



**Memorandum**

Re: Accelerating 2016 Income Into 2015

Dear Client:

We are writing to you regarding some year-end planning opportunities as a result of the tax changes introduced December 8, 2015 by the new federal government.

The new government has raised the top federal tax rate by 4% for annual incomes of more than \$200,000 effective January 1, 2016.

As a result you should consider accelerating 2016 income into 2015 where possible. The following chart illustrates the increase in the top marginal tax rates for residents of Ontario and the rate of return if you decide to pay the tax a year early:

Type of income	2015	2016	Increase	After-tax rate of return
Ordinary income	49.53%	53.53%	4.00%	8.08%
Capital gains	24.77%	26.77%	2.00%	8.08%
Dividends - eligible	33.82%	39.34%	5.52%	16.32%
Dividends – non-eligible	40.13%	45.30%	5.17%	12.88%

For example, in the case of salaries paid in December 2015 instead of 2016 the expected absolute tax savings is 4.00% which equates to an after-tax rate of return of approximately 8%. In other words if you were to receive a \$100,000 salary in 2015 as opposed to 2016, the tax would be \$49,530 as opposed to \$53,530. Thus by paying the tax of \$49,530 a year early, you save \$4,000 or 8% of \$49,530.

Traditionally the end of a calendar year has been an opportune time to accelerate large expenses or deductions. Typically significant expenditures made before the end of the year have been desirable as they provide tax relief in the current year’s tax return. An 8% after tax rate of return can be achieved by delaying the expenditure until January 2016, therefore, it may make sense to delay incurring such expenditures until 2016.

In addition to the above, certain tax deductions are discretionary in that the benefit from using them can be deferred until a future tax year. Examples of these include: RRSP deductions, losses and certain other tax pools. When preparing your 2015 personal tax returns in April of next year we should have a discussion regarding whether you would like to defer taking these optional deductions until 2016. By deferring these deductions you would pay more tax immediately but achieve an approximate 8% after-tax rate of return by saving even more tax on your 2016 tax return.

The tax credit on charitable donations has increased 4% (from 29% to 33%) for donations calculated as the lesser of (i) donations in excess of \$200 and (ii) taxable income in excess of \$200,000. The tax credit for donations in excess of this amount will be at 29%. This applies to donations made after 2015. Donations made in 2015 and previous years, but claimed in 2016 or a later year, will not be eligible for the new 33% tax credit rate. Therefore, where possible, we recommend donations to be made in 2016 and subsequent years.

The timing of the realization of capital gains should most likely be driven by market considerations as opposed to tax rates. That being said, the income tax considerations should still be relevant to the overall decision. Generally, the taxation of unrealized capital gains should be delayed as long as possible. If these gains can be deferred until several years into the future then it likely does not make sense to realize them now even at 2015 rates. In the unusual circumstance where the realization of a capital gain is anticipated to occur in 2016 then an after-tax rate of return of 8% can be achieved by accelerating the gain into 2015.

It is common practice for taxpayers to review their portfolios and engage in tax loss selling of securities with unrealized losses toward the end of the year. The end of 2015 might be an exception year in that it probably makes sense to defer the realization of such losses until 2016 for the reasons discussed above.

Please do not hesitate to call if you have any questions, or if you would like to discuss the above in more detail.