 22 March 2011 and, subject to a five-year transitional rule, will require the accrual of partnership income to the corporation’s fiscal year end.

Tax tip

- For individuals reporting business income, except when the only business income is from a tax shelter, income tax returns are due by 15 June, not 30 April. However, any tax liability must still be paid by 30 April.

Incorporating your business

As a business owner, you’re likely to face the decision of whether to incorporate once your business becomes successful. You’ll need to base your decision on a number of factors, both commercial and tax related.

Incorporation can bring a number of commercial benefits, such as:

- The potential for liability is limited to assets owned by the corporation. However, corporate business owners often have to provide personal guarantees for business loans, thereby extending the risk beyond business assets.
- Because an incorporated business is a separate legal entity distinct from its owner, it can continue after the owner’s death, facilitating business succession.
Professionals and business owners

Offsetting the commercial benefits are the commercial costs, including the legal and accounting fees associated with setting up the corporation, and the ongoing maintenance and compliance fees, such as the costs of preparing minutes, financial statements and tax returns.

The primary tax advantage of incorporation, compared to earning business income personally and paying tax at the top personal marginal tax rate, is income tax deferral. This deferral results because Canadian-controlled private corporations (CCPCs) pay a reduced tax rate, in general, on the first $500,000 of active business earnings. The rate ranges from approximately 11% to 19%, depending on the province of operation. This amounts to a potential annual tax deferral of approximately $125,000 to $170,000 on the amount eligible for the reduced small-business rate, depending on the province of operation and residence of the owner.

Federally, this corporate rate reduction is eroded for larger corporations with taxable capital in excess of $10 million. All provinces and territories have a similar “clawback” provision.

The deferred tax will normally be eliminated when the corporate earnings are paid to the owner by way of dividends. However, the longer those earnings remain in the corporation, the greater the benefit associated with the tax deferral.

**Tax tips**

- If you’re operating a successful unincorporated business, consider whether incorporation would provide additional commercial and tax benefits.
- If your corporation is providing services that would normally be provided by an employee, consider the personal service business rules.

**Disadvantages**

There are some drawbacks to operating a business in a corporation, including:

- Trapped losses. If the business is operating at a loss, the owners cannot apply the loss against their other sources of income. Such losses can only be carried back three years or forward 20 years to be applied against other income of the corporation for those years. This is why startup operations often start out as unincorporated businesses and are incorporated once they begin generating profits.

- The possibility of double taxation on the sale of the business or other disposition of assets. When assets are disposed of by a corporation, any gains realized on the disposition are subject to tax in the corporation. A second level of taxation occurs when the after-tax proceeds of the disposition are distributed to the shareholders in the form of dividends. However, you can eliminate double taxation with proper planning.

**Additional advantages**

Other tax advantages to incorporating a proprietorship include:

- Availability of the capital gains exemption on the sale of shares of a qualified small business corporation.
- Flexibility in the character and timing of remuneration.
- Possibility of income splitting by having family members subscribe for shares of the corporation and receive dividends. However, this type of income splitting is not as effective with minor children because the dividends and capital gains they receive from private corporations are subject to the top marginal personal tax rate (this is known as the “kiddie tax”).
- Reducing the potential tax cost associated with the deemed disposition of assets on the owner’s death by effecting an estate freeze.
- Reducing the potential probate fees payable on the owner’s estate at death.
Professionals and business owners

Remuneration planning for the corporate owner

If you’re the owner of an incorporated business, you must make major decisions annually concerning how to finance the business’s growth and operation, how much remuneration to take, in what form it should be paid, and to whom it should be paid.

- In determining the optimal salary-dividend mix, consider:
  - Bonuses could be accrued to reduce corporate income to the small business deduction limit (the federal limit is $500,000).
  - Accrued bonuses must be paid within 180 days after the corporation’s year end.
  - Pay yourself sufficient salary or bonus to create enough earned income to entitle you to the maximum RRSP deduction next year.
  - Pay yourself sufficient salary or bonus to eliminate or reduce a personal minimum tax liability.
  - Payment of salary or bonus may increase provincial payroll tax.
  - The eligible dividend rules may create a tax deferral advantage when retaining income above the small business limit in the corporation.
  - If you anticipate that the cumulative net investment loss (CNIL) rules will affect your ability to claim your remaining capital gains exemption, pay yourself dividends rather than salary.
  - Dividends, to the extent that the company has a balance in the capital dividend account, can be received tax free.
  - If the company has refundable tax available, pay yourself taxable dividends. The incremental tax related to a dividend payment is small, if any, because the dividend refund rate to the corporation is 33.3% of the dividend paid.
  - Return paid-up capital, or pay down shareholder advances, as an alternative to paying taxable dividends or salary.
  - Consider employing your spouse or partner and/or your children to take advantage of income-splitting opportunities. Their salaries must be reasonable for the work they perform.
Professionals and business owners

Corporate loans
If you borrow funds from your corporation, you may have a taxable benefit for imputed interest on the loan, reduced by any interest payments you make by 30 January of the following year. To avoid an income inclusion for the entire amount of the loan, you should repay the loan by the end of the corporation’s taxation year following the year the loan was made.

Housing loans, car loans and funds borrowed to acquire newly issued shares of the company may not be subject to this income inclusion rule if received by virtue of employment.

Asset ownership
As the shareholder/manager of a business, you may have the option of holding various assets and liabilities personally or in your corporation.

Tax tips
- If you have a CNIL that will reduce your ability to claim your remaining capital gains exemption, consider:
  - Transferring personally held debt to your corporation if the interest relates to assets held in the corporation.
  - Holding assets earning investment income personally, rather than in the corporation.
- Consider holding investment assets personally so that the corporation maintains its small business corporation status. This will help ensure the shares are eligible for your remaining capital gains exemption.

Tax tip
- If you take out a loan for the purpose of earning business or property income, such as the purchase of common shares, the interest paid and the imputed interest benefit for low- or no-interest loans are deductible for tax purposes.
Shareholders’ agreements

If your corporation has more than one shareholder even if they’re all family members you should have a shareholders’ agreement to protect your rights as a shareholder, minimize shareholder disputes, and ensure a smooth transition on the death or withdrawal of any shareholder.

Review the agreement periodically in light of changes in the shareholders’ personal circumstances, changes in tax law and other legislative developments.

Tax tip

- The shareholders’ agreement should deal with many things, including the following:
  - The mechanism for buyout of a shareholder’s interest on death, disability, bankruptcy or retirement, and how the buyout will be funded
  - Payment of dividends (eligible and capital)
  - Settlement of disputes between shareholders
  - Settlement of management issues
  - Valuation of the corporation’s shares
Benefits

In addition to your salary, wages and bonuses, you're taxed on the value of the benefits you receive by virtue of your employment. However, certain benefits are tax free.

Common taxable and tax-free benefits

**Tax-free benefits**

- Contributions to a registered pension plan or deferred profit-sharing plan
- Private health-care premiums (except in Quebec)
- Supplementary unemployment benefit plan premiums
- Employee discounts
- Subsidized meals, when a reasonable charge is paid
- Uniforms or special clothing
- Club memberships (athletic or social), when the benefit is primarily for your employer
- Tuition, if the course is required by your employer and is primarily for their benefit

- A reasonable per-kilometre car allowance
- Board, lodging and transportation to special work sites or remote work locations
- Transportation passes for rail, bus or airline employees, in certain situations
- Counselling services relating to re-employment or retirement
- Use of the employer’s recreational facilities (if available to all employees)
- Reimbursement for various job-related expenses (e.g., travel, entertainment, moving)
- Death benefit up to $10,000
- Non-cash gifts received by arm’s length employees with an aggregate annual value of under $500
- Personal use of frequent-flyer points when earned on business travel, in most circumstances
Employees

**Taxable benefits**

- Board, lodging, rent-free or low-rent housing (some exceptions for special work sites and remote work locations)
- Most gifts (other than non-cash gifts as noted), prizes and incentive awards
- Group sickness or accident insurance premiums
- Life insurance premiums
- Employer-paid provincial health-care premiums
- Stock option benefits
- Adoption assistance
- Family travel costs, unless family members are required to accompany you and they’re involved in business activities on your trip
- Interest-free and low-interest loans (except on the first $25,000 of a home-relocation loan)
- Employer-paid tuition for personal-interest courses or those primarily for your benefit
- Employer-provided car (monthly standby charge and operating benefit)
- Car allowance, when not computed with reference to distance travelled
- Parking privileges in certain circumstances
- Income tax return preparation fees and financial counselling fees

- Employer-paid financing for housing costs as a result of relocation, reimbursement for loss on sale of former home (only half of amount paid in excess of $15,000 is taxable when the move is an eligible relocation)

We describe some of the most common benefits in more detail on the following pages.

**Tax tip**

- If you’re renegotiating your compensation package or negotiating a new one, consider tax-free benefits.

**Car allowance**

If you’re required to use your own car for business, the reasonable per-kilometre allowance you’re paid is not taxable. But you must record the distance you travel. Otherwise, the allowance is not considered reasonable and must be included in your income.

If your employer doesn’t provide a tax-free per-kilometre allowance, or if you include your allowance in income because it’s not reasonable, you may be able to deduct certain car expenses when calculating your income.

**Company car**

If your employer gives you access to a company car, you’ll have to pay tax on the benefit. This is referred to as a standby charge, and is generally equal to 2% of the original cost of the car per month or, in the case of a leased vehicle, two-thirds of the lease cost, excluding insurance.

You may be able to reduce this standby charge if you use the car primarily (i.e., more than 50%) for business and if your annual personal driving does not exceed 20,004 km. In addition, any payment you make during the year to your employer in respect of the car, other than an operating expense reimbursement, reduces the taxable benefit.

If your employer pays any operating costs related to your personal use of the company car, a taxable benefit results.

However, if you use your company car at least 50% for business, you can have the operating benefit calculated as one-half of the standby charge less any personal operating costs repaid to your employer within 45 days after the year end. For this option, you must notify your employer in writing.
Harsh results may arise if you pay for your own gas and oil but your employer pays for incidental operating costs. The full 27-cent per-kilometre operating benefit applies unless the alternate operating cost benefit (half of the standby charge) applies and results in a reduced income inclusion. If your employer pays your personal parking costs, a separate taxable benefit results.

If you work in Quebec, you must give your employer a copy of your travel log book so that the taxable benefit is appropriately calculated. A penalty of $200 could be assessed if a log book is not provided within 10 days of the year end.

### Low-interest or interest-free loans
A taxable benefit results from most low-interest or interest-free loans from your employer. It’s calculated using the interest rates prescribed quarterly by the Canada Revenue Agency (CRA) (in 2014, 1% for Q1, Q2, Q3 and Q4), but is reduced by interest you pay to your employer by 30 January of the following year.

### Home-purchase loan
If you used the loan proceeds to buy or refinance a home, this may result in a reduced benefit. The benefit is calculated using the lesser of the current prescribed rate and the rate in effect at the time you received the loan. For this purpose, the loan is considered to be new every five years.

### Home-relocation loan
If you include a taxable benefit in your income relating to a low-interest or interest-free loan that qualifies as a home-relocation loan, you’re entitled to a deduction equal to the taxable benefit on the first $25,000. To qualify for a home-relocation loan, you must be buying a home due to a change in the location of your work. The new residence must be in Canada, and at least 40 km closer to your new work location. The deduction is available for as long as the home-relocation loan is outstanding, to a maximum of five years.

### Income-producing property loan
If you used the loan proceeds for an income-producing purpose, such as the purchase of common shares, you may generally deduct the amount of the taxable benefit as interest expense. This deduction is included in your cumulative net investment loss (CNIL) and may restrict your ability to use your remaining capital gains exemption.

### Tax tips
- Maintain car records of personal and business kilometres to substantiate a claim for a reduced standby charge.
- It may be advantageous to calculate the operating benefit as 50% of the standby charge if the car is used at least 50% for business, particularly if the reduced standby charge applies. If so:
  - Notify your employer in writing by 31 December.
  - Record personal and business kilometres.
- If you use your employer-provided car less than 50% for business, consider paying for the personal portion of your operating costs.

### Tax tip
- Consider renegotiating your home-purchase loan when prescribed rates are low, in order to minimize your taxable benefit on the loan in subsequent years.

### Security option benefits
If you’ve acquired shares or units of a mutual fund trust under an employee stock or unit option plan, the excess of the value of the shares or units on the date you acquired them over the price you paid for them is included in your income from employment as a security option benefit.

When the corporation is not a Canadian-controlled private corporation (CCPC), the benefit is generally included in your income in the year you acquire the shares.
Half of the security option benefit included in income generally qualifies as a deduction, provided the price you paid for the securities was not less than the value of the securities on the date you were granted the options and the securities meet the prescribed share tests.

Any increase in the value of the securities after you acquire them is generally taxed as a capital gain in the year you sell them. Any decrease in value is a capital loss that, generally, you cannot use to reduce any tax you pay on your security option benefit.

If you’ve acquired CCPC shares under an employee stock option or stock purchase plan since 22 May 1985, the benefit (as calculated above) is always taxed in the year you dispose of the shares, rather than in the year you acquired them.

If you held the CCPC shares for at least two years, 50% of the benefit qualifies as a deduction, even if the price you paid for them was less than their value on the date you were granted the option. You have a capital gain to the extent the net proceeds exceed the value of the shares on the date they were acquired. And this capital gain may be eligible for your remaining capital gains exemption.

For Quebec income tax purposes only, the rate of the deduction is generally 25% for options exercised after 30 March 2004.

If you acquired CCPC shares before 23 May 1985, you have no taxable benefit in the year you sell them and your capital gain is the excess of the net selling price over the price you paid. This capital gain may be eligible for your remaining capital gains exemption.

The difference in treatment of option benefits for CCPC and non-CCPC shares is based on the status of the corporation at the time the options are granted. Therefore, if you have an option to acquire, or have acquired, shares of a CCPC, and the company goes public or ceases to be a CCPC, the special tax treatment for CCPC options continues to apply to the options previously granted and shares previously acquired, and to shares or options of the public company you may receive in exchange.

**Employer remittance of employee taxes arising from stock option exercise** - For non-CCPC shares acquired by an employee under an employee stock option agreement, an employer is required to remit tax in respect of the stock option benefit, net of the stock option deduction, at the time of exercise of the option.

In addition, an employer will not be able to reduce withholding on the stock option benefit by claiming hardship in these particular circumstances.

For most employees exercising options, this will have the effect of making it a requirement for the employee to sell sufficient shares or units on the market at the time of exercise of the options to cover the tax on the employment benefit that arises upon exercise.

**Cash settlement of stock options** - A number of companies have put in place plans whereby employees have the choice to receive cash instead of shares at the time of exercising the stock option. Prior to 2010, the employer corporation could claim a deduction for the cash paid, and the employees were entitled to the 50% stock option deduction (25% in Quebec) where certain conditions were met.
Employees

Under the current rules, in order for an employee to claim the stock option deduction in a cash-out transaction, the employer must file an election with the CRA stating that the employer will not deduct any amount paid to the employee in respect of the employee’s disposition of their rights under the stock option agreement. The employer must provide the employee with a statement that this election has been made, and the employee, in turn, must file the statement from the employer with the employee’s tax return for the year in which the stock option benefit was received.

If this documentation is not provided, the employee cannot claim the stock option deduction, and the stock option benefit would be taxed in the same manner as any other employment income (i.e., 100%, as opposed to 50%, of the benefit would be included in taxable income).

Employee deductions

As an employee, you can claim some expenses against your employment income, but not very many. Unless you earn commissions, your deductions are generally restricted to employment-related office rent, salary to an assistant, supplies, professional membership or union dues and, if certain conditions are met, car expenses.

If at least part of your income is commissions, and certain conditions are met, you can claim a broader range of expenses, including promotion costs that you’ve incurred to earn commission income. The deductible amount is limited to your commission income. When the promotion costs include the cost of meals and entertainment, you may only deduct 50%.

Home office

If you work from your home, you may be able to claim limited home office expenses. This is possible if you perform most of your employment duties from your home workspace, or you use the home workspace exclusively for job-related purposes and regularly for meetings with customers, clients or others.

The only expenses you may deduct are a proportionate share of rent relating to your home office and, if you own the home, a proportionate share of maintenance costs, such as utilities, cleaning supplies and minor repairs. As a homeowner, you cannot deduct notional rent, mortgage interest, insurance or property tax, unless you’re a commission salesperson, in which case you may be able to deduct part of your insurance and property tax.

Automobile

You may claim the costs of operating a car, including capital cost allowance, if you’ve driven it for business purposes and/or it’s available for business use.

The total cost of a car on which you can claim capital cost allowance is generally restricted to $30,000 plus goods and services tax/harmonized sales tax (GST/HST) and provincial sales tax (PST). Related interest expense is limited to $300 per month for cars acquired after 2000. If you lease your car, you can generally deduct lease costs of up to $800 per month, plus GST/HST and PST.

You cannot deduct car expenses if you’re in receipt of a tax-free per-kilometre allowance, which is excluded from your income. If you received the allowance but your reasonable business-related car expenses exceed this amount, consider including the allowance in income and deducting the expenses.

Claiming costs

To claim these employment-related costs, complete form T2200, “Declaration of Employment Conditions,” (and form TP-64.3-V for Quebec tax purposes). On this form, your employer must certify that you were required to pay these expenses and you were not reimbursed for the related costs or the amount reimbursed was not reasonable.

Tax tips

- Develop an “exercise and sell” strategy for stock options. Ensure it considers cash-flow needs, tax consequences and investment risk – including the risk that you can’t use a loss you suffer on selling the shares to reduce any tax you pay on your net stock option benefit.
- If you own shares of a CCPC under a stock option or stock purchase plan and the company is going public, you may be able to make a special election for a deemed disposition of the shares so that you may benefit from the $800,000 capital gains exemption.
Legal fees
You're able to deduct legal fees incurred to collect unpaid salary and to substantiate entitlement to a retiring allowance. Legal fees incurred to negotiate your employment contract or severance package are not deductible.

Incorporated employee: personal services business
When an individual offers services to an organization through a corporation owned by the individual or a related party, there is a risk the corporation will be considered to be carrying on a “personal services business.” A personal services business exists where the corporation employs five or fewer employees, and the individual providing services to an organization would, if not for the existence of the corporation, be considered an employee of the organization to which the services are provided.
A personal services business does not qualify for the small business deduction or the general corporate rate reduction, and is therefore subject to tax at full corporate rates. When the provincial corporate income tax is added, the combined corporate tax rate in most provinces is in excess of 38%. In addition, the only deductions allowed are the salary and benefits provided to the incorporated employee and certain employee expenses.

Tax tips
- If you're required to use your own car and your employer doesn't provide you with an allowance or reimbursement of expenses, you should:
  - Keep a record of expenses and retain receipts
  - Keep a record of distance travelled for business
  - Complete form T2200, “Declaration of Employment Conditions” (and TP-64.3-V in Quebec).
- If you're thinking of buying a car for your employment duties, consider buying it before the end of the year rather than at the beginning of the next year. This will accelerate the capital cost allowance claim by one year.
- If you intend to claim a GST/HST or QST rebate, save the supporting receipts and GST/HST and Quebec sales tax (QST) registration numbers.
- If you operate a personal services business, you may wish to reconsider your decision to do so. The tax deferral opportunity from incorporation has been significantly reduced and there is a substantial reduction in the after-personal tax funds available to the shareholders.
GST/HST and QST rebates

You may generally claim a GST rebate in respect of your employment expenses (including GST and PST) deducted for income tax purposes (provided the expenses are considered to be taxable for GST purposes). The amount of the GST rebate is included in taxable income in the year it is received. Or, in the case of GST rebates arising from capital cost allowance claims, it will reduce the undepreciated capital cost of the asset.

Rebates available to employees under the GST also apply for HST and QST purposes.

Employee versus independent contractor

Determining your employment status is fundamental to determining the proper tax treatment of income you earn and expenses you incur in the course of your work.

In general, self-employed individuals are subject to fewer restrictions and are allowed to deduct a larger amount than employees for expenses such as travel costs, meals and entertainment, and supplies and tools. As a result, many people may believe that arranging their work as independent contractors is in their best interest. However, it's important to realize that the legal relationship between an employer and an employee is very different from that of a purchaser and a vendor of services (e.g., a self-employed individual). A self-employed individual often assumes additional legal obligations, costs and risks and has fewer legal protections than an employee.

Over the years, the courts have developed various tests to determine whether an individual is an employee or an independent contractor. The need for these tests arose not just in applying income tax legislation, but also in applying employment legislation (including the Canada Pension Plan and the Employment Insurance Act) and in actions concerning vicarious liability and wrongful dismissal. Some of the more recent court decisions seem to emphasize the legal relationship and intention of the parties involved.

Given the many court decisions concerning the differences between employees and independent contractors, the CRA has developed some administrative guidelines, which are outlined in Guide RC4110, Employee or Self Employed? In general for common law situations, the CRA has been using a two-step approach (similar to the approach the courts have been using recently), first determining the parties’ intent when they entered into the working arrangement and then considering various factors to get a better understanding of the actual working relationship and verify whether it reflects the parties’ intent.

A similar approach is also outlined in Guide RC4110, where Quebec's Civil Code applies.
There’s virtually no area of family life in Canada that’s not affected in some way by tax.

But there are many tax credits and planning strategies that you need to be aware of that could potentially save you and your family a significant amount.

**Spouses and common-law partners**

Common-law partners (including same-sex couples) are treated as spouses for income tax purposes.

**Income and capital gains splitting**

Individuals are taxed at graduated income tax rates. The more you earn, the higher your marginal tax rate will be.

The top marginal income tax rate varies from approximately 39% to 50%, depending on your province of residence (see Appendix A). To the extent that your income can be spread among other family members with lower marginal tax rates, you can reduce your family’s overall tax burden. And this can result in increased wealth for the family as a whole.

Income splitting is beneficial when you are taxed at the top marginal rate and your spouse or partner or your children are subject to tax at a lower rate.

Income splitting can maximize the amount of Old Age Security (OAS) you can retain, and perhaps the age credit, as well. You may find that capital gains splitting among your family members produces the greatest benefits in cases where the gain is property eligible for the capital gains exemption, and is taxed in the hands of more than one family member.

**Attribution rules**

Attribution rules are intended to discourage income splitting.

**Income attribution**: If you lend or transfer property – directly, indirectly or through a trust – to a relative, including your spouse or partner or any relative under the age of 18, any income or loss from the property is attributed to you and taxed in your hands.

The same rules apply to low-interest or interest-free loans made to relatives if the loan is intended to reduce income tax. A loan is generally considered a low-interest loan when the interest rate charged is less than the
There are a variety of income-splitting techniques you should consider:

- Arrange your financial affairs so that the spouse or partner who earns the higher income is paying as much of the family's living expenses as possible, allowing the other one to save and invest.
- Contribute to a spousal RRSP if your spouse or partner is in a lower marginal tax bracket, or will be when withdrawing the funds.
- Apply to share your Canada Pension Plan/Quebec Pension Plan (CPP/QPP) retirement pension payments with your spouse or partner.
- Split pension income where appropriate.
- Lend funds for investment purposes to the lower-income spouse or partner or using a formal trust to minor children at the prescribed rate. The attribution rules won't apply to the net investment income earned, reducing your overall family tax burden (see below for more information on attribution rules). To learn more about formal trusts, see the April 2014 edition of TaxMatters@EY.
- Transfer property to a spouse or partner or your children so they'll be taxed on the eventual income on income.
- Transfer property or lend funds to your children so they can earn capital gains that aren't subject to attribution.
- Deposit child tax benefit payments into your child's bank account. Attribution won't apply to income earned on these funds.
- Contribute to a registered education savings plan (RESP) as a means of saving for your children's or grandchildren's post-secondary education. By contributing $2,500 per child per year, you'll receive the maximum annual government grant of $500 per child.
- Gift or loan funds to your spouse or partner so they can make a tax-free savings account (TFSA) contribution. The income earned on these contributions will not be attributed to you while the funds remain in the plan. You can also gift funds to an adult child for TFSA contributions.
- Make gifts to your children aged 18 and over to enable them to earn sufficient income to absorb their deductions and credits, and to pay for certain expenses that you would ordinarily pay out of after-tax dollars.
- Make gifts to your children over 18 to enable them to make the maximum deductible RRSP contributions, and/or contribute to a tax free savings account.

The attribution rules are very complex. Your EY advisor can assist you with implementing your planning.

There are a variety of income-splitting techniques you should consider:

- Federal prescribed rate used to calculate taxable benefits; prescribed rate loans are generally not subject to attribution.
- There’s no attribution on income earned on income that has been previously attributed. And gifts to adult relatives other than your spouse are generally not subject to the attribution rules.
- The attribution rules do not apply to business income, but they do apply to income from a limited partnership.
- Attribution will also apply to certain transfers and loans to a corporation other than a small business corporation. Estate-planning arrangements, when the objectives are other than income-splitting among family members, can generally be structured to avoid the corporate attribution rules.
- There’s no attribution of income from property sold, money lent or property substituted for that property or money if the property is sold at fair market value, or the loan is made at commercial terms and rates and other conditions are met. If you sell property to your spouse or partner, you must file a special election for the transfer to occur at fair market value.
- Attribution will also not apply if you elect to have your spouse or partner receive a portion of your CPP/QPP payments. In addition, “split-pension income” should not be subject to attribution.
- However, even when attribution doesn't apply, a special income-splitting tax, often called the “kiddie tax” (calculated at the top marginal personal rate), applies...
Families

to certain types of income received by minor children, including:

- Taxable dividends and interest from private corporations
- Shareholder benefits from private corporations
- Income from a partnership or trust that provides services to a parent's or grandparent's business.
- Capital gains from the disposition of shares to a person who does not deal at arm's length

The interest rate on the loan would remain at the prescribed rate (in effect, at the date the loan was made) for as long as the loan is outstanding.

To ensure that the income attribution rules do not apply, interest charged on the loan must be paid within 30 days of the end of each calendar year. The lender reports this interest received as income, while the loan recipient deducts the interest in the year it is paid.

If cash is not readily available but you have a portfolio of securities, you could sell these investments to your family members, or to a trust for their benefit, in exchange for a prescribed-rate loan equal to the value of the investments at that time. You would be required to report the disposition of the investments on your personal income tax return. Although any resulting capital gains are taxable, capital losses realized could be denied under the superficial loss rules.

For purposes of this planning, the loan is generally payable on demand and should have sufficient flexibility such that any portion of it is payable 30 days after demand and the borrower has the right to repay it at any time without notice or penalty. Legal counsel should be consulted to draft the terms of the promissory note. A separate bank or broker account should be set up to preserve the identity and source of the investments and the resulting income.

Putting a prescribed rate loan in place: Generally, with prescribed rate loan planning, the higher-income spouse or partner loans cash to his or her partner, or to a trust for the benefit of the spouse or partner and/or children or grandchildren. The loan proceeds are invested to earn a higher rate of return than the prescribed rate (in 2014, 1% for Q1, Q2, Q3 and Q4). The net income from the invested funds (in excess of the prescribed rate) is taxable in the hands of the family members at lower tax rates than would apply to the lender.

The safest way to repay the existing loan without attracting attribution would be to liquidate the investments held by the debtor family member or trust and use the proceeds to repay the loan. However, this may be costly from an investment or tax perspective if there are accrued capital gains or losses on the investments. As well, in difficult market conditions, the liquidation of the investments may not provide sufficient funds to repay the original loan.

If you liquidate the investment portfolio, the existing loan should be repaid before a new prescribed-rate loan is made. Funds must be transferred and appropriate documentation should be available to substantiate the repayment of the existing loan and the establishment of the new loan arrangement. It would also be prudent if the value of the new loan and/or its terms were sufficiently different than the repaid loan, so it could not be viewed as the same loan.

If it is not feasible to liquidate the investments, consider borrowing from an arm's-length party, such as a bank (using the existing investments as collateral) to fund the repayment of the original loan. It is important to ensure that the original lender does not guarantee

2014 federal budget proposal: tax on split income

Starting with the 2014 taxation year, the definition of “split income” will include income that is, directly or indirectly, paid to a minor from a trust or partnership if it is derived from a business or rental property, and a person related to the minor is actively engaged on a regular basis in the activities.

Be aware that simply changing the interest rate on an existing loan to the new lower prescribed rate – or repaying the loan with a new prescribed rate loan – would cause the new loan to be offside, and attribution would apply so that any income earned on the loaned funds would be reported by the lender.

If you have an existing prescribed rate loan that was established when interest rates were higher, consider whether to repay the old loan and advance funds for a new loan. As an example, the prescribed interest rate was 5% throughout 2007 and ranged from 5% to 6% during 2001 (from 2009 Q2 to 2013 Q3, the prescribed rate was 1%; in 2013 Q4, the prescribed rate was 2%; in 2014 Q1 the prescribed rate returned to 1%).
the bank loan and that appropriate documentation is prepared as proof of the loan repayment. Once the original loan has been repaid, the attribution rules would no longer apply to income or gains earned on the property.

