



FINANCIAL LITERACY

Effective Tax Strategies

Presented by
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An Educational Session sponsored by the Chartered
Professional Accountants of Canada (CPA Canada)



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Agenda

- Acquire Tax Smarts
- Types of Tax Savings
- Tax Planning
- Achieving Tax Goals – Practical Strategies
- Resources
- Q&A



Acquire Tax Smarts – Understand the Law

- Income Tax Act (ITA) is the primary source of income tax law, **not** the Canada Revenue Agency (CRA)
 - Laws are created by the Department of Finance
- CRA *administers* the tax law
 - There may be differences in interpretation



Acquire Tax Smarts – Keeping Up

- Reasons for income tax changes
 - Policy changes, fiscal government objectives, political objectives

- Staying Current
 - CRA website, T1 Guide published annually by the CRA, news, tax advisors



Acquire Tax Smarts – Know your Rights

- Understand your rights
 - Taxpayer Bill of Rights
 - Enforced by Taxpayer Ombudsman

- Service Complaints Program
 - Allows CRA to analyze trends and identify systemic issues
 - Anyone dissatisfied with service received can file complaint



Acquire Tax Smarts – Be Resourceful

- Use resources from CRA
- Choose appropriate tax preparation software
- Stay organized throughout the year
- Consider working with a tax professional
 - Complex cases
 - Uncertainty of any tax positions taken
 - A second professional opinion



Tax Planning Key Considerations

- Minimize your tax liability
- Plan ahead – be proactive not reactive
- Calculate your marginal income tax rate and think in terms of after tax



2020 Marginal Tax Rates for Individuals

Federal Marginal Tax Rates

Tax Brackets (\$)	Tax Rate (%)
0 – 48,535	15.00
48,535 up to 97,069	20.50
97,069 up to 150,473	26.00
150,473 up to 214,368	29.00
Over 214,368	33.00

Ontario Marginal Tax Rates

Tax Brackets (\$)	Tax Rate (%)
Upto \$44,740	5.05
over \$44,740 up to \$89,482	9.15
over \$89,482 up to \$150,000	11.16
over \$150,000 up to \$220,000	12.16
over \$220,000	13.16

Note: Combined marginal tax rates change frequently and vary by province.

Types of Tax Savings

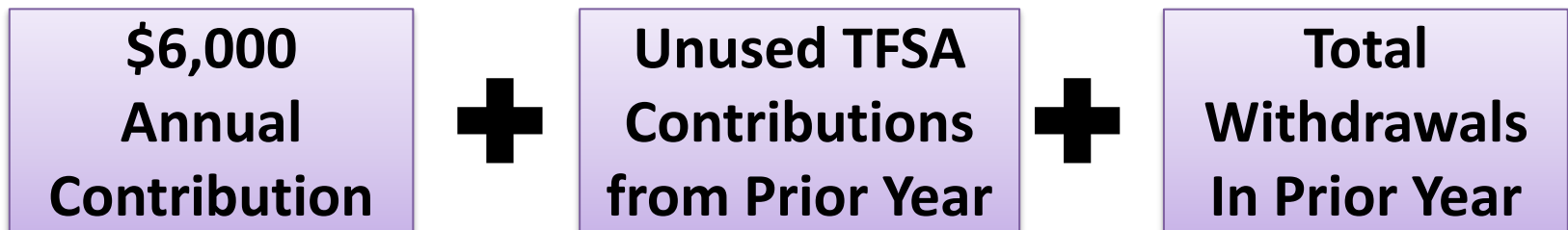
- **Bad News** – two types of tax savings
 1. Absolute
 2. Deferred
- **Good News** – many ways to take advantage of these two types of savings.



Example of Absolute Tax Savings

- **Tax-Free Savings Account (TFSA)**
- Tax-free earnings
- Gifting to lower income earning spouse's TFSA
- Check Notice of Assessment (NOA) for up-to-date balance.

