Tax Update 2024: What Advisors Need to Know!

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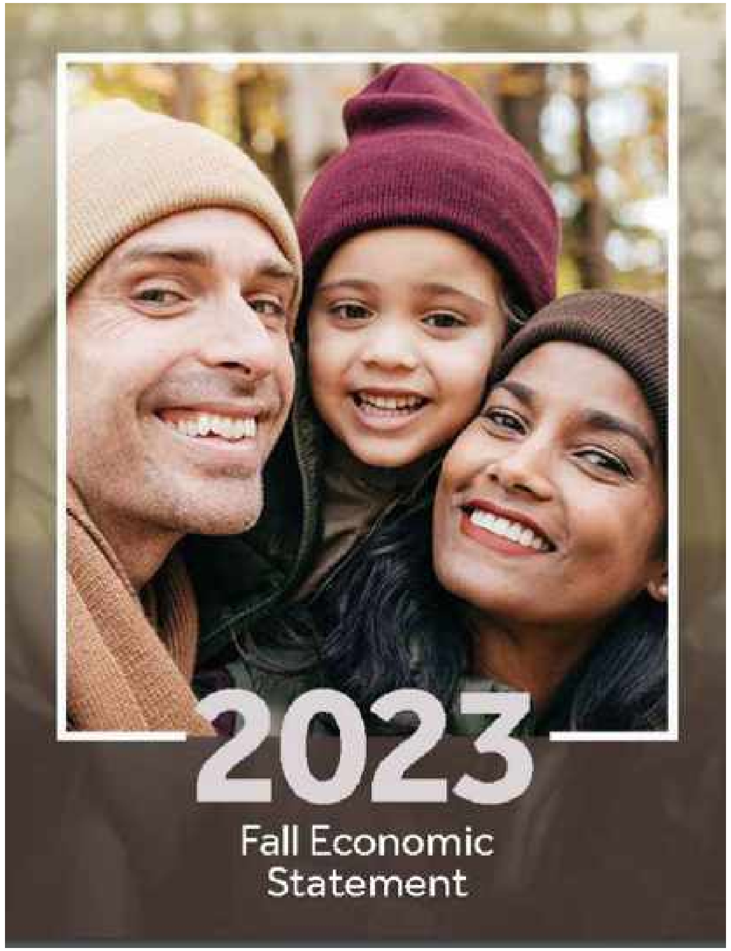
Ottawa Estate Planning Council

January 10, 2024

Agenda

1. Legislative update
2. 2024 personal tax update
3. Alternative minimum tax
4. Building wealth
5. Corporate tax update

2023 Fall Economic Statement (Nov. 21, 2023): Selected Developments



Short-term rentals (STR)

- No tax deductions if property is in a region where STR is prohibited or property not properly registered

Underused Housing Tax (UHT)

- Most Canadian corporations, partnerships and trusts not required to file
- Minimum failure to file penalties lowered
  - $1K for individuals, $2K for corporations

Employee Ownership Trust (EOT)

- Exemption for up to $10MM of capital gains on sale of a business to an EOT

Agenda

Bill C-59 (Second reading)

- Intergenerational wealth transfers (C-208)
- New GAAR
- Non-CCPC planning “reportable transaction”
- RDSP successor holder
- Employee ownership trusts
- Dividend deduction denial for FIs

NOT in Bill C-59:

- AMT proposals
- Changes to the UHT

Enhanced trust reporting rules

Enhanced trust reporting rules

December 2022

Jamie Golombek and Debbie Pearl-Weinberg
Tax and Estate Planning, CIBC Private Wealth

One of the ongoing requirements of operating a trust that is resident in Canada is the need to file a T3 trust income tax return (a "T3") in many circumstances.[1] This has been the case for many years. A new rule, for tax years ending on December 31, 2023 (or later), will require some trusts to start filing T3 returns when they were previously exempt from such filing. In addition, the information required to be reported on a T3 for many trusts will be expanding. The Canada Revenue Agency (the "CRA") has indicated that these changes are "being made to improve the collection of beneficial ownership information with respect to trusts and to help the ...CRA assess the tax liability to trusts and its beneficiaries."[2]

cibc.com/content/dam/personal_banking/advice_centre/tax-savings/enhanced-trust-reporting-en.pdf

T3 reporting

- T3 needed for all trusts with a taxation year ending on December 31, 2023 (or later), including:
  - Trusts acting as an agent for beneficiaries (including “bare trusts”)
  - Account opened by a parent or grandparent “in trust for” a minor child (in some circumstances)
- Information about parties to the trust must be reported, including:
  - Name, address, date of birth, residency & tax ID* for:
    - Trustees
    - Beneficiaries
    - Settlors
    - Each person who can exert influence over trustee decisions for the appointment of income or capital
  - **First filing deadline is March 30, 2023**


2023 Protected B when completed

T3 Trust Income Tax and Information Return

Step 1 – Identification and other information

Canada

* For example, a SIN, business number or trust account number

Exceptions for T3 filing

T3 need only be filed if there is tax payable, a capital gain or disposition of capital property by trusts that:

- Are non-taxable, including an RRSP, RRIF, TFSA, FHSA, RESP or RDSP
- Have been in existence for less than 3 months
- Have property with FMV of $50,000 or less throughout the year, if the only trust property is:
    - Money
    - Mutual fund trust units
    - Exchange traded funds
    - Listed shares or debt, or
    - Certain government debt

Information about parties to the trust does not need to be reported

Penalties for failure to file a T3 return

- $25 per day, minimum $100, to a maximum of $2,500
- Additional penalty of 5% of maximum FMV of trust property (with a minimum of $2,500) if failure to report is done knowingly, or because of gross negligence
- Dec. 1, 2023:
  CRA announced it will waive late-filing penalties for bare trusts that submit their T3 returns for the 2023 tax year after the deadline of March 30, 2024

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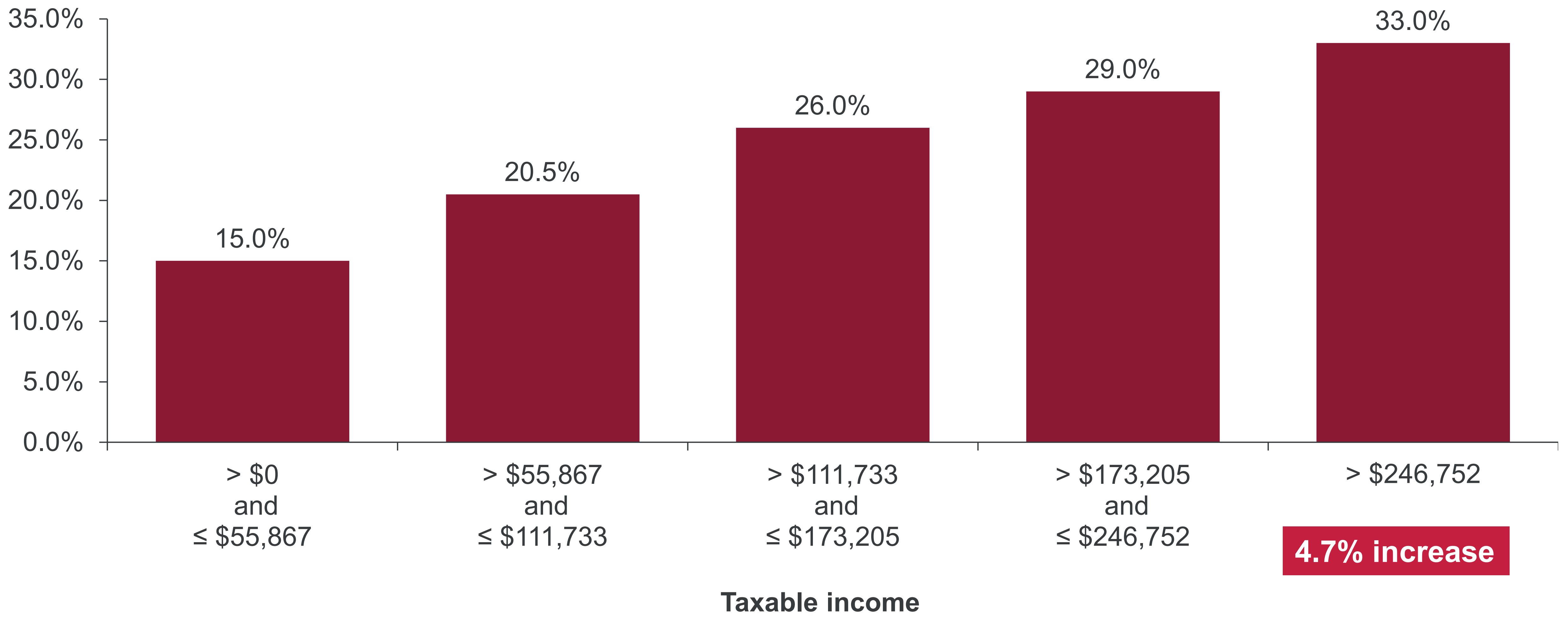
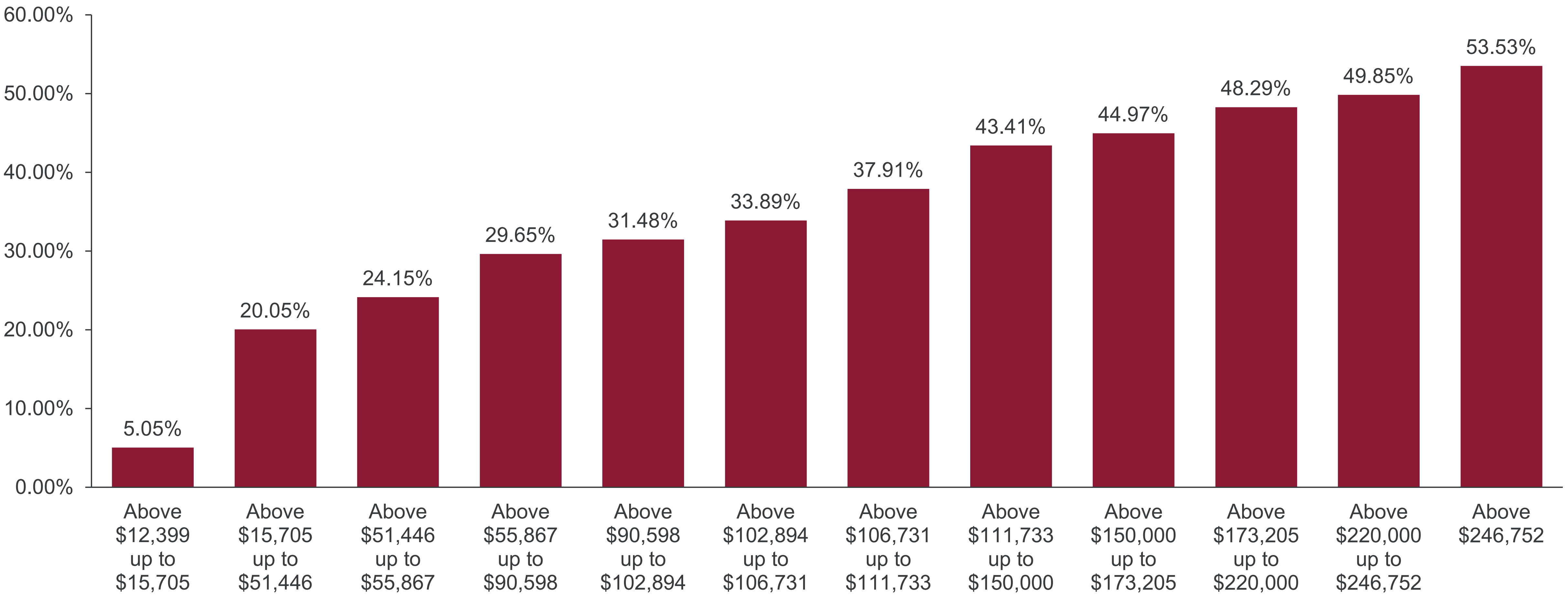
2024 federal marginal income tax rates