You could then enter into a new, lower prescribed rate loan arrangement, and the debtor family member could use the loan proceeds to repay the bank and invest any excess funds. It would be best if the new loan comes from funds other than the proceeds from the repayment of the original loan, and the amount of the new loan exceeds the bank borrowing to distinguish that the loans are not the same.

**Capital gains attribution:** If your spouse or partner realizes capital gains on transferred or loaned property, these gains are attributed to you. A portion of any income realized on the reinvestment of the proceeds will also be attributed. However, there’s no attribution of capital gains realized on property you loan or transfer to your children or other relatives.

**Income splitting through a spousal RRSP:** A spousal RRSP is a plan to which you contribute, but your spouse or partner receives the annuities. A contribution you make to a spousal RRSP does not affect your spouse’s or partner’s RRSP deduction limit for the year. But your total deductible contributions to your and a spousal RRSP may not exceed your own deduction limit.

Contributions to a spousal plan become the property of your spouse or partner. However, in most circumstances, if funds are withdrawn within three taxation years of any contribution to the plan, the withdrawal will be reportable by the contributing spouse or partner.

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**Pension income splitting**

If you receive pension income that qualifies for the pension income tax credit, you can transfer up to half of it to your spouse or partner. There is no maximum dollar amount.

**Income eligible for splitting**

Income may be split differently, depending on your age:

- **If you're under 65:** Annuity payments from a registered pension plan (RPP) and certain other payments received as a result of the death of your spouse or partner (e.g., a survivor pension annuity).
- **If you're 65 or older:** The payments described above and annuity payments from a registered retirement savings plan (RRSP) or a deferred profit-sharing plan (DPSP), and registered retirement income fund (RRIF) payments. In addition, starting in 2013, certain life annuity payments received from a retirement compensation arrangement (RCA). The RCA payments to be split cannot exceed a limit specified in the *Income Tax Act* ($96,950 for 2014) minus the taxpayer’s other eligible pension income. Pension income for this purpose does **not** include OAS, CPP or QPP benefits, death benefits, retiring allowances, RRSP withdrawals (other than annuity payments), or payments out of a salary deferral arrangement or employee benefit plan.
- A foreign pension annuity may qualify for income splitting. However, neither the portion that’s tax exempt due to a tax treaty with the foreign country nor income from a US individual retirement account qualifies.
How to split eligible pension income

To split pension income, you and your spouse or partner must make a joint election by completing form T1032, “Joint Election to Split Pension Income,” and file the election with the income tax returns for the year the pension income is being split. Where the returns are efiled, a signed copy should be retained in your file.

When you make the election, the pension income allocated to the spouse or partner is a deduction from net income on the transferor’s return and an addition to net income in the transferee’s return. The transferred income will retain its character as either pension income or qualifying pension income (for those under 65) in the transferee’s return.

When income tax has been withheld from pension income that’s being split, allocate the tax withheld in the same proportion as you report the related income.

You have to make the pension income-splitting election on an annual basis. Each year, you and your spouse or partner decide if you want to split eligible pension income and how much you want to split (up to a maximum of 50% of eligible pension income). Each annual election is independent and is based on the eligible pension income received in that taxation year.

Splitting CPP

Although CPP is not pension income for the purposes of the pension income-splitting rules, couples have been able to split or share CPP benefits for many years. CPP sharing is available, by application, to spouses or partners who are both at least 60 years of age who are either receiving or applying for CPP benefits. You do not, however, get to choose how to split the income. Instead, you share the benefits equally. Under CPP sharing, cash payments are actually “split.”

If you’re not currently splitting your CPP income and would like to do so, visit the Service Canada website.

Benefits of pension income splitting

Pension income splitting can produce significant tax savings for couples. The extent will depend on a number of factors, including:

- The ability to double up on the pension income credit
- Increases in OAS retention and age credit because of reduced income to the transferor
- Use of lower marginal tax rates on the split income diverted to the transferee spouse or partner

**Tax tip**

- If instalments are calculated based on current-year income amounts, don’t forget to factor in the pension split amount for both spouses.
The case for spousal RRSPs

Since the advent of pension income splitting in 2007, many think spousal RRSPs aren't necessary and don't provide additional benefits. That's simply not the case. For many families, spousal RRSPs can continue to provide benefits.

Spousal RRSPs can allow more flexibility than pension income splitting, and the two options can actually work well together. Pension income splitting is limited to one-half the recipient's eligible pension income. By using a spousal RRSP, a person can effectively direct any amount of RRSP or RRIF income to a spouse. This can be beneficial when the higher-income spouse continues to work or has other significant income in his or her retirement years.

Those with earned income (including director fees, business income, royalties and rental profits) beyond age 71 and who have younger spouses or partners can continue to make spousal RRSP contributions. This allows for a prolonged deferral of tax in relation to amounts contributed.

Another important distinction between spousal RRSPs and pension income splitting is that spousal RRSPs can be used as an income-splitting tool well before retirement. Under the pension income-splitting rules, only eligible pension income can be split. In the case of RRSP or RRIF income, this means the transferor must be at least 65. But with a spousal RRSP, the annuitant spouse can withdraw the funds after a period of time beyond the date of the spouse's contribution, with the withdrawal being taxed in the annuitant spouse's hands. There is a special attribution rule requiring a taxpayer to include in income any RRSP benefit received by his or her spouse or partner — to the extent the taxpayer has made a deductible contribution to a spousal plan in the year or the two preceding years.

This means a high-income spouse or partner can get the tax benefit of making contributions to a spousal plan at a high tax rate. After a three-year non-contribution period, the low- or no-income spouse can withdraw funds and pay little or no tax. This may be particularly advantageous in providing additional family funding when a lower-income spouse takes time off work, perhaps to raise children or start a business that isn't expected to earn profits for a number of years.

However, unlike tax-free savings accounts, the funds withdrawn from the RRSP cannot be recontributed to the plan at a later date without drawing down on future contribution room.

Another important point is that pension income splitting is not a physical split of money; it's only an allocation of pension income for purposes of taxation. That means the lower-income spouse is not accumulating capital. By using spousal RRSPs, the RRSP income becomes capital to the recipient and can be invested to earn additional income (not necessarily pension income).

This doesn't mean spousal RRSPs should be used instead of pension income splitting. Depending on your personal situation, the strategies can be combined in a manner to produce the most effective financial and tax results.

Alimony and child support

If you make alimony payments, you may deduct them for tax purposes, provided certain conditions are met.

Generally, the payments must be payable on a periodic basis to your current or former spouse or partner, and in accordance with a signed separation agreement or a court order. In addition, certain payments to third parties under the terms of a separation agreement may also be deductible. You can also claim a deduction for payments made prior to signing an agreement or obtaining a court order, provided that the agreement is signed or the order is obtained before the end of the following year and the agreement or order specifically deals with these payments.

Deductible alimony payments must be included in the recipient's income in the year received.

Child support is treated differently than spousal support for agreements or court orders made after 30 April 1997. In such cases, the paying parent cannot deduct the payments, and the recipient parent would not include them in their income.

This may also apply for agreements entered into before 1 May 1997 if both parties make a request in writing to the Canada Revenue Agency (CRA), or if the amount of child support changes on or after that date. However, it only applies to payments made after 30 April 1997.
Families

Tax tips

- If you're negotiating a separation agreement, review the terms to ensure that you'll be entitled to the maximum deduction or the minimum income inclusion possible.
- Ensure that all tax-deductible alimony or maintenance payments for the year will be made by 31 December.
- If you're negotiating a separation agreement, ensure that you segregate the child support component from alimony. Otherwise, the entire amount will be considered child support and will not be deductible.
- If you want the current child support rules to apply to your maintenance payments/receipts under an old agreement, ensure that child support is segregated in the agreement and that you file a special form with the CRA.
- While income tax is calculated and returns are filed on an individual basis, entitlement to many benefits and credits is computed on a family basis. If your marital status changes during the year, be sure to report it to the CRA.

Children

Child-care expenses

Only the lower-income spouse or partner can deduct child-care expenses, unless they were infirm, confined to an institution, living separately because of a marital breakdown, or in full-time attendance at a designated educational institution in the year.

The deduction limit is $7,000 for each child under the age of seven and $4,000 for those aged seven to 16, inclusive. And if the child is eligible for the disability tax credit, the limit is $10,000. The total deduction cannot exceed two-thirds of the claimant's earned income.

For Quebec tax purposes, there's a refundable tax credit system for child-care expenses.

Tax tips

- Ensure that all child-care payments for the year will be made by 31 December.
- Retain receipts supporting child-care expenses indicating the recipient's name and, where applicable, social insurance number.
- If you're a single parent attending school, you may be entitled to claim a child-care expense deduction against any source of income.

Adoption expenses

A non-refundable tax credit is available for eligible expenses for the completed adoption of a child under the age of 18. The 2014 federal budget increased the maximum amount of eligible expenses on which the credit may be claimed to $15,000, up from $11,500 in 2013.

Recognizing that adoptive parents must incur costs prior to being matched with a child, the 2013 federal budget has extended the time at which the adoption period begins to the earlier of:

- The time when the adoptive parent makes an application to register with a provincial ministry or with a provincially licensed adoption agency, and
- The time when the application is made to a Canadian court.

This change applies to 2013 and subsequent taxation years.

Prior to 2013, eligible expenses include those incurred from the time the child's adoption file is opened or the time that an adoption-related application is made to a Canadian court, whichever is earlier, to the time the adoption is finalized or the time the child begins to live with the adoptive parent, whichever is later.

To be eligible for the credit, a parent must submit proof of an adoption. The credit should be claimed in the year in which the adoption period ends.
Child tax benefit

The Canada Child Tax Benefit (CCTB) system, consisting of a base benefit and a National Child Benefit Supplement (NCBS), is intended to provide assistance to lower-income families with children. If you meet an income test, you'll receive a non-taxable payment for each child under 18 years of age. For families with a disabled child, the Child Disability Benefit supplements child tax benefits.

The child tax benefit is eliminated once family net income exceeds a certain amount.

To find out if you're eligible for the CCTB, and to calculate the amount you may be entitled to, visit the CRA website.

Quebec also has a child assistance program.

Universal Child Care Benefit

The Universal Child Care Benefit (UCCB) is paid on behalf of children under the age of six in instalments of $100 per month per child. The UCCB is taxable income to the lower-income spouse or partner.

Enrolment for the UCCB is processed through the CCTB application. If you've never applied for the CCTB, you must apply for it in order to start receiving the monthly benefit.

The CCTB application will likely take two to three months to process. You can download a copy of the application form from the CRA website.

Child tax credit

A non-refundable federal child tax credit is available for parents with children under age 18. The credit may be claimed by either parent (see Appendix B).

Children’s fitness tax credit

You can claim a tax credit for up to $500 in fees for eligible fitness programs for each child who is under age 16 at any time during the year. Generally, an eligible program is one that is ongoing and includes a significant amount of physical activity. The federal credit is calculated by multiplying the eligible amount by the lowest marginal tax rate.

An enhanced credit may be claimed for children under age 18 who are eligible for the disability tax credit.

Children’s arts tax credit

You can claim a tax credit for up to $500 in fees in an eligible program of artistic, cultural, recreational or development activities for each child who is under age 16 at any time during the year. Generally, eligible expenses include fees paid to a qualifying entity for registration or membership of a child in an eligible program that is weekly and lasts a minimum of eight consecutive weeks or, in the case of camp, a minimum of five days.

The credit is structured in the same manner as the children’s fitness tax credit. An enhanced credit may be claimed for children under age 18 who are eligible for the disability tax credit.
Families

Education

Registered education savings plans

You can use an RESP to fund your child's, grandchild's, spouse's or partner's, or even your own education.

An RESP is an arrangement between you and a promoter under which you agree to make payments to the plan and, in turn, the promoter agrees to make educational assistance payments to the beneficiary when that person attends a post-secondary institution.

There are two basic types of RESP:

- Group plans, in which you enrol with many other contributors.
- Individual plans (including family and non-family plans), to which you're the only contributor, your named beneficiaries are the only beneficiaries, and you have some control over the investments. Individual plans generally offer much more flexibility than group plans.

Transfers between individual RESPs for siblings are permitted without triggering penalties and repayments of Canada Education Savings Grants (CESGs), so that these plans enjoy the same flexibility available under family plans.

You can contribute a lifetime maximum of $50,000 for each beneficiary, and there's no annual contribution limit.

Contributions to an RESP are not tax deductible but do earn income free of tax. Income earned in the plan is taxed as ordinary income in the beneficiary's hands when it is paid out to fund post-secondary education. Contributions withdrawn are not taxable.

The advantage of an RESP is that tax is deferred on any accumulated income and, when this income is paid out, it will likely be taxed at a lower marginal tax rate.

When you make RESP contributions on behalf of beneficiaries under age 18, a CESG may be paid to the plan. The basic CESG is 20% of annual contributions you make to all eligible RESPs for a qualifying beneficiary, to a maximum CESG of $500 in respect of each beneficiary ($1,000 in CESG if there is unused grant room from a previous year), and a lifetime limit of $7,200. For families of modest income, an enhanced CESG may be available.

If an RESP has not received the maximum CESG cumulative entitlement, you can receive the unclaimed entitlement in a later year if your contributions in that year exceed $2,500. However, the maximum CESG you can receive in a year is $1,000 (20% of a $5,000 RESP contribution).

No CESG is paid for a child who is over age 17 in the year.
Families

If the child is between 15 and 17, there are special CESG eligibility rules. RESPs for beneficiaries 16 and 17 years of age can only receive CESG if at least one of the following two conditions is met:

- A minimum of $2,000 of contributions has been made to, and not withdrawn from, RESPs in respect of the beneficiary before the year in which the beneficiary turns 16; or
- A minimum annual contribution of at least $100 has been made to, and not withdrawn from, RESPs in respect of the beneficiary in any four years before the year in which the beneficiary turns 16.

You can contribute to an RESP for up to 31 years. The deadline for termination of the plan is its 35th anniversary. In the case of a disabled beneficiary, you can contribute to an RESP for 35 years, and the termination deadline is its 40th anniversary.

If none of the RESP beneficiaries pursues higher education, you can withdraw the income from the plan in addition to your contributed capital. But you must repay the CESG receipts. Up to $50,000 of the income withdrawal will be eligible for transfer to your RRSP, to the extent that you have contribution room, and the remainder will be subject to a penalty tax as well as the regular tax on the income inclusion.

Canada Learning Bond

In addition to the CESG, a $500 Canada Learning Bond is paid to an RESP of a child born since 2004 if the child’s family is entitled to the NCBS supplement. In each subsequent year to age 15, the RESP receives a further payment of $100, provided the family continues to qualify for the NCBS.

Lifelong Learning Plan

You may withdraw up to $20,000 from your RRSP, tax free, to finance full-time education or training for yourself or your spouse or partner. To qualify, you must be enrolled in a qualifying educational program at a designated educational institution as a full-time student in the year of withdrawal or by the end of February of the following year. If certain disability conditions are met, you can be enrolled on a part-time basis.

You can withdraw amounts annually until January of the fourth year following the year of the first withdrawal under the plan. The maximum amount you can withdraw annually is $10,000.

RRSP withdrawals under this plan are generally repayable in equal instalments over a 10-year period, with the first repayment due no later than 60 days after the fifth year following the first withdrawal.

Tax tips

- Provide for a child’s or grandchild’s post-secondary education by establishing an RESP on their behalf.
- Obtain the maximum CESG by making an RESP contribution of $2,500 each year the beneficiary is under the age of 17.
- If less than the maximum CESG has been received, make an RESP contribution of up to $5,000 each year until the maximum amount is received.
- With no maximum annual RESP contribution limit, consider whether the tax-free compounding benefit of early lump-sum contributions outweighs the CESG benefits available with regular contributions.
- Confirm that the RESP plan documents allow for a successor subscriber and ensure a successor is designated in your estate plan or will. In the event of death of the individual who created the RESP, not the beneficiary of the RESP, failure to provide for a successor subscriber may result in termination of the RESP and the inclusion of certain RESP funds in the deceased’s estate.
Registered disability savings plans

People with disabilities, and family members who support them, can establish registered disability savings plans (RDSPs), which are tax-deferred savings plans designed to provide long-term financial security for severely disabled individuals.

RDSPs are very similar to RESPs. Contributions are not tax deductible, investment income accrues on a tax-deferred basis, and withdrawals of income from the plan will be taxable to the beneficiary. In addition, like RESPs, government assistance is available for some families in the form of the Canada Disability Savings Grant (grant) and the Canada Disability Savings Bond (bond).

Eligibility

An RDSP can be established by a person who’s eligible for the disability tax credit (DTC), their parent (if the eligible person is a minor) or a legal representative (if the eligible person is not contractually competent). The beneficiary must be under 60 years old, have a valid social insurance number and be a Canadian resident eligible for the DTC in the year the plan is established and each subsequent year in order for the plan to remain in force.

Unlike RESPs, multiple RDSPs are not permitted for the same beneficiary.

Contributions

Like RESPs, there is no annual contribution limit for RDSPs. However, the lifetime maximum contribution limit to any one plan is $200,000. Contributions are not tax deductible and can be made in any year up to and including the year in which the beneficiary turns 59.

With written permission from the RDSP holder, anyone can contribute to an RDSP. Contributions cannot be made after a beneficiary has died, ceases to be eligible for the DTC or ceases to be a resident of Canada.

Annual contributions will attract matching grants of 100% to 300%, depending on the amount contributed and family income. The maximum grant is $3,500 per year subject to a lifetime maximum of $70,000.

For lower-income families, bonds will add up to an additional $1,000 per year to the RDSP, to a maximum lifetime limit of $20,000. This supplement does not depend on amounts contributed.

For minor beneficiaries, the parents’ (or guardians’) net income is considered in determining net family income for purposes of the threshold amounts. Otherwise, the beneficiary’s family income is used. The income threshold amounts will be indexed annually to inflation.

Both the grant and the bond are only payable to a plan up until the year the beneficiary turns 49.

In order to encourage long-term savings, the grants and bonds are subject to repayment if withdrawn within 10 years of their contribution (starting with the oldest contributions first). As of 2014, whenever money is withdrawn from an RDSP, the beneficiary must repay $3 of any grants or bonds paid into the plan in the preceding 10 years for every $1 that is taken out, up to the total amount of grants and bonds paid into the RDSP in the last 10 years.

When an RDSP is terminated, a beneficiary is generally required to repay any grants and bonds received by the RDSP in the preceding 10 years.

Withdrawals

Disability assistance payments can be made from an RDSP at any time and used for any purpose for the benefit of the disabled beneficiary.

Lifetime disability assistance payments are disability assistance payments that must be paid at least annually beginning by the end of the year in which the beneficiary turns 60. Once started, annual payments must continue until the plan is terminated or the beneficiary dies.

Unlike RESPs, contributors cannot receive a refund of their contributions. Only beneficiaries or the beneficiary’s estate may receive payments from an RDSP.

There are limits to the amount that can be paid out of an RDSP:

- A payment cannot be made if it causes the fair market value of plan assets to fall below the “assistance holdback amount” (generally the amount of grants and bonds paid into the plan in the 10-year period preceding the payment).
- Once lifetime disability payments commence, they must be made annually, and the annual payments are limited to the value of the assets of the plan at the beginning of the year, divided by three, plus the remaining life expectancy years for the beneficiary. This limitation is intended to ensure that the plan will continue to provide for the disabled beneficiary throughout their remaining life.
Taxation

Only the income that has been earned in the plan, plus the grants and bonds deposited to the plan, are taxable when payments are made from an RDSP. The contributions are not taxable.

Therefore, each disability assistance payment comprises both a non-taxable and a taxable portion. The non-taxable portion is calculated by applying the ratio of total contributions to the total value of plan assets, reduced by the assistance holdback amount. The remaining taxable portion is included in the beneficiary’s income for the year in which the payment is made.

Amounts paid out of an RDSP are excluded from income for the purposes of calculating various income-tested benefits, such as the GST/HST credit and CCTB. In addition, RDSP payments will not reduce OAS or Employment Insurance benefits.

Similar to the rules for RRSPs, RDSPs must only hold qualified investments, and must not extend any advantages to the beneficiary or a person who is not at arm’s length with the beneficiary. In general, a 50% tax will be payable on the value of a non-qualified investment, and a 100% tax will be payable on the value of any advantage.

RDSP election for beneficiaries with a shortened life expectancy

A specified disability savings plan (SDSP) allows a beneficiary with an expected life expectancy of five years or less to withdraw up to $10,000 in taxable amounts annually from their RDSP without triggering the repayment of CDSGs and CDSBs.

RDSP 2014 changes

As a result of the 2012 federal budget, several amendments were introduced to the RDSP rules. These amendments are generally effective on 1 January 2014, and include the following:

- **Proportional repayment rule** - Prior to 2014, any government assistance paid into an RDSP in the preceding 10 years had to be repaid when amounts were withdrawn. The amendments replace this rule to facilitate small withdrawals for ongoing plans with a proportional repayment rule under which $3 of grants must be repaid for every $1 withdrawn (up to a maximum of the assistance holdback amount).

- **Maximum and minimum withdrawals** - The new rules increase the maximum annual limit for withdrawals from an RDSP that is a primarily government-assisted plan (PGAP). A PGAP is one where government grants and bonds paid into the plan exceed private contributions. In addition, the new rules extend to all RDSPs the minimum annual withdrawal requirement that used to only apply to PGAPs.

- **rollover of RESP investment income** - In certain circumstances where a registered education savings plan (RESP) beneficiary who is eligible for the disability tax credit is unable to pursue post-secondary education, the RESP subscriber will be permitted to transfer the accumulated investment income earned in the RESP on a tax-free basis to an RDSP for the same beneficiary. The amount of income transferred cannot exceed the beneficiary’s available RDSP contribution room and does not attract government grants.

- **Election to continue RDSP on loss of DTC-eligible status** - Prior to 2013, when a beneficiary of an RDSP became ineligible for the disability tax credit (DTC), the plan had to be terminated by the end of the following year. The new rules extend the period for which an RDSP may remain open when a beneficiary becomes DTC ineligible. An RDSP holder may elect, by the end of the year following the first full calendar year for which the beneficiary is DTC ineligible, to extend the life of the RDSP for four additional years if a medical practitioner has certified in writing that the beneficiary will become DTC eligible in the foreseeable future. During the period of the election, no contributions may be made and no new grants or bonds will be paid, but withdrawals are permitted subject to the regular limitations.
Families

To qualify as an SDSP, the holder of the RDSP must make an election in prescribed form and a medical doctor must certify that the beneficiary of the RDSP is unlikely to survive more than five years.

Once the election has been made, no more contributions can be made to the plan and the plan will not be entitled to any grants or bonds.

Permitted rollovers

A deceased individual's RRSP and RRIF proceeds (and certain RPP proceeds) may be rolled over to an RDSP of the deceased's impaired and financially dependent child or grandchild. As of 1 January 2014, RESP savings may be rolled over to an RDSP of the same beneficiary under certain circumstances.

Amounts rolled over to an RDSP will reduce the $200,000 contribution room. Grants will not be paid on amounts rolled over into an RDSP.

Principal residences

A principal residence is generally any accommodation you, your spouse or partner, or your child owns and ordinarily inhabits, provided you designate it as your principal residence.

A special exemption applies in the case of a gain on the sale of a principal residence. As a general rule, no tax liability will arise from the sale of a principal residence, as long as the property does not exceed one-half hectare.

If you own more than one property that can qualify as a principal residence (e.g., a home and a cottage), you do not have to decide which one is your principal residence until you sell one of them.

If you and/or your spouse or partner own two properties, there are opportunities for tax planning if at least one of the properties was purchased before 1982. Prior to 1982, one spouse could own and designate one property as their principal residence, and the other spouse could own and designate another property, provided each property met the “ordinarily inhabited” test. A cottage would have met this test in most cases. Properties owned before 1982 continue to be governed by the old rules for pre-1982 ownership years. For years after 1981, however, a family can only designate one property as a principal residence.

Home Buyers’ Plan

If you’re a first-time home buyer, the Home Buyers’ Plan (HBP) allows you to withdraw up to $25,000 from an RRSP to finance the purchase of a home. You’re considered a first-time home buyer if neither you nor your spouse or partner owned a home and lived in it as your principal residence in any of the five calendar years beginning before the time of withdrawal.

If you’re buying a new home that’s more suitable or accessible for a disabled individual, you can take advantage of the HBP without having to meet the above prerequisites.

If you withdraw funds from your RRSP under the HBP, you must acquire a home by 1 October of the year following the year of withdrawal. No tax is withheld on RRSP withdrawals made under this plan.

You must repay the withdrawn funds to your RRSP over a period of up to 15 years, starting in the second calendar year after withdrawal. The CRA will provide you with an annual statement informing you of your minimum repayment requirement. If you fail to make the minimum repayment, the shortfall must be included in your income for that year. Annual repayments may be made within the first 60 days of the following year. A contribution made to an RRSP fewer than 90 days before it is withdrawn is generally not deductible.

Tax tips

- For each principal residence acquired before 1982, consider:
  - The need to establish the value of the residence at 31 December 1981
  - The need for separate rather than joint ownership of the residence
- If your family owns more than one residence, the principal-residence designation should generally be used for the property with the largest gain per year. However, the timing of the tax liability must also be considered.
- Property with an area in excess of one-half hectare may, in certain circumstances, qualify as a principal residence.
- By withdrawing funds from your RRSP under the HBP, you forgo the income that would have been earned on those funds, as well as the related tax-deferred compounding.
First-time home buyers’ tax credit

First-time home buyers who acquire a qualifying home are entitled to a one-time non-refundable federal tax credit of up to $750. Any unused portion of the non-refundable credit may be claimed by the individual’s spouse or partner. If the property is acquired jointly, the total credit claimed by the individual and their spouse or partner may not exceed $750.

The same eligibility provisions as for the HBP apply. You’re considered a first-time home buyer if neither you nor your spouse or partner owned a home and lived in it as your principal residence in the calendar year of purchase or in the preceding four calendar years. In addition, the property must be occupied as your principal residence within one year of its acquisition.

Non-refundable tax credits

Most federal personal credits are fully indexed to inflation (measured by changes in the consumer price index). Most provinces also provide for full or partial indexing of their non-refundable tax credits (the indexation rate varies by province).

For a summary of the maximum combined federal and provincial value of the most common non-refundable tax credits, see Appendix B.

Tax tips

- If you’re not making full use of your pension income credit, consider purchasing an annuity or registered retirement income fund (RRIF), which provides annual pension income.

- Consider combining the claim for medical expenses incurred by you, your spouse or partner, and your eligible dependants for any 12-month period ending in the year, to optimize the tax savings. Also, by having the lower-income spouse or partner make the claim, the credit may be increased because of the 3%-of-net income threshold (in Quebec, the threshold is 3% of net family income).

- If you support a dependent relative who is physically infirm, you may be entitled to claim a special tax credit.

- If your children attend private school, check with the school to determine if a portion of the tuition fees is eligible for the child care expense deduction or qualifies as a charitable donation.

- If your spouse or partner or your child has tuition fees in excess of approximately $5,000, consider income splitting. This may enable you to create sufficient income to use any non-transferable tuition and education credit. (The maximum federal tax credit available for transfer of tuition and education credits is $750.)

- If one spouse or partner has no income tax payable and at the same time has not fully used their non-refundable credits (e.g., age credit, pension and disability tax credits, tuition and education credits), the unclaimed balance of these credits can be transferred to the other spouse or partner. (In Quebec, it also possible to transfer credits to a spouse or partner. To benefit from this transfer, the spouse or partner has to file a Quebec return even if no tax is payable.)
Charitable donations
You’re entitled to a federal non-refundable tax credit of 15% on the first $200 of charitable donations, and 29% on donations over $200.

A first-time donor will be entitled to a one-time federal credit equal to 40% for money donations of $200 or less, and 54% for donations between $200 and $1,000. An individual is considered a first-time donor if neither the individual nor the individual’s spouse or common-law partner has claimed a charitable donation tax credit (or the new first-time donor’s super credit) after 2007. The maximum donation amount that may be claimed per couple is $1,000. This one-time credit applies to donations made on or after 21 March 2013 and before 2018.

The maximum annual claim for charitable donations is 75% of your net income for the year. Any donations beyond that may be carried forward for five years. In the case of a donation of property, the donation limit can be as much as 100% of the resulting taxable capital gain (or recapture, in the case of depreciable property) after 2007. The maximum donation amount that may be claimed per couple is $1,000. This one-time credit applies to donations made on or after 21 March 2013 and before 2018.

In the year of your death and in the immediately preceding year, the donation limit rises to 100% of your net income.

