

# Tax & Estate Snapshot 2011

Food for thought

**Doug Carroll** JD, LLM(Tax), CFP, TEP  
Vice President, Tax & Estate Planning



# True consumption taxes

Food for thought

## Quebec



## New York



## Colorado



## Ontario HST



# Agenda

- Rates and brackets
- Business corporations
- Savings and retirement
- Investment industry regulation
- US tax issues
- TFSAs & the first 60 days

# Rates & brackets

Top marginal tax rates – **2011** (*as of Jan 1, 2011*)

	<b>Interest</b>	<b>Capital</b>	<b>Dividends</b>	
	<b>income</b>	<b>gains</b>	Eligible	Ineligible
<b>BC</b>	43.7%	21.9%	23.9%	33.7%
<b>AB</b>	39.0%	19.5%	17.7%	27.7%
<b>SK</b>	44.0%	22.0%	23.4%	30.8%
<b>MB</b>	46.4%	23.2%	26.7%	39.1%
<b>ON</b>	46.4%	23.2%	28.2%	32.6%
<b>QC</b>	48.2%	24.1%	31.9%	36.4%
<b>NB</b>	41.7%	20.9%	19.8%	28.8%
<b>NS</b>	50.0%	25.0%	35.6%	36.2%
<b>PE</b>	47.4%	23.7%	27.3%	41.2%
<b>NL</b>	42.3%	21.2%	21.0%	30.0%



# Rates & brackets

Combined federal-provincial – **2011** (as of Jan 1, 2011)

<b>Bracket from</b>	<b>Interest income</b>	<b>Capital gains</b>	<b>Dividends</b>	
			<b>Eligible</b>	<b>Ineligible</b>
10,527	15.0%	7.5%	0.0%	2.1%
11,000	20.1%	10.0%	0.0%	4.2%
36,146	22.7%	11.4%	0.0%	7.5%
41,544	29.7%	14.9%	7.8%	16.2%
72,293	32.5%	16.3%	8.1%	19.7%
83,001	34.3%	17.1%	10.6%	21.9%
83,088	38.3%	19.1%	16.3%	26.9%
100,787	40.7%	20.4%	19.7%	30.0%
128,800	43.7%	21.9%	23.9%	33.7%

# Rates & brackets

Interest equivalents – **2011** (as of Jan 1, 2011)

*Amount of pre-tax interest income at marginal bracket levels to equal after-tax value of \$1.00 of selected income type*

<b>Bracket from</b>	<b>Interest income</b>	<b>Capital gains</b>	<b>Dividends *</b>	
			<b>Eligible</b>	<b>Ineligible</b>
10,527	1.00	1.09	1.18	1.15
11,000	1.00	1.13	1.25	1.20
36,146	1.00	1.15	1.19	1.20
41,544	1.00	1.21	1.23	1.19
72,293	1.00	1.24	1.22	1.19
83,001	1.00	1.26	1.25	1.15
83,088	1.00	1.31	1.33	1.18
100,787	1.00	1.34	1.39	1.18
128,800	1.00	1.39	1.46	1.18

*\* Dividend figures will be different when grossed-up dividend causes total income to cross a bracket threshold*



# Rates & brackets

## Federal tax changes for 2011

- Corporations taxation, dividends
  - General corporate income tax rate reduced from 18% to 16.5%
  - Eligible dividend gross-up from 44% to 41%
  - Dividend tax credit from 10/17 to 13/23
- Proportional sharing of child benefits
  - Between parents who live separately and share custody
  - Canada Child Tax Benefit, Universal Child Care Benefit, GST/HST Credit (child component)
  - *Applies to benefits payable commencing July 2011*
- Tax-free rollover of a deceased's RRSP or RRIF
  - To RDSP of a financially dependent infirm child/grandchild
  - Re: deaths after 2007; will be permitted after June 2011



# Agenda

---

- Rates and brackets
  - Business corporations
  - Savings and retirement
  - Investment industry regulation
  - US tax issues
  - TFSAs & the first 60 days
-

# Business corporations

## Reasons to incorporate

- Tax savings
- Tax deferral
- Potential income splitting
  - Spouses/partners
  - Minor children
  - Adult children
- \$750,000 capital gains exemption
- Other – IPP, RCA, etc.