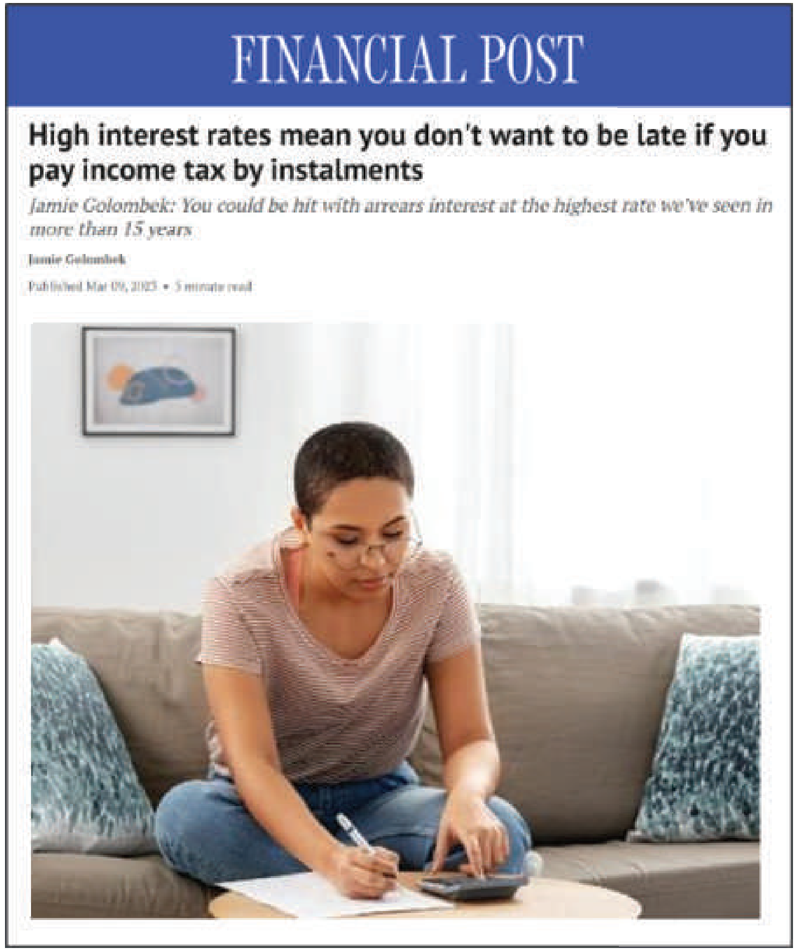
ON 2024: Tax rates on ordinary income



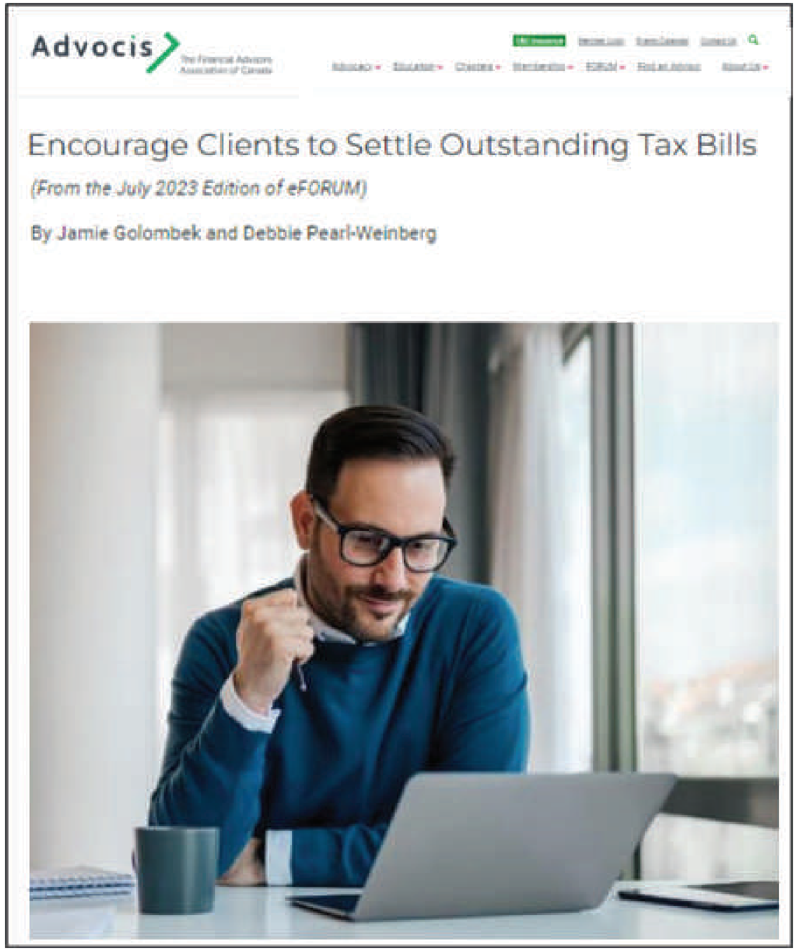
Tax Templates Inc., January 1, 2023.
The marginal rates include federal and Ontario taxes, and surtaxes but do not include low-income tax rate reductions. The amounts also include the basic personal amounts.

2024 Q1: CRA interest rate on late payments is 10%!

- Interest rate on:
  - CPP contributions
  - EI premiums
  - Insufficient instalments
  - Penalties
  - Tax debts
  - Unpaid income tax
- Interest is compounded daily
- Not tax deductible



financialpost.com/personal-finance/taxes/cra-income-tax-instalment-arrears-interest-surge-higher-rates



advocis.ca/encourage-clients-to-settle-outstanding-tax-bills/

Alternative minimum tax: New rules for 2024

Alternative minimum tax: What's changing for 2024?

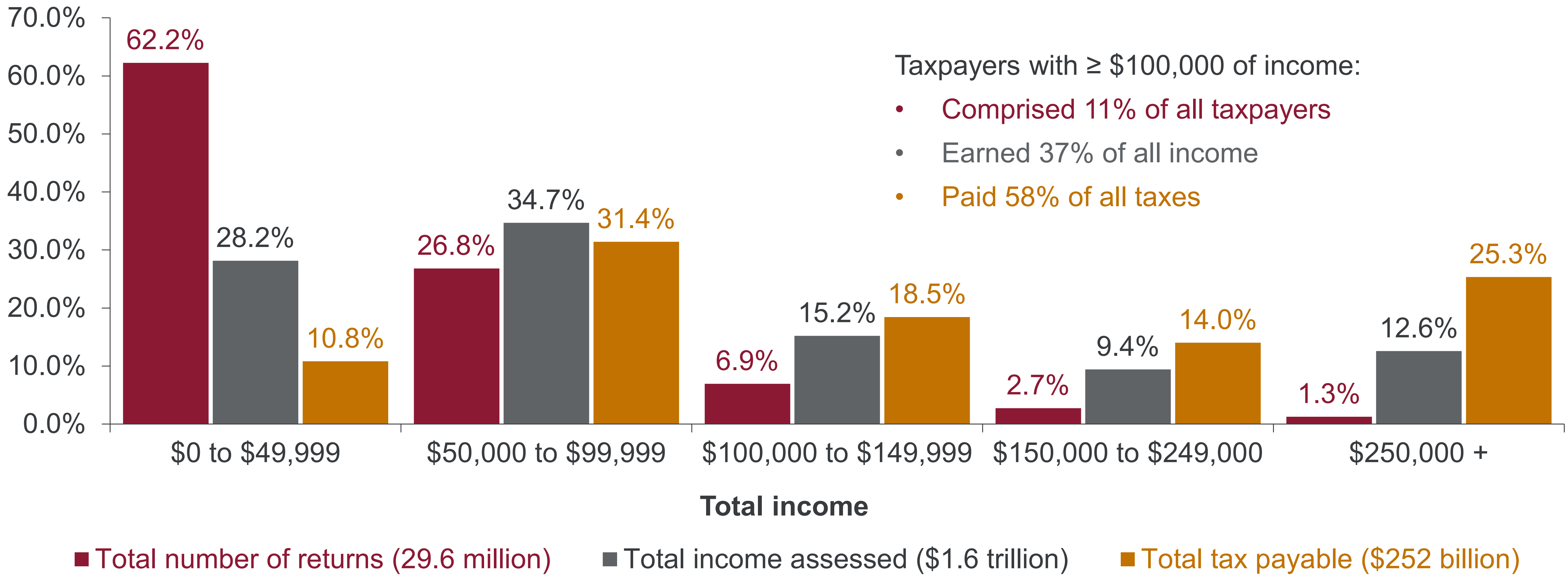
September 2023

Jamie Golombek, Debbie Pearl-Weinberg and Tess Francis
Tax and Estate Planning, CIBC Private Wealth

The Alternative Minimum Tax (AMT) system imposes a minimum level of tax on taxpayers who claim certain tax deductions, exemptions or credits to reduce the tax that they owe to very low levels. Under the AMT system, there is a parallel tax calculation that allows fewer deductions, exemptions, and credits than under the regular income tax calculation. If the amount of tax calculated under the AMT system is more than the amount of tax owing under the regular tax system, the difference owing is payable as AMT for the year.