If you make a “gift in kind” (e.g., capital property rather than cash), special rules may apply. Unless you elect otherwise, the property is deemed to be disposed of at fair market value for capital gains purposes and you’re considered to have made a donation for the same amount.

Donation of publicly listed securities – To encourage gifts of appreciated property, capital gains realized on the donation of publicly listed securities to a registered charity are not included in income. Properties that qualify for this incentive include:
- Stocks (including shares of mutual fund corporations)
- Bonds
- Other rights listed on prescribed stock exchanges (both Canadian and foreign)
- Canadian mutual fund units
- Interests in segregated (insurance) trusts
- Prescribed debt obligations (such as certain government bonds)

A comparable savings applies to certain donations of securities by employees through stock option plans. You may claim donations made by either yourself or your spouse or partner, but they must be supported with official receipts from the charitable organization.

Exchangeable shares of a corporation or partnership interest – If you exchange unlisted shares of the capital stock of a corporation or a partnership interest for publicly listed securities, and you donate these securities to a registered charity or a public or private foundation, the income inclusion rate for capital gains realized on the exchange is nil. To benefit from this treatment, the exchange feature would have to be included at the time of issuance of the shares, you may not receive consideration on the exchange other than the publicly listed securities, and you must donate the securities within 30 days after the exchange.

With respect to partnership interests, the portion of the capital gain that’s due to a reduction in the adjusted cost base (ACB), generally resulting from operating losses, is not exempt from tax. This capital gain is computed as the lesser of (i) the taxable capital gain otherwise determined and (ii) one-half of the amount, if any, by which the cost to the donor exceeds the ACB to the donor. As a result, only the portion attributable to economic appreciation is exempt.

Publicly listed flow-through shares – In general, an investor’s ACB of a flow-through share is zero. As a result, on disposition, the entire value of proceeds is a capital gain.

For flow-through shares acquired pursuant to an agreement entered into on or after 22 March 2011, the exempt portion of the capital gain on the donation of the flow-through shares is generally limited to the portion that represents the increase in value of the shares at the time they are donated over their original cost.

Donating recently purchased property – There are a number of complex tax rules to combat “buy low, donate high” tax shelter schemes. These rules apply to any gift of appreciated property that was acquired within three years of the time of the gift (10 years if one of the main reasons for acquiring the property was to make the gift). In these situations, the gift amount will be the lesser of the cost of the property to the donor and its fair market value at the time of the gift.
Families

If the property was acquired by any person with whom the donor did not deal at arm's length within the applicable time period (i.e., three or 10 years), the cost of the property to the donor will be the lesser of the cost to (i) the donor and (ii) the non-arm's-length person. Gifts of publicly traded securities, certified cultural property, ecological gifts, inventory, real property situated in Canada, certain shares of closely held corporations and gifts made on death are excepted from these rules.

Gifts of cultural property - Objects certified as Canadian cultural property by the Canadian Cultural Property Export Review Board (CCPERB) and gifted to a designated institution or public authority are eligible for a non-refundable tax credit. The credit is based on the fair market value of the property as determined by the CCPERB, not by the museum or institution that receives the property. The tax credit is calculated at the same rate as for charitable donations. (In Quebec, the Conseil du patrimoine culturel provides certification for cultural property.)

There are two benefits of certification:

- Any appreciation in value is not recognized as a capital gain.
- The net income limitation on donations does not apply.

If the credit exceeds your federal taxes payable for the year, the excess can be carried forward for five taxation years. The same rule applies in Quebec.

Gifts of ecologically sensitive land - Eligibility for the non-refundable tax credit is determined by the minister of the environment, who must certify that the land is important to the preservation of Canada's environmental heritage. The minister will also determine the fair market value of the gift.

Gifts of ecologically sensitive land (including a covenant, an easement or, in the case of land in Quebec, a real servitude) made to Canada, a province, territory or municipality, or a registered charity approved by the minister of the environment are eligible. Eligible gifts may also be made to a municipal or public body performing a function of government in Canada.

There are two benefits of certification:

- Any appreciation in value is not recognized as a capital gain.
- The net income limitation on donations does not apply.

If the credit exceeds your federal taxes payable for the year, the excess can be carried forward for five taxation years. The same rule applies in Quebec.

Tax tips

- All charitable donation claims must be supported by official receipts.
- If you typically make large charitable gifts and also plan to sell securities and realize capital gains, consider gifting the securities instead to reduce your taxes.
- Consider whether any property you own may qualify as Canadian cultural property, which could be gifted over a number of years to a designated institution in order to reduce your taxes payable.
- Maximize the donation tax credit by claiming your and your spouse or partner’s donations on one return. Donations made to US charities should be claimed by the spouse or partner who has US-source income. (Tax credits for donations to US charities are limited to 75% of US-source income.)
- If your spouse or partner pays income tax, consider having that individual claim a portion of your political contributions to maximize your combined credits.

2014 federal budget proposals: certified cultural property and ecologically sensitive land

- **Certified cultural property** – For property acquired as part of a tax shelter gifting arrangement, the exemption from the rule that deems the value of a gift to be no greater than its cost to the donor has been eliminated. Applicable to donations made after 10 February 2014.

- **Ecologically sensitive land** – The donation carryforward period has been extended from five to 10 years for donations of ecologically sensitive land. Applicable to donations made after 10 February 2014.
Post-secondary education
If you're a student, you can take advantage of federal and provincial personal tax credits for tuition and various other fees paid to an educational institution such as a university, college or private school for post-secondary courses.

To be eligible for the tuition tax credit, the tuition must generally be paid to an educational institution in Canada or a university outside Canada and the total course fee must be higher than $100.

A student enrolled at a university outside Canada may claim the tuition credit for full-time attendance in a program leading to a degree, where the course has a minimum duration of three consecutive weeks, provided the student is enrolled in a full-time course.

Various examination fees paid to obtain a professional status or to be licensed or certified to practise a profession or trade in Canada are also eligible for the tuition tax credit. Fees for admission examinations to begin study in a professional field do not qualify.

In addition to the tuition tax credit, there’s a federal general education amount of $400 for each month in school (full time) and a textbook amount of $65 for each full-time month (provincial amounts may vary). For part-time students, the federal monthly amounts are $120 and $20, respectively.

Medical expenses
There are federal and provincial tax credits available for medical costs for yourself, your spouse or partner, and your dependent children. Only medical expenses in excess of the lesser of a fixed threshold amount (see Appendix B) and 3% of your net income are eligible for credit.

If you claim medical expenses for a dependent relative other than a spouse or dependent children, the annual amount you may claim for each person is limited to the eligible amounts paid in excess of the lesser of 3% of the dependant's net income and the threshold amount.

In determining eligible expenses, you may consider expenses paid in the year or in any 12-month period that ends in the year (as long as you have not claimed the expenses previously). Either spouse or partner can claim the credit for the family. It may also be possible to claim a medical expense tax credit for medical costs you pay for other dependent relatives, such as elderly parents, grandparents, aunts or uncles.

Most people are not aware of the range of medical costs that qualify for the medical expense credit. For a comprehensive list, see “Medical and disability related information” on the CRA website.

Full-time care/nursing home care
In order to claim the cost of full-time in-home attendant care or full-time care in a nursing home as an eligible medical expense, the cared-for person must meet the eligibility criteria for the DTC, which requires an approved form T2201 on file.

Attendant care is not limited to help with basic living needs, such as dressing and bathing. It includes assistance with personal tasks, such as cleaning, meal preparation, shopping, transportation and banking. However, costs for such services purchased individually or from a commercial provider, such as a cleaning agency or transportation service, do not qualify.

The full-time attendant costs can include several attendants over a period, as long as they don’t overlap. However, the attendant cannot be under age 18 or a spouse or common-law partner of the claimant.

Tax tip
- An individual can pay one parent to care for the other parent, and possibly claim the amount paid as an eligible medical expense.
A private attendant hired for in-home care is usually considered an employee. In this case, the payer should ensure that appropriate payroll deductions are withheld and remittances are made to the CRA. Although the source deductions qualify as attendant care costs, in the case of a live-in attendant, imputed salary, such as the cost of board and lodging, does not qualify, as it is not considered to be an amount paid.

Generally, all regular fees paid to a nursing home — including food, accommodation, nursing care, administration, maintenance and social programming — qualify for the medical expense tax credit. However, additional personal expenses, such as hairdresser fees, are not allowable expenses. Although the term nursing home is not defined for tax purposes, the CRA considers a facility to be a nursing home if it has sufficient and appropriately qualified medical personnel to provide nursing care to its residents on a 24-hour basis.

A retirement home will generally not have sufficient medical staff to be considered a nursing home, and so the fees would not qualify as an eligible medical expense. However, to the extent that the attendant-care component of the fee can be segregated and set out separately in an invoice (a claim must be accompanied by proof of payment), that portion of the fee will qualify as an eligible medical expense.

### Tax tips

- The salaries paid to supplementary attendants for nursing home residents can be considered as fees paid for care in a nursing home, in which case they would be a qualifying medical expense along with the institution’s fees.
- Keep in mind that the DTC cannot be claimed when the full-time attendant care or nursing home care medical expense claim is made. However, since the cost of full-time care generally far exceeds the DTC base, it's generally advantageous to forgo the DTC in favour of this medical expense claim.

### Part-time care

You may claim up to $10,000 annually ($20,000 in the year of death) for part-time in-home attendant care costs under the medical expense umbrella.

Again, the person must be eligible for the DTC, but in this case the DTC can be claimed along with the medical expense claim for part-time care.

When the eligible medical expenses are to be claimed by supporting relatives, the $10,000 limit applies to each claimant. Therefore, if the cost of attendant care is paid by supporting relatives, it might be beneficial to claim the costs under the part-time care provision, to reap the benefit of the DTC as well.

Even when a person does not meet the stringent criteria for the DTC claim but is nonetheless physically infirm or lacks normal mental capacity and requires assistance for personal needs and care, there’s a provision to claim full-time attendant care in the person’s own home or for care in a nursing home as a medical expense. Certification by a health-care professional is required for this claim.
Families

Disability tax credit

A person who requires long-term care will likely be eligible for the non-refundable DTC. However, the DTC is not available if you claim full-time attendant care or nursing home care as a medical expense for the disabled person.

In general terms, the DTC is available when a person is certified by an appropriate medical practitioner as having a severe and prolonged mental or physical impairment — or a number of ailments — that markedly restricts their ability to perform a basic activity of daily living. The “basic activities” recognized by the Canadian tax authorities include walking, feeding or dressing oneself, mental functions necessary for everyday life, seeing, speaking, hearing and eliminating bodily waste. A “marked restriction” is one that inhibits the individual from performing the activity almost all the time, or results in the individual having to take an inordinate amount of time to perform the activity.

In order to claim the credit, prescribed form T2201, “Disability Tax Credit Certificate,” must be completed and signed by a specified medical practitioner. Once the claim has been approved by the CRA, eligibility continues, unless recertification is required.

If the disabled person does not require the DTC to eliminate taxes payable, the unused portion can be transferred to a supporting relative. A supporting relative is someone who assists in providing basic necessities of life, such as food, shelter and clothing, and can be a parent, spouse or common-law partner, or a supporting child, grandchild, niece or nephew. The credit can only be transferred to children, grandchildren, nieces or nephews if the disabled person has no spouse or partner, or if the spouse or partner has not claimed the married credit or other transferred credits in respect of the disabled individual.

Tax tips

• The CRA reviews all first-time DTC claims. To avoid delays in assessing personal returns for that first year, the CRA suggests that individuals send in their T2201 forms as early as possible and receive pre-approval of the disability claim.

• If an elderly person is supported by more than one relative, it is possible for the supporting relatives to share the unused portion of the credit, as long as the total claimed does not exceed the maximum amount permitted.

Infirm dependant credit and caregiver credits

Additional credits may be available for a dependent parent, grandparent, aunt or uncle: the infirm dependant credit and the caregiver credit.

The infirm dependant credit is income sensitive. This credit may only be claimed if the spousal credit or the equivalent-to-spouse credit is not claimed for the person.

The caregiver credit may be available if you care for an adult relative (other than a spouse or partner) in your home. Like the infirm dependant credit, it’s income sensitive and it cannot be claimed if somebody else has claimed a spouse or equivalent-to-spouse credit for the person.

An additional family caregiver tax credit is available to individuals who support dependants with mental or physical infirmities. The credit will be a $2,000 enhancement to amounts available under existing dependency-related credits, with a corresponding increase in the dependant’s income threshold at which the combined credit amount is phased out.
Whether you’re just starting your career or have years of service under your belt, you need to plan for retirement. And tax planning should be at the centre of your retirement strategy.

Registered pension plans

There are two types of registered pension plan (RPP):

- Defined benefit plans are based on a formula that includes employment earnings and years of service.
- Money purchase plans depend on the amount you contribute and the earnings on those contributions.

For a defined benefit plan, you can deduct all contributions you make for service after 1989. You can also deduct up to $3,500 ($5,500 for Quebec tax purposes) in respect of past service contributions for a year before 1990 in which you were not contributing to any RPP.

For a money purchase plan, the 2014 combined contribution that both you and your employer can make is the lesser of 18% of the employee’s compensation for the year and $24,930. The dollar limit is indexed for inflation. You can’t make past-service contributions to this type of RPP.

Your employer will report a “pension adjustment” to the CRA, which will factor into your following year’s RRSP deduction limit. In the case of a defined benefit RPP, the pension adjustment is an estimate of the cost of funding your retirement benefits. The pension adjustment for a money purchase RPP is the sum of your contributions and those of your employer.

Tax tip

- If you’ve made excess past-service contributions to a defined benefit RPP in prior taxation years, you may be able to claim these contributions, subject to an annual $3,500 limit.
Individual pension plans

An individual pension plan (IPP) is a defined benefit registered pension plan established by an employer to provide retirement income to one or more employees on the basis of their years of service.

An IPP is most commonly established for one employee – typically a high-income earner such as an owner-manager, an incorporated professional or a senior executive. However, an IPP may also be established for more than one employee. The CRA generally considers a plan to be an IPP when it has nine or fewer members.

An IPP is sponsored by the employer and funded by employer contributions or by employer and employee contributions. Funding amounts (or contributions) are calculated by an actuary to fund the expected retirement benefits and are based on factors such as the employee's age, employment income, post-1991 RRSP contributions, and actuarial assumptions (such as interest rates, inflation rates, and life expectancy).

An initial lump-sum past-service contribution is permitted for the employee's years of service going back to 1991. An actuarial report is required to support the employer's initial contribution to the plan. For subsequent contributions, a periodic evaluation by an actuary is required.

The cost of past service contributions to an IPP must first be satisfied by transfers from the RRSP assets of the IPP member, or a reduction in the IPP member's accumulated RRSP contribution room, before any new past service contributions can be made.

The IPP's key advantage is that it has more room for tax-deductible contributions than an RRSP for those over age 40. You can therefore accumulate more retirement income in an IPP. The large tax-deductible contributions often stem from significant initial contributions used to fund past service. However, the RRSP contributions made in those prior years reduce the deductible past-service amount.

Once a plan member reaches the age of 72, they will be required to withdraw annual minimum amounts similar to current minimum withdrawal requirements applicable to registered retirement income funds.

The IPP rules are complex. Consult your EY tax advisor.

Pooled registered pension plans

Pool registered pension plans (PRPPs) are intended to operate in a manner similar to multi-employer money-purchase RPPs, but with certain features drawn from the RRSP and RRIF systems. PRPPs are intended to provide a new option for retirement savings that will be attractive to smaller employers and self-employed individuals.

A PRPP enables its members to benefit from lower administration costs that result from participating in a large, pooled pension plan. It’s also portable, so it moves with its members from job to job. The total amount that a member or employer can contribute depends on the member’s RRSP deduction limit. The investment options within a PRPP are similar to those for other registered pension plans.

Currently, PRPPs are available to individuals who are:

- Employed or self-employed in the Northwest Territories, Nunavut or Yukon
- Work in a federally regulated business or industry for an employer who chooses to participate in a PRPP
- Live in a province that has the required provincial standards legislation in place

An individual can be enrolled into a PRPP by:

- Their employer (if their employer chooses to participate in a PRPP)
- A PRPP administrator (such as a bank or insurance company).
Registered retirement savings plans

An RRSP is an investment account that can increase your retirement savings in two ways:

- Contributions are tax deductible, subject to statutory limitations.
- The income you earn in your RRSP is not taxed until you withdraw the funds. The investment of the funds that would otherwise be paid as taxes results in your funds accumulating faster in an RRSP than they would outside of one.

The tax advantage will be even greater if you purchase an annuity with accumulated RRSP funds or convert the RRSP to a registered retirement income fund (RRIF). You will continue to defer tax on the accumulated funds until you actually receive the payments. You receive further benefit if your marginal tax rate decreases during retirement.

Timing for contributions

You may deduct RRSP contributions made before the end of the year (to the extent that they weren’t deducted for a previous year) or up to 60 days after the end of the year. This is subject to your yearly deduction limit.

Generally, it is advantageous to make your RRSP contribution in early January of the year, instead of late in February of the following year. That way, you can defer the tax on the income you earned on your funds during that 14-month period. Also, to take maximum advantage of the tax sheltering available through an RRSP, you should make contributions regularly each year, and early in your career.

Deduction limit

Your RRSP deduction limit will determine the maximum tax-deductible contributions that you may make in a year. The limit applies to contributions made to either your own or a spousal RRSP. If you make a contribution to your spouse’s RRSP, it does not affect your spouse’s or partner’s RRSP deduction limit for the year.

Tax tips

- The deadline for making deductible 2014 RRSP contributions is Monday, 2 March 2015.
- Make contributions early in your career and contribute as much as you can each year.
- Consider making your annual RRSP contribution as soon as you can each year to take maximum advantage of income tax sheltering.
- If you’re an employee, ask your employer to withhold some of your salary or bonus and deposit it directly to your RRSP.
- Consider paying RRSP administration fees outside the plan to maximize the capital in the plan for future growth.

Deduction limit

If you’re not a member of an RPP or a Deferred Profit Sharing Plan (DPSP), your deductible 2014 RRSP contribution is limited to the lesser of 18% of your earned income for 2013 and a maximum of $24,270. The dollar limit is indexed for inflation.

In addition to this amount, you would include your unused RRSP deduction room from 2013 (refer to the following section for a description of this amount).

If you’re a member of an RPP or DPSP, the maximum annual RRSP contribution as calculated above is reduced by the pension adjustment for the prior year and any past-service pension adjustment for the current year. In addition, there may be an increase or decrease to your RRSP deduction limit if your company revises your benefits entitlement from the company pension plan.

If you do not contribute the maximum allowable amount in a particular year, you may carry forward the excess. Your maximum RRSP contribution can be a complex calculation. As a result, the CRA provides the computation of your RRSP deduction limit on the Notice of Assessment for your income tax return.
Retirement planning

**Tax tips**

- Contribute the maximum deductible amount for 2014 to your RRSP. If this is not possible, plan to make up for the under contribution as soon as possible.

- Consider making a contribution of qualified property to your RRSP. However, note that any capital gain on the property transferred will be recognized for tax purposes, but a capital loss will be denied.

**Unused deduction room**

Generally, if you contribute less than your RRSP deduction limit, you can carry forward the excess until the year you reach age 71. For example, if your current-year RRSP deduction limit is $10,000, but you make a contribution of only $7,000, you can make an additional deductible RRSP contribution of $3,000 in a future year. But if you make up the contribution in a later year, remember that you’ll postpone the benefit of tax-free compounding of income that you would have earned from a current contribution and on any future income earned on this amount.

**Carryforward of undeducted contributions**

In addition to the carryforward of unused RRSP deduction room, you can carry forward undeducted RRSP contributions.

For example, if you make an RRSP contribution in 2014, but do not claim the full amount on your 2014 tax return, you can carry forward the unclaimed amount indefinitely and claim it as a deduction in a future year. It may be beneficial to delay deduction of your RRSP contribution if your 2014 taxable income is low and you expect to be subject to a higher marginal tax rate in a future year.

Be aware that making a contribution over the limit may result in penalties.

**Tax tip**

- If your taxable income for 2014 is low, consider carrying forward your 2014 RRSP contribution and claiming a deduction in a future year when you’ll be subject to a higher marginal tax rate.
Retirement planning

Determination of earned income

Your earned income for the immediately preceding year is an important factor in determining your RRSP deduction limit for the current year. For example, your 2013 earned income is one of the factors in the calculation of your 2014 deduction limit.

If you were a resident of Canada throughout 2013, your earned income is generally calculated as follows:

- **Additions to earned income**
  - Net remuneration from an office or employment, generally including all taxable benefits, less all employment-related deductions other than any deduction for RPP contributions
  - Income from carrying on a business, either alone or as an active partner
  - Net rental income
  - Alimony and maintenance receipts included in your income

- **Deductions from earned income**
  - Losses from carrying on a business, either alone or as an active partner
  - Net rental losses
  - Deductible alimony and maintenance payments

Your earned income does not include superannuation or pension benefits, including Canada Pension Plan/Quebec Pension Plan (CPP/QPP) and OAS benefits, or retiring allowances.

Overcontributions

If you contribute an amount above your RRSP deduction limit for the year, it will result in an overcontribution. If the total RRSP overcontributions exceed $2,000, the excess is subject to a 1% per month penalty tax.

Under certain circumstances, making an RRSP overcontribution of $2,000 could be advantageous because you can earn tax-deferred income on it. Although you cannot deduct the overcontribution in the year you make it, you may deduct it in a future year under the carryforward provisions. However, double taxation may result if you are unable to claim a deduction for the overcontribution in any future year.

If you make contributions to your own or a spousal RRSP in excess of your deductible amount, you may withdraw them tax free only in the same year in which they were contributed, the year an assessment is issued for the year of contribution, or the year following either of these years. Also, there must be reasonable grounds to believe that the amount was deductible at the time you made the contribution.

- **Tax tips**
  - In order to make the maximum RRSP contribution in 2014, your earned income for 2013 must have been at least $134,833.
  - Consider the impact that alimony or maintenance payments and business or rental losses have on your RRSP deduction limit.
  - In certain circumstances, you may be eligible to make deductible contributions to your RRSP in addition to the deductible limit. The more common deductible contributions are retiring allowances and lump-sum receipts.
  - If you will receive a retiring allowance, consider making direct, as opposed to indirect, transfers of retiring allowances to an RRSP (up to the deductible amount) to avoid withholding tax.

- **Tax tips**
  - Be sure to transfer lump-sum amounts out of an RPP or a DPSP directly to an RRSP.
  - Limit your RRSP overcontributions to $2,000.
  - If you’ve made an overcontribution and are about to retire, reduce your current-year contribution to avoid double taxation on any undeducted contributions.
Retirement planning

Qualified investments

It's important that your RRSP holds qualified investments only. If it acquires a non-qualified investment, a penalty tax may apply. This penalty tax is equal to 50% of the value of a non-qualified investment acquired after 22 March 2011, and any acquired before 23 March 2011 that first became non-qualified after 22 March 2011.

Qualified investments generally include the following:

- Cash
- Term deposits
- GICs
- T-bills
- Any security (other than a futures contract) listed on Canadian stock exchanges and most foreign stock exchanges
- Most government bonds
- Most Canadian mutual funds and segregated funds
- Options for the purchase of eligible investments
- Certain shares of private corporations

Prohibited investments

It's also important that your RRSP does not hold any prohibited investments. A prohibited investment is generally one to which the annuitant is closely connected. An investment may be qualified, but still be considered prohibited.

If your RRSP acquires a prohibited investment, it will attract a 50% penalty tax similar to the non-qualified investment penalty tax. The penalty tax applies to prohibited investments acquired after 22 March 2011, and to those acquired before 23 March 2011 that first became prohibited after 4 October 2011.

Advantages

Owning a prohibited investment may also result in a separate advantage tax. This tax is equal to 100% of certain advantages. An advantage is generally a benefit that depends on the existence of the plan, and includes income attributable to prohibited investments, as well as benefits from certain transactions (such as RRSP swaps and RRSP strips) which are intended to exploit the tax attributes of an RRSP or RRIF.

For more information on these rules, see the Investors chapter.

If you own a prohibited investment in your RRSP, or may otherwise be subject to the advantage tax rules, your EY advisor can help navigate the complicated rules.

Transferring between plans

You may transfer RRSP funds from one RRSP to another without attracting tax, provided the funds go directly to the new plan and are not available for you to use. You may choose this as an option when you'd like to change the types of investment in your portfolio, or to change from one plan issuer to another. Remember that while you can transfer property between two RRSPs, if you transfer property between different types of plan (e.g., between an RRSP and a TFSA or other non-registered savings account), it will generally be considered a swap transaction, which is subject to the advantage tax.

Withdrawing funds before retirement

You may make withdrawals from your RRSP at any time. However, you must include the gross withdrawal amount in your income. The trustee of the RRSP must withhold tax from the amount you withdraw.

Maturity

If you're 71 years old at the end of 2014, your RRSP must mature by the end of the calendar year. You must make any final-year contributions on or before 31 December 2014, not 60 days after the end of the year.

Depending on your tax position, and provided you have sufficient earned income to make contributions, you may continue contributing to a spousal RRSP until the year your spouse or partner turns 71.
Retirement planning

Tax tips

• Make any transfer between RRSPs directly from one plan issuer to another. Otherwise, the funds will be taxed on withdrawal and may not be returned to your RRSP without using contribution room.
• You may incur financial penalties if you transfer RRSP funds when the underlying investments have a fixed term or if the issuer charges a fee for the transfer.
• If you withdraw funds from an RRSP before you retire, minimize the withholding tax by withdrawing $5,000 or less each year. Remember, you'll still be taxed on the gross amount of the withdrawal at your marginal tax rate, regardless of the amount of tax withheld.
• Remember that if you withdraw funds from an RRSP before retirement, you’ll lose tax-free compounding for the future. Instead, consider borrowing funds if your cash needs are temporary.
• Monitor your RRSP investments to ensure they do not become prohibited, and be aware of transactions with your RRSP (other than contributions or withdrawals) that may be considered advantages.

Maturity options

Although your RRSP must mature by the end of the year in which you reach age 71, you don’t have to wait until then to obtain retirement income from your plan. This allows you to take an early retirement and may entitle you to the non-refundable pension income tax credit. You can withdraw the accumulated funds from your RRSP or, alternatively, you can purchase one or a combination of available maturity options. These options provide you with retirement income in varying amounts over different periods of time. Tax is deferred until you actually receive your retirement income.

When you're deciding what maturity options would best suit your situation, you need to take into account a number of factors. In addition, consider whether the maturity options you choose will give you flexibility to change your mind should your situation change. In many cases, there is an opportunity to change from one maturity option to another if you properly structure your retirement options.

Maturity options currently available:

• Fixed-term annuities
  – Provide benefits up to age 90. If, however, your spouse or partner is younger than you, you can elect to have the benefits provided until your spouse or partner turns 90
  – May provide fixed or fluctuating income
• Life annuities
  – Provide benefits during your life, or during the lives of you and your spouse or partner
  – May have a guaranteed payout option
  – May provide fixed or fluctuating income
• RRIFs
  – Essentially a continuation of your RRSP, except that you must withdraw a minimum amount each year (but there are no maximum limits)
  – Provide retirement income from the investment of the funds accumulated in a matured RRSP
Locked-in plans

Under federal and most provincial pension legislation, the proceeds of locked-in RRSPs or locked-in retirement accounts (LIRAs) must generally be used to purchase a life annuity at retirement, a life income fund (LIF), a locked-in retirement income fund (LRIF) or a prescribed retirement income fund (PRIF). You generally cannot use them to acquire a term annuity.

LIFs, LRIFs and PRIFs are all forms of RRIF, so there’s a minimum annual withdrawal. However, there are also maximum annual withdrawals for LIFs and LRIFs, and in some provinces LIFs must be converted to life annuities by the time you turn 80.

Tax-deferred transfers are generally permitted between all of these plans, so you might transfer assets from a LIF back to a LIRA (if you’re under age 71) if you change your mind about receiving an early pension. Another option is to transfer funds from a LIF to a LRIF to avoid annuitization when you turn 80.

Tax tips

- If you’re going to be 71 at the end of 2014, make your annual RRSP contribution before 31 December.
- If you are over 71 and your spouse or partner is younger than you – and you have earned income or RRSP deduction room – consider making contributions to your spouse’s or partner’s RRSP until they turn 71.
- If you expect to have sufficient earned income after age 71, consider making the $2,000 overcontribution before the end of the year that you reach age 71 and claim this deduction in later years.
- If you have sufficient earned income in the year you turn 71, consider making a contribution for the next year (in addition to one for the current year) just before the year end. Although you must collapse your RRSP before the end of the year in which you turn 71, you’re still able to deduct excess RRSP contributions in later years. You will be subject to a 1% penalty tax for each month of the overcontribution (one month if the overcontribution is made in December 2014), but this may be more than offset by the tax savings from the contribution.
- Investigate and arrange for one or more of the maturity options that are available if your RRSP is maturing in the near future.
- Consider receiving RRIF payments once a year in December to maximize the tax deferral.