TOTAL CONTRIBUTION ROOM =



Tax Free Savings Account (TFSA)

- Check prior year Notice of Assessment for Contribution Room

Year	Contribution Maximums/year
2009 - 2012	\$5,000
2013 – 2014	\$5,500
2015	\$10,000
2016-2018	\$5,500
2019	\$6,000

Example of Deferred Tax Savings

Reduce gross income through Registered Retirement Savings Plan (RRSP) contribution

- Save for retirement + tax break
- Earned income usually tax exempt if funds remain in the plan
- **Home Buyers' Plan** – Withdraw up to \$35,000 (after March 31, 2019)
- **Lifelong Learning Plan** –
Withdraw up to total \$20,000 from RRSPs
 - Up to \$10,000 in a calendar year
 - Up to \$20,000 in total



Example of Deferred Tax Savings

Registered Education Savings Plans (RESPs) – S.146.1 of ITA

- Tax deferral & split income
- Terms: Subscriber, Promotor, Beneficiary
- Canada Education Savings Grant (CESG)
 - Max/yr: \$2,500 x 20% (or \$500 worth)
- **Cannot** be used for personal tax deferral
 - Significant penalty applies!



Tax Planning – High Level

- Goal: arrange your tax affairs to minimize tax liability
 - Can you time your income/expenses?
 - Utilizing tax credits and tax deferred investments
- Type of income matters
 - Capital
 - Interest and ordinary income
 - Dividends



Tax Planning – High Level

- Define your goals
- Review at year-end and look to ensure all deductions and credits are taken
- Overall objectives in tax planning:
 - Defer income
 - Accelerate deductions – a \$1 saved is like a \$1 earned



How to Achieve Tax Goals – 3 Fundamentals

1. Reduce income that is subject to tax:
 - Deferring income to another year = reducing income this year
2. Increase tax deductions
3. Maximize tax credits



How to Achieve Tax Goals

- Consider timing of capital gains, interest and dividends – and RRSP contribution
- Structure affairs to generate tax deductible interest
- Pay deductible interest earning debt off last
- Plan so that you neither owe tax at filing time nor are owed a refund



Tax Rates on Different Income Types

Combined Federal and Provincial Top Marginal Tax Rates

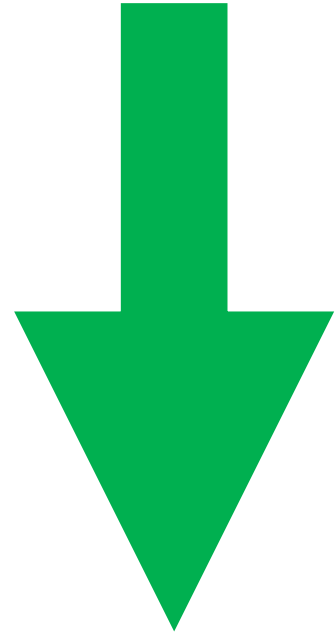
Province	Interest & Regular Income	Capital Gains	Eligible Dividends	Non-Eligible Dividends
British Columbia	49.80%	24.90%	31.44%	44.64%
Alberta	48.00%	24.00%	31.71%	42.31%
Saskatchewan	47.50%	23.75%	29.64%	40.37%
Manitoba	50.40%	25.20%	37.78%	46.67%
Ontario	53.53%	26.77%	39.34%	47.40%
Québec	53.31%	26.66%	40.00%	46.25%
New Brunswick	53.30%	26.65%	33.51%	47.75%
Nova Scotia	54.00%	27.00%	41.58%	48.27%
P.E.I.	51.37%	25.69%	34.22%	45.23%
Newfoundland & Labrador	51.30%	25.65%	42.61%	44.59%
Northwest Territories	47.05%	23.53%	28.33%	36.82%
Nunavut	44.50%	22.25%	33.08%	37.79%
Yukon	48.00%	24.00%	28.93%	42.17%

Applies to taxable income above 202,800 in all jurisdictions except:

- \$315,000 in AB
- \$220,000 in ON
- \$500,000 in Yukon

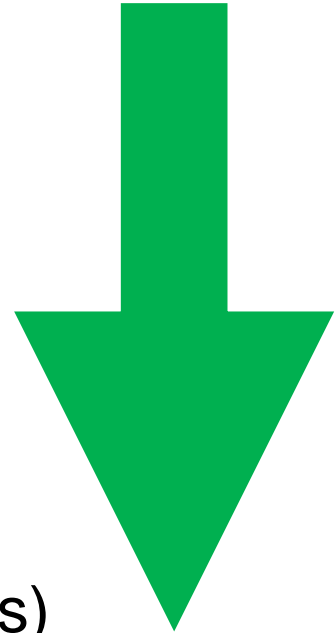
Reducing taxable income

- **Reduce Total Income and determine Net Income through income adjustments** – investment loan interest paid, and child care costs, etc.
- Defer or postpone income or accelerate discretionary expenses



Reducing taxable income (cont'd)

- Consider income splitting
- Capital gains and losses:
 - Keep track of and maximize use of investment losses
- Deferring interest income
- Motor vehicle expenses:
 - limited (complex rules for contractors)
- Donating publicly traded securities to charity



Tax deductions vs. Tax credits

Tax Deduction		Tax Credits
Reduces Taxable Income		Reduces Tax Dollar for Dollar
Income	\$100,000	A specific amount of money directly deducted from tax you pay. If a tax credit is \$1000, the amount of the tax payable is reduced by \$1000 .
Tax Deduction	- \$1,000	
Taxable Income	\$99,000	
The value of the tax deduction for a person with a marginal tax rate of 37% is \$370 . Example: RRSP's reduce taxable income		The value of a tax credit is \$100% Example: tuition expenses generate tax credits. Some tax credits can be transferred



Increase Tax Deductions

- Take all entitled deductions and time them effectively
- Deductions/exemptions depend on personal situation and filing status
- **Common deductions include:**
 - child care
 - moving expenses
 - RRSP contributions
 - interest on investment loans
 - Union/professional dues



Increase Tax Deductions

- **Interest deduction on borrowed money**
 - Must be structured with extreme care
 - Generally – deductible if used for the purposes of earning or producing income from a business or property: dividends, rents, interest, royalties
 - Interest on loan for other purposes usually not deductible

Use Tax Credits

- **Refundable (R) vs Non-refundable (NR)**
- **Charitable Donations (NR)**
 - Combine two or more years of donations into one year
- **Child Disability Benefit**
- **Medical Expense Tax Credit**
- **Eligible Educator Credit (NR)**

Use Tax Credits

- **Canada Caregiver Credit (NR)**
- **Tuition Tax Credit (NR)**
 - Education & textbook amounts repealed for 2017 onwards; CF available
- **Interest on student loans (NR)**
 - Non-transferable; CF: 5 years.



Use Tax Credits

- **Working Income Tax Benefit (R)**
- **Volunteer Firefighter (NR)**
- **Pension Income Amount (NR)**
- **Canada Employment Amount (NR)**
- **Home Buyers' Amount (NR)**
- **Adoption Credit (NR)**



Other Tips

- T1 return and any balance owing are due April 30 of the following year
- File on time to avoid penalties and interest
- File returns for family members
- Keep track of carry-forward amounts
- Registered Retirement Savings Plan



Keep Detailed Records

- Generally hold records for six years (after Notice of Assessment)
- Retain stock transactions, housing and business property records
- File back up documents by taxation year for easy retrieval



Resources

- Document Organizer Worksheet
- CPA Canada's Personal Tax Planner Guide
cpastore.ca
- Income Tax Calculator
canada.ca/en/revenue-agency/services/tax/individuals/frequently-asked-questions-individuals/canadian-income-tax-rates-individuals-current-previous-years.html
- *My Account* – Your personalized CRA account
canada.ca/en/revenue-agency/services/e-services/e-services-individuals/account-individuals.html
- Tax Ombudsman
canada.ca/en/taxpayers-ombudsman.html
- CRA's Fairness and Taxpayer Bill of Rights
canada.ca/en/revenue-agency/corporate/about-canada-revenue-agency-cra/taxpayer-bill-rights.html

Q & A

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