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TAXSTRATEGY

A word to the wise, tips for your…

Tax Bill

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Choosing presents for my family during the holiday season is one of my favourite things to do at this time of the year. In fact, I was always the designated gift wrapper in my family as I loved to take extra care in making sure the presents under the tree were worthy of any holiday commercial. My gift-giving tradition continued as a tax professional; but instead of hand wrapping presents, I've chosen to write about some of the better tax tips that you, my reader, might be able to use as part of your year-end tax planning. So read on to learn about some of my favourite holiday tips.

Claim Interest on Disappearing Investments

If you have borrowed money for an investment (or even a business) that may have gone belly-up (or sold for a loss), you're likely not too happy about the fact that you are still stuck paying interest on this loan. Guess what? It's possible that this interest may still be deductible (so might be a gift in disguise).

There are, however, two unhappy exceptions: 1) In the event you have managed to salvage some proceeds and the money is put to personal use rather than re-invested, the portion of your continuing interest charges relating to the personal use investment won't be deductible. 2) If the investment you made was in real estate: Although, you will only lose the deductibility in the latter case if the real estate is "directly held", so the interest charges should continue to be deductible if, for example, the real estate was held in a partnership or a company. Also, one case validates continuing interest deductions for real estate -- if you have managed to salvage some proceeds from the investment that are re-invested in the same type of property.

Investment carrying charges

Most investment-related carrying and financial charges are deductible, if incurred to earn income, including investment counsel and safety-deposit box charges. Check your bank statements for investment or business-related service charges such as certification or overdraft charges, charges for new chequebooks for your investments, and so on. Also, make sure you've picked up all expenses on your brokerage statements, such as interest on margin accounts or late payments on stock purchases. Although brokerage fees themselves are not immediately deductible, they reduce your capital gains exposure when you sell.

Another possible deduction is interest which becomes payable in 2016 on an investment or business loan, if you regularly deduct interest in the year it becomes payable (even if you couldn't make the actual payments).

Get your GST/HST Back

If you're allowed to deduct employment expenses (e.g., automobile, home office, and so on) you can claim a GST/HST rebate to recover the GST/HST included in the price of goods and services on which you have

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claimed a deduction. A similar rebate applies if you earn income from a partnership registered for GST/HST. In both cases, you can recover the GST/HST you pay on expenses you deduct personally by filing Form GST 370 - *Employee and Partner Goods and Services Tax Rebate* -- with your T1 return.

Objection expenses

You can also deduct legal fees paid for advice to object to or appeal an assessment under the *Income Tax Act*, the *Unemployment Insurance Act*, the *Canada Pension Plan* or the *Quebec Pension Plan*, plus any related accounting fees (net of any award or reimbursements for such expenses).

Taxable benefits on interest-subsidized loan

If a taxable benefit has been added to your T4 as a result of an interest-subsidized loan from your employer, you may be able to claim an offsetting deduction if the funds were used for income-earning purposes. This could be the case, for example, if you are a member of an employee share-purchase plan.

Tax return preparation fees

If you pay to have your tax return prepared and part of the fee relates to accounting charges for detailing your investment or business income, this portion of the fee should be deductible. Ask your accountant to send you a separate bill for these charges to back up the deduction.

Capital Gain Reserves

If you have sold assets in 2016 and realized a capital gain, you may be able (in some cases) to claim a capital gains reserve to defer recognition of that capital gain for tax purposes.

You can claim a reserve if you sell a property but do not receive all of the proceeds right away. An example of this would be selling appreciated shares and taking back a promissory note as consideration.

Under the reserve rules, you need only recognize one fifth of the gain in the current and each later year (cumulatively), so that the entire capital gain will be accounted for by the fourth year after the year of sale. If you are not able to claim a reserve because you received all of the proceeds immediately on the sale, look to see if you have a capital loss carry forward balance from previous years that can offset your capital gain.

Have your Kids report Capital Gains

Since you may be footing the bill for school, it only seems right that your kids should foot the bill for capital gains. If an investment is owned by your kids, the gain can be reported on their tax return. This could dramatically slash - even eliminate - the tax bite. How so? With the basic personal credits, a child or grandchild with no other income can make over $22,000 a year in capital gains - *per child, that is* – free of federal tax. And even if the gain exceeds this amount, so that your kid is in the lowest tax bracket, the tax rate is only about half of what a high-income earner would pay. (Note: in most cases, the funding parent must normally pay tax on interest and dividends generated by the investment until the year the child turns 18 due to the attribution rules; however, if the investment does not generate much income, then this becomes less of an issue.)

Sometimes, people hold an investment for their kids, e.g., as a gift for them, but it is registered in the name of the adult. This isn't necessarily a show-stopper. For one thing, if the account is registered in your name "in trust," this may show that it is really for your kids. Another possibility is to visit a tax advisor to discuss the possibility of documenting the fact that the investment is for your kids, e.g., by filling out a legal declaration of trust. But remember, this works to the extent that the intent from the very beginning was that the investment was truly for the benefit of your child. ❐