cibc.com/content/dam/cibc-public-assets/personal-banking/smart-advice/tax-savings-tips/pdfs/amt-changes-en.pdf

Share of income & taxes, by income level

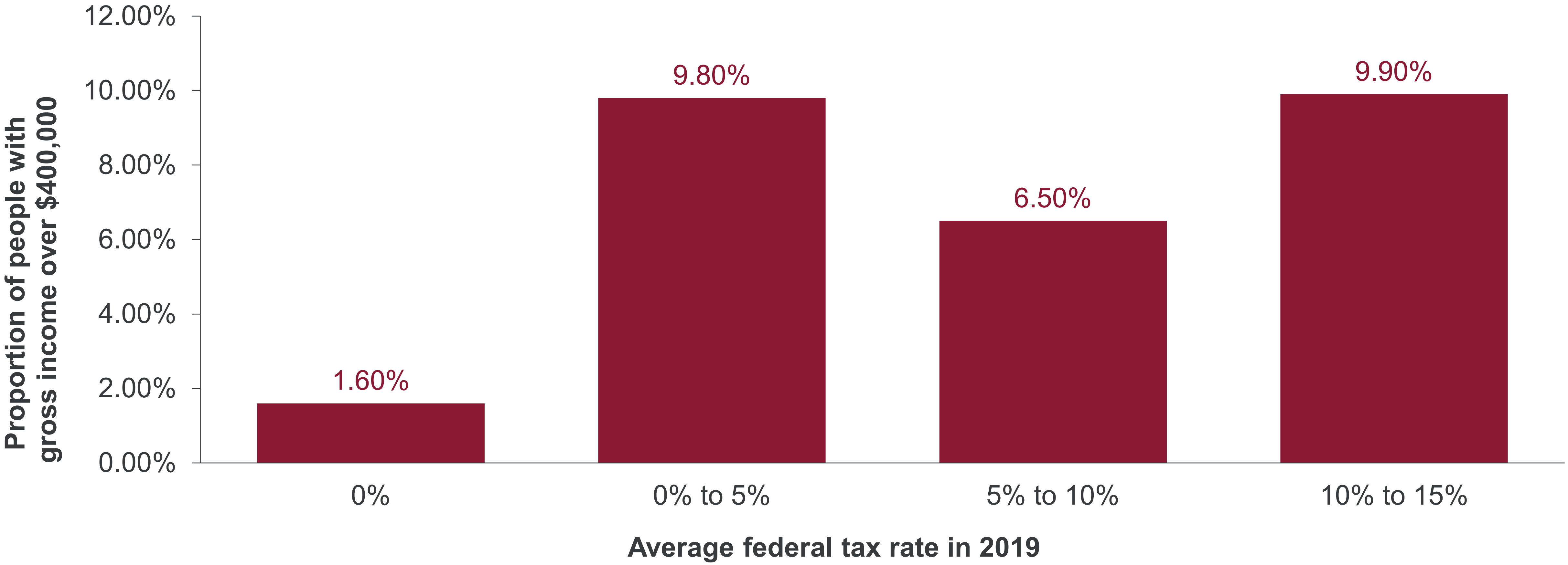


Taxpayers with ≥ $100,000 of income:

- Comprised 11% of all taxpayers
- Earned 37% of all income
- Paid 58% of all taxes

Source: Canada Revenue Agency — Final Income Statistics 2022 (2020 tax year).

Of the top 0.5% of income earners (who had gross income over $400,000) in 2019, 28% paid no more than 15% federal tax



Source: *Chart 9.1 - Proportion of People With Gross Income Over $400,000 Who Are Paying Less Than 15 Per Cent in Federal Tax, 2019*, which is available online at budget.gc.ca/2022/report-rapport/chap9-en.html.

Duke of Westminster principle:
Taxpayers are entitled to arrange their affairs to minimize the amount of tax

Some common items for taxpayers with taxable income > $250,000:

T1 line item	Percentage of taxpayers	Average amount
Taxable dividends from Canadian corporations	68%	$147,504
Taxable capital gains	51%	$126,158
RRSP/PRPP deduction	60%	$38,730
Security options deductions	4%	$151,579
Capital gains deduction	6%	$259,725
Allowable charitable donations and government gifts	64%	$17,389

FINANCIAL POST

CRA data show there's little to gain from increasing the minimum tax on top earners

Ottawa is reviewing the alternative minimum tax (AMT), the results of which will come out in the fall economic update. IMAGE: THE BANK OF CANADA

financialpost.com/personal-finance/taxes/cra-data-show-theres-little-to-gain-from-increasing-the-minimum-tax-on-top-earners

Federal Alternative Minimum Tax (AMT)

Pay greater of ordinary tax or AMT (currently 15%)

- 7-year carryforward of AMT

Budget 2022: “new” minimum tax regime

- AMT not substantially reviewed since introduced in 1986
- “Some high-income Canadians still pay relatively little in Personal Income Tax (PIT) as a share of their income”
- AMT is “intended to ensure that high-income Canadians cannot disproportionately lower their tax bill through advantages in the tax system”

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AMT: Broadening the base

Item	Regular tax	Old AMT	Proposed AMT
Capital gains	50%	80%	100%
Stock option benefit	50%	80%	100%
Capital gains on publicly-traded securities donated in-kind	0%	0%	30%

AMT: Limiting Deductions

Deductions

- Disallowing 50% of various deductions for AMT (2024), including:
  - Employment expenses (other than those incurred to earn commission income)
  - Moving expenses
  - Childcare expenses
  - Interest and carrying charges incurred to earn income from property
  - Limited partnership losses of other years
  - Non-capital loss carryovers
  - Capital losses carried forward

AMT: Other changes

Credits

- Only allowing 50% of non-refundable credits, including the donation tax credit

Exception

- Dividend tax credit is not allowed
- Dividends 100% taxable (vs gross-up)

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Raising the AMT exemption

Old exemption

- $40,000 (2023)

Proposed exemption

- $173,200 for 2024

Increasing the AMT rate

Old rate (2023)

- 15% rate

Proposed rate (2024)

- 20.5% rate

Federal alternative minimum tax (AMT): Who will pay?

Expected to generate $3 billion in revenues over 5 years, which will be paid:

- 99% by individuals with over $300K income
- 80% by individuals with over $1M income

Sale of a business: Could alternative minimum tax apply?

Sale of a business: Could alternative minimum tax apply?

August 2023

Jamie Golombek, Debbie Pearl-Weinberg and Tess Francis
Tax and Estate Planning, CIBC Private Wealth

Changes to the alternative minimum tax (AMT), set to take effect on January 1, 2024, could impact some business owners who sell their business in 2024, or beyond. Our companion report, Alternative minimum tax: What's changing for 2024, goes through the details of what's changing for 2024, but, briefly, AMT is calculated under a tax system parallel to the regular tax system. AMT can apply to levy tax in some situations where tax calculated under the regular tax system is lower than that calculated under the AMT system. If you pay AMT, it can be used to offset tax arising under the regular tax system for the following seven years.

cibc.com/content/dam/cibc-public-assets/personal-banking/smart-advice/tax-savings-tips/pdfs/amt-business-sale-en.pdf

Alternative minimum tax: Impact on charitable giving

Alternative minimum tax: Impact on charitable giving

September 2023

Jamie Golombek, Debbie Pearl-Weinberg and Kate Lazier
Tax and Estate Planning, CIBC Private Wealth

The Alternative Minimum Tax (AMT) system imposes a minimum level of tax on taxpayers who claim certain tax deductions, exemptions or credits to reduce the tax that they owe to very low levels. Under the AMT system, there is a parallel tax calculation that allows fewer deductions, exemptions, and credits than under the regular income tax calculation. If the amount of tax calculated under the AMT system is more than the amount of tax owing under the regular tax system, the difference owing is payable as AMT for the year.

cibc.com/content/dam/cibc-public-assets/personal-banking/smart-advice/tax-savings-tips/pdfs/amt-charities-en.pdf

Building wealth

2023 & 2024 limits for RRSPs and TFSAs

Plan	2023 dollar limits	2024 dollar limits
RRSP	$30,780 (18% of $171,000 earned income in 2022)	$31,560 (18% of $175,333 earned income in 2023)
TFSA	$6,500 ($88,000 cumulative dollar limit for 2009 to 2023*)	$7,000 ($95,000 cumulative dollar limit for 2009 to 2024*)

* For individuals who have been resident in Canada and at least 18 years of age since 2009 and have never contributed to a TFSA.

In defence of RRSPs

In defence of RRSPs: Dispelling common myths

July 2020

Jamie Golombek
Managing Director, Tax and Estate Planning, CIBC Private Wealth

For over 60 years, the Registered Retirement Savings Plan (RRSP) has been available to build savings for retirement. [1] In recent years, these plans seem to be falling out of favour, with fewer Canadians contributing to RRSPs and a significant number of pre-retirees withdrawing funds from these plans. This report looks at this surprising trend and debunks some of the myths that may be keeping Canadians from saving in an RRSP.

https://www.cibc.com/content/dam/personal_banking/advice_centre/tax-savings/rrsp-myths-en.pdf

RRSP myths

1. There's no point investing in an RRSP, since you pay all the savings back in taxes when you retire anyway
2. It's better to invest in a TFSA than in an RRSP
3. It's better to pay off debt
4. I don't have enough money to save in an RRSP
5. I don't need an RRSP because I'll have other sources of funds for retirement
6. If I save too much in an RRSP or RRIF, there will be a large tax bill when I die

And the myths persist…

Some question whether the age-old RRSP has merit.

It does!!