Canada Pension Plan

The Canada Pension Plan (CPP) is an earnings-related social insurance program that provides basic benefits when a contributor to the plan retires or becomes disabled. When contributors die, the CPP may provide benefits to their survivors. The CPP operates in every province in Canada except Quebec, which administers its own program, called the Quebec Pension Plan (QPP).

With very few exceptions, every person in Canada who is over the age of 18 who works and earns more than the minimum amount ($3,500 per year) must contribute to the CPP (or to the QPP in Quebec). You and your employer each pay half of the contributions. If you are self-employed, you pay both portions.

Although employers used to stop deducting CPP when an employee aged 60 to 70 began receiving a CPP or QPP retirement pension, this rule has changed. As of 1 January 2012, employers must continue to deduct CPP from the earnings of an employee who receives a CPP or QPP retirement pension if that employee is 60 to 65 years old, or is 65 to 70 years old and has not filed an election to stop paying CPP contributions.
Retirement planning

Old Age Security

The Old Age Security (OAS) pension is a monthly payment available to most Canadians aged 65 and older. In order to receive benefits, you must apply for OAS with Service Canada. You should apply six months before you turn 65. However, if you apply at a later date, the pension is payable up to 11 months retroactively from the date the application is received.

Starting 1 July 2013, Canadians may voluntarily defer receipt of OAS benefits for up to five years. Those who take this option will receive a higher, actuarially adjusted pension.

You can download an application package from Service Canada's website or you can order an application by mail.

Two other programs can provide you with additional income. The Guaranteed Income Supplement (GIS) and the Allowance program were designed to provide further assistance to low-income seniors. For more information, see the Service Canada website.

Tax tips

- Delaying receipt of your CPP pension past age 65 will enhance your monthly benefit. If you start receiving your CPP pension at the age of 70, your pension amount will be 42% more than it would have been if you had taken it at 65.
- Conversely, starting your CPP pension before age 65 will reduce your monthly benefit. By 2016, the reduction will be 0.6% per month you start early (36% discount if you start collecting immediately at age 60).
- Individuals aged 65 to 70 are required to pay CPP premiums on their employment or self-employment earnings, but may elect out. In order to elect out, you must complete an election, file the original with the CRA and provide copies to each employer. The election is effective the month following the month of filing with the CRA. You can revoke this election to opt out and resume contributing to CPP.
- Individuals contributing to CPP while collecting benefits will receive a “post-retirement benefit,” which will be effective the calendar year following the premium payment, so their CPP benefits will increase each year they continue their CPP contributions.
Financing retirement - additional options

Retiring allowance
A retiring allowance includes severance payments or an amount paid by your employer on your retirement in recognition of long service or for a loss of office or employment.

If you receive a retiring allowance, you may be able to transfer a limited amount into an RRSP. Any excess would be taxable in the year received at the applicable marginal tax rate.

Retirement compensation arrangement
A retirement compensation arrangement (RCA) is any arrangement where your employer makes contributions in connection with benefits you receive on, after or in contemplation of any substantial change in your services to the employer. This includes your retirement and the loss of office or employment.

In general, contributions to an RCA, and any income and capital gains earned in the plan, are subject to a 50% refundable tax. Your employer would withhold and remit the tax at the time of funding. This tax is refundable at a rate of $1 for every $2 distributed to you.

Distributions from the plan are taxed as ordinary income. You are limited in the amounts you can transfer from an RCA to an RRSP if paid as a retiring allowance.

Tax tips
- If you fall into a lower marginal tax bracket after retirement, receiving payment of a retiring allowance over a number of years may permanently reduce the amount of tax you will pay on it.
- RCAs have prohibited investment and advantage rules that are similar to those that apply to TFSAs, RRSPs and RRIFs.
Retirement planning

International workers

If you spend part of your career working outside Canada, you may find that working for a foreign company or living outside Canada means changing pension plans and forfeiting regular RRSP contributions. Being able to continue participating in Canadian pension and RRSP plans while working overseas can therefore be a significant benefit.

Canada-US Tax Treaty

In 2008, Canada and the US ratified changes to the Canada-US Tax Treaty that provided this type of relief, starting in 2009, for Canadians who work in the US. The changes allow short-term cross-border assignees to continue to make contributions to their home country pension plans and receive a tax deduction in the host country.

For example, let’s say you’re a Canadian expatriate on a three-year assignment in the US working for a company affiliated with your Canadian employer. You’ll continue contributing to your employer’s pension plan. You’ll be able to claim a deduction on your US tax return for your RPP contributions, provided that you:

- Were a member of the Canadian-registered pension plan before starting work in the US;
- Were a nonresident of the US before starting your US assignment;
- Are on the US assignment for no longer than five years;
- Deduct only contributions that are attributable to services performed in the US; and

- Do not participate in any other pension plan except the RPP (i.e., you cannot also participate in a US 401(k) plan).

The rules are similar for US workers on short-term assignment in Canada.

If you are a cross-border commuter working and contributing to a pension plan in one country, but you live in another, you will also benefit from a tax deduction.

For example, you live in Windsor, Ontario, and commute to Detroit daily to work for a US employer, USco. You participate in USco’s 401(k) plan. As a Canadian resident, your employment income is taxable in Canada. You will be able to claim a deduction for your 401(k) contribution in determining your Canadian taxable income. The amount of the deduction will be limited by the amount of the actual contribution, the amount allowed to be contributed to a 401(k) under US law, and the RRSP contribution limit for the year (after taking into account RRSP contributions otherwise deducted).

Just like an RPP, participation in USco’s 401(k) will restrict your ability to contribute to an RRSP, since participation will give rise to a pension adjustment.

Similarly, US citizens living in Canada and working for a Canadian employer will be allowed a deduction for US tax purposes for contributions to an RPP, DPSP or RRSP. The relief is restricted to the lower of Canadian tax relief and the amount that would be deductible in the US for a generally similar US plan. The contribution must be in respect of services taxable in Canada and remuneration for such services must be paid by a Canadian employer in relation to services rendered during the period of Canadian residence.
An effective estate plan can minimize tax on and after your death, and provide benefits to your surviving family members over the long term.

Estate planning involves much more than the preparation and periodic update of your will. It is a multifaceted, lifelong process requiring reflection and expansion as you reach milestones in your life and your career.

Questions for you and your partner

The following questions, which are best answered by both spouses/partners, can help you when planning for the future:

- Do you know what would happen if you lost the physical or mental capacity to manage your affairs? Are you comfortable that you have an adequate structure in place to help deal with such a potential loss? Have you factored the cost of long-term care into your retirement and estate planning?
- Could you describe what happens to your estate(s) when you or your spouse or partner dies — that is, to whom and in what form (individually or in trust) each major asset will pass?
- If assets do pass to one or more trusts for the survivor’s benefit, do you understand how they work (e.g., income payments, access to principal)? Are you still comfortable with this structure?
- Would your survivor and/or children know what there is, where it is and how it should be handled, what decisions will have to be made and by when, and whom to call for help?

The time spent reviewing these questions could be a most worthwhile investment. You might find that you have a good handle on where you are and how your plans work. You might pleasantly discover that everything is in order and now it’s just a matter of keeping up the good work.

Or you might not. In which case a visit with one or more of your EY advisors could make a lot of sense, and perhaps save you a lot of dollars.
What is an estate plan?

An estate plan is an arrangement of your financial affairs designed to accomplish several essential financial objectives, both during your lifetime and on your death. The plan should accomplish the following goals:

- Provide tax-efficient income during your lifetime (before and after retirement)
- Provide tax-efficient dependant support (after your death)
- Provide tax-efficient transfer of your wealth
- Protect your assets

Stages of an estate plan

Your estate plan starts as soon as you begin to accumulate your estate, not when you draft your will. To maximize this accumulation, ask yourself the following questions:

- Are there any income-splitting opportunities between my family members?
- Does my corporate structure allow for a tax-efficient distribution of funds?
- Am I claiming all the deductions possible, or do I need to do some rearranging?
- Is all my interest deductible?

Once your income sources have been secured, your estate plan should deal with the preservation of your family’s wealth. At this stage, the focus should include saving and investing your excess funds for retirement, dealing with income tax, family law matters, protecting the assets from creditors, and growing the goodwill of any business that is a substantial family asset.

The next stage of the plan is the realization of your wealth, either through the sale of your business, determining your succession or executing your retirement strategies.

The final step is the transfer of your wealth. During your lifetime, this can be accomplished by way of sale or gift, but on death the distribution of your assets should be documented in your will. Since in most cases you cannot predict the timing of this ultimate transfer, you should not wait until you are ready to transfer your wealth to draft a will.

Your will should be an evolving document. Once drafted, it should be reviewed regularly to ensure that it reflects your current intentions and provides your beneficiaries with maximum tax efficiency and asset protection.

Your initial estate plan will not last a lifetime, so be prepared to review it often and modify it to keep pace with changing circumstances and laws.
Components and goals of an estate plan

The components of your estate plan could include:

• If a business is a key family asset, a **shareholder's agreement** will govern the activities of the current and future shareholders by addressing termination, sale, death, divorce and wealth extraction.

• An effective **share ownership structure** of any business you are involved in can provide for the tax-efficient distributions of excess assets and protect these assets from creditors. A share structure can also facilitate business succession planning or bequests without compromising the operating business. For example, shares inherited could have terms such that they can only be redeemed over an extended period of time.

• Various **trust arrangements** (spouse trust or family trust) can hold shares for the benefit of others while they are controlled by trustees. These arrangements are the primary tools for income splitting and multiplication of the tax-free capital gains exemption between family members and between generations.

• A properly drafted **will(s)** is an essential component of any estate plan.

• **Insurance arrangements**, including life insurance, key man insurance, critical illness insurance and disability insurance, help provide dependant support or fund tax liabilities on your death.

The various components of your estate plan must work together to achieve your desired goals. As a result, if one component changes, the others should be examined to ensure your intentions will still be met.

A good estate plan will achieve three tax-related goals:

• **Tax reduction**
• **Tax deferral**
• **Tax funding**

Specifically, the taxes you are attempting to reduce, defer and fund include income tax on your earnings, the disposition of assets during your lifetime, monies from retirement plans (RRSP/RRIF), income tax arising on the deemed disposition of all your assets on death and probate tax, if applicable.

**Tax reduction**

During your lifetime, it may be possible to arrange your finances or share structure to channel income or capital gains to family members who are taxed at a lower marginal tax rate than you, thereby reducing the overall family tax burden. A family trust is generally recommended for any substantial income splitting, to limit your children's access to significant funds before they are responsible enough to deal with them.

**Estate freeze¹**

The primary tool used to reduce tax on death is a properly structured estate freeze, which results in the transfer of the future growth of a business, investments or other assets to other family members. Since you are generally deemed to dispose of all your capital assets at fair market value immediately before death, the estate freeze moves the potential future growth of the "frozen" assets to the next generation, reducing the potential capital gains tax on your death.

An estate freeze can be implemented in a number of different ways, the simplest of which is selling or gifting assets to the next generation. If there are accrued gains inherent in these assets, a current tax liability will result.

This strategy would only be suggested if you are prepared to completely relinquish control of the assets you have built up to the next generation. This is rarely, if ever, appropriate if your children are young, and is often undesirable even where your family is older. In addition, keep in mind that such a strategy results in taxation of any growth accumulated to the date of transfer, and would thus typically be considered only if the anticipated growth of the assets is so significant that the payment of the current tax is negligible by comparison. The advantage of this approach is that it is simple, and carries limited implementation and maintenance costs. However, this advantage is typically outweighed by the substantial drawbacks of loss of control and immediate tax costs.

The most common technique used to implement an estate freeze requires you to transfer, usually on a tax-deferred basis, the appreciated assets to a corporation in exchange for fixed-value preferred shares (freeze shares). The family members who are to benefit from the future growth would subscribe for nominal-value growth shares (common shares) either directly or indirectly using a family trust.

¹ If you are considering including a US citizen/resident in your freeze, you should seek professional advice on both sides of the border first. The IRS has specific reporting rules and charges onerous penalties for taxpayers who do not adhere to the rules.
Estate planning

If the asset you wish to freeze is a corporation, the freeze may be effected by creating a new class of fixed-value freeze shares and exchanging your common shares, on a tax-deferred basis, for new fixed-value freeze shares of equal value. The original growth shares would be eliminated on this exchange, and the next generation or family trust would own the new growth shares.

The growth shares held by the trust will be controlled by the trustee(s). The terms of the trust may give the trustees the power to determine which of the beneficiaries will be entitled to the growth (thereby providing a certain amount of flexibility to the estate freeze).

It is also possible for the person implementing the freeze to continue to control the company by subscribing for the majority of the voting-control shares and using a shareholders’ agreement restricting the rights of the growth shareholders. Legal counsel should be consulted in this case, as it may be possible for this agreement to be entered into by the trustees and the individual who froze the company prior to the distribution of the growth shares held by the trust. As a result, the new common shareholders (the children) would be subject to the agreement without their actually signing it.

What has been described here is a complete freeze. But it is also possible to implement a partial freeze and staged freezes (over time). In a partial freeze, you can participate in the company growth by subscribing for a portion of the growth shares, either directly or by being named as a beneficiary of the family trust.

An estate freeze can be structured in numerous ways. It is important to evaluate the possibilities that will best meet your non-tax objectives for the use and ultimate distribution of your wealth in the most tax-effective manner possible.

When to implement a freeze

Determining the best time to implement your freeze is not easy. Many factors other than tax will and should play a part in the decision. For example, if you freeze too young or freeze too many of your assets, inflation or other market factors might leave you without sufficient assets to fund your retirement lifestyle. If the value of the future growth appreciates faster than anticipated, and no flexibility is built into the estate plan, your young children’s net worth could soon be greater than yours.

While the common estate freeze often includes the use of a family trust to hold the future growth, it is usually advisable to give the trustees the power to distribute the growth before the 21st anniversary of the trust’s creation. Therefore, you want to ensure that the beneficiaries will be old enough in 21 years to be charged with the responsibility for a significant-value asset.

You should consider a freeze only for assets that are expected to be held by the family over the long term. If your children are likely to dispose of their growth shares soon after your death, the freeze will not have accomplished the tax-deferral objective, as your children will pay the capital gains tax on the disposition. If your children are old enough, they should be consulted on their plans in relation to holding the freeze assets. This discussion is extremely important if a family business is involved.

2014 federal budget proposal: testamentary trust tax rates

The budget proposes to generally proceed with the measures described in the 3 June 2013 consultation paper that will remove the benefit of using multiple trusts to access additional graduated tax rates. Flat top-rate taxation will apply to grandfathered inter vivos trusts and testamentary trusts for 2016 and subsequent taxation years.

There will be exceptions for the first 36 months of an estate and for testamentary trusts created for the benefit of disabled individuals who are eligible for the federal Disability Tax Credit.

Testamentary trusts that do not already have a calendar year end will have a deemed taxation year end on 31 December 2015.

2 For Canadian income tax purposes, trusts are deemed to dispose of their assets at fair market value every 21 years. Therefore, any accrued gains on property held by an inter vivos trust will be taxed at the top marginal rate for capital gains if the asset has not been distributed to the beneficiaries.
Estate planning

Tax deferral

During your lifetime: Tax on the future growth of assets transferred to a family trust can only be deferred by up to 21 years if the assets are to remain in the trust. This is because family trusts are deemed to dispose of their assets at fair market value every 21 years. Therefore, any accrued gains on property held by the trust will be taxed at the top marginal rate for capital gains if the asset has not been distributed to the beneficiaries.

If the trust deed allows the trustees to distribute the assets to the beneficiaries prior to the 21st anniversary, it may be possible to roll out the assets at their adjusted cost base to defer the capital gains tax either until the beneficiary sells the assets or on his or her death. This roll-out is not available to a beneficiary who is not a resident of Canada.

Post mortem: It is possible to defer the capital gain realized on the deemed disposition on death by transferring your assets to either your spouse or a qualifying testamentary spouse trust, which would be created on your death. In this case, the tax on this capital gain will be deferred until the earlier of the assets being sold and the death of your spouse. The rollover to a spouse trust will only apply if no one other than your spouse is entitled to all the income of the trust and your spouse is the only discretionary capital beneficiary during his or her lifetime.

A testamentary spouse trust also allows you to control entitlement of the assets after the death of your spouse. If instead the assets are transferred directly to your spouse, it is your spouse's will that directs the distribution of the family assets. Spousal trusts are often used by individuals with more complex family situations, such as second marriages, to ensure that assets are available to a current spouse for their remaining life, and then passed to persons chosen by the deceased.

Testamentary trusts (which must be created by your will) are taxed as a separate taxpayer and subject to the graduated personal tax rates. As a result, it is possible to income-split by having some of the income taxed in the testamentary trust and some taxed in the beneficiary's hands. Access to this additional set of graduated rates can result in a federal tax saving of approximately $10,000 per year, per trust, plus possible provincial savings. In some situations, it is possible to access these benefits more than once through the use of multiple trusts.

Spouse trusts (testamentary or inter vivos) can exist for the life of the spouse; assets are deemed disposed of on the spouse's death, rather than every 21 years.
Estate planning

Tax funding

An estate freeze will allow you to predetermine the tax liability on death in relation to the frozen assets. Once this liability has been estimated, you should consider whether your estate will have sufficient assets to fund the tax and enough left over to support any dependants or satisfy your charitable intentions. If you determine that you will not have sufficient assets, you can consider purchasing life insurance to provide additional funds. Insurance proceeds are received by your estate or beneficiaries tax free.

If your intention is to defer the tax liability until the death of the surviving spouse, consider last-to-die insurance to reduce premiums during your lifetime. Depending on your circumstances and mortality rates, life insurance premiums could end up costing more than the ultimate tax you are funding, so ensure that insurance is indeed the most efficient way to fund the ultimate tax liability. It is always prudent to review your insurance needs every few years to ensure you’re carrying the right amount of coverage.

If you haven’t attended to your estate plan – or if it needs to be reviewed to ensure your intentions will still be met under your current situation – contact your EY tax advisor.

Tax tips

- Consider freezing the value of your assets and arranging for funds to be set aside, or purchasing life insurance, to cover the payment of your estimated income tax liability arising on death.
- There are different types of estate freeze. Your choice would depend on your particular family situation:
  - Complete freeze: It’s possible for you to continue to control the company by subscribing for all or the majority of the voting-control shares and by using a shareholders’ agreement restricting the rights of the growth shareholders.
  - Partial and staged freezes: You can continue to participate in the company’s growth by subscribing for a portion of the growth shares, either directly or by being named as a beneficiary of the family trust.
- Only consider a freeze for assets you expect the family to hold over the long term.
- If you’re 65 or older, consider using an alter-ego or joint partner trust as a will substitute.

Wills

Your will is a key part of your estate plan. You and your spouse or partner should each have a will and keep it current to reflect changes in your family status and financial situation, as well as changes in the law. Your lawyer and tax advisor should review it every three to five years, at a minimum.

If there is no valid will at death, then the deceased’s estate passes under predetermined rules known as intestate succession. The intestacy rules are different depending on the province or territory of which the person was resident at his or her death.

Alter-ego and joint partner trusts

Alter-ego trusts and joint partner trusts offer estate planning options for seniors. These are inter vivos trusts established by individuals who are at least 65 years of age. In these trusts, only the contributor (or their spouse or partner, in the case of a joint partner trust) is entitled to income or capital of the trust during their lifetime.

In the case of an alter-ego trust, the trust document should name contingent beneficiaries, who will be entitled to receive the income and/or capital of the trust after your death. For a joint partner trust, the document must specify that the last to die (you or your spouse or partner) will be the beneficiary, and the trust deed should name contingent beneficiaries after both spouses die.
Estate planning

Like other inter vivos trusts, you can use these trusts as will substitutes, bypassing provincial probate fees on death and maintaining privacy. But unlike most other inter vivos trusts, you can transfer assets into these trusts on a rollover basis (at cost), deferring the tax on any accrued gains until they are realized or the time of your death or that of your spouse or partner.

These trusts can also act as substitutes for powers of attorney.

Estate administration
tax/probate tax

Probate is the judicial process when a court confirms an executor’s authority. In most cases, you, as the executor of an estate, will have to go through this process in order to efficiently carry out the administration of the estate.

Whether the deceased has a will or not, probate entails paying tax, which is determined as a percentage of the estate’s value. Several provinces levy probate tax on all property that belonged only to the deceased at the time of death. Property that passes to a named beneficiary outside the will (e.g., the proceeds of a life insurance policy) is not subject to probate tax. In some provinces, probate taxes for large estates can be substantial.

For a summary of probate fees by province and territory, see Appendix C.

Inter vivos gifts

If you gift capital property before death to anyone other than your spouse or partner, you’re deemed to have disposed of that property at its fair market value. Transferring property into “joint tenancy” with a child, however, is considered to be a gift. This technique may be attractive in times of depressed market values.

Life insurance

Life insurance plays a key role in providing liquidity to your estate, enabling the payment of funeral expenses and other debts (such as the income tax liability on any accrued capital gains and any US estate tax that may be payable as a result of your death) and in providing your dependants with money to replace your earnings. Life insurance proceeds received on your death are not subject to tax; consequently, life insurance premiums are generally not tax deductible.
Estate planning

There are two basic types of life insurance policy:

- **Term policies**
  These policies are generally pure life insurance, with no investment component. On your death, your beneficiary receives a fixed sum tax free. Term insurance policies generally have no guaranteed cash values and are usually not participating (i.e., no policy dividends are payable).

- **Permanent (participating or universal) policies**
  These life insurance policies have an investment component in addition to the pure insurance component. If the policy is an exempt policy (i.e., the accrued income is not subject to tax), the tax-free accumulation of the investment component can be significant over the long term. For an insurance policy to be considered exempt, it can only have a certain amount of investment component relative to pure insurance. The premiums on permanent insurance policies are generally higher than those for term policies when the insured person is young. The premiums are often fixed and only paid over a certain period.

  As with term insurance, permanent insurance policies provide your beneficiaries with tax-free sums on your death.

  One added benefit of permanent insurance policies is that the investment component has a cash surrender value, which can provide funds before death. You can borrow against or withdraw this cash surrender value to supplement your retirement income or for emergency situations – but there may be an associated tax cost.

  The fact that you can designate beneficiaries is another advantage of insurance policies over other types of investment. This protects the policy from creditors and excludes the proceeds from the estate’s value when calculating probate tax where there is a named beneficiary.

  Life insurance is also commonly used in connection with closely held businesses to fund the purchase of the shares held by the deceased’s estate. If the company receives the death benefit, the proceeds can generally be distributed to your estate or the surviving shareholders free of tax. However, tax legislation restricts your ability to use corporate-owned life insurance to fund a redemption of shares and to create a capital loss that may reduce the income tax exposure on the death of a shareholder.

  **Tax tip**
  - Periodically review your life insurance requirements to ensure you have the appropriate amount and type of coverage, and have named the correct beneficiaries of the policy.

  **Charitable planned giving**

  **2014 federal budget proposal: estate donations**
  The 2014 budget proposes to introduce a new deeming rule, applicable to 2016 and subsequent taxation years, whereby donations made by will and designation donations (under an RRSP, RRIF, TFSA or insurance policy) will no longer be deemed to be made by an individual immediately before the individual’s death.

  Instead, these donations will be deemed to have been made by the estate, at the time at which the property that is the subject of the donation is transferred to a qualified donee. The trustee of the individual’s estate will be entitled to allocate the donation to the taxation year of the estate in which the donation is made, an earlier taxation year of the estate or the individual’s last two taxation years.
Estate planning

Specific charitable gifts made in your will are treated as though you made them in the year of your death. The rules relating to charitable donations and gifts of Canadian cultural property are also applicable to gifts made in your will. One difference is that gifts made in the year of death that are not claimed may be carried back to the immediately preceding year. Moreover, the limit on donations claimed in the year of death or the immediately preceding year is 100% of your net income.

Donations of RRSP, RRIF and insurance proceeds made by way of direct beneficiary designations in the contracts are treated as gifts made in the year of death.

### Tax tips

- Consider starting your charitable donation program while you’re alive, or consider alternative ways of creating a legacy, such as:
  - Gifting capital property (such as shares)
  - Gifting a life insurance policy (the premiums may be donations)
  - Gifting a residual interest in property
  - Donating a charitable gift annuity
- If the deceased was married or in a common-law partnership, the surviving spouse or common-law partner may choose to include the gift in his or her tax return rather than in the terminal return (or prior-year return) of the deceased.

### The 21-year trust rule

Trusts — other than qualifying spouse or partner trusts, alter-ego trusts and joint partner trusts — are deemed to dispose of their assets at fair market value every 21 years. Accrued capital gains or losses on capital property are thus recognized and subject to tax. For example, trusts created in 1994 will have a deemed disposition in 2015.

Trusts may elect to pay the resulting tax in up to 10 annual instalments. You’ll be charged interest on the unpaid balance of tax at the prescribed rate. It’s important to have your trust reviewed by your EY tax advisor to help reduce the impact of the 21-year deemed disposition rule and to identify other planning opportunities.
Such people are often referred to as “accidental Americans” because an individual can obtain US citizenship “accidentally” by birth in the US, through birth abroad to a US-citizen parent, or as the result of a parent’s naturalization. If the legal requirements for citizenship are met, then a person becomes a US citizen by operation of law, irrespective of their intent.

Below is a brief summary of the current rules regarding acquisition and renunciation of US citizenship.

**US citizenship by birth in the United States**

*Jus soli* (the law of the soil) is a common law rule under which a person's place of birth determines his or her citizenship. The principle of *jus soli* is embodied in the Fourteenth Amendment to the US Constitution and various US citizenship and nationality statutes, including the *Immigration and Nationality Act* (INA). Thus, nearly all persons born in the US are endowed with US citizenship. US citizenship may be acquired by a child born in the US even if her/his parents were in the country temporarily or illegally.

There is one exception. INA 301 (a) provides that persons born in the US and subject to the jurisdiction thereof acquire US citizenship at birth. Therefore, children born in the US to foreign sovereigns, consuls, diplomats and other people who are not subject to US law are not considered US citizens at birth.

**Birth abroad**

*Jus sanguinis* (the law of the bloodline) is a civil law rule under which a person's citizenship is determined by the citizenship of one or both parents. The principle is often referred to as “citizenship by descent” or “derivative citizenship.”

*Jus sanguinis* is not embodied in the US Constitution. Citizenship by descent is, however, granted under US statute. The statutory requirements for conferring and retaining derivative citizenship have changed significantly over time. In order to determine whether US citizenship is transmitted in a particular person's case, you need to look to the laws that were in effect at the time the person was born.

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1 For citizenship purposes, the “United States” refers to the continental US, Alaska, Hawaii, Puerto Rico, Guam and the Virgin Islands [INA 101(a)(38)], as well as US ports, harbours, bays and other territorial waters. By virtue of Public Law 94-241, persons born in the Northern Mariana Islands after 4 November 1986 are also considered US citizens.
Birth abroad to two US-citizen parents in wedlock

Pursuant to INA 301(c), a person born abroad to two US-citizen parents is deemed to have acquired US citizenship at birth if at least one of the parents resided in the United States or one of its outlying possessions prior to the child’s birth. No specific period of time is required. In this context, a child is considered to be born in wedlock if the child is the genetic issue of a married couple.

Birth abroad to one US-citizen parent in wedlock

A child born abroad in wedlock on or after 14 November 1986 acquires US citizenship if the child has one US-citizen parent who was physically present in the US or one of its outlying possessions for at least five years prior to the child’s birth. At least two of the five years must have accrued after the US-citizen parent reached the age of 14.

Under INA 301(g), a child born abroad in wedlock between 24 December 1952 and 13 November 1986 is deemed a US citizen provided that one US-citizen parent was physically present in the US for a period of at least 10 years prior to the birth of the child. At least five of those years must have accrued after the US-citizen parent reached the age of 14.

Birth abroad of an out-of-wedlock child with a US-citizen mother:

Under INA 309(c), a person born abroad out of wedlock is considered a US citizen if the mother was a US citizen at the time of the birth and physically present in the US or one of its outlying possessions for a continuous period of one year prior to the birth.

