

2006 Year-End Tax Tips

The end of another year is once again upon us. And while tax planning is a year-round activity as part of the financial planning process, now's the time to pay special attention to various tax issues before it's too late. To that end, this issue of *Year-End Tax Tips* briefly outlines some of the more common items that may need consideration and some changes for 2007.

Note: These points are by their nature general and brief, and not applicable to all situations. Your tax advisor can assist in determining if any of these points are relevant to specific situations.

Securities Trading

- **Consider realizing losses**, particularly if there will be a net loss that can be carried back to reduce taxable capital gains in the prior three years. Losses not carried back can be carried forward indefinitely against future years' capital gains. Don't forget to watch out for the superficial loss rules if the individual or the individual's spouse or related corporation acquired the same security within 30 days of the sale (the rules will work to prevent the immediate claiming of the loss). To maximize the loss, consider deferring sales of securities with gains until January (this could also be used to defer tax where there are no accumulated losses).
- It is important to note that dispositions of securities by individuals that are repurchased by their RRSP **will** be subject to the superficial loss rules.
- Final trade date for security transactions for Toronto trades is December 22, 2006. Final trade date for securities transactions through New York is December 26, 2006. Key: *Settlement* must take place no later than December 29th.
- Consider delaying the purchase of annual pay/accrual fixed income securities (e.g. 1 year T-Bill or annual pay GIC) until 2007, thereby deferring the taxation of the income by a year.
- Election to defer the income inclusion of stock option benefits must be filed with the individual's employer by January 16, 2007 (Form T1212).

Registered Plans

- Deadline for 2006 RRSP contributions is March 1, 2007.
- **Reminder:** The annual contribution limit for 2006 is the lesser of 18% of 2005 earned income up to a maximum of \$18,000 (increased from \$16,500 in 2005), less the Pension Adjustment for 2005. The 2005 Notice of Assessment will indicate the allowable amount along with any unused amounts from prior years.
- If the annuitant turns 69 in 2006, RRSPs must be terminated and, to avoid being fully taxable in 2006, converted to a RRIF and/or annuity by December 31. Note: Contributions to the plan must be made by December 31, not 60 days after year end as the plan won't exist after December 31! Where the individual still has contribution room, contributions can continue to be made to a spousal plan if the individual's spouse is not over 69.
- The RRSP limit for 2007 will be \$19,000.
- Contribute to RESPs no later than December 31 to maximize the annual contribution amount of \$4,000 per beneficiary, maximize the income deferral and benefit from the Federal Education Savings Grant (20% of contribution to maximum of \$400 per year beneficiary is under 18).



Personal Payments

- Final tax installment payment for 2006 is December 15.
- Remember: In addition to non-deductible interest on late or deficient installments (currently 9%), a penalty of up to one-half the interest may be payable where the interest exceeds \$1,000.
- Charitable donation payments must be made before the end of the year. The maximum annual claim is 75% of net income. Unused amounts can be carried forward up to five years. Where publicly listed shares are donated, the gain is no longer taxable.
- Eligible medical expenses can be claimed for any 12 month period ending in the calendar year. Only amounts in excess of the lesser of 3% of net income and about \$1,844 are eligible for the credit.
- Other payments that must be made by December 31 to be considered in the 2006 tax return include:
 - investment management & custody fees
 - loan interest
 - safety deposit box
 - alimony/maintenance payments
 - political contributions
 - tax shelter payments
 - tuition fees
 - child care
 - professional fees
- Interest on family loans (generally at the prescribed rate) must be paid by January 30, 2007 to avoid income attribution. Consider new arrangements while the prescribed rate is low – currently 5%.
- Review family trusts for any action that's required by December 31.

Stock Option Deferral

- Stocks acquired (through stock option plans) but not sold during 2006 can have the benefit deferred on amounts up to \$100,000 in total fair market value (based on the fair market value at the time the options were granted).
- Your employer must be notified of your wish to defer before January 16, 2007

Transit Pass Tax Credit

- Don't forget to keep your July to December transit passes as the 2006 Federal Budget proposed a transit tax credit that will take into account the amount paid for the monthly or annual pass and the lowest personal tax rate for the year which for 2006 is 15.5%.

Shareholder Loans

- Shareholder loans not repaid before the year-end may result in the full amount of the loan being fully taxable on your 2006 tax return. If the loan was made to help with the purchase of a home, automobile for work, or corporate shares an exemption would apply.

Mutual Fund Purchases

- Defer the purchase of non-registered mutual fund units near the year-end to avoid having to report year-end distributions

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