- Investment return on net RRSP contribution is mathematically equivalent to the tax-free return with a TFSA (ignoring changes in tax rates)
- Provided the time horizon is long enough, RRSPs can beat non-registered investing even if your marginal tax rate is higher in the year of withdrawal than it was when you contributed
  - Benefits of the tax-free compounding can outweigh tax cost of a higher withdrawal tax rate

FINANCIAL POST

Here's why investing in an RRSP does make sense for many Canadians

Jamie Golombek: RRSPs allow us to earn effectively tax-free investment income, and that's not a typo: tax free, not merely tax deferred

Jamie Golombek

Published Feb 23, 2023 • Last updated Feb 24, 2023 • 4 minute read

financialpost.com/personal-finance/taxes/investing-rrsp-makes-sense-many-canadians

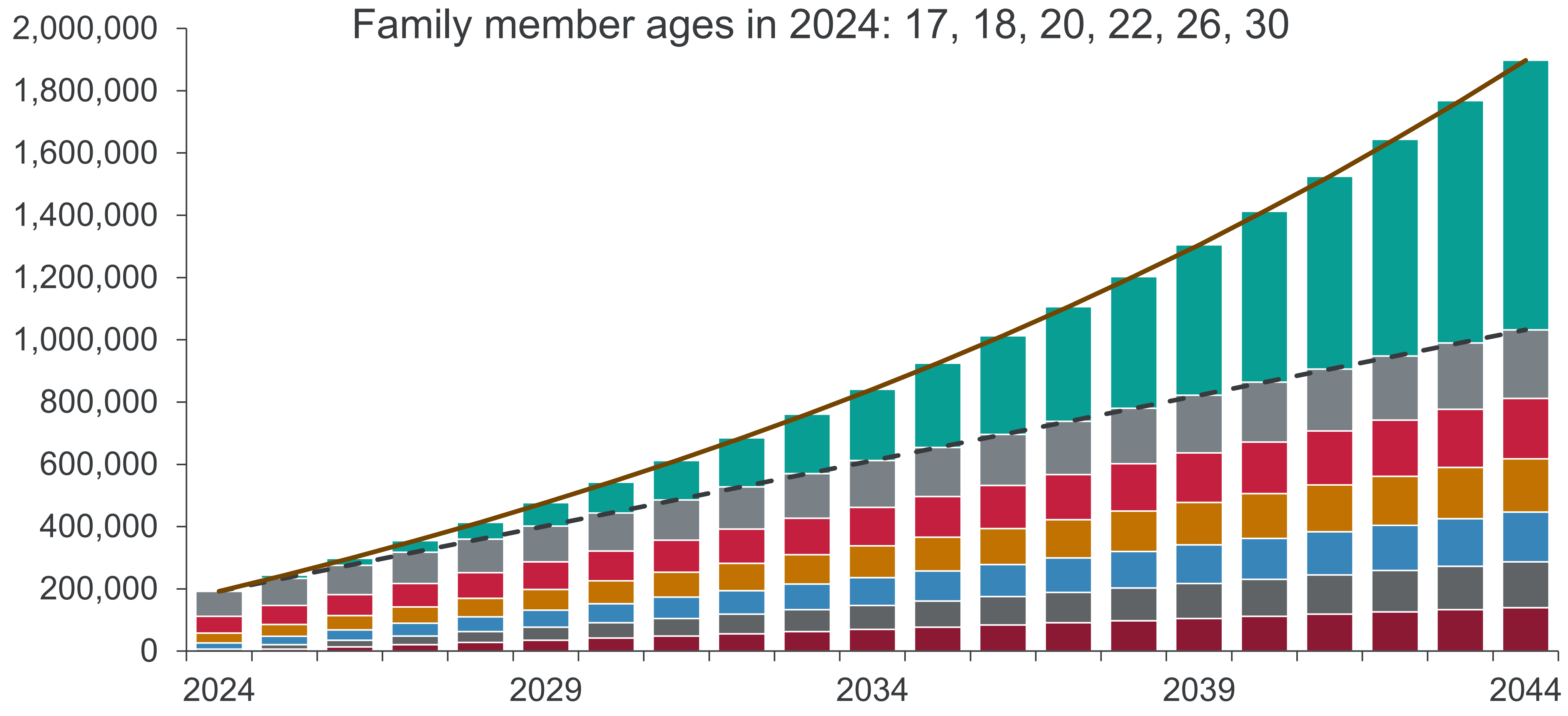
2024 TFSAs present a great opportunity

- 18 years of age and resident in Canada
- For couples, each spouse or common-law partner can contribute
  - No attribution if funds gifted to family members for their own TFSA contributions
- Potential contribution opportunity*:
  - $95,000 for an individual
  - $190,000 for a couple
- Withdrawals are not income for recovery (clawback) of:
  - Guaranteed Income Supplement
  - Old Age Security

Your birth year	Dollar limit in year you reached age 18	Your cumulative dollar limit in 2024*
2006	7,000	7,000
2005	6,500	13,500
2004	6,000	19,500
2003	6,000	25,500
2002	6,000	31,500
2001	6,000	37,500
2000	5,500	43,000
1999	5,500	48,500
1998	5,500	54,000
1997	10,000	64,000
1996	5,500	69,500
1995	5,500	75,000
1994	5,000	80,000
1993	5,000	85,000
1992	5,000	90,000
1991	5,000	95,000
Before 1991	0	95,000

* Assuming you have been resident in Canada since age 18 and have never contributed to a TFSA.

2024 example: Contributing TFSA maximum for 6 family members over 20 years, 5% ROR



Total of TFSAs
$1,898,000

Total
tax-free income
$866,000

Total contributions
$1,032,000

Age 30 $220,000

Age 26 $194,000

Age 22 $171,500

Age 20 $159,500

Age 18 $147,000

Age 17 $140,000

Assuming no TFSA contributions prior to 2024, TFSA contributions are made at the end of each year and TFSA dollar limit remains at $7,000 after 2024.

TFSAs… what could possibly go wrong?

The TFSA was designed to be a very straightforward savings vehicle

- Contribute after-tax dollars
- Invest them in pretty much anything, tax free
- Withdraw anytime, for anything, with no tax
- FMV of withdrawals can be recontributed beginning following year

With the simplicity inherent in the design, what could go wrong?

- Some recent TFSA cases:
  - *Zazula v AGC* (2022 FC 1156)
  - *Yew v CRA* (2022 FC 904)
  - *Howard v AGC* (2022 FC 1673)
  - *Ruiz Rodriguez v AGC* (2022 FC 1617)
  - *Trustee of the Fareed Ahamed TFSA v The King** (2023 TCC 17)
  - *Keystone v AGC* (2023 FC 820)

financialpost.com/personal-finance/taxes/cra-tfsa-rules-taxpayers-hot-water

Howard v AGC (2022 FC 1673)

- Dec 2019: Financial advisor recommended $63,500 contribution to TFSA
  - Advisor did not consider that taxpayer was non-resident in 2009 to 2011
  - Overcontribution of $15,000
- June 2020: CRA sent overcontribution notice
  - Taxpayer was out of Canada and couldn't return due to pandemic
- July 2021: Received CRA notice after returning & withdrew overcontribution
- CRA refused relief for penalties & interest:
  - Taxpayer didn't remove the excess "within a reasonable time frame"
  - Relying on financial advisor was "a matter between you and your bank"

Court said:

- Steps were taken to withdraw excess ASAP
- Ordered review to be conducted "anew" by a different CRA officer


FINANCIAL POST

CRA tries to catch taxpayer who made an incorrect TFSA catch-up contribution

Jamie Golombek

Published Dec 22, 2022 • Last updated Dec 22, 2022 • 5 minute read

17 Comments

financialpost.com/personal-finance/taxes/cra-catch-taxpayer-incorrect-tfsa-contribution

*Trustee of the Fareed Ahamed TFSA v The King** (2023 TCC 17)

- 2009 to 2012: Contributed $15,000; withdrew nearly $547,800 tax-free
  - CRA said TFSA carried on a business of trading investments
- Income Tax Folio S3-F10-C1: “If an RRSP or RRIF were to engage in the business of day trading… it would not be taxable on the income derived from... buying and selling of qualified investments”
- Taxpayer said, “no legislative purpose for making a TFSA… taxable on the income from… trading qualified investments when an RRSP… is not”

Court said:

- “Had Parliament also intended to exempt from tax a TFSA’s income from carrying on a particular type of business — trading qualified investments — Parliament would have legislated accordingly, just as it had for RRSPs”

March 8, 2023: Taxpayer appealed to Federal Court of Appeal

FINANCIAL POST

The CRA is actively looking for people who day trade investments in their TFSAs

Jamie Golombek

Published Feb 16, 2023 • Last updated Feb 17, 2023 • 5 minute read

A TFSA is generally exempt from tax on its income, subject to two exceptions: the TFSA holds non-qualified investments or it carries on as a business. IMAGE: GETTY

* *Canadian Western Trust Company as Trustee of the Fareed Ahamed TFSA v The King*
financialpost.com/personal-finance/taxes/cra-looking-people-day-trade-investments-tfsa

Fareed Ahamed TFSA v. The King (2023 TCC 177)

Judge said:

- Relatively straightforward issue of statutory interpretation
- The Crown's position was correct in law

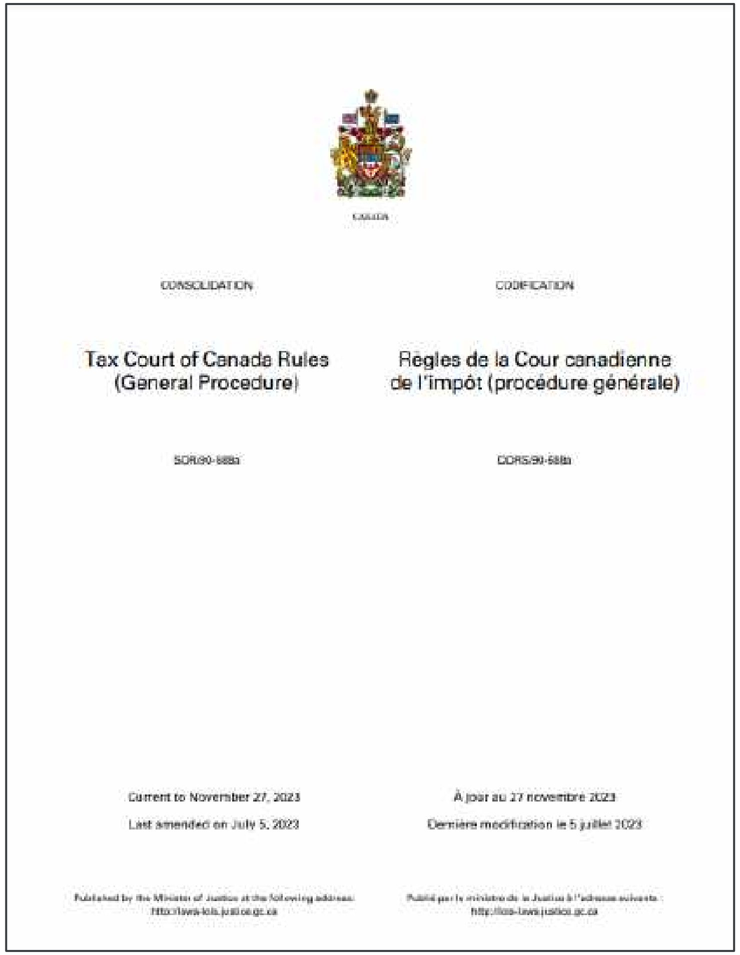
Crown said:

- "Enhanced costs" of $118,340 should be awarded
  - Included $115,087.76 in counsel and paralegal fees and $3,251.96 in disbursements (43% of total costs)

Taxpayer said:

- Costs should be limited to the relatively modest amounts set out in Tariff B of Schedule II of the *Tax Court of Canada Rules (General Procedure)*

Costs awarded to the Crown: $95,980.38


CONSOLIDATION

CODIFICATION

Tax Court of Canada Rules
(General Procedure)

Règles de la Cour canadienne
de l'impôt (procédure générale)

SOR/90-688a

DORS/90-688a

Current to November 27, 2023

Last amended on July 5, 2023

À jour au 27 novembre 2023

Dernière modification le 5 juillet 2023

Sources: https://decision.tcc-cci.gc.ca/tcc-cci/decisions/en/item/521191/index.do and https://laws-lois.justice.gc.ca/PDF/SOR-90-688a.pdf

First Home Savings Account (FHSA)

CIBC

Tax-free First Home Savings Accounts: An overview

December 2022

Jamie Golombek
Managing Director, Tax and Estate Planning, CIBC Private Wealth

In November 2022, the government released amended draft legislation to implement the new Tax-Free First Home Savings Account (FHSA). The FHSA is proposed to launch as early as April 1, 2023, so to get you prepared, here's a brief summary of how this new registered plan will work.