Birth abroad of an out-of-wedlock child with a US-citizen father:

Under INA 309(a), a person born abroad out of wedlock with a US-citizen father acquires US citizenship under INA 301(g) provided that the following conditions are met:

- A blood relationship between the person and the US-citizen father is established by clear and convincing evidence
• The father was a US national at the time of the birth
• The father was physically present in the US or its outlying possessions for at least five years prior to the child’s birth, at least two of which were after reaching the age of 14
• The father (unless deceased) has agreed in writing to provide financial support for the person until the person reaches the age of 18
• While the person is under the age of 18:
  − The person is legitimated under the law of his or her residence or domicile;
  − The father acknowledges paternity in writing under oath; or
  − The paternity is established by adjudication of a competent court

Birth abroad of an out-of-wedlock child with a US-citizen father under the “old” INA 309(a)
The “old” INA 309(a) applies to individuals who were 18 years of age on 14 November 1986, as well as individuals whose paternity was legitimated prior to that date.

People who were between 15 and 17 years of age on 14 November 1986 may elect to have their claim to US citizenship determined in accordance with either the old or the new INA 309(a).

A child born out of wedlock to a US-citizen father is eligible for US citizenship under the former INA 301(a) (7) – as made applicable by the former INA 309(a) – if the following conditions are met:
• Prior to the person’s birth, the father had been physically present in the US or one of its outlying possessions for at least 10 years, five of which were after the age of 14
• The person’s paternity had been legitimated prior to the child reaching the age of 21

Renunciation of US citizenship
Once an individual acquires US citizenship, it is difficult to lose. The process of renunciation is quite complex and involves many considerations.

A person cannot avoid an outstanding tax liability by formally renouncing US citizenship, as renunciation can typically only occur after all outstanding tax filings and tax debts have been resolved. Moreover, individuals who renounce US citizenship may be subject to expatriation taxes and special reporting requirements upon departure.

It’s important to note that persons who renounce US citizenship will then be subject to US immigration laws and regulations, just like all other non-citizens.

In light of the potential consequences, it is recommended that anyone considering renouncing their US citizenship seek professional advice before taking any action.

If you have any questions concerning US citizenship or renunciation, please consult with a US immigration attorney at Egan LLP, a business immigration boutique firm allied with EY in Canada.

For questions relating to the tax implications of US citizenship or renunciation, please contact your EY advisor.
If you’re a Canadian resident (but not a US citizen) who spends significant amounts of time in the US for either work or leisure, you may be required to file US federal income tax returns.

That’s because, under US law, you may be considered a US resident as well as a resident of Canada. You’re considered a US resident if you hold a green card or if you meet the “substantial presence” test.

You have a “substantial presence” in the US if you spend at least 31 days there during the year, and the result of a prescribed formula for presence in the US is equal to or greater than 183 days.

The prescribed formula for 2014 is as follows:
• The sum of the days you spent in the US in 2014
• Plus one-third of the number of days spent there in 2013
• Plus one-sixth of the number of days spent there in 2012

This means that people who regularly spend four months a year in the US will be considered a resident under this test, and should be filing the Internal Revenue Service (IRS) closer connection statement (form 8840). This form should be filed even if you have no income from US sources, in order to avoid reporting your worldwide income on a US tax return.
US tax for Canadians

Certain days you spend in the US are not counted for this test, including:

- Days you spend commuting to work in the US for at least 75% of total workdays in the year
- Days you spend in the US beyond your intended stay due to a medical emergency
- Days spent in the United States by certain students

Even if you meet the substantial presence test, however, you won’t be considered a US resident if, for the entire year, you have a “closer connection” to another country. A closer connection means that you:

- Were present in the US less than 183 days during the calendar year
- Have a tax home in another country for the entire year
- Establish that you have a closer connection to that tax home compared to the home you have in the US
- File IRS form 8840, “Closer Connection Exception for Aliens Statement” by the tax return due date, including extension to file.

The normal tax return filing due date is 15 April, but for individuals without US-source employment income, the due date is 15 June. This filing is often called a “snowbird filing,” since Canadians who spend the winter in the US each year and meet the substantial presence test must file this statement to avoid being treated as US residents and subject to US tax on their worldwide earnings.

If you’re considered a resident of both Canada and the US under each country’s domestic tax law, you can avoid double taxation on worldwide income by being treated as a resident of either the US or Canada under the Canada-US Tax Treaty.

Nonresidents who take advantage of the treaty to reduce their US tax liability, including those who claim nonresident status under the treaty, are required to file a US treaty disclosure form attached to form 1040NR. This return is due on 15 April of the following calendar year for people who have US-source wage income. In all other cases, the date is 15 June of the following calendar year. Failure to file a treaty disclosure return could result in a minimum penalty of US$1,000.

The rules regarding filing returns are very complex. Contact your EY tax advisor if you have questions on this topic.

Tax tips

- Review your situation and determine whether you’re considered a US resident for US income tax purposes.
- If you have a green card, you should be aware that you are considered a US-resident alien and that you are subject to US tax on all your worldwide income.
- Ensure that you track the number of days you’re present in the US.
- To substantiate your arrival and departure dates to and from the United States, you should keep copies of travel tickets, stamped passports and other relevant documentation in your tax files.
- Effective 30 June 2014, the final phase of the Entry/Exit Initiative of the Perimeter Security and Economic Competitiveness Action Plan will permit US immigration and tax authorities to independently tally the number of days a Canadian resident has spent in the US when travelling to and from the country.
US tax for Canadians

Tax issues for Canadians with US real estate

Are you planning to purchase your dream retirement home in the US in the near future? Or have you already taken the plunge and are the proud owner of a vacation home south of the border? In either case, there are a number of sometimes complex US income, estate and gift tax issues that you should be aware of. If you take these issues into consideration, you could reduce your overall tax exposure.1

The following US tax considerations apply to Canadian residents who are neither US citizens nor green card holders.

US estate tax

After you've figured out where you want to vacation each year and have found the ideal home, one of the next questions that you should ask yourself is: what do I need to know about US tax – especially the ominous US estate tax?

Canadian residents who own US real estate for business or personal use are exposed to US estate tax on the gross value of US property (subject to some reductions) owned at the time of an individual’s death.

The maximum US estate tax rate will be 40% and the Internal Revenue Service (IRS) will allow a Unified Credit, with the effect that the first US$5.34 million would not be subject to US estate tax.

US citizens will be allowed the full amount of the Unified Credit, which in most circumstances will be transferrable to the surviving spouse. However, for non-US citizens, the Unified Credit will be adjusted proportionately to reflect the value of the US-based assets in relation to the value of their worldwide estate. If the US property is not a significant portion of a non-US citizen’s worldwide estate, the amount of the Unified Credit available would be reduced substantially.

In Canada, a limited foreign tax credit is allowed for the US estate tax paid to the extent Canadian income tax was payable related to the capital gains on the same property, provided that the Canadian capital gains tax would apply in the same year. This foreign tax credit is of nominal value if the accrued gain in the US real estate was relatively small in relation to the gross value of the US real estate.

Single-purpose corporation

Before 2005, a common planning technique to avoid US estate tax was the use of a Canadian company, commonly called a single-purpose corporation, to hold US real estate. Because the corporation owning the US property does not “die” with its shareholder, there is no death that triggers US estate tax.

Under general principles of taxation, a shareholder would ordinarily be assessed a taxable benefit for the personal use of an asset of the corporation. However, before 23 June 2004, the Canada Revenue Agency (CRA) administratively permitted these arrangements without assessing a taxable benefit. This administrative concession was eliminated as of 31 December 2004, and a shareholder benefit will be assessed in any new arrangements. As a result, single-purpose corporations are generally no longer considered an effective strategy for new purchases of US real estate.

1 This information is not intended or written to be used, and cannot be used, for the purpose of avoiding penalties that may be imposed under the US Internal Revenue Code or applicable state or local tax law provisions.
Co-ownership

Where there are multiple owners of a property, the US estate tax liability will be divided among the co-owners. The IRS will usually allow a discount on the value of each co-owner’s share of the property, based on valuation principles, as it is more difficult to sell a partial interest in a property than to sell the entire property.

As well, with co-ownership, each individual can use the unified credit. As a result, the aggregate US estate tax payable by the co-owners on the discounted value would usually be less than the aggregate amount that would be payable had there been a single owner.

To implement this plan properly, all co-owners must fund their share of the purchase price so that the IRS does not view the planning as a “sham,” and to avoid potential US gift tax issues when the property is sold in the future.

As well, you should be aware that the IRS automatically presumes that the entire value of the jointly held property is included in the deceased person’s gross estate, unless the executor provides evidence sufficient to show that the property was not acquired entirely with consideration furnished by the deceased, or that it was acquired by the deceased and the other joint owner by gift, bequest or inheritance. Therefore, properties held in joint tenancy by spouses may be subject to US estate tax twice. So make sure you keep proof that all joint owners paid for their share of the property.

While this ownership structure can significantly reduce US estate tax, it might make a future disposition of the property more complicated and cumbersome. All owners would have to agree to the disposition and be available to sign the legal documents for the transaction.

Life insurance

Another option to counter US estate tax is the use of life insurance to fund the estate tax liability on death. The amount of premiums will depend on the age and health of the owner(s). Accordingly, if there is any insurability issue, this may not be a cost-effective plan. Insurance policy premiums to fund the US estate tax liability are not deductible for income tax purposes.

It should be noted that insurance proceeds on the life of a nonresident, non-citizen of the US are not considered US-based property and will not be subject to US estate tax. However, the insurance proceeds will reduce the unified credit amount available to the deceased, as the insurance proceeds payable to the estate or beneficiaries will be included in the gross value of the deceased’s worldwide estate if he or she is the owner of the policy.

Non-recourse mortgage

In determining the value of property for US estate tax purposes, the IRS allows a deduction for an arm's-length non-recourse mortgage registered against the property. This deduction would reduce the value subject to US estate tax, thereby reducing the US estate tax liability. In order for a mortgage to be considered non-recourse, the only claim that the lender may have on the borrower’s assets would be the specific property that has been pledged as security.

These loans may not be easily negotiated. As well, financial institutions usually will not lend more than 60% of the value of the property. Therefore, if a financial institution holds the mortgage, there may not be the possibility of eliminating all of the exposure to US estate tax.

As an added benefit, the interest paid on the non-recourse mortgage could be deductible for Canadian income tax purposes if the loan proceeds were used to purchase income-generating assets.

Canadian trust

A non-US citizen (the settlor) could establish a Canadian trust to purchase a US recreational property with a life interest for their spouse and capital interest for their spouse and children. The trust would be settled with sufficient cash to purchase the real estate.

It is important that the settlor be neither a trustee nor a beneficiary of the trust. This restriction is necessary to avoid the application of US Internal Revenue Code section 2036, which would attribute the value of the property to the settlor for purposes of calculating their US estate tax liability.

In addition to the original funding, the settlor will likely need to contribute additional amounts to the trust to fund the annual operating costs.
US tax for Canadians

Generally, with this planning, the trust would not generate any income while it is holding the real estate, and therefore no annual Canadian or US income tax return filings should be required.

You should also be aware that Canadian income tax rules for trusts deem the trust to have disposed of its capital property every 21 years. Therefore, the trust deed should be drafted to provide flexibility in the future to avoid the potentially adverse implications of the 21-year rule.

Canadian partnership

The property could be purchased by a Canadian partnership. In this case, it could be argued that the deceased owned a Canadian partnership interest rather than the actual US real estate.

However, it is not clear how the IRS views the location of a partnership. It may see it as the location of the partnership’s trade or business, the domicile of the partner, the location of the partnership assets or the location where the partnership was legally organized. Therefore, there is no guarantee that the IRS will not look through the partnership to the underlying assets and apply US estate tax on the property held.

As well, there is uncertainty as to whether a Canadian partnership can be legally created if its sole purpose is to hold personal-use US real estate.

It may be possible to obtain more certainty that the partnership structure is protected from US estate tax by having the Canadian partnership elect (or “check the box”) in US filings to be treated as a corporation for US purposes. The partnership would still be considered a partnership in Canada, but would be considered a corporation for US estate and income tax purposes.

Like the single-purpose corporation, the individual/partner would be considered to own shares of a Canadian corporation on death, rather than US real estate. However, unlike the single-purpose corporation, this hybrid structure would not give rise to a shareholder benefit issue in Canada.

The main tax disadvantage of this hybrid structure is the higher US income tax rate that would apply to any capital gain realized on the disposition of the property. A capital gain realized by a corporation is subject to a US corporate income tax of 35% (plus state income tax, if applicable), compared to the 15%/20% (plus state tax and Medicare contribution tax, if applicable) US long-term capital gain rate for individuals that would apply if the structure were considered a partnership for US tax purposes.

Some US estate tax planners believe that the check-the-box election can be made after death, since the effective date of an election may be up to 75 days prior to the date the election is filed. By delaying the election until after death, the higher US corporate tax rate on capital gains would not apply if the property is disposed of prior to death because the structure would be considered a partnership for US income tax purposes.

In using this strategy, additional complex post-mortem planning will be required to avoid double taxation. As well, you should keep in mind that it is uncertain whether the IRS would accept a post-mortem check-the-box election for US estate tax purposes, or whether that election would result in a deemed transfer of property that may be subject to an adjustment to the calculation of US-based assets on death if it is considered a gift within three years of death.

The appropriate structure for holding US recreational property will, of course, depend on your personal situation. But in all cases, it is important to consult with a tax advisor to ensure the structure is tax effective as well as practical.

Tax tips

- You can take advantage of many strategies to reduce US estate tax on US real property, including:
  - Co-ownership
  - Life insurance to fund the US estate tax
  - Non-recourse mortgage
  - Using a Canadian trust to purchase the property
  - Using a Canadian partnership
- Your EY tax advisor can help you select and implement the strategy that’s right for you. If you have a single-purpose corporation, consider transferring the property out of the corporation. Consult your EY tax advisor.
- While corporate ownership no longer works for personal-use property, consider whether owning US investment property in a corporation may work to reduce US estate tax on that property.
Renting US property

If you are thinking about renting your US vacation home to help defray the costs of ownership, there are a few things you should understand with respect to your US income tax reporting.

While nonresident aliens generally are not required to file US tax returns to report this rental income, the gross rents are subject to a flat 30% US tax, which the tenant or management agent is required to withhold and remit to the IRS.

This US tax cost can be reduced by providing the tenants or agents with IRS form W-8ECI to reduce or eliminate the up-front withholding tax, and by filing a note with the first US 1040NR that states that the election is being made to tax the net rental income and provides details about the location and ownership of the property.

The US tax rules relating to claiming expenses against rental expenses are more restrictive than the Canadian rules. The property must be rented for a minimum of 15 days to report rental income or deduct rental expenses. If the property is used for personal purposes for more than 15 days in a year (and rented for at least 15 days), a loss cannot be reported, but excess expenses can be carried forward to be used against future rental income.

If you end up with net rental income and pay US income tax, you may claim any US tax paid as a foreign tax credit in Canada up to the amount of Canadian income tax paid on the rental income.

If you don't file the US tax return electing to be taxed on net rents in a timely manner, you'll generally lose the benefit of your deductions and credits. Also, you will be required to pay the federal 30% US tax (plus state tax, if any) on the gross rents. (Exceptions to this rule may be available in certain cases if you can demonstrate that you acted reasonably and with good faith in failing to file.)

State implications vary based on the individual state's income tax rules.

Co-ownership and US gift tax

In Canada, many couples hold property in joint tenancy, often because it can simplify estate administration and can be a simple and inexpensive means of avoiding probate. If you’ve chosen this option to reduce your exposure to US estate tax, you should be aware that there may be unexpected Canadian and US tax consequences if the joint owners do not have enough money to fund their share of the property’s purchase price.

Certain transfers of property by US citizens and individuals considered resident in the US for estate and gift tax purposes are subject to taxation. However, a US citizen is entitled to an unlimited marital deduction for spousal transfers if the spouse is also a US citizen.
In addition, US citizens and resident aliens are entitled to a cumulative lifetime gift tax exemption (indexed), along with annual exclusions for gifts to non-US citizen spouses (indexed), and of US$14,000 for gifts to other individuals (not indexed).

The cumulative lifetime gift exemption for 2014 is US$5.34 million and the annual exemption for gifts to a non-US citizen spouse for 2014 is US$145,000.

Canadians who are neither US citizens nor resident in the US for estate and gift tax purposes are subject to US gift tax on transfers of tangible property situated in the US if less than full and adequate consideration is exchanged. Tangible property includes US real estate. As a result, Canadians should also consider the US gift tax rules before buying or selling any US real property.

Depending on when a US home was purchased, different US gift tax rules apply on the creation and termination of a joint tenancy. For property purchases after 13 July 1988, a gift does not arise at the time of purchase, regardless of who funded the acquisition. When the property is disposed of (other than by reason of the death of the spouse), the spousal joint tenancy is terminated and one spouse could be treated as having made a gift to the other spouse. The gift would be the proportion of the total purchase cost funded by one spouse, multiplied by the proceeds of disposition, in excess of the proceeds received by the other spouse.

For example, if one spouse funded the entire purchase, his or her proportion would be 100%. However, if only 50% of the proceeds are received by this spouse, the other 50% would be considered a gift and subject to US gift tax, which ranges from 18% to 40%.

For purchases of property before 13 July 1988, creating a joint tenancy without a corresponding contribution of funds for the purchase was considered to be a gift, and therefore subject to US gift tax at the time of purchase.

So what can you do if you are planning to sell your US property that you purchased after 1988, and funded entirely yourself but held in joint tenancy with your spouse?

Consider assigning all rights in the property, including any right to proceeds, to the spouse who funded the purchase. This could avoid completion of the gift, as the spouse that funded the original purchase would be entitled to all the proceeds on closing.

While this strategy may be sufficient to eliminate the US gift tax exposure, it may increase your US estate tax exposure, and also likely will not solve a problem with the mismatch of the foreign tax credits on your Canadian income tax return, as explained below.

You should consult legal counsel where the property is located to determine if such a contractual agreement is valid.

Foreign tax credit issues when Canadian attribution is applicable

If a capital gain is realized on the sale of US real estate owned by spouses as joint tenants, each spouse will be taxable on one-half of the gain for US income tax purposes, even if the proceeds go to only one spouse. Each spouse may claim this tax as a foreign tax credit against Canadian taxes payable on the gain they report in their respective Canadian income tax returns.

However, if only one spouse provided the funds to purchase the US property, the attribution rules require that spouse to report 100% of the gain for Canadian tax purposes. As a result, only 50% of the US income taxes paid may be claimed as a foreign tax credit, since the attribution rules do not apply to foreign taxes.

It may be possible to solve both the US gift tax issue and the mismatch of the foreign tax credits by filing a quitclaim deed to remove the non-contributing spouse from title to the property prior to its sale. This should not have any adverse Canadian or US tax consequences. There will be no gift on the sale of the property, the spouse who funded the purchase will be liable for 100% of the US and Canadian tax on the gain, and all of the US tax will be allowed in computing the foreign tax credit in Canada.
Selling US real estate: compliance matters you need to know

If you’ve decided to sell your US home — whether due to financial need, limited use as your health declines in older age or to upgrade to a larger home — there are a number of things that Canadian residents should know.

US tax implications

If you sell US real property, you must report the disposition on a US personal income tax return and pay US tax on any resulting gain. The US federal income tax rate on long-term capital gains (i.e., assets held for more than one year) is a maximum of 20% (before Medicare contribution tax where applicable). Depending on which state your property is in, you may also be required to file a state personal income tax return.

If you do not have a Social Security number or an individual taxpayer identification number, you should obtain one prior to the sale to ensure the tax withheld is properly credited to your account and applied on filing the return.

There is mandatory US withholding tax under the Foreign Investment in Real Property Tax Act (FIRPTA). If the seller of a property is a US nonresident alien, the buyer must generally withhold 10% of the gross proceeds and remit it to the IRS as a prepayment of the seller’s tax. This withholding requirement applies irrespective of the amount of gain or loss on the property.

There are two exceptions that could reduce or even eliminate this withholding tax:

- If the property is sold for less than US$300,000, and the buyer intends to use it as a principal residence, withholding tax is not required.

- If the seller’s expected US tax liability is less than 10% of the proceeds, the seller can apply for a reduced withholding amount (or no withholding if there is no gain) using IRS form 8288-B.

Canadian income tax implications

The disposition of a US property must also be reported on your Canadian personal income tax return, and any US tax paid (as reported on the federal 1040NR and the state tax return) is eligible for foreign tax credit in Canada. However, the gain or loss for Canadian purposes could be very different than the amount reported on the US returns. This is because the exchange rates used to report the transaction in Canada are those in effect at the time of purchase and sale, respectively.

As a result of the strength of the Canadian dollar over the last few years, it’s possible the Canadian gain would be much less than the US gain, which may mean the US tax paid would not be fully credited against Canadian taxes. You may even end up with a loss for Canadian tax purposes, and losses on personal property are not deductible.

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2 This does not include Canadian residents who are US citizens or green card holders.
When an individual immigrates to or emigrates from Canada in a calendar year, he or she is treated as a Canadian resident for the period he or she is resident in Canada, and a nonresident for the period he or she is a nonresident of Canada, and is usually referred to as a part-year resident.

As a part-year resident, an individual is taxed on worldwide income for the portion of the year the individual is a resident of Canada. A part-year resident is also subject to Canadian tax on certain Canadian-source income received for the part of the year prior to establishing residence or subsequent to relinquishing residence.

An individual who is resident for part of a year because he or she is an immigrant or emigrant will find that certain federal non-refundable credits may be claimed only to the extent they relate to the period of residence, and other credits must be prorated on the basis of the number of days of residence in the year.

Because an individual’s Canadian tax liability is based on residence, the date on which an individual becomes or ceases to be a resident of Canada is relevant in determining how, and how much of, the individual’s income is subject to Canadian tax. Generally, the date of the physical move is recognized as the date Canadian residence begins or ends. However, other factors must be taken into consideration.

Date an individual changes residence

The CRA considers the date on which an individual becomes a nonresident of Canada to be the date on which the individual severs all residential ties to Canada. This date is the latest of the following:

- The date on which the individual leaves Canada;
- The date on which the individual’s spouse (or common-law partner) or dependants leave Canada; and
- The date on which the individual becomes a resident of the country to which he or she is immigrating (unless the individual is re-establishing residence in that country, in which case the individual becomes a nonresident on the day he or she leaves Canada, regardless of whether a spouse or dependants remain behind temporarily).

Individuals who cannot be considered nonresidents because they have retained sufficient residential ties with Canada remain factual residents of Canada and are subject to Canadian tax on worldwide income. However, an income tax treaty between Canada and the other country may modify this determination.
Immigration and emigration

Emigration

Except in very unusual circumstances, individuals who become nonresidents of Canada for income tax purposes become residents of another country. Accordingly, the assessment of tax considerations that arise must include both Canadian tax and the tax rules of the host country.

For example, many countries are like Canada, in that there is one set of rules for residents and another for nonresidents. However, some jurisdictions have a subset of rules for short-term residents or expatriate employees. It may also be necessary to consider any tax treaty between Canada and the destination country to determine residence status and the best way to reduce any double tax that may arise as a result of the departure.

Because Canada taxes its residents on their worldwide income but taxes nonresidents on only certain Canadian-source income, an individual leaving Canada and becoming a nonresident will be concerned about how this change in tax status will affect his or her future personal taxes.

Employment income

Determining what employment income to report in the year of departure from Canada is not always a simple matter. Often, employment income earned must be allocated between the resident and nonresident periods; employment income may also need to be sourced to determine whether income earned while resident in Canada is from a foreign source (which is relevant if that income is also subject to tax in another country). It is also important to determine if any income earned in the nonresident period is from a Canadian source and therefore subject to Canadian tax.

The allocation of employment income to determine the amount earned in a certain period is most often determined by reference to time. It’s important to note that identifying the payor as a Canadian or a foreign company has no bearing on the preliminary determination of the income’s source.

Frequently, the date of departure does not correspond to the date of change from the Canadian company’s payroll to the foreign company’s payroll. In this case, it is necessary to determine what income was earned as a resident (and is therefore taxable in Canada) and what Canadian-source income was earned as a nonresident (and is therefore also taxable in Canada). It is also necessary to determine whether any of the income earned during the resident period is taxable in the host country, as foreign-source income may be eligible for a foreign tax credit to reduce Canadian tax.

Stock options

Stock options exercised by a nonresident of Canada are taxable in Canada to the extent they were granted in relation to Canadian employment.

The exercise of stock options while resident in a foreign country is also likely to be subject to tax in that country. The issue of relief from double taxation where stock option benefits are subject to tax in more than one jurisdiction is a complex area, as the method of determining the source of a security option benefit – both for jurisdiction to tax and for foreign tax credit purposes – is not universal.

The CRA’s longstanding administrative position (which applies for stock options exercised before 2013) is that the security option benefit is attributable to services rendered in the year of grant (i.e., past services), unless there is compelling evidence to suggest another period would be more appropriate.

On 25 September 2012, the CRA announced a change to its longstanding administrative position. For stock options exercised after 2012, the determination of the amount of the stock option benefit relating to Canadian employment will be based on future services rendered in the grant-to-vesting period (the approach set out by the OECD), rather than past services rendered in the year of grant.

It is important to note that a nonresident of Canada exercising stock options that were granted prior to departure from Canada must file a Canadian T1 return in the year of exercise, reporting the security option benefit resulting from the exercise of the stock options.
**Canadian benefits**

Canada generally retains the right to tax Canadian benefit payments made to nonresidents. A nonresident is subject to a flat 25% withholding tax on gross Canadian benefits under the *Income Tax Act* (subject to treaty reduction).

Alternatively, a nonresident may elect to report Canadian benefits on a T1 return and pay Part I Tax at incremental tax rates and claim applicable deductions and credits. This may result in a refund of all or some of the 25% tax withheld.

Canadian benefits for this purpose include the following:
- Old age security pension
- Canada Pension Plan or Quebec Pension Plan
- Superannuation or pension benefits
- DPSP, RRSP, PRPP or RRIF payments
- Retiring allowances
- Payments from a retirement compensation arrangement
- Death benefits
- Employment insurance benefits
- Certain prescribed benefits under a government assistance program
- Supplementary unemployment benefit plan payments
- Auto Pact benefits

If the election is made, all Canadian benefits paid or credited in that year must be reported on the individual’s Canadian T1 personal income return.

**Personal assets**

Generally, when you’re no longer a resident of Canada, you are deemed to dispose of all property owned at that date, with specific exceptions, for proceeds equal to fair market value at that time.

The exceptions include:
- Real property in Canada
- Capital property used for a business you carry on through a permanent establishment in Canada
- Pension rights, such as RPPs, RRSPs, RRIFs and DPSPs and the right to CPP or OAS benefits
- Other excluded rights and interests, such as TFSAs, RESPs and RDSPs
- Employee stock options
- For certain short-term residents of Canada (i.e., resident for no longer than 60 months in the 10-year period before emigration), the property you owned when you became a Canadian resident or inherited after becoming a resident of Canada

This means that any accrued gains on your properties at the date you leave will be taxed in the year of your departure. Instead of having to pay the tax liability from the deemed disposition immediately, emigrating taxpayers are allowed to post security with the CRA and pay the tax when the property is actually sold. The CRA will not charge interest on the tax due from the date you leave to the date of disposition.

In addition, Canada allows a credit for the taxes you paid as a resident in relation to pre-departure gains if your property is disposed of in the new country of residence, and if that country has a tax treaty with Canada.

If the value of the assets you own when you cease your Canadian residence exceeds $25,000, you must report their total value and details of each property, other than personal-use properties individually valued at less than $10,000.

If you return to Canada (regardless of the period of non-residence), you can elect to unwind the deemed disposition on departure for property you still owned on resumption of Canadian residence.

**Taxation of rental income**

Under both its domestic law and tax treaties, Canada generally retains the right to tax nonresidents on income from Canadian real property and on income from the disposition of Canadian real property. Real property means land and whatever is erected or growing on or affixed to it.

Taxation of rental income from Canadian real property depends on whether the income is business or property income. The following commentary assumes that rental income is taxed as income from property, not income from a business. Under the general provisions of the *Income Tax Act*, a nonresident of Canada who earns such income is subject to a 25% withholding tax on gross rental income.
Immigration and emigration

With respect to the payment of tax on Canadian rental property, a nonresident owner has three alternatives:

- An agent or tenant must withhold 25% tax from gross rental income and remit the funds directly to the CRA. Because this option does not allow for any deductions against gross rent, it is not usually the preferred alternative.
- The nonresident owner may elect to file a Canadian T1 personal income return within two years from the end of the taxation year in which the rents were received and pay tax at graduated tax rates on net rental income.
- The nonresident owner may elect to have the initial 25% withholding tax be based on the anticipated net rent, excluding depreciation claims, rather than the gross rent, and file the Canadian T1 personal income tax return.

