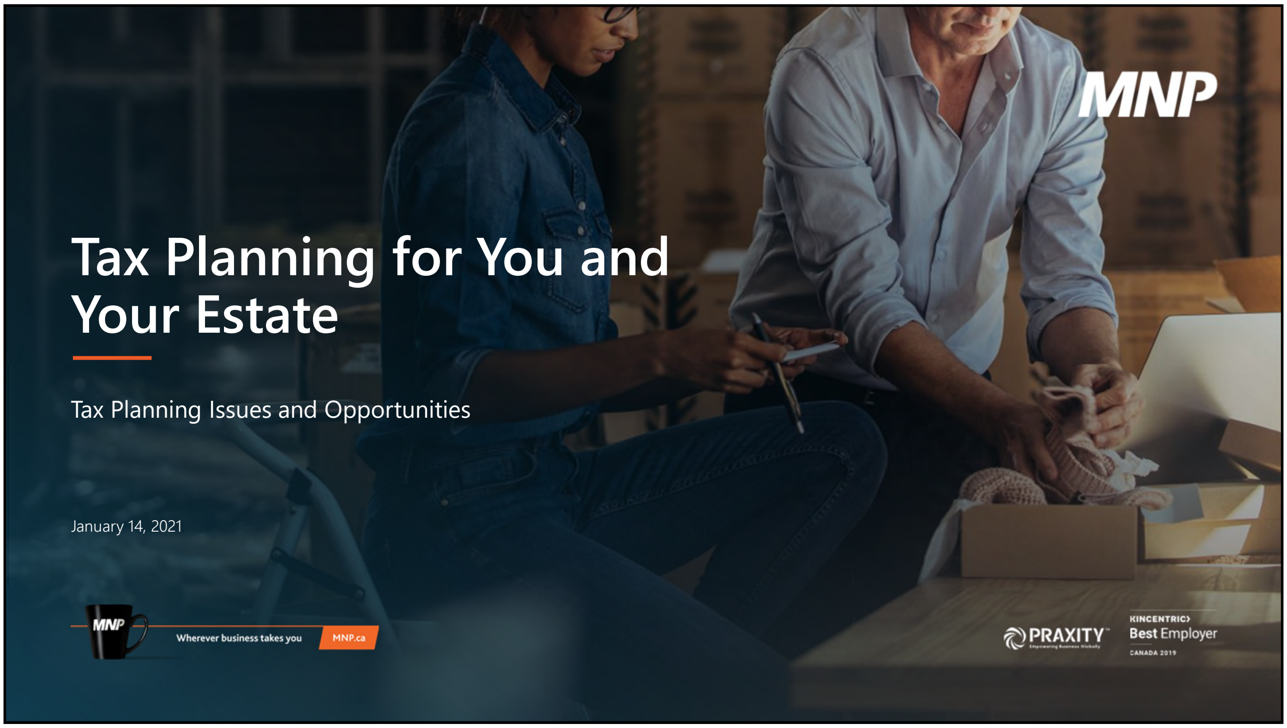

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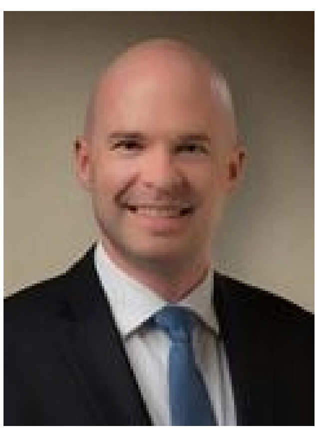
Introduction

Tax Planning for You and Your Estate



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Tax Credits and Deductions

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Disability Tax Credit

- Prolonged and severe impairment in physical or mental functions – non-refundable tax credit
- Application completed by medical practitioner and reviewed by Canada Revenue Agency ("CRA")
- "Basic activity of daily living"
- "Markedly restricted"

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Disability Tax Credit

Impairment may fall within a number of categories:

- Blindness;
- Markedly restricted in at least one of the basic activities of daily living;
- Significantly restricted in two or more or the basic activities of daily living (can include a vision impairment); or
- needs life-sustaining therapy.