# Business corporations

## Corp-personal integration – Top MTR – 2011

(as of Jan 1, 2011)

	Personal alone (a)	Corporate alone (b)	Corp-Pers Combined (c)	Deferral (Prepaid) (a)-(b)	Savings (Cost) (a)-(c)
Interest & foreign income	<b>43.7%</b>	<b>44.7%</b>	<b>45.6%</b>	<b>(1.0%)</b>	<b>(1.9%)</b>
Capital gains	<b>21.9%</b>	<b>22.3%</b>	<b>22.8%</b>	<b>(0.4%)</b>	<b>(0.9%)</b>
Canadian dividends	<b>24.5%</b>	<b>33.3%</b>	<b>24.5%</b>	<b>(8.8%)</b>	<b>0.0%</b>
Business income	<b>43.7%</b>	<b>13.5%</b>	<b>33.7%</b>	<b>30.2%</b>	<b>1.0%</b>

$[1-(1-b)*(1-c)]$



# Rates & brackets

## Tax-free dividend income levels - 2011



	<b>Dividend type</b>	
	<u>Eligible</u>	<u>Ineligible</u>
<b>BC</b>	57,189	26,824
<b>AB</b>	57,189	20,894
<b>SK</b>	57,189	23,822
<b>MB</b>	50,958	7,765
<b>ON</b>	51,798	34,555
<b>QC</b>	32,312	21,280
<b>NB</b>	57,189	17,152
<b>NS</b>	27,115	28,097
<b>PE</b>	43,730	6,867
<b>NL</b>	57,189	18,227

# Business corporations

## RRSPs vs dividends – Factors to consider

### Invest personally

- + RRSP tax sheltering
- + Creditor protection
- + CPP qualification
- + Pension income splitting
- *RRIF schedule*
  - *Required onset at 71*
  - *Annual minimums*

### Invest corporately

- + Gross reinvestment
- + Dividend sprinkling
  - + Working years
  - + Retirement years
- + Estate freezing
- *Maintain QSBC status*
- *Creditor exposure*
- *Cost of corporation, or multiple corporations*



# Business corporations

## Passive investment strategies



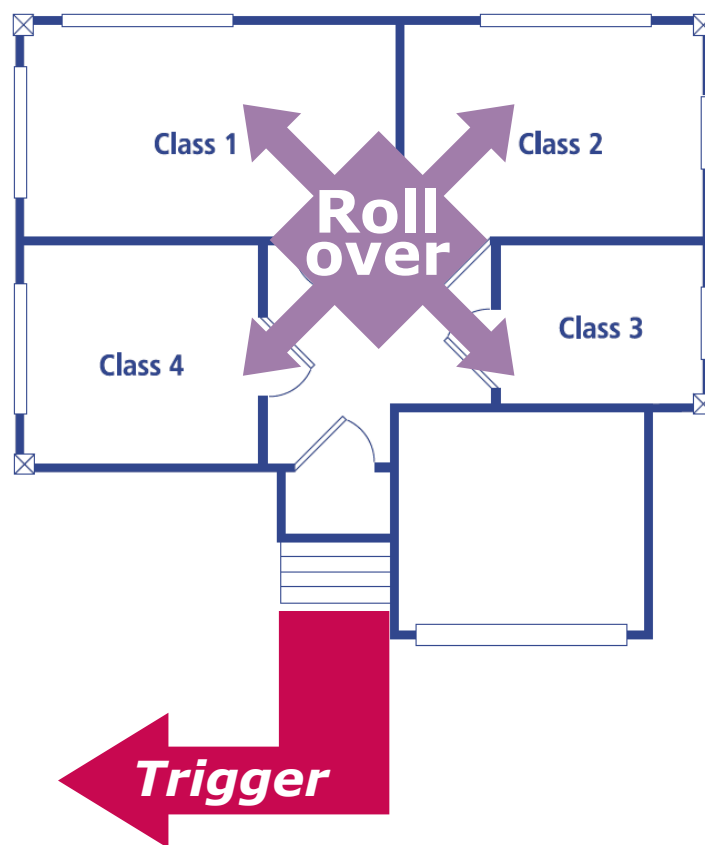
- Tax on passive income
  - General corporate plus penalty tax
  - Refundable dividend tax / RDTOH
- Capital dividend account
- Corporate class mutual funds
  - Exchangeable at adjusted cost base
  - Lower expected distributions
  - Capital gains treatment
  - Return of capital

