

# Investor Insight

Steve Stavridis

## 2016 Tax Changes

Happy New Year! Are you prepared for the potential tax changes that will be introduced for the 2016 tax year? The recently elected federal Liberal government has indicated noteworthy changes, some of which were confirmed on December 7, 2015 when Finance Minister Bill Morneau held a press conference to implement certain changes. Note that the proposed changes are based on measures that were pledged by the Liberals and are not guaranteed to be implemented. At this article's time of writing, the timing of certain initiatives still remains in question.

### Confirmed Tax Changes for 2016

**Introduction of a High-Income Tax Bracket** – For the 2016 and subsequent taxation years, the Liberals will introduce a high-income federal tax bracket for taxable income above \$200,000, to be taxed at a federal tax rate of 33 percent. Currently (for the 2015 tax year) this level of income is taxed at a rate of 29 percent.

**Changes to the Federal Personal Income Tax Rate for Middle-Income Earners** – The Liberals will lower federal personal income tax rates on taxable income between \$45,282 and \$90,563 from 22 percent to 20.5 percent for the 2016 and subsequent taxation years.

**Reduction of the TFSA Annual Contribution Limit** – The Liberals will roll back the Tax-Free Savings Account (TFSA) annual contribution limit of \$10,000 (in 2015) to \$5,500 starting in 2016. This amount will be indexed to inflation.

### Pending Tax Changes (Not Yet Confirmed)

**Changes to the Employee Stock Option Benefit Deduction** – Individuals who exercise employee stock options are generally taxed on the difference between the exercise price and fair market value of the stock as employment income, and under current rules may be entitled to a stock option deduction equal to 50 percent of the income if certain criteria are met. It is anticipated that limits will be set on the amount of the deduction that can be claimed for employees with over \$100,000 in annual stock option gains.

**Changes to Child Tax Benefits** – Three existing benefits, the Universal Child Care Benefit, Canada Child Tax Benefit and the National Child Benefit Supplement, are expected to be replaced with a single benefit called the "Canada Child Benefit".

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“The Liberals will roll back the Tax-Free Savings Account (TFSA) annual contribution limit of \$10,000 (in 2015) to \$5,500 starting in 2016”

The maximum amount of this tax-free benefit is expected to be \$6,400 per year per child under the age of 6 (\$5,400 per child between 6 and 17 years old) and will be gradually reduced based on family income. Families with household income of \$200,000 or more will not be eligible for this benefit.

**Elimination of the “Family Tax Cut”** – This federal non-refundable tax credit that allows for income splitting for couples with dependent children under the age of 18 (to a maximum benefit of \$2,000) is expected to be eliminated.

#### **Tax Minimization Opportunities**

If you may be affected by the newly proposed 33 percent federal tax rate in 2016, here are some ideas to take advantage of potential tax minimization opportunities:

**Timing Withdrawals from an RRSP/RRIF** – If you are considering withdrawing from a Registered Retirement Savings Plan (RRSP) or withdrawing more than the required minimum from a Registered Retirement Income Fund (RRIF) and do not need the funds currently, there may be an advantage to continuing to hold these funds in the RRSP/RRIF to benefit from the potential to defer an additional 4 percent in taxes and allow your funds to continue to grow on a tax-deferred basis.

**Income Splitting** – A variety of income-splitting opportunities can be explored to shift taxable income from high-income to low-income spouses, common-law partners (CLPs) and even children, including using a spousal loan, creating a family trust, pension income splitting between older spouses/CLPs or using a spousal RRSP.

#### **Seek Assistance**

As you prepare for the potential upcoming tax changes, please seek the advice of a professional tax advisor.

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