Tax tips

- An individual who is leaving Canada should establish the date on which he or she becomes a nonresident and ensure that it can be supported. It’s also important to keep detailed travel logs to substantiate travel inside and outside Canada during the year.
  - **Canadian bank or investment accounts** - If these accounts are to be retained, notify the Canadian payers of interest and dividends so that they can withhold and remit the appropriate amount of withholding tax.
  - **Canadian rental property** - If you rent your Canadian home or another property after ceasing Canadian residence, you’ll be subject to 25% Canadian nonresident withholding tax on the gross rental income. A better alternative may be to elect to file a Canadian income tax return, reporting net rental income (deducting applicable expenses), in which case Canadian marginal tax rates will apply.
  - **RRSP contribution room** - Consider making RRSP contributions for the year of departure. Generally, it is advantageous for employees to leave RRSPs in place when they cease Canadian residence, provided that maintaining funds in a Canadian RRSP does not give rise to any tax problems in the new country of residence. Advise your RRSP administrators of your departure, as certain RRSP trading restrictions may exist for nonresidents under local securities law.
  - **RRSP investments** - It’s generally beneficial to leave RRSPs in place when you end your Canadian residence, provided that maintaining funds in a Canadian RRSP does not give rise to any tax problems in your new country of residence.
  - **RESP contributions** - These may be made only when the beneficiary is a resident of Canada. Accordingly, RESP contributions should be made prior to the beneficiary’s departure.
  - **TFSA contributions** - You may continue to hold a TFSA after ceasing residency in Canada, but you cannot make contributions or accrue contribution room while a nonresident. Accordingly, you should make your contributions before you leave Canada.
Immigration

Canada taxes residents and immigrants on worldwide income earned while they are Canadian residents. Once an individual establishes Canadian residence, the individual’s worldwide income is taxable in Canada at graduated tax rates. Any foreign-source income received after an individual becomes a resident of Canada will likely be subject to foreign tax, as well as Canadian tax. However, to avoid double taxation, a foreign tax credit is available (within certain limits) for foreign taxes paid on this income. Therefore, if income tax rates in the country from which the individual is emigrating are lower than Canadian rates, the individual should arrange to receive or earn as much income as possible in that country before establishing Canadian residence.

Employment income

When an individual becomes a resident of Canada for employment reasons, the employee typically works for one employer in his or her home country prior to entering Canada and begins to work for another employer in Canada. However, determining what employment income to report in the year of entry is not always a simple matter. Often, employment income earned must be allocated between the resident and nonresident periods; employment income may also need to be sourced to determine whether income earned while resident in Canada is from a foreign source (which is relevant if that income is also subject to tax in the home country). It is also important to determine whether any income earned in the nonresident period is from a Canadian source and therefore subject to Canadian tax.

The allocation of employment income to determine the amount earned in a certain period is most often determined by reference to time. Frequently, the date of entry does not correspond to the date of change from the foreign company’s payroll to the Canadian company’s payroll. In this case, it is necessary to determine what income was earned as a resident (and is therefore taxable in Canada) and what Canadian-source income was earned as a nonresident (and is therefore also taxable in Canada). It is also necessary to determine whether any of the income earned during the resident period is taxable in the host country, as the host country tax on foreign-source income may be eligible for a foreign tax credit to reduce Canadian tax.
Immigration and emigration

Personal assets
When you become a Canadian resident, you’re deemed to have disposed of and reacquired each property you owned immediately before establishing residence (with the exception of taxable Canadian property (TCP) and certain excluded rights or interests) for proceeds equal to the fair market value of the properties at that time. This does not trigger a taxable transaction but merely establishes a new cost base for the individual’s property.

TCP includes Canadian real or immovable property, capital property used in carrying on a business in Canada, certain shares of Canadian private corporations, certain shares of public companies, and Canadian resource properties. TCP excludes your rights or interests in a superannuation or pension fund. In addition, TCP excludes certain shares and other interests that do not derive their value principally from real or immovable property in Canada, Canadian resource property or timber resource property.

For those properties you’re deemed to have acquired, striking a new adjusted cost base means gains that accrued before you began your Canadian residence are not subject to Canadian tax. If your property has fallen in value since you purchased it, you’re deemed to have acquired it at its fair market value. Consequently, it may be better to dispose of loss properties before you enter Canada if the resulting loss can be offset against other gains or income in the country from which you are emigrating.

Reporting on foreign investment assets
Residents of Canada holding foreign investments are subject to certain reporting rules. The rules require individuals who own foreign property to file annual information returns.

The following rules are particularly relevant to individuals commencing Canadian residence:

- **Form T1135, Foreign Income Verification Statement** - Individuals with an interest in foreign property – such as shares, bank accounts, and real property (other than personal-use property) – with an aggregate cost amount of at least CDN$100,000 must report and provide details of these holdings annually.

- **Form T1141, Information Return in Respect of Transfers or Loans to a NonResident Trust** - Individuals who have transferred or loaned property to a nonresident trust must file an annual information return.

- **Form T1142, Information Return in Respect of Distributions from and Indebtedness to a NonResident Trust** - Beneficiaries of certain nonresident trusts must file an information return for the year in which they receive a distribution or loan from the trust.

Note that individuals are not required to file these information returns for the year in which they first become resident in Canada.
Immigration and emigration

Relief granted to short-term residents

The term “short-term resident” is not defined in the Income Tax Act, but it’s generally used to refer to individuals who move to Canada and are resident for less than five years. Short-term residents are granted some relief from the departure tax rules, as well as from the rules relating to participation in a foreign pension plan while a Canadian resident.

An individual who is resident in Canada for no more than 60 months in the 120 months preceding departure from Canada is not subject to departure tax on property that he or she owned before becoming a Canadian resident, or that was acquired while a Canadian resident by bequest or inheritance.

In general, it is possible for an individual who moves to Canada as a result of an employer request, and remains a member of the former employer’s pension plan in the employee’s home country, to continue to participate in that pension plan for the first five years of Canadian residence. After five years, certain steps must be taken to avoid the Canadian tax rules deeming the foreign plan to be a retirement compensation arrangement under which the employer’s contributions become subject to Canadian tax.

Tax tips

- An individual who is immigrating to Canada should establish the date on which he or she becomes a resident and ensure that it can be supported. It’s also important to keep detailed travel logs to substantiate travel inside and outside Canada during the year.
  - **Date residence commences** – It may also be possible to plan the date of commencement of Canadian residence to take advantage of lower marginal tax rates in Canada.
  - **Investment portfolios** – Review your portfolio prior to establishing Canadian residence. It may be advantageous to sell investments with accrued losses before becoming a Canadian resident if those losses may be used in the country of residence.
    - If you own significant foreign investments, consider establishing a nonresident trust before becoming a Canadian resident. This will shelter income from these investments from Canadian tax for up to five years.
  - **Relocation expenses** – Review the tax consequences of any employer benefits paid relating to the relocation to Canada and, if possible, structure the benefits so that they are not taxable in Canada. Certain moving expense reimbursements are not taxable.
  - **Stock option plans** – Review the tax consequences of exercising stock options from a foreign employer prior to establishing Canadian residence.
  - **Foreign pension plan** – The employer may be allowed to continue to contribute to that plan. However, the contributions may restrict the employee’s eligibility to use Canadian RPPs, DPSPs and RRSPs.
    - In some cases, the employee may be allowed to transfer the pension benefits on a tax-deferred basis to an RRSP (although the transfer may not be free of foreign tax).
  - **Social security premiums** – Review the tax consequences of continuing coverage under the social security system of your former country and opting out of the Canada (or Quebec) pension plan. Canada and Quebec have social security totalization agreements with a number of countries.
If you’re not a Canadian resident but you receive Canadian-source income, that income may be subject to Canadian income tax.

Certain types of Canadian-source income, such as dividends and pension income, are subject to Canadian withholding tax at a general rate of 25% (which may be reduced under a tax treaty Canada has with your country of residence). If you earn Canadian-source employment or business income, or sell taxable Canadian property as a nonresident, you must file a Canadian income tax return reporting this income and pay any resulting tax. If you’re required to include this Canadian-source income in your taxable income in your country of residence, you may be able to claim a foreign tax credit for the Canadian tax paid.

Employees performing services in Canada

As the global workforce has become more mobile, there’s been an increase in nonresident employees working on short-term assignments in Canada. While many of these employees may not ultimately be liable for Canadian tax due to treaty provisions, employers and employees need to observe certain withholding and reporting requirements.

Many short-term nonresident employees are subject to Canadian tax under domestic law but are exempt by virtue of the employment services article of a tax treaty (e.g., Article XV of the Canada-US Tax Convention). Such individuals can be exempt from Canadian tax under either the de minimis rule or the “less than 183 days” rule.

Short-term employees in Canada for less than 183 days (whether work related or personal) in any 12-month period commencing or ending in the fiscal year concerned can be taxable in Canada if their salary was charged to an employer resident in Canada, or borne by a permanent establishment or fixed base the employer has in Canada. For example, when the short-term employee is seconded to a Canadian operation — which is charged a fee in respect of the employee’s services — the employee will generally be subject to Canadian personal income tax and must file the appropriate return. These rules consider a number of questions of fact that must be carefully reviewed before concluding whether a particular employee is treaty-exempt from Canadian tax.

1 Taxable Canadian property generally includes real property situated in Canada, property used in a business carried on in Canada and interests in certain entities deriving a specified proportion of their value from Canadian real property or resource properties. There are several specific exclusions from the definition of taxable Canadian property. If you’re a nonresident disposing of Canadian property, consult your EY advisor to navigate the complicated rules.
Canadian and nonresident employers are required to withhold and remit Canadian employee income tax withholdings and report the employment income and tax withheld on the Canada Revenue Agency (CRA) prescribed form, T4. The employer will be liable for the amount of tax that should have been withheld, plus interest and penalties, if it fails to withhold and remit the required taxes.

The CRA may grant a waiver from employment withholding to employers when payments are made to treaty-exempt individuals. Such a waiver, if granted, will waive the employer's obligation to withhold Canadian income taxes.

The CRA expects nonresidents performing services in Canada to file Canadian income tax returns so that a final tax liability can be determined upon assessment of the tax returns. In addition, a Canadian tax return filed in a timely manner provides the employee with the protection of the statute of limitations in the Income Tax Act.

**Services rendered in Canada**

Every person who pays a fee, commission or other amount to a nonresident person for services rendered in Canada, other than in the course of regular and continuous employment, is required to withhold and remit 15% of the gross amount. This withholding is required even though the recipient of the payment may not be taxable in Canada under either Canadian domestic law or an income tax treaty.

The amount withheld is not a definitive tax but rather an instalment to be applied against the nonresident's ultimate Canadian income tax liability. The nonresident individual is required to file a Canadian personal income tax return reporting the income earned and the amount withheld as shown on the T4A-NR slip.

**Tax tips**

- In determining whether certain self-employment business income is subject to tax in Canada or in another country, it is important to also consider the provisions of any applicable tax treaty.
- Many of the tax treaties Canada has entered into provide that an individual will only be subject to Canadian tax on self-employment business profits, which can be attributed to a permanent establishment maintained in Canada.

**Disposition of real property**

If an individual (and his or her spouse) is a nonresident when their Canadian home is sold, the sales process includes obtaining a tax certificate from the CRA that either wholly or partially exempts from tax any gain realized on the sale. The CRA typically accepts that the gain on which tax must be withheld at the date of sale may be reduced by the principal residence exemption.

If the certificate is not obtained, the purchaser must withhold and remit 25% of the gross proceeds. In this case, the seller must also inform the CRA of the sale within 10 days of the closing. If the certificate is not obtained at the time of sale and the purchaser withholds the required amount, no applicable refund may be obtained until the individual files a T1 return for the year in which the sale took place. However, the funds may be held in escrow where there is a delay in processing the certificate application.

The disposition of a Canadian home must be reported on a Canadian T1 return filed by the nonresident for the year of sale. A loss on the sale of a home is denied if the house has never been rented and, therefore, is considered to be personal property. Any gain that results after applying the principal residence exemption is taxable.
Canadian tax for nonresidents

Where a nonresident disposes of a former home that has been rented, and has claimed capital cost allowance on the property, the allowance is “recaptured” and brought into income when the property is disposed of, provided the proceeds of disposition exceed the undepreciated capital cost of the property. The recaptured amount is reported on a separate subsection 216(5) return, which must include all Canadian-source real property rental income earned in the year of recapture (see Taxation of rental income).

Tax tips

- Where a certificate has been obtained prior to the actual sale, and the actual sale price turns out to be more than the estimated price on the certificate, the purchaser’s liability to withhold tax is adjusted to 25% of the revised gain.
- If the certificate is filed after the transaction is completed and the nonresident vendor pays an amount equal to 25% of the gain, the purchaser is relieved from the withholding obligation when CRA issues the certificate.
- The issuance of a certificate by CRA does not relieve the nonresident vendor of the obligation to file a Canadian T1 return reporting the sale.

Taxation of rental income

Canada generally retains the right to tax nonresidents on income from Canadian real property. Under the general provisions of the Income Tax Act, a nonresident of Canada earning rental income is subject to a 25% withholding tax on gross rental income. The person who pays the rent to a nonresident must withhold and remit this tax. Where rental payments are made to an agent, the agent is responsible for withholding and remitting the tax.

With respect to the payment of tax on Canadian rental property, a nonresident owner has three alternatives:

- Under the default alternative, an agent or tenant must withhold 25% tax from the gross rent, remit the funds withheld directly to the CRA, and report the gross rents and tax withheld on form NR4 by 31 March of the following year. Where the NR4 information return is filed on time, the nonresident owner does not need to file a Canadian T1 return to report the receipt of rental income. Because this option does not allow for any deductions against gross rent, it is not usually the preferred alternative.

- The nonresident owner elects to file a Canadian section 216 return within two years from the end of the taxation year in which the rents were received and to pay tax at graduated tax rates on net rental income. Generally, all reasonable expenses that relate to earning the rental income are deductible in computing the net rental income. The agent or tenant is still required to withhold and remit tax from the gross rent at the 25% rate; however, this withholding tax is creditable against the tax liability as determined on the individual’s T1 return, and any excess tax withheld is refundable.

- The nonresident owner may elect to have the initial 25% withholding tax be based on the anticipated net rent (excluding depreciation claims) rather than the gross rent. To have the withholding tax reduced in this manner, the individual must appoint an agent who is resident in Canada and must file the section 216 return within six months from the end of the taxation year in which rents were received. The nonresident makes this election by filing Form NR6 at the beginning of each taxation year (1 January), or in the year in which the property is first being rented, or on or before the date on which the first rental payment is due.

The net income reported on the section 216 return and deductions allowed are the same for the second and third alternatives. Where the nonresident owns multiple rental properties and a section 216 return is filed, all of the Canadian rental income and expenses must be reported together on one return.
Taxation of Canadian benefits

Canada generally retains the right to tax Canadian benefit payments made to nonresidents. A nonresident is subject to a flat 25% withholding on gross Canadian benefits. The 25% tax represents the nonresident's final Canadian tax liability, and the nonresident does not need to file a T1 return to report the Canadian benefits. Where an individual is a resident of a treaty country, the withholding rate may be reduced under the treaty.

Alternatively, a nonresident may elect under section 217 to report Canadian benefits on a T1 return and pay Part I tax at incremental tax rates and claim applicable deductions and credits. Making the section 217 election may result in a refund of all or some of the 25% tax withheld under Part XIII.

Canadian benefits for this purpose include the following:

- Old age security pension
- Canada Pension Plan or Quebec Pension Plan
- Superannuation or pension benefits
- DPSP, RRSP, PRPP and RRIF payments
- Retiring allowances
- Payments from a retirement compensation arrangement
- Death benefits
- Employment insurance benefits
- Certain prescribed benefits under a government assistance program
- Supplementary unemployment benefit plan payments
- Auto Pact benefits

If the election is made, all Canadian benefits paid or credited in that year must be reported on the section 217 T1 return. The section 217 return must be filed within six months after the end of the year.

Tax tip

- The section 217 return must be filed within six months after the end of the year.
  - For an individual making a section 217 election for 2014, the T1 return is due on or before 30 June 2015. If an individual must report other income on the return, such as Canadian sourced employment income or taxable capital gains, the due date is 30 April 2015.
  - For returns due 30 June 2015, any tax balance owing for 2014 must be paid by 30 April 2015, to avoid interest charges.
Now that we've given you some good ideas on how to save on your taxes, let's take a look at how you can make the final part of the process as efficient and effective as possible.

Payments

Source deductions

Your employment income is subject to withholding at source. This is generally determined without taking into consideration certain deductions and credits that are available when you file your tax return. It's possible, with the consent of the Canada Revenue Agency (CRA) or Revenu Québec, to adjust the tax withholding on your employment income to take these deductions and credits, such as registered retirement savings plan (RRSP) and interest expense deductions, into account.

Tax tip

- If you expect to have substantial tax deductions, consider applying to the CRA or Revenu Québec early in the year for a waiver from tax withholding at source.

Instalments

If the difference between your federal tax payable and amounts withheld at source is greater than $3,000 (for residents of Quebec, $1,800) in both the current year and either of the two preceding years, you are required to pay quarterly income tax instalments. For this purpose, tax payable includes the combined federal and provincial income tax (except in Quebec).

If you're a resident of Quebec, you're required to pay provincial tax instalments if the difference between Quebec tax payable and withheld at source is greater than $1,800.

If you're required to make quarterly instalment payments, you must submit them by 15 March, 15 June, 15 September and 15 December.* The same general requirements apply for Quebec tax purposes.

If you're required to make instalments, the CRA (or Revenu Québec) will send you instalment notices that set out your payments.

* Farmers and fishermen use the same instalment base, but are required to make an instalment payment equal to two-thirds of that base by 31 December and pay the balance on filing.
There are three allowable methods of calculating instalments:

- **No-calculation option** – The CRA’s instalment notice uses the method that requires each of your first two 2015 instalments to be one-quarter of your balance due for 2013, and your second two instalments to aggregate to your 2014 balance due, less the amounts payable in your first two instalments.

- **Prior-year option** – You may choose instead to calculate each instalment as one-quarter of your 2014 balance due.

- **Current-year option** – A third alternative allows you to calculate each instalment as one-quarter of your anticipated 2015 balance due.

The third alternative can result in a lower instalment requirement if your tax is expected to be lower in 2015 than in 2014. But if you underestimate your 2015 balance due and pay insufficient instalments, you will be charged interest.

**Penalties**

In addition to the interest charged on late or deficient payments, there may be a penalty equal to one-half of the interest payable. The penalty applies only to instalment interest owing after any offset of interest payable to the taxpayer and does not apply to the first $1,000 of interest or to interest on up to 25% of the tax payable by instalments, whichever is greater.

This penalty does not apply for Quebec tax purposes. In that province, an additional 10% rate of interest is imposed in its place, where the instalment payment made is less than 75% of the payment required.

**Offset interest**

Refund interest is taxable. On the other hand, arrears interest and penalties are not deductible.

**Fairness package**

The CRA has the discretion to be lenient with taxpayers who, because of circumstances beyond their control, are unable to meet deadlines or otherwise comply with certain rules. This discretion is available for requests made for a taxation year ending in the 10 previous calendar years. For example, a request made in 2014 will only be accepted for 2004 and later taxation years.

You generally have to apply in writing and give reasons why the CRA should exercise this discretion (Revenu Québec has a similar fairness package).

If you believe you may benefit from the fairness package, contact your EY tax advisor.

**Refunds**

**Direct deposit**

You can have your income tax refund deposited directly into your personal bank account at any financial institution across the country.

**Interest on refunds**

The CRA and Revenu Québec pay interest for current-year overpayments of tax. Interest is paid for federal purposes commencing 30 days (for Quebec purposes, 45 days) after the later of 30 April of the following year and the date the return is filed.
Communicating with the CRA

Keep your receipts for your personal income tax return

The CRA review of personal income tax returns includes pre-assessment reviews, post-assessment reviews and audits. Individuals who file their personal income tax returns electronically, or who do not file information slips and receipts with their paper-filed returns, must keep their receipts for six years following the filing of the return in case the CRA comes calling.

Returns selected for review

Each spring, the CRA processes more than 27 million returns, without conducting any manual review on the majority of them. Some, however, are selected for further review at varying points in the CRA’s processing timeline. The process of selecting returns for review is the same whether the return is filed on paper or electronically.

There are a number of reasons why a return may be selected for review, including:

- Random selection
- Comparison of information on returns to information received from third-party sources, such as T4 information slips
- Types of deductions or credits claimed and an individual’s review history (for example, if a taxpayer’s return was selected in a previous year and the review resulted in an adjustment)

When a tax return is selected for review, it’s important to note that it does not represent a tax audit. The selection for review may occur at any point in the assessment cycle:

- Pre-assessment review, before the notice of assessment is issued
- Processing review, after the notice of assessment is issued
- Matching programs, which are post-assessment reviews to compare the information on an individual’s income tax return to information provided by third-party sources such as employers or financial institutions
• Special assessment programs either pre or post assessment to identify and gather information on trends and situations of non-compliance

Matching programs include matching the return information with the T slips that are in the CRA’s system (employment income from your employer, interest and dividends from the payors, etc.) and linking returns between spouses and other family members. The family linking ensures that appropriate family income is used for claims like the GST/HST credit or the Child Tax Benefit, that valid personal amounts or other credits are being claimed (for example, where credits are transferred to partners or parents) or to ensure that certain deductions are valid (such as the child-care deduction, which is generally only available to the lower-income spouse). If discrepancies arise during this matching and linking stage, reassessments may be issued or, in some cases, where additional information is necessary, the CRA will request that the taxpayer provide that information.

As part of this post-assessment review, the CRA selects a percentage of the returns filed for further scrutiny. It targets specific claim items and asks the selected taxpayers to provide support, usually copies of receipts, for those claims. Items that have been subject to post-assessment review in the past include donations, moving expenses, child-care expenses, tuition and education amounts, foreign tax credits and carrying charges. Depending on the results of the review, the CRA may choose to target the same claim items for a number of years.

Once a return has been selected for review, the CRA will try to verify the claim based on the information in their file. If additional information is required, the CRA contacts the taxpayer or the authorized representative who prepared the return. The requested information may be submitted by mail, fax or electronically using “My Account” or “Represent a Client.”

If the taxpayer does not respond on a timely basis or is unable to provide adequate support for a claim, the CRA will issue a reassessment, perhaps denying a claim completely or adjusting an income or expense figure based on the information on file, so it is always important to respond to these requests on a timely basis.

**Educational letters**

Since 2010, the CRA has implemented a letter campaign, sending “educational letters” to inform selected taxpayers about their tax obligations and to encourage them to correct any past inaccuracies, if applicable. These letters are mailed to individuals in selected groups in which the CRA feels that taxpayers are at risk of misunderstanding their obligations about their rental, business, professional or employment activities. Some letters may notify taxpayers that the CRA may conduct an audit in their activity group.

The CRA notes that it will send approximately 33,000 letters in 2014. Receiving this kind of letter does not mean that the taxpayer will be selected for audit. Sometimes it just identifies areas where common errors or misunderstanding of tax law have occurred. It also does not mean that the tax returns filed were incorrect.
Tax payments and refunds

If you receive a letter, review your returns and make sure that your income and deductions have been reported correctly. If you find errors, you should request an adjustment to correct them or speak to your EY advisor about the Voluntary Disclosure Program.

My Account

My Account is an online service that provides secure access to an individual's own personal tax and benefit information via the internet. Using this service, you can see information about your:

- Tax returns and carryover amounts
- Tax-free savings account
- RRSP, Home Buyers’ Plan and Lifelong Learning Plan
- Account balance and statement of account
- Instalments
- Tax refund or balance owing
- Direct deposit
- Pre-authorized payment plan
- Marital status
- Tax information slips - T4, T4A, T4A (P), T4A (OAS) and T4E
- Disability tax credit
- Children for whom you are the primary caregiver

- Canada Child Tax Benefit (and related provincial and territorial programs) payments, account balance, and statement of account
- Universal Child Care Benefit payments, account balance, and statement of account
- GST/HST credit (and related provincial programs) payments, account balance, and statement of account
- Working Income Tax Benefit advanced payments
- Authorized representative
- Addresses and telephone numbers

With My Account, you can also manage your personal income tax and benefit account online by:

- Changing your return(s)
- Changing your address or telephone numbers
- Changing your marital status
- Applying for child benefits
- Arranging your direct deposit
- Authorizing your representative
- Setting up a payment plan
- Formally disputing your assessment or determination
- Submitting documents in response to a CRA request
Putting these ideas into practice

We hope you’ve found this guide helpful in understanding your tax position today and where you’re going in the future. Some of these ideas will require immediate action, while others require your year-round attention.

Stay on top of ongoing changes in the tax environment by visiting us at ey.com/ca/Tax. Here, you’ll find our frequent Tax Alerts and monthly newsletter, TaxMatters@EY, which deal with current and relevant tax issues. You’ll also find our easy-to-use, interactive personal tax calculator and RRSP calculator.

You can subscribe to our tax and other email alerts at ey.com/ca/EmailAlerts.

For more information on our Tax services, contact your EY advisor.

This publication does not attempt to discuss all circumstances in which an individual may be subject to income tax. For example, the taxation of nonresidents, part-year residents, partnerships and owner-managed businesses are not dealt with in detail. For further information on these or other topics, please consult your EY tax advisor.

This publication incorporates all announced government initiatives to 30 September 2014. It reflects our understanding of the CRA’s and Revenu Québec’s administrative practices as at the date of writing. While every effort has been made to ensure the accuracy and timeliness of the material contained in this publication, it is neither a comprehensive review of the subject matter covered nor a substitute for specific professional advice. Readers should consult their professional advisors prior to acting on the basis of material in this publication.
Appendices

**Appendix A**
Personal income tax rates in Canada

**Appendix B**
Tax credits

**Appendix C**
Probate fees

**Appendix D**
Land transfer taxes
Appendix A - Personal income tax rates in Canada

### Alberta

**Combined federal and provincial personal income tax rates - 2014**

<table>
<thead>
<tr>
<th>Taxable income</th>
<th>Basic tax</th>
<th>Rate on excess</th>
<th>Eligible dividend income</th>
<th>Other dividend income</th>
<th>Capital gains</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower limit</td>
<td>Upper limit</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$ - to $ 11,138</td>
<td>$ -</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>11,139 to 17,787</td>
<td>-</td>
<td>15.00%</td>
<td>0.00%</td>
<td>4.70%</td>
<td>7.50%</td>
</tr>
<tr>
<td>17,788 to 43,953</td>
<td>997</td>
<td>25.00%</td>
<td>0.00%</td>
<td>12.84%</td>
<td>12.50%</td>
</tr>
<tr>
<td>43,954 to 87,907</td>
<td>7,539</td>
<td>32.00%</td>
<td>9.63%</td>
<td>21.10%</td>
<td>16.00%</td>
</tr>
<tr>
<td>87,908 to 136,270</td>
<td>21,604</td>
<td>36.00%</td>
<td>15.15%</td>
<td>25.82%</td>
<td>18.00%</td>
</tr>
<tr>
<td>136,271 and up</td>
<td>39,015</td>
<td>39.00%</td>
<td>19.29%</td>
<td>29.36%</td>
<td>19.50%</td>
</tr>
</tbody>
</table>

1. The tax rates reflect budget proposals and news releases to 15 July 2014. Where the tax is determined under the alternative minimum tax provisions (AMT), the above table is not applicable. AMT may be applicable where the tax otherwise payable is less than the tax determined by applying the relevant AMT rate to the individual's taxable income adjusted for certain preference items.

2. The tax determined by the table should be reduced by the applicable federal and provincial tax credits, other than the basic personal tax credits, which have been reflected in the calculations.

3. The rates apply to the actual amount of taxable dividends received from taxable Canadian corporations. Eligible dividends are those paid by public corporations and private companies out of earnings that have been taxed at the general corporate tax rate (the dividend must be designated by the payor corporation as an eligible dividend). Where the dividend tax credit exceeds the federal and provincial tax otherwise payable on the dividends, the rates do not reflect the value of the excess credit that may be used to offset taxes payable from other sources of income. This assumption is consistent with prior year rates.

4. The rates apply to the actual amount of the capital gain. The capital gains exemption on qualified farm and fishing property and small business corporation shares may apply to eliminate the tax on those specific properties.