# Business corporations

Passive investment strategies

*Corporate class funds – Impact of switching*

Share-for-share exchange defers capital gains recognition

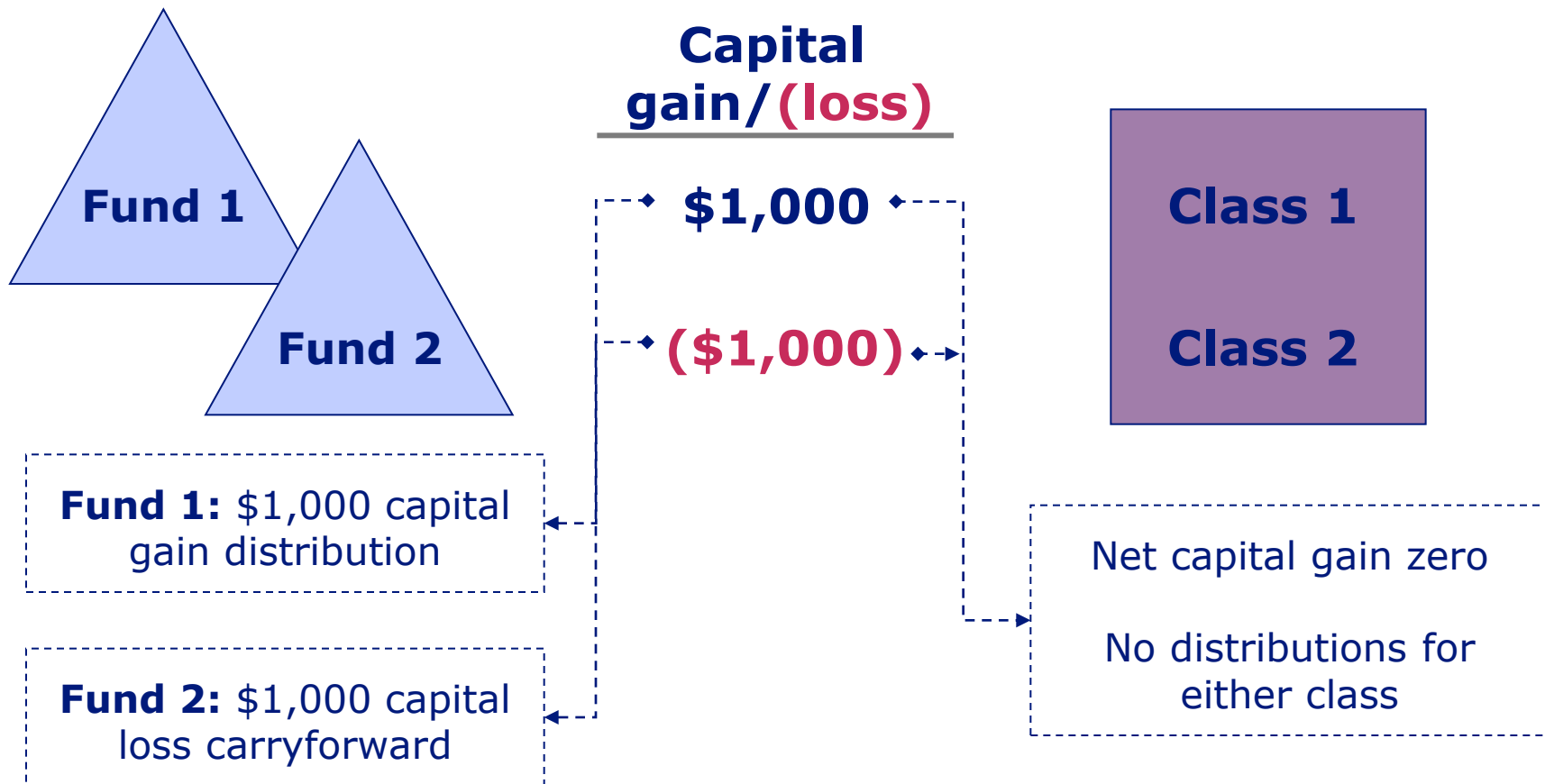


This material is subject to an "Important Information" disclaimer on the final page/slide. It is for advisor use only, and not for display or distribution to public audiences or to potential investors.