And must also meet the following criteria:

- is **prolonged**, which means the impairment has lasted, or is expected to last for a continuous period of at least 12 months; and
- is present **all or substantially all the time** (at least 90% of the time)

Disability Tax Credit

- Federal non-refundable tax credit of
  - $1,286 in 2020 (15% x $8,576)
- Provincial non-refundable tax credit of
  - $1,494 in 2020 (10% x $14,940)

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Disability Tax Credit

If income is low the non-refundable credit does not reduce my taxes or provide me with a refund – why go to the trouble and expense of applying?

- Access to other credits;
- Possible easier acceptance of medical expenses in case of CRA audit or review;
- Access to other grants or programs;
- Access to the RDSP;
- Estate planning; and
- Possible transfer of the credit.

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Canada Caregiver Credit

- Spouse, minor child, or eligible relative dependent due to mental or physical infirmity at any time in the year
- Non-refundable Canada Caregiver Credit

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Canada Caregiver Credit

- Only one caregiver credit amount will be available on behalf of each infirm dependent but –
- Credit may be shared by multiple caregivers who support the same individual up to the total limit.

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Home Accessibility Tax Credit

- Age 65 or older OR eligible for DTC
- Home renovations – accessible or safe
- Non-refundable credit up to $10,000 of eligible expenses
- Examples – ramps, walk in bath-tubs, grab bars

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Medical Expense Tax Credit ("METC")

- Amounts paid for you, spouse, dependent children or other close relative dependent upon you
- Combine all expenses on one return
- Can pick any twelve month period ending in year
- Consider timing of expenses when possible

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Attendant Care

- Attendant care includes costs such as wages paid to individuals for food preparation, housekeeping services, laundry services, health care, social activity programming, transportation, and certain other costs
- DOES NOT include rent, food, supplies, and operating costs

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Attendant Care

- Will require a DTC certificate and/or letter from an authorized medical practitioner (dependent on the level and type of care)
- If in an assisted living situation, may be able to claim up to $10,000 of attendant care and the DTC, but this credit criteria is very specific so you will need to discuss your particular situation with an advisor

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Items that cannot be claimed as METC

- Gym memberships;
- Blood pressure monitors;
- Health programs offered by resort hotels, health clubs and gyms;
- Over-the-counter medications, vitamins and supplements even if prescribed;
- Personal response systems such as Lifeline or Health Line Services; and
- Other items not specifically included in the list of eligible expenses for products or services provided by eligible medical practitioners.

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Medical Expenses Paid on a Dependent's Behalf

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- You may be eligible to claim eligible medical expenses paid for the family members noted on the previous slides, who lived in Canada at any time during the year and are dependent on you for support.
- You must be able to prove dependency.
  - You must have paid the expense, and be able to show a receipt that clearly indicates this.
  - The claim will be limited to eligible medical expenses in excess of 3% of the dependent's net income (or the prescribed limit for the year whichever is less).

Items that can be claimed as METC

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- Eligible Medical Expenses :

https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/about-your-tax-return/tax-return/completing-a-tax-return/deductions-credits-expenses/lines-33099-33199-eligible-medical-expenses-you-claim-on-your-tax-return.html#mdcl_xpns

- Authorized Practitioners:

https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/about-your-tax-return/tax-return/completing-a-tax-return/deductions-credits-expenses/lines-33099-33199-eligible-medical-expenses-you-claim-on-your-tax-return/authorized-medical-practitioners-purposes-medical-expense-tax-credit.html

Political Contributions

- Contributions to federal political parties and candidates in federal elections – non-refundable federal tax credit
- Provincial credits also available

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Charitable Donations

- Combine up to five years of contributions on one return
- Consider donating publicly traded securities instead of cash
- Charitable bequests

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Pension Splitting

- May transfer up to 50% of income eligible for the pension income credit to spouse or common law partner

Sale of Real Estate

- Principal Residence Exemption
- Capital gains on sale

Old Age Security ("OAS")

- Income level for 2020 was $79,054
- OAS is reduced by $0.15 for each dollar above the income level
- OAS is fully clawed back when net income reaches $128,137

Sale of Investments

- Capital gain or loss

Tax Preparation Clinics

- CPA Alberta
- CRA - https://www.canada.ca/en/revenue-agency/campaigns/free-tax-help.html

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Savings Options

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Tax Free Savings Accounts ("TFSA")

- No deduction on contribution
- No taxes on withdrawal
- Contribution room not accessible until beginning of next tax year
- Does not impact OAS clawback

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Accessing Funds

- Consider impacts on tax incentives and social programs – net income for tax purposes

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Managing Accounting Costs

- Organize your records;
- Where possible, obtain annual summaries;
- Only claim portion of expenses not reimbursed by medical insurance plans;
- Add up receipts by category; and
- Contact your advisor early for tips on how to best prepare for tax filings.