### British Columbia

**Combined federal and provincial personal income tax rates - 2014**

<table>
<thead>
<tr>
<th>Taxable income</th>
<th>Basic tax</th>
<th>Rate on excess</th>
<th>Eligible dividend income</th>
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<tbody>
<tr>
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<tr>
<td>$ - to $ 11,138</td>
<td>$ -</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>11,139 to 18,048</td>
<td>-</td>
<td>15.00%</td>
<td>0.00%</td>
<td>4.70%</td>
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<tr>
<td>18,049 to 30,981</td>
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<td>23.26%</td>
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<td>11.39%</td>
<td>11.63%</td>
</tr>
<tr>
<td>30,982 to 43,953</td>
<td>4,045</td>
<td>20.06%</td>
<td>0.00%</td>
<td>7.61%</td>
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<tr>
<td>43,954 to 75,213</td>
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<td>22.70%</td>
<td>0.00%</td>
<td>10.73%</td>
<td>11.35%</td>
</tr>
<tr>
<td>75,214 to 86,354</td>
<td>6,815</td>
<td>29.70%</td>
<td>9.63%</td>
<td>18.99%</td>
<td>14.85%</td>
</tr>
<tr>
<td>86,355 to 87,907</td>
<td>16,099</td>
<td>32.50%</td>
<td>10.32%</td>
<td>22.29%</td>
<td>16.25%</td>
</tr>
<tr>
<td>87,908 to 104,858</td>
<td>19,720</td>
<td>34.29%</td>
<td>12.79%</td>
<td>24.40%</td>
<td>17.15%</td>
</tr>
<tr>
<td>104,859 to 136,270</td>
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<td>38.29%</td>
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<tr>
<td>136,271 to 150,000</td>
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<td>40.70%</td>
<td>21.64%</td>
<td>31.97%</td>
<td>20.35%</td>
</tr>
<tr>
<td>150,001 and up</td>
<td>39,528</td>
<td>45.80%</td>
<td>28.68%</td>
<td>37.98%</td>
<td>22.90%</td>
</tr>
</tbody>
</table>

1. The tax rates reflect budget proposals and news releases up to 15 July 2014. Where the tax is determined under the alternative minimum tax provisions (AMT), the above table is not applicable. AMT may be applicable where the tax otherwise payable is less than the tax determined by applying the relevant AMT rate to the individual's taxable income adjusted for certain preference items.

2. The tax determined by the table should be reduced by the applicable federal and provincial tax credits, other than the basic personal tax credits, which have been reflected in the calculations.

3. The rates apply to the actual amount of taxable dividends received from taxable Canadian corporations. Eligible dividends are those paid by public corporations and private companies out of earnings that have been taxed at the general corporate tax rate (the dividend must be designated by the payor corporation as an eligible dividend). Where the dividend tax credit exceeds the federal and provincial tax otherwise payable on the dividends, the rates do not reflect the value of the excess credit that may be used to offset taxes payable from other sources of income. This assumption is consistent with prior year rates.

4. The rates apply to the actual amount of the capital gain. The capital gains exemption on qualified farm and fishing property and small business corporation shares may apply to eliminate the tax on those specific properties.

5. Individuals resident in British Columbia on 31 December 2014 with taxable income up to $18,048 generally pay no provincial income tax as a result of a low-income tax reduction. The low-income tax reduction is clawed back on income in excess of $18,048 until the reduction is eliminated, resulting in an additional 3.2% of provincial tax on income between $18,048 and $30,981.
### Appendix A - Personal income tax rates in Canada

#### Manitoba

**Combined federal and provincial personal income tax rates - 2014**

<table>
<thead>
<tr>
<th>Taxable income</th>
<th>Manitoban Marginal rate on:</th>
<th>Eligible dividend income</th>
<th>Other dividend income</th>
<th>Capital gains</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ - to $9,134</td>
<td>$ - 0.00% 0.00% 0.00% 0.00%</td>
<td>- 10.80% 3.86% 11.76% 5.40%</td>
<td>- 25.80% 3.86% 16.46% 12.90%</td>
<td>- 31,001 to 43,953 5,341 27.75% 6.56% 18.77% 13.88%</td>
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<tr>
<td>9,135 to 11,138</td>
<td>11,139 to 31,000 261 25.80% 3.86% 16.46% 12.90%</td>
<td>- 10.80% 3.86% 11.76% 5.40%</td>
<td>- 31,001 to 43,953 5,341 27.75% 6.56% 18.77% 13.88%</td>
<td>- 31,001 to 43,953 5,341 27.75% 6.56% 18.77% 13.88%</td>
</tr>
<tr>
<td>31,001 to 43,953</td>
<td>43,954 to 67,000 8,935 34.75% 16.19% 27.03% 17.38%</td>
<td>- 10.80% 3.86% 11.76% 5.40%</td>
<td>- 31,001 to 43,953 5,341 27.75% 6.56% 18.77% 13.88%</td>
<td>- 31,001 to 43,953 5,341 27.75% 6.56% 18.77% 13.88%</td>
</tr>
<tr>
<td>67,001 to 87,907</td>
<td>87,908 to 136,270 25,181 43.40% 28.12% 37.23% 21.70%</td>
<td>- 10.80% 3.86% 11.76% 5.40%</td>
<td>- 31,001 to 43,953 5,341 27.75% 6.56% 18.77% 13.88%</td>
<td>- 31,001 to 43,953 5,341 27.75% 6.56% 18.77% 13.88%</td>
</tr>
<tr>
<td>136,271 and up</td>
<td>- 87,908 to 136,270 25,181 43.40% 28.12% 37.23% 21.70%</td>
<td>- 10.80% 3.86% 11.76% 5.40%</td>
<td>- 31,001 to 43,953 5,341 27.75% 6.56% 18.77% 13.88%</td>
<td>- 31,001 to 43,953 5,341 27.75% 6.56% 18.77% 13.88%</td>
</tr>
</tbody>
</table>

1. The tax rates reflect budget proposals and news releases to 15 July 2014. Where the tax is determined under the alternative minimum tax provisions (AMT), the above table is not applicable. AMT may be applicable where the tax otherwise payable is less than the tax determined by applying the relevant AMT rate to the individual’s taxable income adjusted for certain preference items.
2. The tax determined by the table should be reduced by the applicable federal and provincial tax credits, other than the basic personal tax credits, which have been reflected in the calculations.
3. The rates apply to the actual amount of taxable dividends received from taxable Canadian corporations. Eligible dividends are those paid by public corporations and private companies out of earnings that have been taxed at the general corporate tax rate (the dividend must be designated by the payor corporation as an eligible dividend). Where the dividend tax credit exceeds the federal and provincial tax otherwise payable on the dividends, the rates do not reflect the value of the excess credit that may be used to offset taxes payable from other sources of income. This assumption is consistent with prior year rates.
4. The rates apply to the actual amount of the capital gain. The capital gains exemption on qualified farm and fishing property and small business corporation shares may apply to eliminate the tax on those specific properties.

#### New Brunswick

**Combined federal and provincial personal income tax rates - 2014**

<table>
<thead>
<tr>
<th>Taxable income</th>
<th>New Brunswick Marginal rate on:</th>
<th>Eligible dividend income</th>
<th>Other dividend income</th>
<th>Capital gains</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ - to $11,138</td>
<td>$ - 0.00% 0.00% 0.00% 0.00%</td>
<td>- 15.00% 0.00% 4.70% 7.50%</td>
<td>- 36,253 to 39,305 6,359 24.68% 0.00% 9.87% 12.34%</td>
<td>- 36,253 to 39,305 6,359 24.68% 0.00% 9.87% 12.34%</td>
</tr>
<tr>
<td>11,139 to 15,808</td>
<td>15,809 to 36,252 701 27.68% 0.94% 13.41% 13.84%</td>
<td>- 15.00% 0.00% 4.70% 7.50%</td>
<td>- 36,253 to 39,305 6,359 24.68% 0.00% 9.87% 12.34%</td>
<td>- 36,253 to 39,305 6,359 24.68% 0.00% 9.87% 12.34%</td>
</tr>
<tr>
<td>36,253 to 39,305</td>
<td>39,306 to 43,953 7,113 29.82% 3.89% 15.93% 14.91%</td>
<td>- 15.00% 0.00% 4.70% 7.50%</td>
<td>- 36,253 to 39,305 6,359 24.68% 0.00% 9.87% 12.34%</td>
<td>- 36,253 to 39,305 6,359 24.68% 0.00% 9.87% 12.34%</td>
</tr>
<tr>
<td>43,954 to 78,609</td>
<td>78,610 to 87,907 8,499 36.82% 13.52% 26.20% 19.26%</td>
<td>- 15.00% 0.00% 4.70% 7.50%</td>
<td>- 36,253 to 39,305 6,359 24.68% 0.00% 9.87% 12.34%</td>
<td>- 36,253 to 39,305 6,359 24.68% 0.00% 9.87% 12.34%</td>
</tr>
<tr>
<td>78,610 to 87,907</td>
<td>87,908 to 127,802 21,259 38.52% 15.87% 26.20% 19.26%</td>
<td>- 15.00% 0.00% 4.70% 7.50%</td>
<td>- 36,253 to 39,305 6,359 24.68% 0.00% 9.87% 12.34%</td>
<td>- 36,253 to 39,305 6,359 24.68% 0.00% 9.87% 12.34%</td>
</tr>
<tr>
<td>127,803 to 136,270</td>
<td>136,271 and up 45,517 46.84% 27.35% 36.02% 23.42%</td>
<td>- 15.00% 0.00% 4.70% 7.50%</td>
<td>- 36,253 to 39,305 6,359 24.68% 0.00% 9.87% 12.34%</td>
<td>- 36,253 to 39,305 6,359 24.68% 0.00% 9.87% 12.34%</td>
</tr>
</tbody>
</table>

1. The tax rates reflect budget proposals and news releases to 15 July 2014. Where the tax is determined under the alternative minimum tax provisions (AMT), the above table is not applicable. AMT may be applicable where the tax otherwise payable is less than the tax determined by applying the relevant AMT rate to the individual’s taxable income adjusted for certain preference items.
2. The tax determined by the table should be reduced by the applicable federal and provincial tax credits, other than the basic personal tax credits, which have been reflected in the calculations.
3. The rates apply to the actual amount of taxable dividends received from taxable Canadian corporations. Eligible dividends are those paid by public corporations and private companies out of earnings that have been taxed at the general corporate tax rate (the dividend must be designated by the payor corporation as an eligible dividend). Where the dividend tax credit exceeds the federal and provincial tax otherwise payable on the dividends, the rates do not reflect the value of the excess credit that may be used to offset taxes payable from other sources of income. This assumption is consistent with prior year rates.
4. The rates apply to the actual amount of the capital gain. The capital gains exemption on qualified farm and fishing property and small business corporation shares may apply to eliminate the tax on those specific properties.
5. Individuals resident in New Brunswick on 31 December 2014 with taxable income up to $15,808 pay no provincial income tax as a result of a low-income tax reduction. The low-income tax reduction is clawed back for income in excess of $15,808 until the reduction is eliminated, resulting in an additional 3% of provincial tax on income between $15,808 and $36,252.
### Appendix A - Personal income tax rates in Canada

#### Newfoundland and Labrador

**Combined federal and provincial personal income tax rates - 2014**

<table>
<thead>
<tr>
<th>Taxable income</th>
<th>Newfoundland and Labrador</th>
<th>Marginal rate on Capital gains</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ - to $ 11,138</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>11,139 to 17,526</td>
<td>$ -</td>
<td>0.00%/0.00%</td>
</tr>
<tr>
<td>17,527 to 18,547</td>
<td>15.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>18,548 to 22,815</td>
<td>19.70%</td>
<td>0.00%/0.00%</td>
</tr>
<tr>
<td>22,816 to 34,254</td>
<td>22.70%</td>
<td>4.70%</td>
</tr>
<tr>
<td>34,255 to 43,953</td>
<td>27.50%</td>
<td>7.89%</td>
</tr>
<tr>
<td>43,954 to 68,508</td>
<td>34.50%</td>
<td>10.89%</td>
</tr>
<tr>
<td>68,509 to 87,907</td>
<td>36.80%</td>
<td>13.75%</td>
</tr>
<tr>
<td>87,908 to 136,270</td>
<td>38.80%</td>
<td>16.75%</td>
</tr>
<tr>
<td>136,271 and up</td>
<td>42.30%</td>
<td>19.75%</td>
</tr>
</tbody>
</table>

1. The tax rates reflect budget proposals and news releases to 15 July 2014. Where the tax is determined under the alternative minimum tax provisions (AMT), the above table is not applicable. AMT may be applicable where the tax otherwise payable is less than the tax determined by applying the relevant AMT rate to the individual’s taxable income adjusted for certain preference items.

2. The tax determined by the table should be reduced by the applicable federal and provincial tax credits, other than the basic personal tax credits, which have been reflected in the calculations.

3. The rates apply to the actual amount of taxable dividends received from taxable Canadian corporations. Eligible dividends are those paid by public corporations and private companies out of earnings that have been taxed at the general corporate tax rate (the dividend must be designated by the payor corporation as an eligible dividend). Where the dividend tax credit exceeds the federal and provincial tax otherwise payable on the dividends, the rates do not reflect the value of the excess credit that may be used to offset taxes payable from other sources of income. This assumption is consistent with prior year rates.

4. The rates apply to the actual amount of the capital gain. The capital gains exemption on qualified farm and fishing property and small business corporation shares may apply to eliminate the tax on those specific properties.

5. Individuals resident in Newfoundland and Labrador on 31 December 2014 with taxable income up to $17,526 pay no provincial income tax as a result of a low-income tax reduction. The low-income tax reduction is clawed back for income in excess of $18,547 until the reduction is eliminated, resulting in an additional 16% of provincial tax on income between $18,547 and $22,815.

6. As announced in the province’s 2014 budget, the dividend tax credit rate for eligible dividends and other dividends is reduced, effective 1 July 2014. The rates above reflect the dividend tax credit rates effective before and after 1 July 2014.

#### Northwest Territories

**Combined federal and territorial personal income tax rates - 2014**

<table>
<thead>
<tr>
<th>Taxable income</th>
<th>Northwest Territories</th>
<th>Marginal rate on Capital gains</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ - to $ 11,138</td>
<td>$ -</td>
<td>0.00%</td>
</tr>
<tr>
<td>11,139 to 13,668</td>
<td>15.00%</td>
<td>0.00%/0.00%</td>
</tr>
<tr>
<td>13,669 to 39,808</td>
<td>23.60%</td>
<td>4.70%</td>
</tr>
<tr>
<td>39,809 to 43,953</td>
<td>26.60%</td>
<td>7.77%</td>
</tr>
<tr>
<td>43,954 to 79,618</td>
<td>32.00%</td>
<td>10.80%</td>
</tr>
<tr>
<td>79,619 to 87,907</td>
<td>36.00%</td>
<td>14.90%</td>
</tr>
<tr>
<td>87,908 to 129,441</td>
<td>39.00%</td>
<td>17.10%</td>
</tr>
<tr>
<td>129,442 to 136,270</td>
<td>40.00%</td>
<td>20.30%</td>
</tr>
<tr>
<td>136,271 and up</td>
<td>43.00%</td>
<td>23.53%</td>
</tr>
</tbody>
</table>

1. The tax rates reflect budget proposals and news releases to 15 July 2014. Where the tax is determined under the alternative minimum tax provisions (AMT), the above table is not applicable. AMT may be applicable where the tax otherwise payable is less than the tax determined by applying the relevant AMT rate to the individual’s taxable income adjusted for certain preference items.

2. The tax determined by the table should be reduced by the applicable federal and territorial tax credits, other than the basic personal tax credits, which have been reflected in the calculations.

3. The rates apply to the actual amount of taxable dividends received from taxable Canadian corporations. Eligible dividends are those paid by public corporations and private companies out of earnings that have been taxed at the general corporate tax rate (the dividend must be designated by the payor corporation as an eligible dividend). Where the dividend tax credit exceeds the federal and territorial tax otherwise payable on the dividends, the rates do not reflect the value of the excess credit that may be used to offset taxes payable from other sources of income. This assumption is consistent with prior year rates.

4. The rates apply to the actual amount of the capital gain. The capital gains exemption on qualified farm and fishing property and small business corporation shares may apply to eliminate the tax on those specific properties.
### Appendix A - Personal income tax rates in Canada

#### Nova Scotia

**Combined federal and provincial personal income tax rates - 2014**

<table>
<thead>
<tr>
<th>Taxable income</th>
<th>Basic tax2</th>
<th>Rate on excess</th>
<th>Eligible dividend income3</th>
<th>Other dividend income3</th>
<th>Capital gains4</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ - to $ 11,138</td>
<td>$ -</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>11,139 to 11,894</td>
<td>-</td>
<td>15.00%</td>
<td>0.00%</td>
<td>4.70%</td>
<td>7.50%</td>
</tr>
<tr>
<td>11,895 to 15,000</td>
<td>113</td>
<td>23.79%</td>
<td>0.00%</td>
<td>8.14%</td>
<td>11.90%</td>
</tr>
<tr>
<td>15,001 to 21,000</td>
<td>582</td>
<td>28.79%</td>
<td>6.82%</td>
<td>14.04%</td>
<td>14.40%</td>
</tr>
<tr>
<td>21,001 to 29,591</td>
<td>2,580</td>
<td>23.79%</td>
<td>0.00%</td>
<td>8.14%</td>
<td>14.90%</td>
</tr>
<tr>
<td>29,591 to 43,953</td>
<td>4,623</td>
<td>29.95%</td>
<td>8.42%</td>
<td>15.41%</td>
<td>14.98%</td>
</tr>
<tr>
<td>43,954 to 59,180</td>
<td>8,925</td>
<td>36.95%</td>
<td>18.05%</td>
<td>23.67%</td>
<td>18.48%</td>
</tr>
<tr>
<td>59,181 to 87,907</td>
<td>14,551</td>
<td>38.67%</td>
<td>20.42%</td>
<td>25.70%</td>
<td>19.34%</td>
</tr>
<tr>
<td>87,908 to 93,000</td>
<td>25,660</td>
<td>42.67%</td>
<td>25.94%</td>
<td>30.42%</td>
<td>21.34%</td>
</tr>
<tr>
<td>93,001 to 136,270</td>
<td>27,833</td>
<td>43.50%</td>
<td>27.09%</td>
<td>31.40%</td>
<td>21.75%</td>
</tr>
<tr>
<td>136,271 to 150,000</td>
<td>46,656</td>
<td>46.50%</td>
<td>31.23%</td>
<td>34.94%</td>
<td>23.25%</td>
</tr>
<tr>
<td>150,001 and up</td>
<td>53,040</td>
<td>50.00%</td>
<td>36.06%</td>
<td>39.07%</td>
<td>25.00%</td>
</tr>
</tbody>
</table>

1. The tax rates reflect budget proposals and news releases to 15 July 2014. Where the tax is determined under the alternative minimum tax provisions (AMT), the above table is not applicable. AMT may be applicable where the tax otherwise payable is less than the tax determined by applying the relevant AMT rate to the individual’s taxable income adjusted for certain preference items.

2. The tax determined by the table should be reduced by the applicable federal and provincial tax credits, other than the basic personal tax credits, which have been reflected in the calculations.

3. The rates apply to the actual amount of taxable dividends received from taxable Canadian corporations. Eligible dividends are those paid by public corporations and private companies out of earnings that have been taxed at the general corporate tax rate (the dividend must be designated by the payor corporation as an eligible dividend). Where the dividend tax credit exceeds the federal and provincial tax otherwise payable on the dividends, the rates do not reflect the value of the excess credit that may be used to offset taxes payable from other sources of income. This assumption is consistent with prior year rates.

4. The rates apply to the actual amount of the capital gain. The capital gains exemption on qualified farm and fishing property and small business corporation shares may apply to eliminate the tax on those specific properties.

5. Individuals resident in Nova Scotia on 31 December 2014 with taxable income up to $11,894, pay no provincial income tax as a result of a low-income tax reduction. The low-income tax reduction is clawed back for income in excess of $15,000 until the reduction is eliminated, resulting in an additional 5% of provincial tax on income between $15,000 and $21,001.

#### Nunavut

**Combined federal and territorial personal income tax rates - 2014**

<table>
<thead>
<tr>
<th>Taxable income</th>
<th>Basic tax2</th>
<th>Rate on excess</th>
<th>Eligible dividend income3</th>
<th>Other dividend income3</th>
<th>Capital gains4</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ - to $ 11,138</td>
<td>$ -</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>11,139 to 12,567</td>
<td>-</td>
<td>15.00%</td>
<td>0.00%</td>
<td>4.70%</td>
<td>7.50%</td>
</tr>
<tr>
<td>12,568 to 41,909</td>
<td>214</td>
<td>19.00%</td>
<td>0.00%</td>
<td>5.82%</td>
<td>9.50%</td>
</tr>
<tr>
<td>41,910 to 43,953</td>
<td>5,789</td>
<td>22.00%</td>
<td>2.06%</td>
<td>9.36%</td>
<td>11.00%</td>
</tr>
<tr>
<td>43,954 to 83,818</td>
<td>6,239</td>
<td>29.00%</td>
<td>11.69%</td>
<td>17.62%</td>
<td>14.50%</td>
</tr>
<tr>
<td>83,819 to 87,907</td>
<td>17,800</td>
<td>31.00%</td>
<td>14.45%</td>
<td>19.98%</td>
<td>15.50%</td>
</tr>
<tr>
<td>87,908 to 136,270</td>
<td>19,067</td>
<td>35.00%</td>
<td>19.97%</td>
<td>24.70%</td>
<td>17.50%</td>
</tr>
<tr>
<td>136,271 and up</td>
<td>35,995</td>
<td>40.50%</td>
<td>27.56%</td>
<td>31.19%</td>
<td>20.25%</td>
</tr>
</tbody>
</table>

1. The tax rates reflect budget proposals and news releases to 15 July 2014. Where the tax is determined under the alternative minimum tax provisions (AMT), the above table is not applicable. AMT may be applicable where the tax otherwise payable is less than the tax determined by applying the relevant AMT rate to the individual’s taxable income adjusted for certain preference items.

2. The tax determined by the table should be reduced by the applicable federal and territorial tax credits, other than the basic personal tax credits, which have been reflected in the calculations.

3. The rates apply to the actual amount of taxable dividends received from taxable Canadian corporations. Eligible dividends are those paid by public corporations and private companies out of earnings that have been taxed at the general corporate tax rate (the dividend must be designated by the payor corporation as an eligible dividend). Where the dividend tax credit exceeds the federal and territorial tax otherwise payable on the dividends, the rates do not reflect the value of the excess credit that may be used to offset taxes payable from other sources of income. This assumption is consistent with prior year rates.

4. The rates apply to the actual amount of the capital gain. The capital gains exemption on qualified farm and fishing property and small business corporation shares may apply to eliminate the tax on those specific properties.
Appendix A - Personal income tax rates in Canada

Ontario

Combined federal and provincial personal income tax rates - 2014

<table>
<thead>
<tr>
<th>Taxable income</th>
<th>Basic tax²</th>
<th>Rate on excess dividend income³</th>
<th>Other dividend income³</th>
<th>Capital gains⁴</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower limit</td>
<td>Upper limit</td>
<td></td>
<td>Eligible dividend income³</td>
<td>Marginal rate on Ontario</td>
</tr>
<tr>
<td>$ - to $ 11,138</td>
<td>$ -</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>11,139 to 14,086</td>
<td>-</td>
<td>15.00%</td>
<td>0.00%</td>
<td>4.70%</td>
</tr>
<tr>
<td>14,087 to 18,502</td>
<td>442</td>
<td>25.10%</td>
<td>0.00%</td>
<td>6.00%</td>
</tr>
<tr>
<td>18,503 to 20,000</td>
<td>1,551</td>
<td>20.05%</td>
<td>0.00%</td>
<td>5.35%</td>
</tr>
<tr>
<td>20,001 to 220,000</td>
<td>48,557</td>
<td>49.53%</td>
<td>33.82%</td>
<td>40.13%</td>
</tr>
<tr>
<td>220,001 and up</td>
<td>82,136</td>
<td>49.53%</td>
<td>33.82%</td>
<td>40.13%</td>
</tr>
</tbody>
</table>

1. The tax rates include the provincial surtaxes and reflect budget proposals and news releases up to 15 July 2014. The rates do not include the Ontario Health Premium (see note 5 below). Where the tax is determined under the alternative minimum tax provisions (AMT), the above table is not applicable. AMT may be applicable where the tax otherwise payable is less than the tax determined by applying the relevant AMT rate to the individual’s taxable income adjusted for certain preference items.

2. The tax determined by the table should be reduced by the applicable federal and provincial tax credits, other than the basic personal tax credits, which have been reflected in the calculations.

3. The rates apply to the actual amount of taxable dividends received from taxable Canadian corporations. Eligible dividends are those paid by public corporations and private companies out of earnings that have been taxed at the general corporate tax rate (the dividend must be designated by the payor corporation as an eligible dividend). Where the dividend tax credit exceeds the federal and provincial tax otherwise payable on the dividends, the rates do not reflect the value of the excess credit that may be used to offset taxes payable from other sources of income. This assumption is consistent with prior year rates. Where applicable, the provincial surtax has been applied prior to deducting the dividend tax credit.

4. The rates apply to the actual amount of the capital gain. The capital gains exemption on qualified farm or fishing property and small business corporation shares may apply to eliminate the tax on those specific properties.

5. Individuals resident in Ontario on 31 December 2014 with taxable income in excess of $20,000 must pay the Ontario Health Premium. The premium ranges from $nil to $900 depending on the individual’s taxable income, with the top premium being payable by individuals with taxable income in excess of $200,599.

Prince Edward Island

Combined federal and provincial personal income tax rates - 2014

<table>
<thead>
<tr>
<th>Taxable income</th>
<th>Basic tax²</th>
<th>Rate on excess dividend income³</th>
<th>Other dividend income³</th>
<th>Capital gains⁴</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower limit</td>
<td>Upper limit</td>
<td></td>
<td>Eligible dividend income³</td>
<td>Marginal rate on Prince Edward Island</td>
</tr>
<tr>
<td>$ - to $ 10,259</td>
<td>$ -</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>10,260 to 11,138</td>
<td>-</td>
<td>9.80%</td>
<td>0.00%</td>
<td>7.78%</td>
</tr>
<tr>
<td>11,139 to 15,000</td>
<td>86</td>
<td>24.80%</td>
<td>0.00%</td>
<td>12.48%</td>
</tr>
<tr>
<td>15,001 to 20,000</td>
<td>1,044</td>
<td>29.80%</td>
<td>5.93%</td>
<td>18.38%</td>
</tr>
<tr>
<td>20,001 to 31,984</td>
<td>2,534</td>
<td>24.80%</td>
<td>0.00%</td>
<td>12.48%</td>
</tr>
<tr>
<td>31,985 to 43,953</td>
<td>5,506</td>
<td>28.80%</td>
<td>4.55%</td>
<td>17.20%</td>
</tr>
<tr>
<td>43,954 to 63,969</td>
<td>8,953</td>
<td>35.80%</td>
<td>14.19%</td>
<td>25.46%</td>
</tr>
<tr>
<td>63,970 to 87,907</td>
<td>16,119</td>
<td>38.70%</td>
<td>18.19%</td>
<td>28.89%</td>
</tr>
<tr>
<td>87,908 to 98,143</td>
<td>25,383</td>
<td>42.70%</td>
<td>23.71%</td>
<td>33.61%</td>
</tr>
<tr>
<td>98,144 to 136,270</td>
<td>29,753</td>
<td>44.37%</td>
<td>24.56%</td>
<td>35.20%</td>
</tr>
<tr>
<td>136,271 and up</td>
<td>46,670</td>
<td>47.37%</td>
<td>28.70%</td>
<td>38.74%</td>
</tr>
</tbody>
</table>

1. The tax rates include the provincial surtax and reflect budget proposals and news releases up to 15 July 2014. Where the tax is determined under the alternative minimum tax provisions (AMT), the above table is not applicable. AMT may be applicable where the tax otherwise payable is less than the tax determined by applying the relevant AMT rate to the individual’s taxable income adjusted for certain preference items.

2. The tax determined by the table should be reduced by the applicable federal and provincial tax credits, other than the basic personal tax credits, which have been reflected in the calculations.

3. The rates apply to the actual amount of taxable dividends received from taxable Canadian corporations. Eligible dividends are those paid by public corporations and private companies out of earnings that have been taxed at the general corporate tax rate (the dividend must be designated by the payor corporation as an eligible dividend). Where the dividend tax credit exceeds the federal and provincial tax otherwise payable on the dividends, the rates do not reflect the value of the excess credit that may be used to offset taxes payable from other sources of income. This assumption is consistent with prior year rates. Where applicable, the provincial surtax has been applied prior to deducting the dividend tax credit.

4. The rates apply to the actual amount of the capital gain. The capital gains exemption on qualified farm or fishing property and small business corporation shares may apply to eliminate the tax on those specific properties.