# Business corporations

Passive investment strategies

*Corporate class funds – Consolidated accounting*

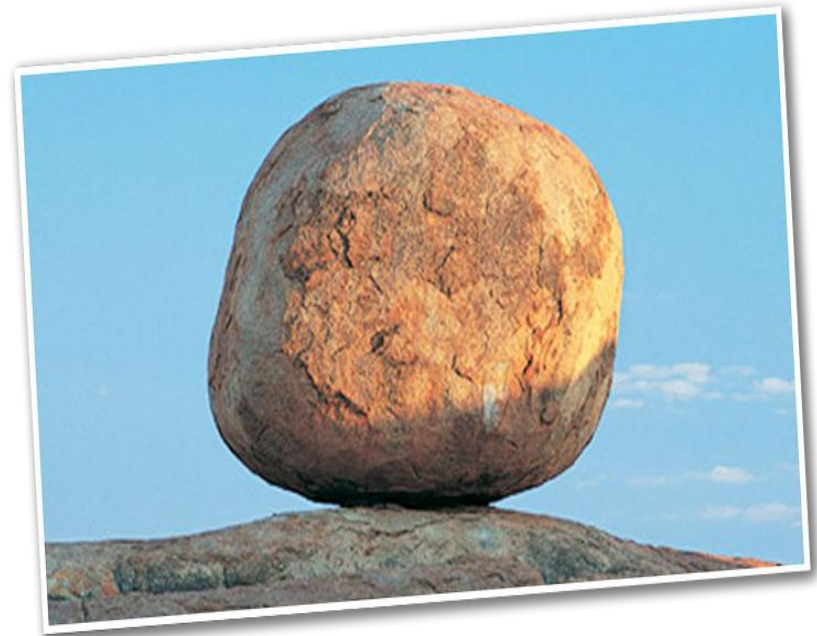


# Business corporations

Passive investment strategies

*ROC – Return of capital with t-series mutual funds*

- Fund returns portion of capital or distributes unrealized gains
- Not considered income
- Reduces adjusted cost base of units/shares
- Results in potentially higher capital gain when units/shares redeemed



# Agenda

---

- Rates and brackets
  - Business corporations
  - Savings and retirement
  - Investment industry regulation
  - US tax issues
  - TFSAs & the first 60 days
-

# Savings and retirement

## Retirement income adequacy research

<b>Enhanced CPP</b>	Mandatory, defined benefit pension plans
<b>Supplementary CPP</b>	Government-sponsored, voluntary defined contribution pension plans
<b>Private sector solution</b>	Increased flexibility for private-sector, multi-employer or non-employer defined-contribution pension plans
<b>Tax reforms</b>	For RPPs, RRSPs, TFSAs – Move from annual limits to lifetime limits; Re-consider age limits

# Savings and retirement

## Recent developments

- Framework for Pooled Registered Pension Plans (PRPPs)
  - Framework released Dec 17, 10
  - Administration & participation
- Supplemental CPP example
  - Saskatchewan PP – Dec 7, 2010
- CPP reforms deferred
- Financial literacy project
  - Report due early 2011



# Savings and retirement

## Canada Pension Plan changes, effective 2010

- Work cessation test gone **2012**
- Working beneficiaries receiving CPP pension **2012**
  - Mandatory before 65
  - Voluntary after 65
- Low earnings drop-out
  - Currently about 7 years
  - **2012** – 7.5 years
  - **2014** – 8 years

### Changes in monthly CPP adjustments if not at 65

	Early <u>penalty</u>	Late <u>premium</u>
OLD	0.5% <i>70% @ 60</i>	0.5% <i>130% @ 70</i>
<b>NEW</b>	0.6% <i>64% @ 60</i>	0.7% <i>142% @ 70</i>

**2012-2016**

**2011-2013**



# Savings and retirement

## Spousal loans

- Current rate of 1%
  - Lowest possible rate
  - 8 quarters running since 09-Q2
  - Only 3 quarters at 2% since 1984, no other quarters at 1%
- IT Regulation 4301(c)
  - Average yield of 3 month Government of Canada T-Bills sold in the first month of the preceding quarter, rounded to nearest integer



Bank of Canada: <http://www.bankofcanada.ca/en/rates/tbill-look.html>

# Agenda

---

- Rates and brackets
  - Business corporations
  - Savings and retirement
  - Investment industry regulation
  - US tax issues
  - TFSAs & the first 60 days
-

# Investment industry regulation

Consultation ASC-led, issued Dec 20, 2010

*"Consultation on Possible Options for the Incorporation of Individual Representatives of Registered Dealers and Advisers in Canada"*

- Insurance
  - Not banned in most provinces
- MFDA MR-0072  
Mar 29, 2010
  - BC, SK, MB, ON, NB, NS allowing redirection to unregistered corporation
- IDA/IIROC
  - No