How long to keep records

Generally, you must keep all required records and supporting documents for a period of six years from the end of the last tax year they relate to.

Keep records related to the acquisition of assets such as property until a period of six years from the end of the last tax year in which property was disposed of.

Tax Filings

Outstanding Returns of the deceased individual

- Previous year personal tax returns not filed;
- GST returns - sole proprietors; and
- Responses to outstanding Canada Revenue Agency ("CRA") requests for support.

Tax Filings

T1 Personal Income Tax Return – Terminal or Final Return

- Covers the period from January 1, to the date of death;
- If death occurs prior to November 1, the return is due on or before April 30 of the following year (June 15 if self-employed); and
- If death occurs between November 1 and December 31, the return is due within 6 months of the date of death.

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Tax Filings

T1 Personal Income Tax Return – Terminal or Final Return

Items reported on this return:

- Income and deductions from January 1 to the date of death;
- Capital gains or losses from January 1 to the date of death;
- RRSP balances at date of death, offset by deductions where possible;
- RRIF balances (depending on successor beneficiary);
- Disposition of the principal residence;
- Up to 24 months of medical receipts (those not previously claimed);
- Other income, deductions and credits as applicable; and
- Deemed disposition of assets owned at the date of death.

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Tax Filings

T3 Income Tax and Information Return(s) for the Estate

- Returns for the Estate
  - Graduated Rate Estate – For period from the day after the date of death to a maximum of one year from the date of death;
  - T3 Returns for each year to the wind-up of the Estate; and
  - T3 Returns for Trusts set up within the Estate (may be responsibility of Trustees of the Trusts if different).

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Tax Filings

Interest and Penalties

- T1 Terminal Tax Return
  - Late filing penalty – 5% of balance owing plus 1% of balance owing for each full month return is late to a maximum of 12 months. May be higher if there is a previous late filing.
- T3 Trust Tax Return
  - Late filing penalty – 5% of unpaid tax plus 1% of unpaid tax each full month return is late to maximum of 12 months.
  - May still be subject to penalty even if no taxes owing, of $25 per day for each day late (minimum $100, maximum $2,500).
  - Higher if a demand to file is issued or a repeated failure to file on time and/or report all income.

Tax Impacts?

Registered Retirement Income Fund (“RRIF”)

- General rule - on the death of the annuitant, considered that the annuitant received (immediately before death), an amount equal to the fair market value of all property held in RRIF at date of death.

Tax Impacts?

Registered Retirement Income Funds

Exceptions if criteria are met:

- Spouse or common-law partner as successor annuitant;
- Spouse or common-law partner as sole beneficiary;
- Transfer to a qualified beneficiary; or
- Transfer to an RDSP.

Tax Impacts?

Tax Free Savings Account ("TFSA")

- Spouse named as successor holder.
- Designated beneficiaries.

Joint Accounts / Assets

- Impact of adding names to accounts or property
- Gift or Estate Planning
- Taxes are paid in relation to beneficial ownership

Tax Impacts?

Principal Residence

- At the date of death there is a deemed disposition of the principal residence owned by deceased.

- If certain criteria are met, a capital gain arising from this deemed disposition may be offset by the principal residence exemption.

Estate Planning

Tax Impacts

Deemed Disposition

At the date of death there is a deemed disposition of all property owned by the deceased including real estate, shares of privately owned corporations, investment portfolios, personal use items, listed personal property.

- This includes the deceased taxpayer's share of jointly owned property with the right of survivorship.
- If certain criteria are met, capital gains arising from the deemed disposition of privately owned corporations, qualified farm or fishing property may be offset by the lifetime capital gains exemption.

Tax Impacts

What will pass outside of the Estate, and how does that impact the Terminal Personal Income Tax Return?