5. Individuals resident in Prince Edward Island on 31 December 2014 with taxable income up to $10,259 pay no provincial income tax as a result of a low-income tax reduction. The low-income tax reduction ($223 of Ontario tax) is clawed back for income in excess of $14,086 until the reduction is eliminated, resulting in an additional 5.05% of provincial tax on income between $14,087 and $18,502.
### Quebec

#### Combined federal and provincial personal income tax rates - 2014

<table>
<thead>
<tr>
<th>Taxable income</th>
<th>Federal tax</th>
<th>Quebec tax</th>
<th>Combined tax rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ - to $ 11,138</td>
<td>$ -</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>11,139 to 43,953</td>
<td>12.53%</td>
<td>14,132 to 41,495</td>
<td>16.00%</td>
</tr>
<tr>
<td>43,954 to 82,985</td>
<td>18.37%</td>
<td>41,496 to 82,985</td>
<td>26.00%</td>
</tr>
<tr>
<td>87,908 to 136,270</td>
<td>21.71%</td>
<td>82,986 to 100,970</td>
<td>32.30%</td>
</tr>
<tr>
<td>136,271 and up</td>
<td>24.22%</td>
<td>100,971 and up</td>
<td>35.22%</td>
</tr>
</tbody>
</table>

#### Combined tax rates on dividend income - 2014

<table>
<thead>
<tr>
<th>Taxable income</th>
<th>Eligible dividends</th>
<th>Other dividends</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ - to $ 11,138</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>11,139 to 14,131</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>14,132 to 41,495</td>
<td>3.92%</td>
<td>14,132 to 41,495</td>
</tr>
<tr>
<td>41,496 to 82,985</td>
<td>19.22%</td>
<td>41,496 to 82,985</td>
</tr>
<tr>
<td>87,908 to 123,692</td>
<td>24.74%</td>
<td>87,908 to 123,692</td>
</tr>
<tr>
<td>123,693 to 136,270</td>
<td>24.00%</td>
<td>123,693 to 136,270</td>
</tr>
<tr>
<td>136,271 and up</td>
<td>35.22%</td>
<td>136,271 and up</td>
</tr>
</tbody>
</table>

1. The tax rates reflect budget proposals and news releases to 15 July 2014. Where the tax is determined under the minimum tax provisions, the above table is not applicable. Alternative minimum tax (AMT) and Quebec minimum tax (QMT) may be applicable where the tax otherwise payable is less than the tax determined by applying the relevant AMT and QMT rates to the individual's taxable income adjusted for certain preference items. The rates do not reflect the health services fund contribution which may be required on non-employment income, nor the health contribution.

2. Taxable income for Quebec purposes is likely to differ from that determined for federal purposes.

3. Federal tax payable has been reduced by the 16.5% abatement for Quebec taxpayers whose taxes payable are the aggregate of federal and provincial taxes.

4. The federal tax and provincial tax determined by the table should be reduced by all applicable credits other than the basic personal tax credits, which have been reflected in the calculations.

5. The rates shown are the combined federal and provincial rates (based on budget proposals and news releases to 15 July 2014), and apply to the actual amount of taxable dividends received from taxable Canadian corporations. Eligible dividends are those paid from public corporations and private companies out of earnings that have been taxed at the general corporate tax rate (the dividend must be designated by the payor corporation as an eligible dividend). Where the dividend tax credit exceeds the federal and provincial tax otherwise payable on the dividends, the rates do not reflect the value of the excess credit that may be used to offset taxes payable from other sources of income. This assumption is consistent with prior year rates.

6. Taxable income for Quebec purposes is likely to differ from that determined for federal purposes. The tax rates do not reflect the health services fund contribution which may be required on non-employment income, nor the health contribution.

### Saskatchewan

#### Combined federal and provincial personal income tax rates - 2014

<table>
<thead>
<tr>
<th>Taxable income</th>
<th>Basic tax</th>
<th>Rate on</th>
<th>Eligible dividend income</th>
<th>Other dividend income</th>
<th>Capital gains</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ - to $ 11,138</td>
<td>$ -</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>11,139 to 15,378</td>
<td>15.00%</td>
<td>0.00%</td>
<td>4.70%</td>
<td>7.50%</td>
<td></td>
</tr>
<tr>
<td>15,379 to 43,293</td>
<td>26.00%</td>
<td>0.00%</td>
<td>13.67%</td>
<td>13.00%</td>
<td></td>
</tr>
<tr>
<td>43,293 to 87,907</td>
<td>28.00%</td>
<td>2.76%</td>
<td>16.03%</td>
<td>14.00%</td>
<td></td>
</tr>
<tr>
<td>87,908 to 123,692</td>
<td>35.00%</td>
<td>12.39%</td>
<td>24.29%</td>
<td>17.50%</td>
<td></td>
</tr>
<tr>
<td>123,693 to 136,270</td>
<td>41.00%</td>
<td>20.67%</td>
<td>31.37%</td>
<td>20.50%</td>
<td></td>
</tr>
<tr>
<td>136,271 and up</td>
<td>44.00%</td>
<td>24.81%</td>
<td>34.91%</td>
<td>22.00%</td>
<td></td>
</tr>
</tbody>
</table>

1. The tax rates reflect budget proposals and news releases to 15 July 2014. Where the tax is determined under the alternative minimum tax provisions (AMT), the above table is not applicable. AMT may be applicable where the tax otherwise payable is less than the tax determined by applying the relevant AMT rate to the individual's taxable income adjusted for certain preference items.

2. The tax determined by the table should be reduced by the applicable federal and provincial tax credits, other than the basic personal tax credits, which have been reflected in the calculations.

3. The rates apply to the actual amount of taxable dividends received from taxable Canadian corporations. Eligible dividends are those paid from public corporations and private companies out of earnings that have been taxed at the general corporate tax rate (the dividend must be designated by the payor corporation as an eligible dividend). Where the dividend tax credit exceeds the federal and provincial tax otherwise payable on the dividends, the rates do not reflect the value of the excess credit that may be used to offset taxes payable from other sources of income. This assumption is consistent with prior year rates.

4. The rates apply to the actual amount of the capital gain. The capital gains exemption on qualified farm and fishing property and small business corporation shares may apply to eliminate the tax on those specific properties. Individuals resident in Saskatchewan on 31 December 2014 who reported a capital gain from the disposition of qualified farm property or small business corporation shares may be eligible for an additional capital gains credit of up to 2%. 

5. The tax determined under the minimum tax provisions, the above table is not applicable. Alternative minimum tax (QMT) may be applicable where the tax otherwise payable is less than the tax determined by applying the relevant QMT rates to the individual’s taxable income adjusted for certain preference items. The rates do not reflect the health services fund contribution which may be required on non-employment income, nor the health contribution.

6. Taxable income for Saskatchewan purposes is likely to differ from that determined for federal purposes. The tax rates do not reflect the health services fund contribution which may be required on non-employment income, nor the health contribution.

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###Appendix A - Personal income tax rates in Canada

####Yukon

**Combined federal and territorial personal income tax rates - 2014**

<table>
<thead>
<tr>
<th>Taxable income</th>
<th>Yukon Marginal rate on dividend income&lt;sup&gt;1&lt;/sup&gt;</th>
<th>Eligible Other income&lt;sup&gt;2&lt;/sup&gt;</th>
<th>Basic limit</th>
<th>Basic rate on excess</th>
<th>Other income&lt;sup&gt;3&lt;/sup&gt;</th>
<th>Capital gains&lt;sup&gt;4&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ - to $ 11,138</td>
<td>$ -</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td></td>
</tr>
<tr>
<td>11,139 to 43,953</td>
<td>-</td>
<td>22.04%</td>
<td>0.00%</td>
<td>8.26%</td>
<td>11.02%</td>
<td></td>
</tr>
<tr>
<td>43,954 to 82,071</td>
<td>7,232</td>
<td>31.68%</td>
<td>9.63%</td>
<td>19.63%</td>
<td>15.84%</td>
<td></td>
</tr>
<tr>
<td>82,072 to 87,907</td>
<td>19,308</td>
<td>32.16%</td>
<td>9.63%</td>
<td>19.97%</td>
<td>16.08%</td>
<td></td>
</tr>
<tr>
<td>87,908 to 136,270</td>
<td>21,185</td>
<td>38.01%</td>
<td>15.15%</td>
<td>26.87%</td>
<td>19.01%</td>
<td></td>
</tr>
<tr>
<td>136,271 and up</td>
<td>39,569</td>
<td>42.40%</td>
<td>19.29%</td>
<td>32.04%</td>
<td>21.20%</td>
<td></td>
</tr>
</tbody>
</table>

1. The tax rates include the territorial surtaxes and reflect budget proposals and news releases to 15 July 2014. Where the tax is determined under the alternative minimum tax provisions (AMT), the above table is not applicable. AMT may be applicable where the tax otherwise payable is less than the tax determined by applying the relevant AMT rate to the individual’s taxable income adjusted for certain preference items.

2. The tax determined by the table should be reduced by the applicable federal and territorial tax credits, other than the basic personal tax credits, which have been reflected in the calculations.

3. The rates apply to the actual amount of taxable dividends received from taxable Canadian corporations. Eligible dividends are those paid by public corporations and private companies out of earnings that have been taxed at the general corporate tax rate (the dividend must be designated by the payor corporation as an eligible dividend). Where the dividend tax credit exceeds the federal and territorial tax otherwise payable on the dividends, the rates do not reflect the value of the excess credit that may be used to offset taxes payable from other sources of income. This assumption is consistent with prior year rates.

4. The rates apply to the actual amount of the capital gain. The capital gains exemption on qualified farm and fishing property and small business corporation shares may apply to eliminate the tax on those specific properties.

####Non-residents

**Combined federal and provincial personal income tax rates - 2014**

<table>
<thead>
<tr>
<th>Taxable income</th>
<th>Non-resident rate of 48%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower limit</td>
<td>Upper limit</td>
</tr>
<tr>
<td>$ - to $ 43,953</td>
<td>$ -</td>
</tr>
<tr>
<td>43,954 to 87,907</td>
<td>9,758</td>
</tr>
<tr>
<td>87,908 to 136,270</td>
<td>24,069</td>
</tr>
<tr>
<td>136,271 and up</td>
<td>42,679</td>
</tr>
</tbody>
</table>

1. The tax rates reflect budget proposals and news releases to 15 July 2014.
### Appendix B - Tax credits

#### Non-refundable tax credits - Maximum combined federal and provincial/territorial value - 2014

<table>
<thead>
<tr>
<th>Amount of credit</th>
<th>BC</th>
<th>AB</th>
<th>SK</th>
<th>MB</th>
<th>ON</th>
<th>QC6</th>
<th>NB</th>
<th>NS</th>
<th>PEI</th>
<th>NL</th>
<th>NT</th>
<th>NU</th>
<th>YT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic personal credit</td>
<td>2,170</td>
<td>3,449</td>
<td>3,362</td>
<td>2,657</td>
<td>2,433</td>
<td>3,656</td>
<td>2,588</td>
<td>2,416</td>
<td>2,502</td>
<td>2,331</td>
<td>2,477</td>
<td>2,173</td>
<td>2,494</td>
</tr>
<tr>
<td>Spousal and equivalent-to-spouse credit7,11</td>
<td>2,098</td>
<td>3,449</td>
<td>3,362</td>
<td>2,657</td>
<td>2,318</td>
<td>2,201</td>
<td>2,098</td>
<td>2,098</td>
<td>2,098</td>
<td>2,098</td>
<td>2,098</td>
<td>2,098</td>
<td>2,098</td>
</tr>
<tr>
<td>Infirm dependant aged 18 or over7</td>
<td>1,207</td>
<td>2,018</td>
<td>1,985</td>
<td>1,378</td>
<td>1,347</td>
<td>1,421</td>
<td>1,234</td>
<td>1,252</td>
<td>1,122</td>
<td>1,118</td>
<td>1,122</td>
<td>1,118</td>
<td>1,122</td>
</tr>
<tr>
<td>Caregiver credit7,11</td>
<td>898</td>
<td>1,709</td>
<td>1,676</td>
<td>1,069</td>
<td>1,039</td>
<td>1,122</td>
<td>1,100</td>
<td>1,093</td>
<td>1,110</td>
<td>943</td>
<td>889</td>
<td>947</td>
<td>1,014</td>
</tr>
<tr>
<td>Age credit (65 and over)7</td>
<td>1,261</td>
<td>1,533</td>
<td>1,553</td>
<td>1,440</td>
<td>1,276</td>
<td>1,353</td>
<td>1,485</td>
<td>1,401</td>
<td>1,406</td>
<td>1,459</td>
<td>1,432</td>
<td>1,414</td>
<td>1,524</td>
</tr>
<tr>
<td>Disability credit</td>
<td>1,593</td>
<td>2,537</td>
<td>2,612</td>
<td>1,832</td>
<td>1,780</td>
<td>1,907</td>
<td>1,810</td>
<td>1,908</td>
<td>1,611</td>
<td>1,689</td>
<td>1,739</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pension income (maximum)</td>
<td>351</td>
<td>437</td>
<td>410</td>
<td>408</td>
<td>405</td>
<td>683</td>
<td>397</td>
<td>403</td>
<td>408</td>
<td>377</td>
<td>359</td>
<td>380</td>
<td>448</td>
</tr>
<tr>
<td>Education and textbook - per month (full-time)</td>
<td>80</td>
<td>139</td>
<td>114</td>
<td>113</td>
<td>111</td>
<td>58</td>
<td>108</td>
<td>67</td>
<td>113</td>
<td>85</td>
<td>85</td>
<td>93</td>
<td>104</td>
</tr>
<tr>
<td>Canada employment credit</td>
<td>169</td>
<td>169</td>
<td>169</td>
<td>169</td>
<td>169</td>
<td>169</td>
<td>169</td>
<td>169</td>
<td>169</td>
<td>169</td>
<td>169</td>
<td>169</td>
<td>252</td>
</tr>
<tr>
<td>Child tax credit (per child under 18)11</td>
<td>338</td>
<td>338</td>
<td>338</td>
<td>282</td>
<td>338</td>
<td>338</td>
<td>338</td>
<td>338</td>
<td>338</td>
<td>338</td>
<td>338</td>
<td>338</td>
<td>505</td>
</tr>
<tr>
<td>Child fitness and arts credits12</td>
<td>201</td>
<td>150</td>
<td>150</td>
<td>150</td>
<td>150</td>
<td>150</td>
<td>150</td>
<td>150</td>
<td>150</td>
<td>150</td>
<td>150</td>
<td>150</td>
<td>224</td>
</tr>
</tbody>
</table>

#### Credits as a percentage of...

<table>
<thead>
<tr>
<th></th>
<th>BC</th>
<th>AB</th>
<th>SK</th>
<th>MB</th>
<th>ON</th>
<th>QC6</th>
<th>NB</th>
<th>NS</th>
<th>PEI</th>
<th>NL</th>
<th>NT</th>
<th>NU</th>
<th>YT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tuition fees</td>
<td>20.06</td>
<td>25.00</td>
<td>26.00</td>
<td>25.80</td>
<td>22.88</td>
<td>20.53</td>
<td>24.68</td>
<td>23.79</td>
<td>25.78</td>
<td>22.70</td>
<td>20.90</td>
<td>19.00</td>
<td>22.39</td>
</tr>
<tr>
<td>Public transit passes</td>
<td>15.00</td>
<td>15.00</td>
<td>15.00</td>
<td>15.00</td>
<td>12.53</td>
<td>15.00</td>
<td>15.00</td>
<td>15.00</td>
<td>15.00</td>
<td>15.00</td>
<td>15.00</td>
<td>15.00</td>
<td>22.39</td>
</tr>
<tr>
<td>Medical expenses3</td>
<td>20.06</td>
<td>25.00</td>
<td>26.00</td>
<td>25.80</td>
<td>22.88</td>
<td>32.53</td>
<td>24.68</td>
<td>23.79</td>
<td>25.78</td>
<td>22.70</td>
<td>20.90</td>
<td>19.00</td>
<td>22.39</td>
</tr>
<tr>
<td>Charitable donations4 - first $200</td>
<td>20.06</td>
<td>25.00</td>
<td>26.00</td>
<td>25.80</td>
<td>22.88</td>
<td>20.53</td>
<td>24.68</td>
<td>23.79</td>
<td>25.78</td>
<td>22.70</td>
<td>20.90</td>
<td>19.00</td>
<td>22.39</td>
</tr>
<tr>
<td>- remainder</td>
<td>43.70</td>
<td>50.00</td>
<td>44.00</td>
<td>46.40</td>
<td>46.41</td>
<td>48.22</td>
<td>46.95</td>
<td>50.00</td>
<td>47.37</td>
<td>42.30</td>
<td>43.05</td>
<td>40.50</td>
<td>42.40</td>
</tr>
<tr>
<td>CPP and QPP contributions5</td>
<td>20.06</td>
<td>25.00</td>
<td>26.00</td>
<td>25.80</td>
<td>22.88</td>
<td>20.53</td>
<td>24.68</td>
<td>23.79</td>
<td>25.78</td>
<td>22.70</td>
<td>20.90</td>
<td>19.00</td>
<td>22.39</td>
</tr>
<tr>
<td>EI premiums</td>
<td>20.06</td>
<td>25.00</td>
<td>26.00</td>
<td>25.80</td>
<td>22.88</td>
<td>20.53</td>
<td>24.68</td>
<td>23.79</td>
<td>25.78</td>
<td>22.70</td>
<td>20.90</td>
<td>19.00</td>
<td>22.39</td>
</tr>
</tbody>
</table>

1. This chart summarizes the more significant non-refundable tax credits. Additional federal non-refundable tax credits are available. The tax value of each tax credit is the sum of the federal tax credit and the provincial/territorial tax credit and the reduction in provincial surtax (if applicable) as they would apply to taxpayers in the highest tax brackets, with the exception of the age credit. These values are based on known rates and credit amounts as at 15 July 2014.

2. The value of these credits is reduced when the dependant’s (taxpayer’s, in the case of the age credit) income exceeds specified threshold amounts. The federal thresholds are: $0 for the spouse and equivalent-to-spouse credits; $6,607 for the infirm dependant credit; $15,472 for the caregiver credit; and $34,873 for the age credit. The thresholds may be different for provincial purposes.

3. The credit applies to eligible medical expenses that exceed the lesser of $2,171 (federal threshold) and 3% of net income (family income for Quebec purposes). Provinces/territories may have different dollar thresholds.

4. Charitable donations eligible for credit are limited to 75% of net income. A special federal credit rate may apply to a donation made by a first-time donor.

5. One-half of CPP/QPP paid by self-employed individuals is deductible for tax purposes.

6. Additional Quebec personal credits include persons living alone or with a person covered by the tax credit for dependent children - $265 (reduced when the parent's income exceeds $32,795); single parent families with one or more adult children enrolled in full-time studies - $328 (reduced when the parent's income exceeds $32,795); a credit of $607 is available for related dependants (other than a spouse) aged 18 or over (reduced by 16% of dependant’s income). Where minor dependant children are studying full-time (vocational training or post-secondary studies), an additional credit of $417 per term is available (maximum two terms), reduced by 16% of children’s income.

7. Quebec permits the transfer of personal credits from one spouse to the other. The Quebec credit is reduced by 16% of the spouse’s taxable income up to $14,131. Quebec does not provide an equivalent-to-spouse credit.

8. Quebec does not have a specific infirm dependant credit.

9. The Quebec refundable credit is reduced by 16% of the dependant’s income over $22,840.

10. The Quebec credit is reduced when net family income exceeds $32,795.

11. A federal family caregiver tax credit of $309 ($258 in Quebec) may be available in respect of a spouse, dependant or child who is dependent on the individual by reason of mental or physical infirmity.

12. Additional federal and provincial/territorial amounts may be available for a child with a disability. Ontario and Saskatchewan provide a refundable tax credit of $55 and $150 respectively per child. A portion of the Manitoba tax credit may be available for an individual up to 24 years of age. Quebec provides a child's activities tax credit of $40 for a child between 5 and 15 years old (family income must not exceed $131,260).
# Appendix C

## Probate fees by province and territory (current as of 30 June 2014)

<table>
<thead>
<tr>
<th>Province/territory</th>
<th>Fee/tax</th>
<th>Statute/Regulations</th>
</tr>
</thead>
</table>
| Alberta            | $25, where property's net value does not exceed $10,000  
                    $100, where property's net value exceeds $10,000 but not $25,000  
                    $200, where property's net value exceeds $25,000 but not $125,000  
                    $300, where property's net value exceeds $125,000 but not $250,000  
                    $400, where property's net value exceeds $250,000 | Surrogate Rules, Schedule 2 – under the Judicature Act |
| British Columbia   | $6 for every $1,000 or portion thereof by which estate's value exceeds $25,000, where value exceeds $25,000 but not $50,000  
                    $150 + $14 for every $1,000 or portion thereof by which estate's value exceeds $50,000  
                    There is an additional $200 flat fee for estates exceeding $25,000. | Probate Fee Act s. 2, Supreme Court Civil Rules (Appendix C) under the Court Rules Act |
| Manitoba           | $70, where property's value does not exceed $10,000  
                    $70 + $7 for every additional $1,000 or portion thereof by which value exceeds $10,000 | The Law Fees and Probate Charge Act s. 1.1, Schedule; Law Fees and Probate Charge Regulation |
| New Brunswick      | $25, where estate's value does not exceed $5,000  
                    $50, where estate's value exceeds $5,000 but not $10,000  
                    $75, where estate's value exceeds $10,000 but not $15,000  
                    $100, where estate's value exceeds $15,000 but not $20,000  
                    $5 per $1,000 or portion thereof, where value exceeds $20,000 | Probate Court Act s. 75.1, Schedule A |
| Newfoundland and Labrador | $60, where estate's value does not exceed $1,000  
                          $60 + $0.50 for every additional $100 of estate's value over $1,000 | Services Charges Act s. 4 |
| Northwest Territories | $25, where property's value does not exceed $10,000  
                          $100, where property's value exceeds $10,000 but not $25,000  
                          $200, where property's value exceeds $25,000 but not $125,000  
                          $300, where property's value exceeds $125,000 but not $250,000  
                          $400, where property's value exceeds $250,000 | Probate, Administration and Guardianship Fees Regulations s. 1, Schedule - under the Judicature Act |
| Nova Scotia2       | $83.10, where estate's assets do not exceed $10,000  
                    $208.95, where estate's assets exceed $10,000 but not $25,000  
                    $347.70, where estate's assets exceed $25,000 but not $50,000  
                    $973.45, where estate's assets exceed $50,000 but not $100,000  
                    $973.45 + $16.45 for every $1,000 or portion thereof by which estate's assets exceed $100,000 | Probate Act s. 87(2), Fees and Allowances under Part I and Part II of the Costs and Fees Act |
| Nunavut            | $25, where property's value does not exceed $10,000  
                    $100, where property's value exceeds $10,000 but not $25,000  
                    $200, where property's value exceeds $25,000 but not $125,000  
                    $300, where property's value exceeds $125,000 but not $250,000  
                    $400, where property's value exceeds $250,000 | Court Fees Regulations s. 4, Schedule C – under the Judicature Act |
| Ontario            | nil, where estate's value is $1,000 or less  
                    $5 per $1,000 or portion thereof by which estate's value exceeds $1,000 but does not exceed $50,000  
                    $250 + $15 per $1,000 or portion thereof by which estate's value exceeds $50,000 | Estate Administration Tax Act s. 2 |
| Prince Edward Island | $50, where estate's value does not exceed $10,000  
                        $100, where estate's value exceeds $10,000 but not $25,000  
                        $200, where estate's value exceeds $25,000 but not $50,000  
                        $400, where estate's value exceeds $50,000 but not $100,000  
                        $400 + $4 per $1,000 or portion thereof by which estate's value exceeds $100,000 | Probate Act s. 119.1(4) |
| Quebec             | No probate fee or tax3 | n/a |
| Saskatchewan      | $7 per $1,000 of the estate's value or portion thereof | The Administration of Estates Act s. 51(2) |
| Yukon              | nil, where estate's value is $25,000 or less  
                        $140, where estate's value exceeds $25,000 | Rules of Court for the Supreme Court of Yukon, Appendix C – under the Judicature Act |

1 Additional flat fees (e.g., filing fees) may apply.
2 The probate fees for Nova Scotia were increased effective 1 April 2013 (by Bill 51 (2013)).
3 Quebec charges a flat fee where a natural or legal person files a request for a will verification with the Superior Court.

Includes all rate changes up to 30 June 2014.
### Appendix D

**Provincial land transfer taxes***

<table>
<thead>
<tr>
<th>Province/Territory</th>
<th>Tax/Duty</th>
<th>Statute</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alberta</td>
<td>No land transfer tax; however, registration fees may apply.</td>
<td>See the Tariff of Fees Regulation, Alta. Reg. 120/2000 for the application of registration fees.</td>
</tr>
</tbody>
</table>
| British Columbia           | Total of:  
  • 1% of the first $200,000 of the taxable transaction's fair market value (FMV); and  
  • 2% of the remaining taxable transaction's FMV.                                                                                              | Property Transfer Tax Act, s. 3.                                                               |
|                            |                                                                                                                                                                                                          | See the Land Title Act, Schedule 2 for the application of registration fees.                 |
| Manitoba                   | Total of:  
  • 0.5% of the excess of the land's FMV over $30,000;  
  • 0.5% of the excess of the land's FMV over $90,000;  
  • 0.5% of the excess of the land's FMV over $150,000; and  
  • 0.5% of the excess of the land's FMV over $200,000.                                                                                       | Part III (Land Transfer Tax) of The Tax Administration and Miscellaneous Taxes Act, s. 112(1). |
|                            |                                                                                                                                                                                                          | See the Manitoba Land Titles Fee Regulation 71/2014 for the application of registration fees. |
| New Brunswick              | 0.50% of the greater of:  
  • consideration for the transfer; and  
  • real property's assessed value.                                                                                                               | Real Property Transfer Tax Act, s. 2(1.01).                                                    |
|                            |                                                                                                                                                                                                          | See the New Brunswick Regulation 83-130, Schedule B for the application of registration fees. |
| Newfoundland and Labrador | No land transfer tax; however, registration fees may apply.                                                                                                                                              | See the Schedule of Fees Prescribed by the Minister of Government Services - Registry of Deeds on the government website and the Registration of Deeds Act, 2009, s. 39 for the application of registration fees. |
| Northwest Territories      | No land transfer tax; however, registration fees may apply.                                                                                                                                              | See the Land Titles Act, s. 156(2) and the Land Titles Tariff of Fees Regulations, Schedule for the application of registration fees. |
| Nova Scotia                | Determined by each municipality and applied to the sale price of every property that is transferred by deed. Maximum being 1.5% of the value of the property transferred.                                        | Part V (Deed Transfers) of the Municipal Government Act, s. 102(1).                           |
| Nunavut                    | No land transfer tax; however, registration fees may apply.                                                                                                                                              | See the Land Titles Act, s. 156(1) and the Land Titles Tariff of Fees Regulations, Schedule for the application of registration fees. |
| Ontario                    | Total of:  
  • 0.5% of the value of the conveyance's consideration up to and including $55,000;  
  • 1% of the value of the conveyance's consideration exceeding $55,000 up to and including $250,000;  
  • 1.5% of the value of the conveyance's consideration exceeding $250,000; and  
  • 2.0% of the value of the conveyance's consideration exceeding $400,000 (only where conveyance of land containing at least one and not more than two single family residences). | Land Transfer Tax Act, s. 2(1).                                                               |
|                            |                                                                                                                                                                                                          | See the Land Titles Act, s. 156(1) and the Land Titles Tariff of Fees Regulations, Schedule for the application of registration fees. |
| Prince Edward Island       | 1% of the greater of:  
  • consideration for the transfer; and  
  • real property's assessed value. No land transfer tax is applied where neither the greater of the consideration or assessed value exceeds $30,000. | Real Property Transfer Tax Act, s. 3(1) and s. 4(2).                                           |
|                            |                                                                                                                                                                                                          | See the Registry Act, s. 50.1 for the application of registration fees.                      |
| Quebec                     | Total of:  
  • 0.5% of the basis of imposition up to and including $50,000;  
  • 1% of the basis of imposition exceeding $50,000 up to and including $250,000; and  
  • 1.5% of the value of the basis of imposition exceeding $250,000. The basis of imposition being the greater of:  
    • consideration furnished for the transfer;  
    • consideration stipulated for the transfer; and  
    • immovable's market value at the time of the transfer.                                                                                   | An Act Respecting Duties on Transfers of Immovables, s. 2.                                    |
|                            |                                                                                                                                                                                                          | See An Act Respecting Registry Offices, Schedule 1 for the application of registration fees. |
| Saskatchewan               | No land transfer tax; however, registration fees may apply.                                                                                                                                              | See the Land Titles Act, s.118 and the Information Services Corporation website for the application of registration fees at: https://www.isc.ca/LandTitles/Pages/LandTitlesFees.aspx |
| Yukon                      | No land transfer tax; however, registration fees may apply.                                                                                                                                              | See the Tariff of Fees, Regulation 2002/142 for the application of registration fees.        |

* Source: EY Electronic Publishing Services Inc.  
  * Exemptions or refunds may be available in certain circumstances.
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