The basics

The FHSA gives prospective first-time home buyers the ability to save up to $40,000 on a tax-free basis towards the purchase of a first home in Canada. Like a Registered Retirement Savings Plan (RRSP),

cibc.com/content/dam/personal_banking/advice_centre/tax-savings/fhsa-overview-en.pdf

First Home Savings Account (FHSA): The basics

Requirements to open an FHSA

- At least 18 years old & resident of Canada
- No home in current year plus 4 prior years to opening FHSA

Can only participate once in your lifetime to purchase a single property

- FHSA must be closed by end of:
  - Year after first withdrawal for a qualifying home purchase, and
  - 15th year, if no qualifying home purchase
  - Year that holder turns 71 years of age

FHSA funds (contributions and income/growth) can be:

- Used for a qualifying home purchase
- Transferred into an RRSP or RRIF
- Withdrawn on a taxable basis

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Contributions / transfers to an FHSA & deductions

Contributions / transfers to an FHSA

- Contributions plus transfers from RRSPs to all FHSAs[1] are essentially limited to:
  - Annual: $8,000 plus carryforward (maximum $8,000) of unused balance from prior year
  - Lifetime: $40,000
- Can transfer funds from an RRSP to an FHSA on a tax-deferred basis
  - No tax deduction and will not reinstate RRSP contribution room
- NOTE: Contribution room only starts to accumulate when FHSA is **opened**!

Deductions

- Can claim deduction for contributions (but not transfers from an RRSP) that do not exceed limit
- Option to postpone claiming deduction to a future year

[1] An individual can have multiple FHSAs; limits apply to all the individual's FHSAs in total.
[2] Can't claim losses from dispositions of any assets transferred in-kind to an FHSA.

FHSA withdrawals for a qualifying home purchase

In the year of withdrawal, you must:

- Not have lived in a home that you owned in the 4 prior years, or prior to 30 days before a withdrawal
- Intend to occupy the home as your principal place of residence in Canada within 1 year after acquisition
- Be resident in Canada when withdrawn

Entire balance in the FHSA can be withdrawn tax-free

- Single withdrawal or series of withdrawals

Can also withdraw from Home Buyers Plan for the same home purchase, if qualified

FHSA withdrawals if there is no qualifying home purchase

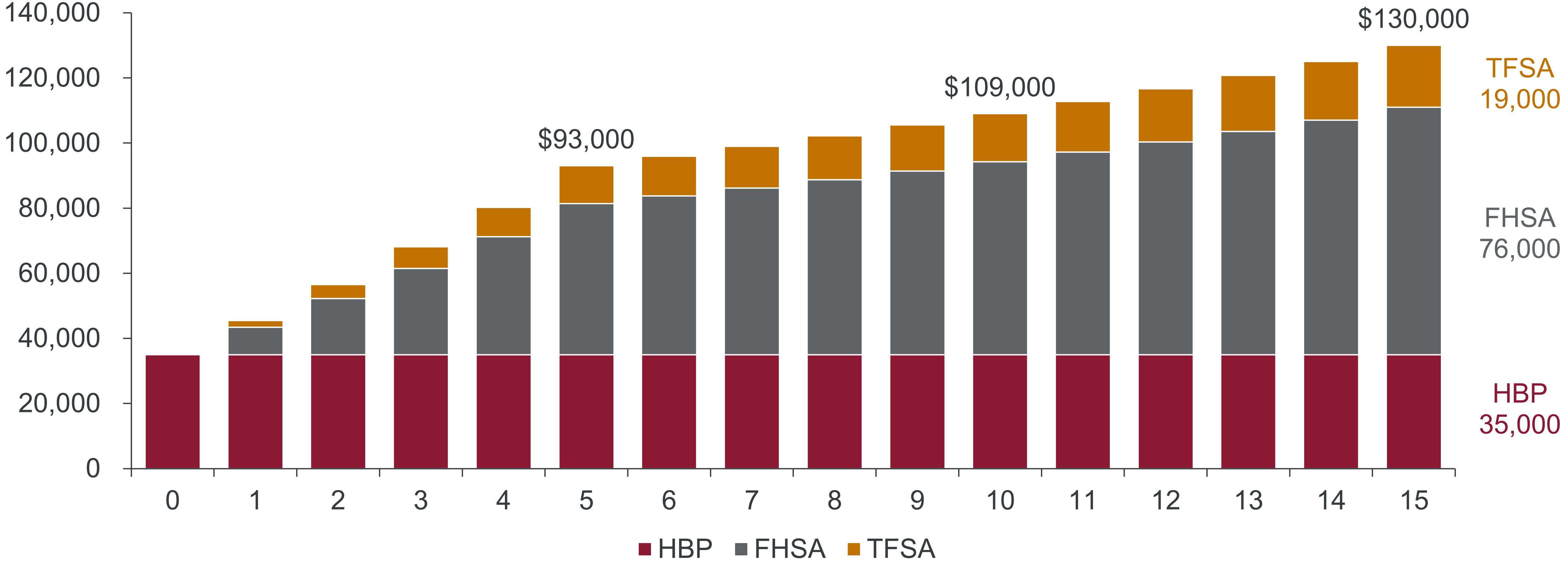
Transfer funds to your RRSP / RRIF

- Can transfer full balance from FHSA to RRSP or RRIF
- Until age 71 or 15 years after opening FHSA, whichever comes first
- Tax-deferred transfer
- Doesn’t affect your RRSP contribution room or the annual FHSA limit
- Funds will be taxed upon ultimate withdrawal from RRSP or RRIF

Other withdrawals:

- Included in taxable income

Example: First-time homeowner saves for a down payment on a home using the FHSA, HBP and TFSA, if tax rate = 25% & ROR = 5% interest



Contribute $8,000 to a FHSA for first 5 years (for a total of $40,000) and contribute tax savings from FHSA contributions to a TFSA, plus $35,000 already saved in an RRSP.

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Registered Education Savings Plan (RESP)

- Maximum lifetime contributions: $50,000
- No deduction for contributions
- Canada Education Savings Grant (CESG):
  - 20% of first $2,500 of contributions = $500 per year
  - Can carry forward unused room
    - Up to $1,000 CESG in a year with a “catch-up” contribution of $5,000
- Earnings accrue on tax-deferred basis
- **High new worth individuals could consider “overfunding” beyond CESG maximization…**

RESP “best” strategy: Start early; maximize contributions

	Typical strategy	Better strategy	Best strategy
Strategy	Start later Make catch up contributions to maximize CESG	Start early Make contributions to maximize CESG	Start early Maximize both contributions and CESG
Annual contributions	$1,000 at age 10 $5,000 in each year, ages 11 to 17	$2,500 in each year, from birth to age 13 $1,000 at age 14	$16,500 at birth (year 0) $2,500 in each year, ages 1 to 13 $1,000 at age 14
Total contributions	$36,000	$36,000	$50,000
Total CESG	$7,200	$7,200	$7,200

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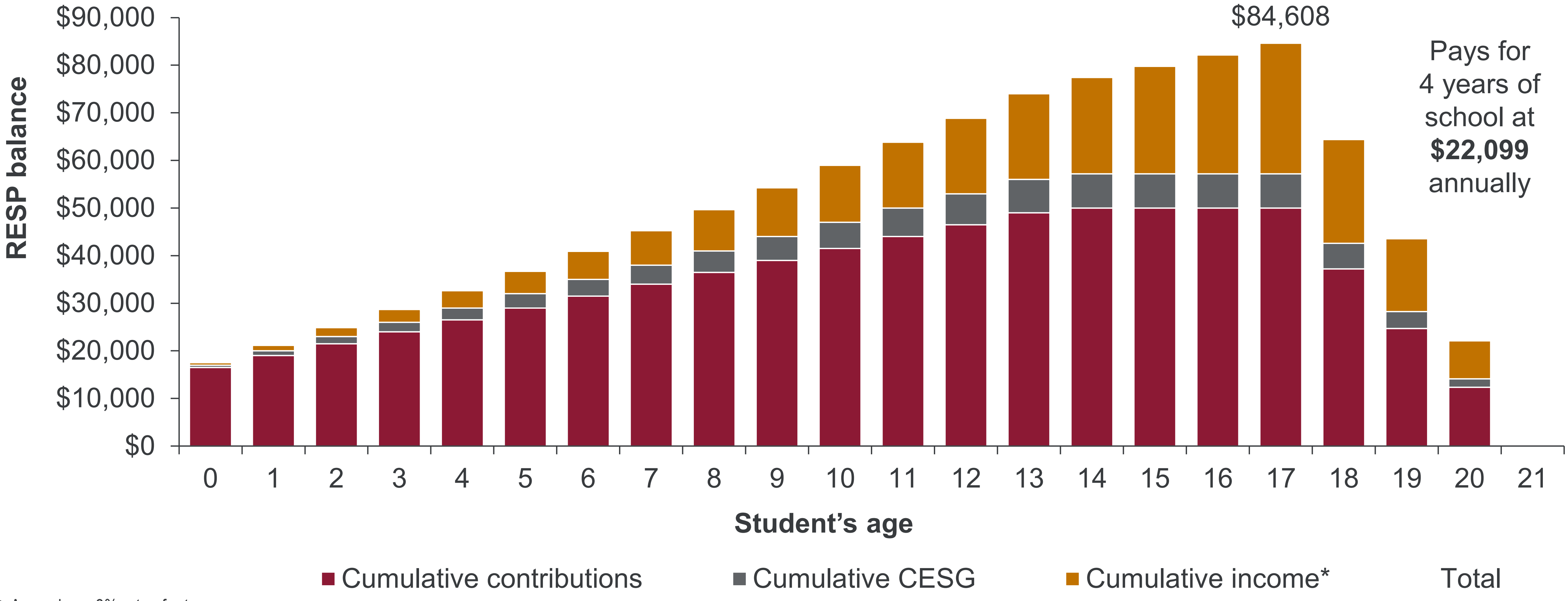
Results with “best” strategy: Start early; maximize contributions



* Assuming a 3% rate of return.