## Options suggested in consultation

**ASC** – Permit regime with shareholder and director restrictions

**Advocis** – Modeled on existing insurance regulations – Limited shareholder and director restrictions, but reporting obligations

**MFDA** – Redirection to unregistered corporations (May amount to "personal services business")

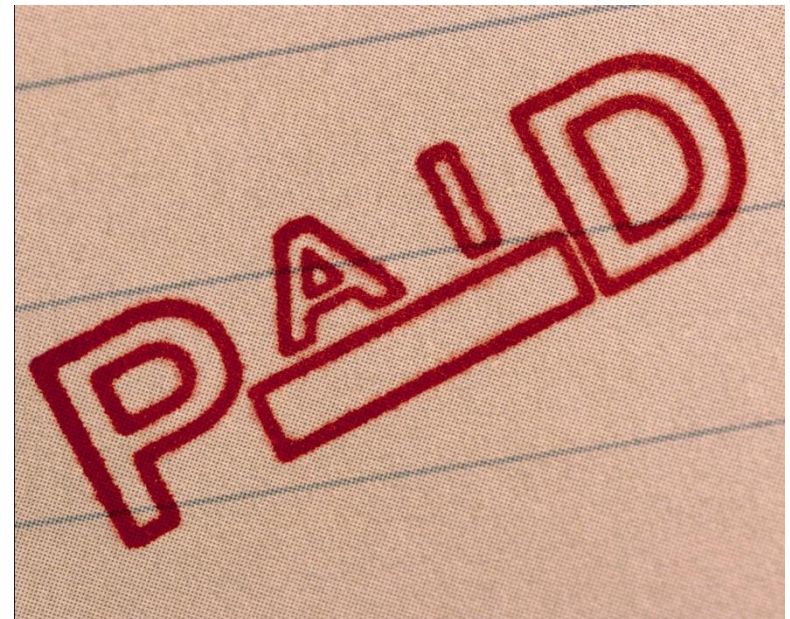
Submissions to ASC by **Feb 25, 2011**



# Investment industry regulation

## Commission compensation

- International developments
  - Jun 25 09 – UK to ban product commissions - 2012
  - Apr 25 10 – AUS to ban product commissions – July 2012
  - Jul 21 10 – US SEC proposes cap on mutual fund 12b-1 fees (akin to trailer fees)
- Canada
  - Ban, disclosure, combination?
  - Conflicts & client's best interest
  - Obtaining advice
  - Fiduciary duty?



# Agenda

---

- Rates and brackets

---

- Business corporations

---

- Savings and retirement

---

- Investment industry regulation

---

- US tax issues

---

- TFSA's & the first 60 days

---

# US tax issues



- US Estate Tax changes
  - Reinstated for 2011 on
  - Exemption level \$5M
  - Top rate 35%
  - Not applicable to stocks in Canadian mutual funds
- Pensions – Cda-US treaty
  - TFSA? RESP? RDSP?
  - Related grants & bonds?
- Roth IRA
  - For 2009 on, Canadian residents must file with CRA
  - One-time irrevocable election for each Roth IRA account
  - Apr 30 11, or next filing due date if resident after 2009
- Canadian mutual funds held by Americans
  - Likely subject to PFIC
  - Mar 18, 2010 – HIRE, FATCA

