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10 Tax Strategies That Every Investor Should Know

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Agenda

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

1. All Income Is Not Created Equally

2014 Marginal Tax Rates - Ontario	Cash Retained	
	>$220,000	per $1,000
Employment	%	$
Interest	%	$
Foreign Dividends	%	$
Eligible Canadian Dividends	%	$
Capital Gain	%	$

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	$______

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

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4. You ROC!

1. * What is Return of Capital (ROC)?
2. * REITs -- Special mutual fund structures -- Structured notes

4. You ROC!

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”

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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

7. T F _ A

- 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”

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8. Really, Really, Superb Pointers for RRSPs

- 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

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- Resource industry flow-through tax deductions

EXAMPLE:

COST OF FLOW-THROUGH SHARES	$10,000
CURRENT TAX DEDUCTION	$10,000
TAX SAVINGS AT 49.53%	<u>$4,953</u>
NET COST TO INVESTOR	<u>$5,047</u>
ASSUME SALE OF SHARES AT $10,000:	
PROCEEDS OF DISPOSITION	$10,000
ADJUSTED COST BASE (ACB)	$
CAPITAL GAIN	$
TAX ON CAPITAL GAIN @24.77%	$
AFTER-TAX PROCEEDS	$
AFTER-TAX PROFIT	$
PERCENTAGE OF AFTER-TAX PROFIT OVER AFTER-TAX COST	%

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

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Questions?

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