- Items that pass outside of the Estate;
- Items owned jointly with a right of survivorship;
  - Joint bank and investment accounts
  - Real estate and other property
- Items with specific beneficiary designations; and
- Life insurance with specific beneficiary designations.

How can taxes be reduced in an Estate?

Confirm information is available from previous returns

- Obtain copies of previous personal tax returns and review the Canada Revenue Agency history of the taxpayer to confirm you have utilized:
  - Carried forward losses;
  - Unused donation receipts; and
  - Unused medical receipts from the previous year.

How can taxes be reduced in an Estate?

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Pre-planning

- Meet with an experienced tax professional to arrange for the **review of your Will** prior to death from a tax perspective to determine what the tax impacts will be upon death.
- Consider **transfers to spousal or other trusts** prior to death or to testamentary trusts in the Will.
- Consider **gifting** assets prior to death.*
- Consider leaving tax-friendly assets (cash, GICs, TFSAs, or assets that have not appreciated greatly in value) to beneficiaries other than the spouse.
- Consider **donations in the Will**. Consider the donation of publicly traded securities to fulfill obligations in the Will.
- **Confirm your Will is written in a manner to allow the Executor to implement plans to deal with tax issues in an efficient manner.**

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How can taxes be reduced in an Estate?

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Planning to reduce taxes in the Estate

- Meet with an experienced tax professional to review the assets of the Estate and discuss options as soon as possible.
- Consider the use of spousal rollovers, transfers to qualified beneficiaries, Qualified Disability Trusts*, and elections to opt out to avoid the loss of carried forward or current losses, deductions or credits to optimize taxes.
- Confirm the lifetime capital gains exemption and principal residence exemption has been used where possible.
- Confirm the Trusts set up within the Will are not tainted and manage the current Estate in such a manner that the Graduated Rate Estate status of the Estate is not lost.

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How can taxes be reduced in an Estate?

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Planning to avoid double-taxation

- The Executor must meet with an experienced tax professional as soon as possible to determine what options are available to reduce the impact of double-taxation on the deemed disposition of assets.

Some planning and implementation must be completed within the first taxation year of the Estate.

Residency

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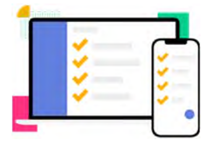
Residency of Estate – mind and management

Residency of Executor and Beneficiaries – may have tax impacts

Information the Executor Will Need



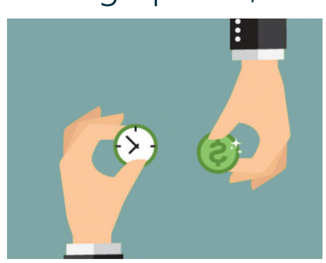
- Copy of Will, Application and Grant of Probate;
- Copies of the personal income tax returns filed for the previous three years to review for possible income sources and assets;
- Summaries from Investment Brokers (client records if personally traded) indicating the fair market value and adjusted cost bases of all investment accounts, RRSP, RRIF and TFSA accounts at the date of death;
- Adjusted cost bases and fair market values of personal assets and property;
- History of ownership, year of purchase and use of real estate including the principal residence; and
- Income slips and receipts for deductions or credits.

How will the taxes be paid?

Planning for the Payment of Taxes

Meet with an advisor to quantify the potential tax liability, once this amount is known consider options for the future payment of the taxes:

- Sale or liquidation of assets;
- Life Insurance for a variety of planning options; and/or
- Tax planning.



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Executor Fees

Tax Planning for Executor

- Limited deductibility for tax purposes.
- Taxable income for recipient:
  - May wish to plan over more than one year if possible.

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Building a Support Team

- Family and Friends
- Government Agencies and Community Organizations
- Financial Advisors
- Legal Counsel
- Accountants, Specialists and Estate Planning Advisors

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Questions

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Tax Planning for You and Your Estate

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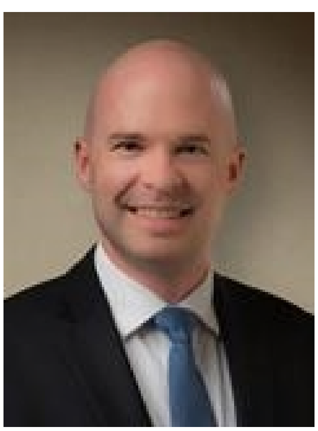

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