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Choose with confidence, get the CA and CFP advantage

Newsletter

December, 2009

Our December 2009 newsletter is ready and full of new and relevant tax related opportunities. As always, we have posted articles of interest on the subject of health and travel. Be sure to check out the "Library" section on our website for the latest updates.



## **What do you need to know NOW about 2009 Taxes?**

*Now is the time to determine whether there are any tax breaks or strategies to defer tax that you can take advantage of, by acting before the end of the year. With this in mind, there are a number of tax-related questions and issues you may need to consider. For example:*

### ➤ **Charitable Donations**

To be eligible for the 2009 Charitable Donation tax credit the donation needs to be made by December 31, 2009. When donating public traded securities, it is advised to donate those with implied capital gains since the donation will be for the Fair Market Value of the securities and the capital gain will be exempt from tax. It is important to make the donation 'in kind' since if the securities are sold and the cash donated then 50% of the capital gain realized will be taxed.

### ➤ **Mutual fund purchases**

Many mutual funds distribute their earnings at the end of the year, so investors who purchase them in December will be liable for taxes on those earnings as if they had been invested for the entire year. We can get an estimate of this year's distributions to determine whether it is worthwhile to postpone non-registered mutual fund purchases until January 2010.

By doing this we will avoid paying taxes in 2009. Mutual fund trusts will distribute any capital gains realized by the fund on December 31. These capital gains will be taxable to the unit holder for 2009. If you are considering purchasing units of a fund that is making a capital gains distribution on December 31, 2009 you should look at the possibility of deferring the purchase until early January 2010. By doing this you will avoid paying taxes in 2009.

### ➤ **Tax-free savings account**

Tax-free savings accounts came into effect on January 1 of this year. Hopefully you've already opened one, but if not, it's time to activate one now. You can save up to \$5,000 in a variety of investment options and, if you need those dollars at any point, you can pull them out tax-free.

### ➤ **Tax-loss selling for non-registered accounts**

A great strategy at this time of year is to sell investments that have dropped in value and trigger capital losses. Capital losses can offset realized capital gains, reducing taxes payable. If the capital losses triggered exceed this year's

capital gains, the excess amount can be taken back three years and used to reduce any capital gains realized in those years. As an alternative, the capital losses can be carried forward to reduce future capital gains realized. Now's the time to review your portfolio and determine whether there are any equities for which you should lock in the losses before year-end.

➤ **Superficial Losses**

Beware of the 'superficial loss rule' A taxpayer may intend to sell an investment to trigger a usable capital loss and then want to immediately buy the investment back. The superficial loss rule in the Income Tax Act prevents the usefulness of this tactic. It disallows the capital loss where the taxpayer (or his or her spouse) triggers a capital loss and buys the same investment back within 30 days. This does not include selling and buying back a different class of the same fund. Note - Securities transactions take three business days to 'settle'. Consequently, if a person wants to make a sale that is considered a 2009 transaction, the sale should take place by December 24, 2009.

➤ **Deferring a Bonus**

If a person is anticipating a year-end bonus, their employer may agree to postpone the actual payment of the bonus to 2010. Therefore the bonus income will be taxed in the 2010 tax year. However, by lowering the income in 2009, the amount of RRSP/DPSP/Registered Pension contribution room may also be lowered for 2010.

➤ **RRSP's and those turning 71**

A taxpayer cannot hold an RRSP beyond the end

of the year in which they turn 71. Therefore, if a taxpayer has turned 71 in 2009 they must transition their RRSPs by December 31. The two most common options are to establish a Registered Retirement Income Fund (RRIF) or to purchase an annuity.

➤ **RESP Contributions**

To receive the Canada Education Savings Grant (CESG) for 2009, contributions must be made to the plan by December 31, 2009.

➤ **The Home Buyer's Plan (HBP)**

If a client is planning to make a withdrawal from their RRSP under the Home Buyers' Plan they should consider delaying the withdrawal until 2010 if possible. By doing this they will be able to defer the initial repayment of the withdrawal by one year, until 2013.

➤ **The Home Renovation Tax Credit**

One of the more popular tax programs introduced in 2009 was the Home Renovation Tax Credit which allows a tax credit of up to \$1,350 for eligible expenses up to \$10,000 incurred after January 27, 2009 and before February 1, 2010. This benefit is only available for one month after year end.

➤ **Final payments**

Final payments must be made before December 31 in order to claim a tax deduction in 2009 for various items, including alimony payments, child-care expenses, interest expenses on money borrowed to earn investment income, and investment counseling fees.