2024 example: RESP Education Assistance Payments with “best strategy”

RESP Education Assistance Payments (EAPs) included in student’s income	
RESP payments per “best strategy”	$88,400
RESP contributions	(50,000)
Total EAPs included in student’s income	$38,400
Student’s average annual EAPs over 4 years	$9,600

Student’s federal tax credit amounts	
Basic personal amount	$15,700
Tuition amount*	7,000
Total tax credits	$22,700

Credit amounts exceed income

No tax payable

* Assumes tuition is $7,000 during the calendar year.

2024 Registered Disability Savings Plan (RDSP)

- Contributions up to $200,000 until beneficiary turns 59
- No deduction for contribution but tax-deferred earnings

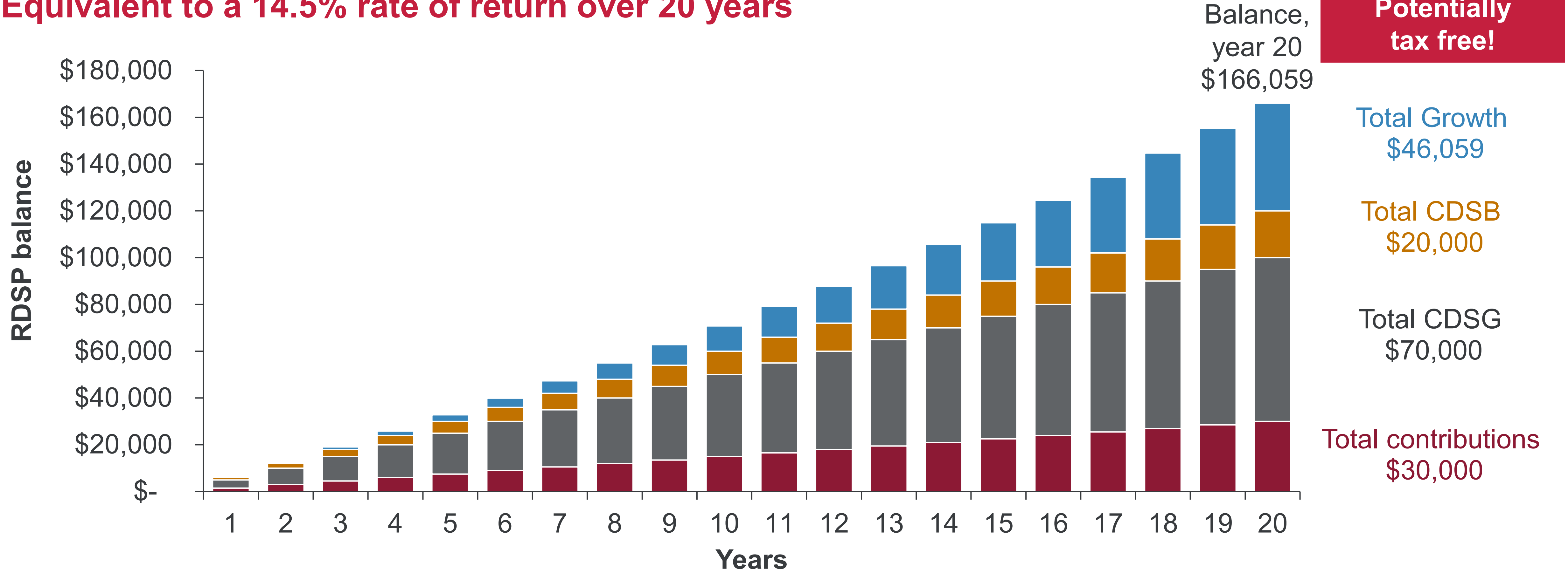
Description	Contribution	CDSG or CDSB
CDSGs at 300% on first $500 of contributions for a year	$500	$1,500
CDSGs at 200% on next $1,000 of contributions for a year	$1,000	$2,000
CDSG maximum for a year	**$1,500**	**$3,500**
CDSG lifetime maximum		**$70,000**
CDSBs for a year (no contributions needed)	$0	$1,000
CDSB lifetime maximum		**$20,000**

Assuming family income is under the threshold at which CDSGs and CDSBs are reduced.

Example of RDSPs with low income: Contribute $1,500 per year for 20 years

Equivalent to a 14.5% rate of return over 20 years

Potentially tax free!



Assumes that $3,500 CDSG and $1,000 CDSB is received annually, contributions are made at the beginning of the year, and the rate of return is 3%.

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Registered Plans: Prioritization

- Go for the free money!
  - RESP: $7,200 in CESGs
  - RDSP: $70,000 in CDSGs, and $20,000 in CDSBs
- Tax deduction in, no tax out
  - FHSA
- Tax rate today vs tax rate tomorrow?
  - RRSP vs. TFSA
- Inheritance funding?
  - RESP, FHSA, TFSA
- After you've done it all?
  - Permanent insurance…

TAX UPFRONT

BY JAMIE GOLOMBEK

Setting Priorities

Making the most of new and old registered plans

With the Tax-Free First Home Savings Account (FHSA) joining the registered plan lineup in 2023, clients may need even more of our help determining which tax-preferred registered vehicle to prioritize, assuming there's not enough budgeted savings to maximize all plans. Before laying out my prioritization preferences (hint: go for the "free money"), let's take a brief look at each plan, and the 2023 limits and amounts.

REGISTERED RETIREMENT SAVINGS PLAN (RRSP)

For 2023, tax-deductible RRSP contributions can be up to 18% of the prior year's (2022) earned income, up to a maximum contribution of $30,780. Taxes are deferred on any income and growth while funds are held within the plan, and tax is only paid when the funds are withdrawn from the RRSP, from its successor, the Registered Retirement Income Fund (RRIF), or through a registered annuity.

18 years of age, with a lifetime limit of $7,200 per child, can be paid into an RESP.

Tax is deferred on investment income earned within an RESP. When RESP earnings and CESGs are paid out for post-secondary education purposes, they are included in the beneficiary's income. By claiming the recently enhanced Basic Personal Amount ($15,000 in 2023) along with tuition credits, the beneficiary may pay little or no tax on the RESP withdrawals.

REGISTERED DISABILITY SAVINGS PLAN (RDSP)

RDSPs are designed to help build long-term savings for people with disabilities. Individuals may contribute up to $200,000 on behalf of a beneficiary who qualifies for the disability tax credit. There is no tax on earnings or growth while in the plan. When disability assistance payments are made to the beneficiary, based on a pro-rated formula, original contributions are not taxed, but earnings, growth, and

Annual contributions can be up to $8,000, up to a maximum limit of $40,000.

A SUGGESTED APPROACH TO PRIORITIZATION

While there's no magic answer for all client scenarios, as each situation is different owing to the specific savings priorities of each family, my general advice is to go for the "free money" first.

The RDSP, depending on the age of the beneficiary and family income, can provide up to $90,000 in grants and bonds, so I would begin there, if applicable.

For clients with kids, I would then prioritize the RESP by contributing at least $2,500 per beneficiary per year to get the 20% CESG match. This can provide up to $7,200 for each beneficiary.

Next, if the client qualifies as a first-time homebuyer, I would choose the FHSA, since there's a tax deduction on the way in and no tax on the way out. Also, there's no downside if they don't buy at home — they can move the funds into an RRSP.

advocis.ca\forum-magazine\, May 2023

Life insurance as an asset class

"Life insurance as an asset class requires a second look"

WAYNE MILLER is associate vice-president, strategic business development for Sun Life Financial Canada, and can be reached at wayne.miller@sunlife.com. MARK ARRUDA is assistant vice-president & marketing actuary for Sun Life Financial Canada, and can be reached at mark.arruda@sunlife.com

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INSURANCE AS AN ADDITIONAL ASSET CLASS

Life insurance as an asset class requires a second look, as recent tax changes continue to shape the strategy. **Wayne Miller** and **Mark Arruda** explain.

Insurance as an asset class remains a key part of an advisor's business strategy toolkit. A desire for greater returns seems to come with greater uncertainty, and investors are looking for alternatives. When compared against fixed-income investments, permanent life insurance, specifically participating whole life, provides an appealing solution for those who have a permanent insurance need. New products and tax legislation, however, have led advisors to seek further insights into the merits surrounding insurance as an asset class.

Most life insurance products in Canada come with premiums and a face amount that are guaranteed for life. As a result, one can calculate an internal rate of return (IRR) on the premiums. And because proceeds upon death are tax-free to the estate or named beneficiary, the IRR is a tax-free rate. The only variable is the age of death.

In the case of a minimum-funded universal life (UL) policy, the death benefit is level for life. The sooner one dies, the greater the implicit IRR and vice versa. A non-smoking, healthy male aged 50*, for example, will find the annual cost of $15 million of UL to be $200,664. Guaranteed after-tax IRRs for such a policy are shown in the table below:

Age at death	After-tax IRR
70	11.44%
75	7.69%
80	5.42%
85	3.92%
90	2.87%

If the man in our example dies at his life expectancy of age 85, the $15 million death benefit will have been equivalent to the premiums earning an after-tax compounded return of 3.92 percent. This is an attractive rate of return given today's low interest rates. But is this a good investment? In addition to the unfortunate criteria that death is required, this policy lacks at least one necessary trait to be considered a good investment – there's no liquidity.

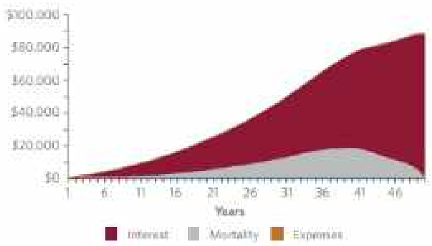
If premium payments stop or the policy is cancelled, the policy owner receives no cash value.

