10 Tax Strategies That Every Investor Should Know

Stanley Tepner, CPA, CA, CFP, TEP, CIM
Portfolio Manager, First Vice-President
The Tepner Team at CIBC Wood Gundy

416 229 5566 stan.tepner@cibc.ca | www.tepner.ca
1. All Income Is Not Created Equally
2. Location, Location, Location
3. Fun with Funds and Pools
4. You ROC!
5. Capturing Capital Gains and Losses
6. Income Splitting for the Whole Family
7. T F _ A
8. Really, Really, Superb Pointers for RRSPs
9. RRIF Riffs
10. Gimme Shelter
### 2014 Marginal Tax Rates - Ontario

<table>
<thead>
<tr>
<th>Source of Income</th>
<th>Cash Retained</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$220,000</td>
</tr>
</tbody>
</table>

- **Employment**: % per $1,000
- **Interest**: % per $1,000
- **Foreign Dividends**: % per $1,000
- **Eligible Canadian Dividends**: % per $1,000
- **Capital Gain**: % per $1,000
2. Location, Location, Location

- As in real estate, Location really matters in tax planning
- Taxable account vs. RRSP/RRIF vs. TFSA
- Call in the movers!
3. Fun with Funds and Pools

a. Mutual fund taxation: distributions vs. dispositions

b. Avoiding Double Taxation

**EXAMPLE:**

- ORIGINAL INVESTMENT IN GROWTH FUND: $10,000
- CUMULATIVE RE-INVESTED DIVIDEND INCOME: $2,000
- CUMULATIVE RE-INVESTED CAPITAL GAINS: $2,000
- PROCEEDS ON COMPLETE REDEMPTION: $20,000

**CAPITAL GAIN =**

- PROCEEDS: $
- LESS: COST FOR TAX: $
- CAPITAL GAIN: $

CUMULATIVE GAIN: $10,000

CUMULATIVE TAX: $2,000

CUMULATIVE TAX: $2,000

CUMULATIVE GAIN: $20,000
3. Fun with Funds and Pools

• Beware of the built-in tax bite!

**EXAMPLE:**

ORIGINAL COST OF STOCK IN THE FUND  $ \\
VALUE OF STOCK WHEN CLIENT INVESTED  $ \\
PRICE OF STOCK WHEN SOLD BY FUND  $ \\

RESULTS:

ECONOMIC BENEFIT TO INVESTOR  $ \\
INVESTOR’S TAX LIABILITY BASED ON  $ \\

• Trust structure vs. corporate structure
1. * What is Return of Capital (ROC)?
2. * REITs -- Special mutual fund structures -- Structured notes
EXAMPLE: $15,000 INVESTMENT IN REIT, $1,000 ANNUAL INCOME
ONLY 50% OF INCOME IS TAXED IN YEAR OF RECEIPT (THE REST IS ROC)

YEAR 1: INCOME $ 
      TAX @49.53% $ 
      ACB @ Y/E $ 

YEAR 2: INCOME $ 
      TAX @ 49.53% $ 
      ACB @ Y/E $ 

YEAR 3: REIT SOLD FOR $15,000 ON FIRST DAY OF THE YEAR

  PROCEEDS $15,000 
  ACB $ 
  CAPITAL GAIN $ 
  TAX @ 24.77% $ 

  TOTAL PRE-TAX RETURN $ 
  TAX PAID $ 
  TOTAL AFTER-TAX RETURN $ 

COMPARE TO ORDINARY INCOME $ 
  TAX PAID @49.53% $ 
  AFTER-TAX RETURN $ 

ADVANTAGE ROC $
5. Capturing Capital Gains and Losses

- What year does your gain or loss fall into? (the settlement rules)
- Superficial losses / artificial avoidance of superficial losses
- Capital loss carry-back and carry-forward rules
- How to avoid capital gains tax by contributing appreciated securities to charities and foundations
- Superficial gains and the “ACB Bump”
6. Income Splitting for the Whole Family

- Know the Attribution Rules
- Is there tax on gifts that you give or receive?
- Minor children/grandchildren vs. adult children/grandchildren vs. spouse
- Splitting pensions and retirement income
- Spousal loans
- Case study
• T F _ A: what letter is missing?
• Which contribution should you make first, the RRSP or the TF_A?
• Tax-smartest investments for your TF_A
• Contributions “in kind”
• Spousal RRSP contributions: do they still matter when you can split retirement incomes?
• How to squeeze in one extra RRSP contribution
• Contributions “in kind”
• Contributing without deducting
• Deducting without contributing
• The $2,000 RRSP over-contribution
9. RRIF Riffs

- The $2,000 pension income tax credit; missed by too many
- RRIF withdrawal strategies – it may also be about location, location, location
- Other early RRIF withdrawal strategies
10. Gimme Shelter

- Resource industry flow-through tax deductions

**EXAMPLE:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>COST OF FLOW-THROUGH SHARES</td>
<td>$10,000</td>
</tr>
<tr>
<td>CURRENT TAX DEDUCTION</td>
<td>$10,000</td>
</tr>
<tr>
<td>TAX SAVINGS AT 49.53%</td>
<td>$4,953</td>
</tr>
<tr>
<td>NET COST TO INVESTOR</td>
<td>$5,047</td>
</tr>
</tbody>
</table>

**ASSUME SALE OF SHARES AT $10,000:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>PROCEEDS OF DISPOSITION</td>
<td>$10,000</td>
</tr>
<tr>
<td>ADJUSTED COST BASE (ACB)</td>
<td>$</td>
</tr>
<tr>
<td>CAPITAL GAIN</td>
<td>$</td>
</tr>
<tr>
<td>TAX ON CAPITAL GAIN @24.77%</td>
<td>$</td>
</tr>
<tr>
<td>AFTER-TAX PROCEEDS</td>
<td>$</td>
</tr>
<tr>
<td>AFTER-TAX PROFIT</td>
<td>$</td>
</tr>
<tr>
<td>PERCENTAGE OF AFTER-TAX PROFIT OVER</td>
<td>%</td>
</tr>
<tr>
<td>AFTER-TAX COST</td>
<td></td>
</tr>
</tbody>
</table>
10. Gimme Shelter

- How to convert your non-deductible debts into tax-deductible debts
- Should I incorporate my investment portfolio?
- My corporation: my other “RRSP”
- Tax-efficient alternatives for corporate investment portfolios
Questions?

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