

Investing time and effort as you prepare your personal tax returns can result in substantial tax savings. To assist you in identifying potential opportunities to reduce taxes and protect your family's wealth, we have prepared this education report. Since tax filing can be complex and ever changing, we recommend that you speak to your personal tax advisor prior to filing your return.

Claim all Relevant Deductions

Some of the more common tax deductions are:

- **Pension Income Splitting** – allows a higher income spouse to allocate up to ½ of their pension income that qualifies for the pension tax credit to their lower income spouse. This is regardless of the age of the spouse receiving the income allocation, as long as both spouses agree to the allocation on their tax returns.
- For individuals aged 65 and over, eligible pension income includes prescribed annuity payments, lifetime annuity payments under a registered pension plan, a registered retirement savings plan or a deferred profit-sharing plan and payments out of or under a registered retirement income fund.
- For individuals under age 65, eligible pension income includes lifetime annuity payments under a registered pension plan and certain other payments received as a result of the death of the individual's spouse or common-law partner.

- **Carrying Charges (investment counsel fees, safety deposit box charges) and interest paid** - provided these expenses are for non-registered investments and are not considered commissions, they may be deductible. Commissions on non-registered investments may be deducted in calculating your taxable capital gains/losses.

- **Child care expenses** – claimable by the lower income parent who works or attends school, subject to certain limitations. Some typical expenses include caregivers, nursery schools, childcare services provided within educational institutions, day/summer camps and boarding schools.

- **Moving expenses** – provided you moved more than 40 kilometres closer to work or school, you may be able to claim moving expenses for any costs that you were not reimbursed. Some typical moving expenses that are eligible for deduction include travel costs (meals, lodging and vehicle expenses), transportation of household effects, temporary accommodation and meals for 15 days, selling costs and certain costs relating to the purchase of a new residence.
 - *Tip: For additional details, see Interpretation Bulletin IT-178R3.*

- **Employment expenses** – as a condition of employment, you may claim certain expenses. Ensure that you have your employer sign Form 2200 to verify your entitlement. Note that travel expenses to and from work are non-deductible.
 - *Tip: See Form T4044 for potentially allowable expenses for employees.*

Consider deferring certain discretionary deductions

You may want to consider waiting until a future year to claim deductions. The following discretionary deductions may be carried forward to future tax years where they may be worth more in after-tax dollars:

Capital Cost Allowance (CCA)

CCA is the concept of spreading the purchase of a capital asset (computer, furniture, vehicle, etc.) over a period of time. CCA is an optional expense and therefore may be carried forward for future use indefinitely.

RRSP Deductions

You may contribute to an RRSP and have the investment accumulate on a tax-deferred basis. However, if you are in a low tax bracket and expect to be in a higher bracket in the future, you may want to consider deducting the contribution in future years when you may benefit from larger tax savings.

- *Tip: If you expect your marginal tax rate to increase in the future, you may want to forego the deduction now and claim it when your marginal rate increases allowing you to maximize the tax savings.*

Net Capital Losses

If you have a capital loss that exceeds current year capital gains, you may be able to carry back that loss three years or forward indefinitely, but you may only use that loss to offset capital gains of those years. When carrying the capital loss back or forward, the amount of loss available is determined by multiplying the **Capital Loss x 50%**

To carry back a loss, file Form T1A with your current year's tax return.

Tax Credits

Non-refundable credits reduce your federal and provincial taxes. In addition to the credits highlighted below, some typical credits are: basic personal amount, age amount, spouse or common-law partner, pension amount, CPP and EI contributions, Canada Employment, Public Transit and Children's Fitness Amount. Note that these credits may be subject to reductions or restrictions.

Credit Splitting

If you have insufficient income to utilize certain tax credits, these credits may be transferred to your spouse. Where there is a choice between which spouse may claim certain credits, the higher income spouse may want to claim them because certain provinces still have a surtax that may be reduced by claiming the credits. The age, disability tax and tuition/education credits are all eligible for transfer if one spouse (or in the case of tuition, your children or spouse) is unable to utilize the credit.

Charitable Donations

Maximize tax credits by combining your family's donations and claim on one return. You are eligible to claim a non-refundable tax credit on donations you have made to charities, provided you have a receipt containing the charity registration number. The maximum credit allowable is 75% of your net income for tax purposes. Unlike other non-refundable tax credits, the charitable donation credit operates on a two-tier credit system. The first \$200 claimed in a year provides a 15% federal tax credit and any amounts claimed over \$200 provides for a 29% federal tax credit. The combined federal/provincial credits should be approximately 25% for donations up to \$200 and 45% for amounts over \$200.

- *Tip: Canada Revenue Agency has an administrative policy that allows either spouse to claim the donation, regardless of which spouse's name the receipt is in. Therefore, it would be most beneficial to claim all donation expenses on one spouse's return to better utilize the top rate.*

Medical Expense Credit

Again, to maximize your credits, combine your family's medical expenses and consider claiming them on the lower income spouse's tax return. You may claim a medical expense tax credit where medical expenses exceed 3% of your net income for tax purposes to a maximum threshold. Amounts in excess of this threshold are eligible for the 15% federal tax credit. You may claim expenses for yourself, your spouse or any family member who is financially dependent on you. Therefore, it would normally be beneficial to combine all the expenses and claim them on the lower-income spouse's return to minimize the 3% threshold and maximize the credit. However, care should be taken to determine whether a higher income spouse's surtaxes could be reduced by claiming the credit, albeit with a higher 3% threshold, on their return.

- *Tip: The medical expense credit allows you to claim medical expenses for any 12-month period ending in the year the credit is claimed. For example, if you had a medical expense in February 2007, which did not exceed 3% of your 2007 net income, you may still be able to utilize that expense by claiming it in 2008 by combining it with other expenses up to February 2008. This will also provide a planning opportunity where you incur medical expenses and expect your next year's income to decrease. Claiming medical expenses in a 12-month period with a lower 3% threshold should increase your entitlement to the medical expense credit. A comparison of both options should be reviewed to ensure that the best after-tax alternative is chosen.*

Filing Deadlines

The filing deadline for most individuals is **April 30th, 2009**; however if you, your spouse or common-law partner carried on a business in 2008 then neither of you are required to file until **June 15, 2009**. If you owe taxes and you have not filed before the deadline, you will be subject to a penalties based on your 2008 balance owing, plus non-deductible interest on any overdue amounts. The penalties and interest increase with additional offences. In addition, if you have missed the filing deadline, payments for the GST/HST credit, the Canada Child Tax Benefit and Old Age Security may be delayed.

- *Tip: If you qualify to delay your filing until June 15, 2009, any taxes owing are still due by April 30th, 2009. We suggest that you estimate your 2008 taxes and pay them by April 30th, 2009.*

Don't Wait Until the Last Minute, Gather and Organize Your Receipts Now

The more organized you are, the more likely you will remember that lost donation receipt or day care expense. In addition, providing your accountant with a well organized tax package will help you save money by reducing your fees and speeding up any tax refund.

- *Tip: Review prior tax returns to ensure you have not missed anything and that any significant changes are explainable.*

Conclusion

Managing your wealth effectively requires continuous attention to ensure that as your family's goals change, and as financial markets and government regulations evolve, you are capitalizing on strategies to help maintain, protect and transfer your wealth. This report, which focuses on opportunities to preserve wealth and save tax, is just one way that your Investment Advisor and our Family Wealth Planning Group can help. Please remember that these tax tips are general in nature to help you identify opportunities. If you have questions about your specific tax situation, please consult your Investment Advisor and a professional tax advisor.

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