An overview of participating whole life insurance

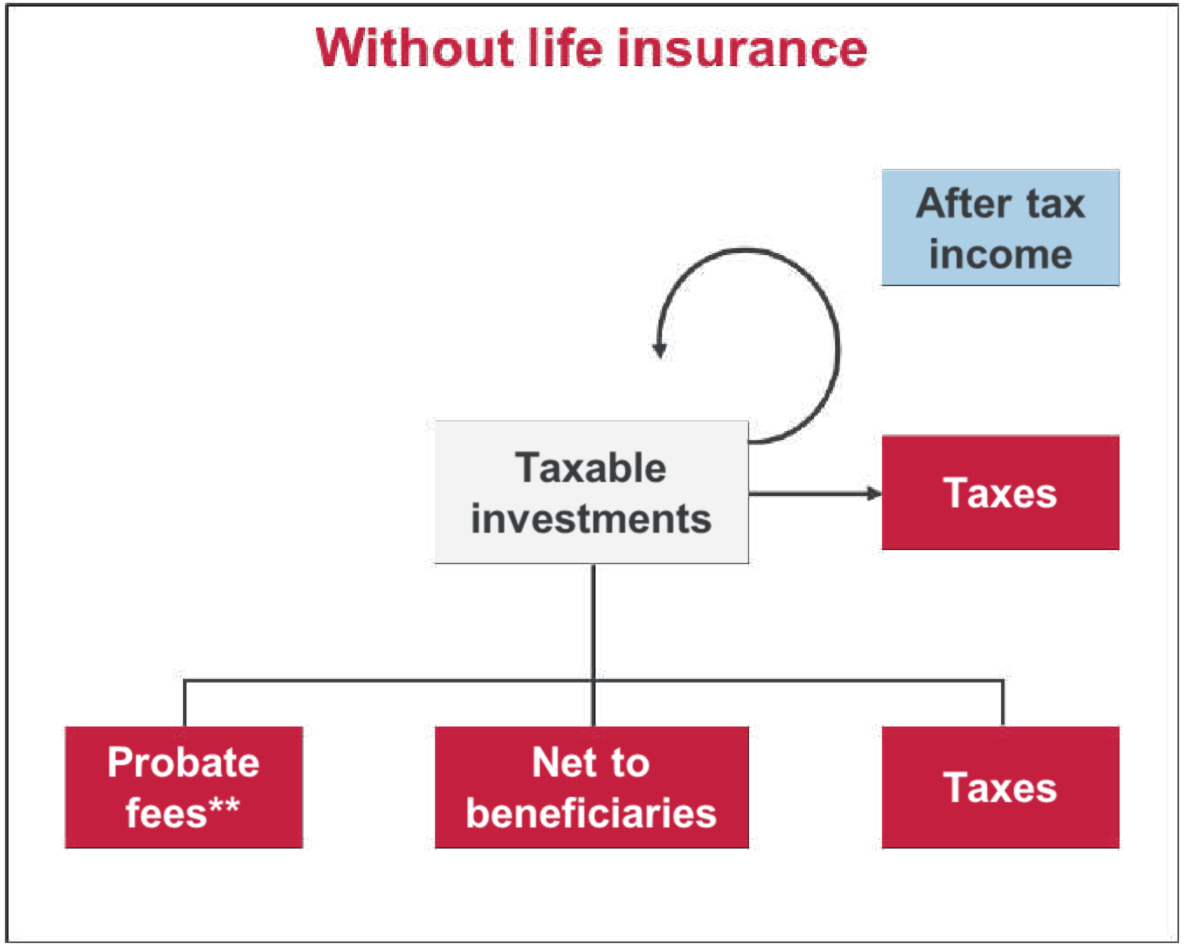
Numerous assumptions, predictions, and factors go into the pricing of permanent life insurance. Three of these are significant in determining the premium: expenses, mortality rates, and investment returns. If the life insurance company assumes low investment returns, poor mortality, and high expenses, the premiums it charges will be higher than if it had made more favourable assumptions.

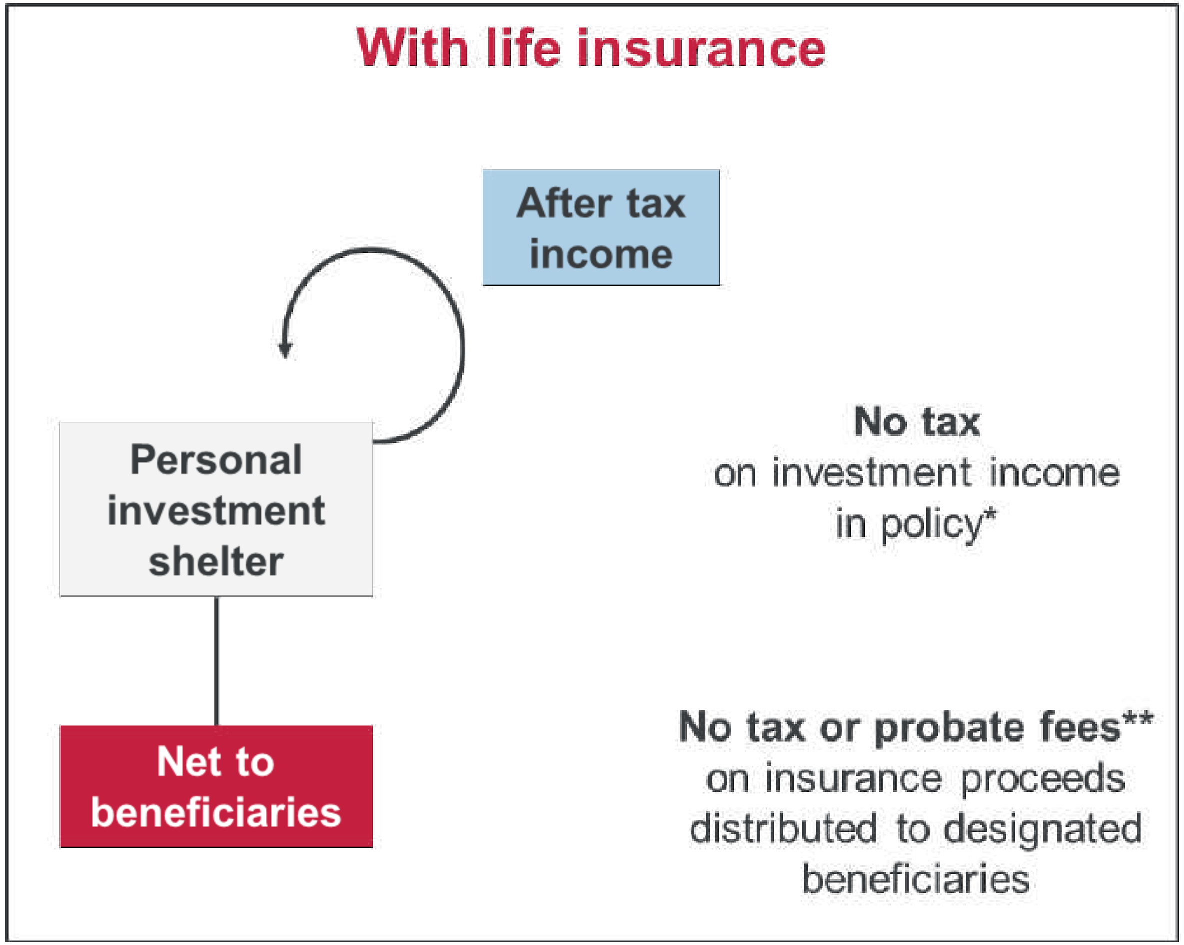
Par is priced using conservative assumptions. For example, long-term investment returns may be set at 2.5 percent and mortality claims experience may be based on that of 40 years ago. The resulting premium is generally high but the insurance company has equally high expectations that future pricing conservatism will not be required. This usually leads to annual mortality, expense, and investment gains that are returned to the policy owner in the form of annual policy owner dividends.

While life insurance policy dividends come primarily from three sources, they tend to be dominated by investment returns. See the graph at the top of the next column that depicts sample dividends by source for an individual aged 50 at policy issue*.



Permanent insurance can help you increase personal wealth and your estate





* There is no tax on investment income in a life insurance policy, subject to limits under the *Income Tax Act*

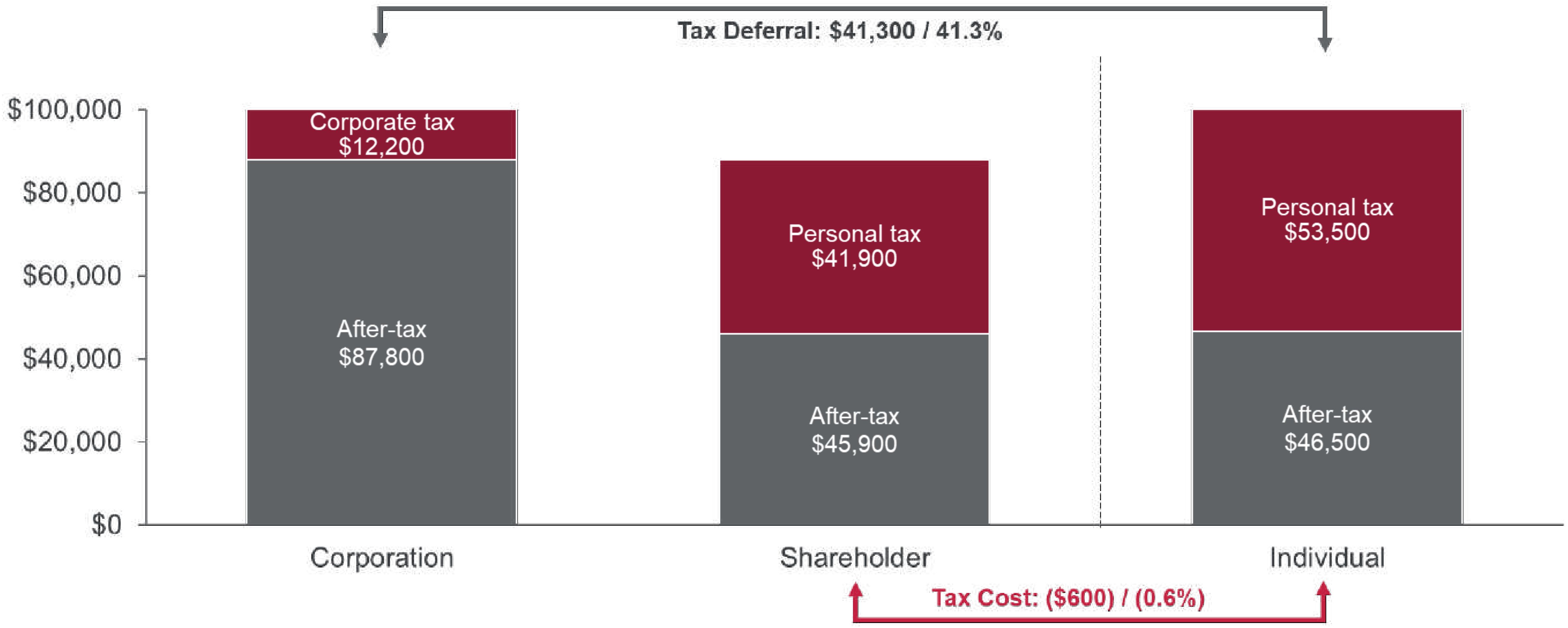
** Probate fees may apply, where applicable