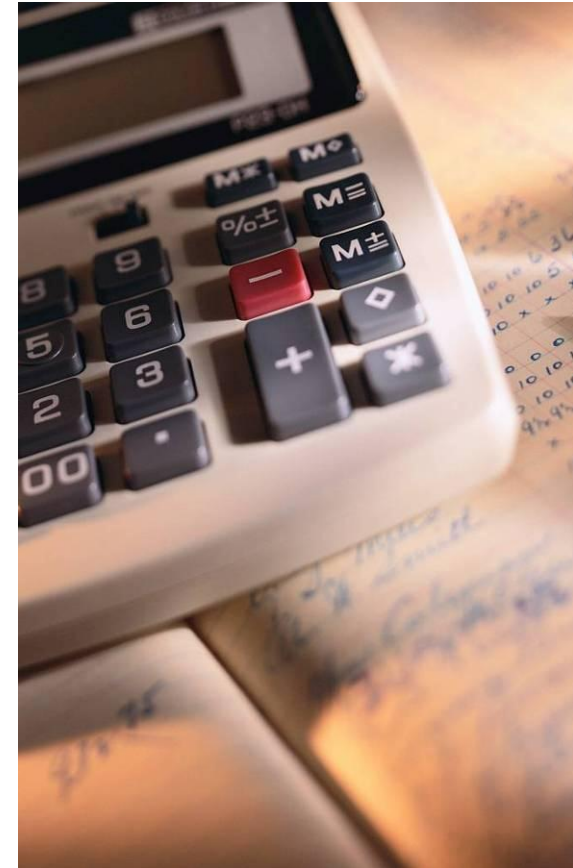
# Agenda

- Rates and brackets
- Business corporations
- Savings and retirement
- Investment industry regulation
- US tax issues
- TFSAs & the first 60 days

# TFSAs & the first 60 days

When is tax incurred in comparison to RRSP?

Stage	RRSP	TFSA
Funding	Tax-free	<b>After-tax</b>
Growth	Tax-sheltered	Tax-sheltered
Withdrawals	<b>Fully taxable</b>	Tax-free

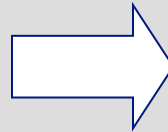


This material is subject to an "Important Information" disclaimer on the final page/slide. It is for advisor use only, and not for display or distribution to public audiences or to potential investors.

# TFSAs & the first 60 days

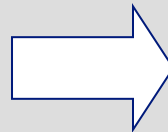
Some arithmetic relationships

*Estimating pre-tax value  
corresponding to  
after-tax available  
TFSA contribution room*



$$\frac{\text{TFSA room}}{1 - \text{MTR}}$$

*TFSA expressed as a  
percentage of RRSP,  
in terms of after-tax  
value at withdrawal*



$$\frac{1 - \text{Deposit MTR}}{1 - \text{Withdrawal MTR}}$$

# TFSA & the first 60 days

Example using \$5,000, ROR 4%, MTR 40% \*

## Traditional



Year-end RRSP value

- $5,000 / (1-40\%) = 8,333$
- $8,333 * 4\% = \mathbf{8,667}$

TFSA room carryforward

- **\$5,000**

## Alternative



Year-end RRSP value

- $5,000 * 4\% = 5,200$  (in TFSA)
- $5,200 / (1-40\%) = \mathbf{8,667}$

TFSA room carryforward

- **\$5,200**

\* For simplicity, assume gross deposit for the RRSP under both approaches via election tax withheld at source

# Raising tax revenue ... UK style

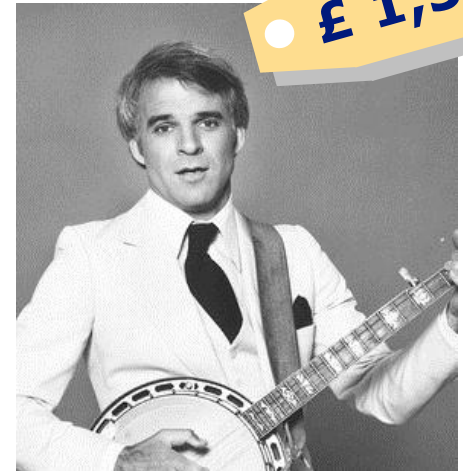
Real-time public input



Use cats  
on treadmills  
to generate  
electricity



Sterilize  
welfare  
recipients



Impose a  
special tax on  
people named  
"Steve"

*Discussed in The Canadian Taxpayer, vol. xxxii, No. 20*

# **Tax & Estate InfoService**

We inform, to help advisors advise

**Over 155,000 calls to date**

[inquiries@invescotrimark.com](mailto:inquiries@invescotrimark.com)

[www.invescotrimark.com](http://www.invescotrimark.com)

[advisor.invescotrimark.com](http://advisor.invescotrimark.com)

1.800.874.6275



# Important information

This presentation is not intended to provide legal, accounting, tax or specific investment advice. If such advice is required, the services of a competent professional should be sought. The information contained in this presentation was obtained or compiled from sources believed to be reliable; however, Invesco Trimark cannot represent that it is accurate or complete.

Invesco and all associated trademarks are trademarks of Invesco Holding Company Limited, used under licence. AIM and all associated trademarks are trademarks of Invesco Aim Management Group, Inc., used under licence. Trimark and all associated trademarks are trademarks of Invesco Trimark Ltd.

© Invesco Trimark Ltd., 2011



This material is subject to an "Important Information" disclaimer on the final page/slide. It is for advisor use only, and not for display or distribution to public audiences or to potential investors.