BNN MARKET CALL

***e*Research Corporation** is pleased to provide an excerpt from Friday's BNN Market Call Newsletter.

It features a leading tax expert with a commentary (see below) and a 46-minute video interview (see link HERE).

TALKING TAX

Karen Slezak, Tax Group Partner, Crowe Soberman LLP
Focus: Taxation Matters

DISABILITY TAX CREDIT

Anyone with a severe and prolonged mental or physical impairment is eligible for a special tax credit called the disability tax credit. This non-refundable credit is $8,113 which results in tax savings of $1,626 for 2017. An additional $4,733 credit is available for disabled persons under age 18 subject to adjustments for the costs of their care.

Viewers should review the disability tax credit with their aging parents. Often there are seniors with health conditions that qualify for the credit who are not taking advantage of it. The qualifying taxpayer needs to have a medical practitioner certify on form T2201 that they have a condition that markedly restricts the activities of their daily living. This can be either their vision, hearing, speaking, walking, feeding, eliminating, dressing or mental functioning. The condition must be expected to last for more than 12 months.

After completing the T2201 form, the taxpayer needs to send it to the CRA for review. The CRA will send back a letter indicating their approval. Only then can the amount be claimed on the disabled person's tax return. On the T2201 form, the medical practitioner will indicate when the condition began. Frequently, this could be several years ago, meaning the taxpayer should have been able to claim the credit on prior tax returns. In the past, the CRA made the taxpayer file amendments to his/her prior returns in order to get the tax savings. Now, there is a box on the front of the T2201 that can be checked that tells the CRA to amend prior returns. This saves the cost and hassles of doing prior amendments. I

have had taxpayers recover up to 10 years of prior claims and receive refunds over $10,000.

CAPITAL LOSSES IN THE YEAR OF DEATH

Deceased persons are considered to have disposed of all of their capital properties as of the date of death at their fair market value. An exception applies to properties passing to a spouse or common-law partner, which are deemed disposed at their cost amount; we call this a rollover. In some cases, the deemed dispositions result in an overall net capital loss (that is, losses exceed deemed gains). Alternatively, the deceased person may have net capital losses carried forward from prior years. Review the notice of assessment from 2016, as it will indicate if there are unclaimed capital losses.

Special rules apply when you die to allow the net capital losses to be used. First, the net capital loss is reduced to the extent that the deceased made a prior capital gains exemption claim. Any remaining balance can be deducted against any source of income (not just capital gains) on the final return of the deceased or the return for the year prior to death.

If the adjusted net capital loss balance cannot be fully utilized, consider electing to forgo rollovers. Instead, it may be advantageous to realize capital gains on death and offset the gains with the net capital losses. In this way, the adjusted cost base of the property is stepped up for the inheriting beneficiary.

PRESCRIBED RATE LOANS – LEGITIMATE INCOME SPLITTING

The Federal government has expanded a number of rules that will make it harder for business owners to split income with lower tax bracket spouses and children. Fortunately, they did not attack prescribed rate loans, one of the few remaining legitimate methods for splitting income. This technique is beneficial when someone in the top tax bracket has available cash and a spouse or children with little or no income.

The spouse with the cash makes a loan to his lower tax bracket spouse or to a trust established for his children. The loaned funds are invested in the market. Interest has to be paid on the loan and is set at the government prescribed rate in effect at the time the loan is made. Currently the prescribed rate is 1 per cent, but starting April 1, the rate will be going up to 2 per cent. The rate varies each quarter based on an average of the prior 90-day T-Bill rate. Once the loan is made, the interest rate is locked in: the rate on the loan never has to increase even as interest rates and the prescribed rate increase.

Annually, the loaned funds earn interest, dividends, and capital gains. Out of these earnings, the prescribed rate interest payment (1 per cent) is made to the higher income

person no later than January 30 of the following year. Any remaining earnings are legitimately the earnings of the spouse or children who pay tax on them at lower marginal rates.

Many people are moving forward to set up a prescribed rate loans to a spouse or trust before month-end to lock into the lower 1 per cent prescribed rate before it goes up.

TAX INSTALMENTS

If you have income that is not subject to withholding at source (like interest, dividends, or capital gains), you may be required to make quarterly instalment payments if the amount of your taxes exceeded $3,000 in either of the two preceding years.

There are three methods for calculating instalments. The first method is the CRA method. The CRA bases the first two payments (March 15 and June 15) on your taxes two years prior. That is, they use the 2016 balance divided by four. Then after you file your 2017 return, they will issue a notice asking for two additional payments (September 15 and December 15) in an amount that brings your total taxes to an amount equal to your prior year taxes.

The second method is the prior year method. Under this method you make four equal payments equal to your tax owing in the prior year (that is, 2017 for the basis for 2018 instalments).

Finally, you can follow the current year method. Instalments can be made based on your estimate of your taxes for the current year (2018).

You can choose any of the three methods to follow. You do not need to follow the amounts on the notices sent by the CRA. For instance, you should consider using the current year method if you had usually high income in a prior year. Say for example that you realized some unusually high capital gains on a stock or property sale in 2017 that will not repeat in the current year. By making your own tax estimate and paying according to that calculation, you avoid giving the CRA a large non-interest bearing loan!

It should be remembered that if you follow the current year method and you underestimate, you will be subject to interest and if the amount of interest exceeds $1,000 there is also a penalty. Always build a cushion into any estimate.

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Bob Weir, CFA, Director of Research

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