Permanent insurance: Whole life insurance

- Tax-free death benefit
- Portfolio diversification
  - Fixed income, mortgages, real estate, equities
  - No portfolio management required
- Guaranteed minimum policy values
- 97% of all profits are paid out as policyholder dividends
  - Policy dividend rate has a very low standard deviation
- Steadily rising cash value provides excellent collateral
  - 90% of the cash value is available as a policy loan

Corporate tax update

ON 2024: $100,000 SBD Income (ABI with SBD), earned by CCPC vs. individual



Assuming the top personal marginal tax rate applies. Amounts are rounded to the nearest $100.

ON 2024 integration summary

Income Type	Corporate tax rate	Integrated corporate and personal tax rates[1]	Personal highest tax rate	Tax Deferral (Prepayment) [Personal minus Corporate]	Tax Savings (Cost) [Personal minus Integrated]
SBD Income	12.20%	54.13%	53.53%	41.3%	(0.6%)
General Income	26.50%	55.53%	53.53%	27.0%	(2.0%)
Investment income[2]	50.17%	57.93%	53.53%	3.4%	(4.4%)
Foreign income	50.17%	64.13%	53.53%	3.4%	(10.6%)
Capital gains	25.09%	28.96%	26.76%	1.7%	(2.2%)
Eligible dividends[3]	38.33%	39.34%	39.34%	1.0%	0.0%

Source: Tax Templates Inc., January 2024, for individuals who pay tax at the top marginal personal tax rate

1. Total of corporate and personal taxes when income is earned in a CCPC and after-tax income (including refunded taxes) are distributed to an individual shareholder as dividends.
2. Including interest, rent and foreign dividends.
3. Portfolio dividends from non-connected corporations

CCPC tax planning for passive income

CCPC tax planning for passive income

March 2023

Jamie Golombek and Debbie Pearl-Weinberg
Tax and Estate Planning, CIBC Private Wealth

Corporations with more than $50,000 of passive investment income in the previous year will see a reduction, and possible complete loss, of the small business deduction (SBD).[1] This report will review these rules, the potential financial impact of a loss in the SBD on your long term savings, and what you can do about it.

cibc.com/content/dam/small_business/day_to_day_banking/advice_centre/pdfs/business_reports/ccpc-passive-income-en.pdf

Adjusted Aggregate Investment Income (AAII) & the Small Business Deduction Limit (SBD Limit)

Current SBD Limit

- $500,000* of active business income

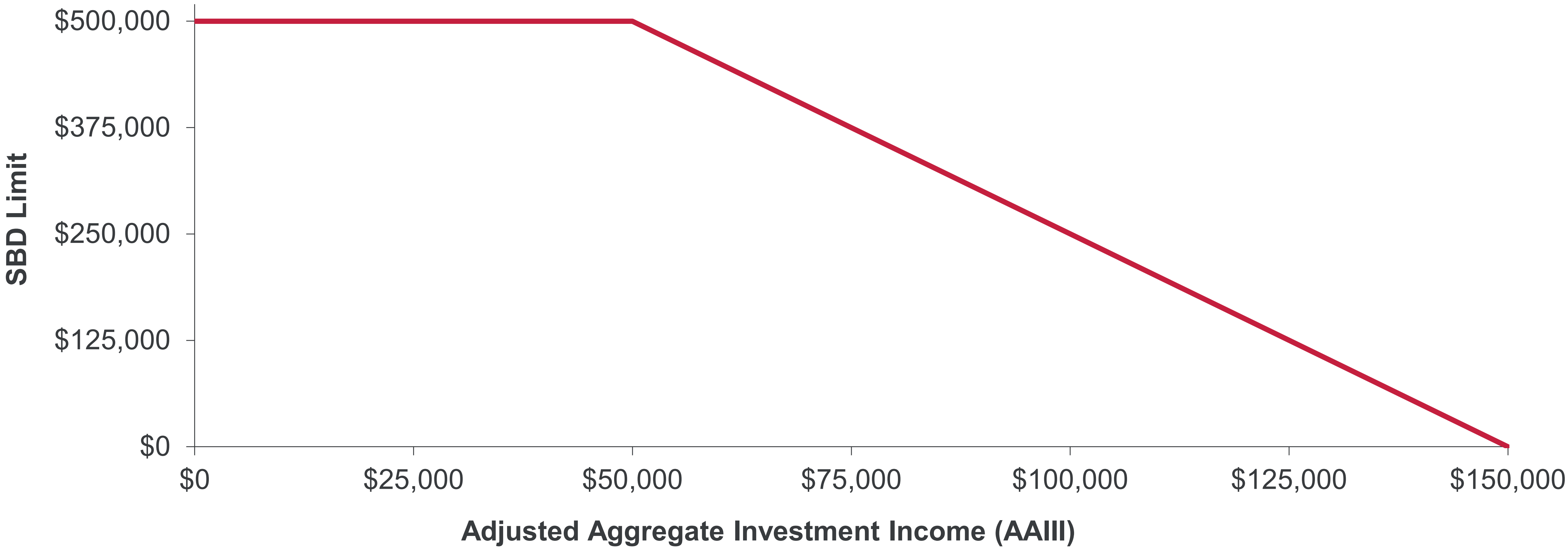
Federal SBD Limit under new rules

- Reduce $500,000 limit for CCPCs with AAII over $50,000
  - Reduced by $5 for each $1 of AAII that exceeds $50,000
  - SBD eliminated once AAII over $150,000

$500,000

* The limit is $500,000 federally and in all provinces except Saskatchewan, where it is $600,000. For large CCPCs, the federal and provincial SBD Limit is reduced on a straight-line basis for CCPCs that, in the prior tax year, had taxable capital between $10 million and $15 million.

Reduction in the SBD Limit based on AAII



No SBD clawback in Ontario and New Brunswick…

Lack of Integration a Win for Some Ontario and New Brunswick Taxpayers

Publication: Tax for the Owner-Manager, April, 2021

Authors: Jamie Golombek, Jay Goodis

In 2018 and 2019, Ontario and New Brunswick, respectively, announced that they would not adopt the federal government's clawback (subsection 125(5.1)) of the small business deduction (SBD) when a CCPC's adjusted aggregate investment income (AAII) was more than $50,000.

Table 1: Ontario 2021	No SBD	Federal and ON SBD	No federal SBD, ON SBD
Active business income	10,000	10,000	10,000
Corporate taxes: federal (A)	(1,500)	(900)	(1,500)
Corporate taxes: Ontario (B)	(1,150)	(320)	(320)
After-tax income available for dividends	7,350	8,780	8,180
Personal tax: federal (C)	(1,828)	(2,421)	(2,057)
Personal tax: Ontario (C)	(1,076)	(1,771)	(1,244)
Net cash to shareholder	**4,446**	**4,588**	**4,879**
Total integrated tax (A plus B plus C plus D)	5,554	5,412	5,121
Integrated tax rate (%)	55.54	54.12	51.21

Jamie Golombek and Jay Goodis, "Lack of Integration a Win for Some Ontario and New Brunswick Taxpayers" (2021) 21:2 Tax for the Owner-Manager 2-3.

Registered plans can be useful for business owners

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RRSPs: A smart choice for business owners

October 2022

Jamie Golombek
Managing Director, Tax and Estate Planning, CIBC Private Wealth

If you operate your business through a corporation, you have two main options for deferring taxes when investing your business profits. You can leave excess funds in your corporation for investing or you can withdraw funds and invest in a Registered Retirement Savings Plan (RRSP). For many business owners, withdrawing excess funds and investing in an RRSP may be the better choice.

When investing excess business profits, you must first choose whether to invest excess funds in your corporation or withdraw funds and invest personally. If you choose to withdraw funds, you also need to decide whether to invest in a registered or non-registered account. Our previous reports, Bye-bye Bonus[1] and The Compensation Conundrum,[2] compared corporate investing to personal investing in non-registered accounts and our report, TFSAs for Business Owners,[3] compared corporate investing to personal investing in a Tax Free Savings Account (TFSA), which offers tax-free savings. In this report, we'll compare corporate investing to investing in your RRSP, both of which offer a deferral of personal tax.

Unlike investing in a non-registered account or a TFSA, to invest in an RRSP you must have sufficient RRSP contribution room. Your 2022 RRSP contribution room is calculated as 18% of income earned in 2021, to a maximum of $29,210.[4] While salary that you receive from your corporation as an employee qualifies as earned income that creates RRSP room, dividends that you receive as a shareholder do not. As a result, if you want to invest in an RRSP, then you must pay sufficient salary so that you have the earned income necessary to generate RRSP contribution room. Alternatively, if you want to leave the funds in your corporation for investment, then you will generally take the money out later in the form of dividends.

If you choose to distribute corporate income as salary, you will pay personal tax on the salary income. Alternatively, if dividend compensation is chosen, the company pays corporate tax when income is earned and you pay personal tax when proceeds are distributed to you as a dividend.

cibc.com/content/dam/small_business/advice_centre/business-reports/RRSPs-for-business-owners-en.pdf

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TFSAs for business owners… a smart choice

October 2022

Jamie Golombek and Tess Francis
Tax and Estate Planning, CIBC Private Wealth

Incorporated business owners can choose to invest surplus funds within their corporation or to withdraw these funds and invest personally. A Tax Free Savings Account (TFSA) provides a great opportunity to earn tax-free investment income.[1] By investing in a TFSA, rather than leaving surplus funds in the corporation for investing, business owners will generally end up with more after-tax cash at the end of the day, especially when the time horizon is significant.

In our report Bye Bye Bonus,[2] we showed that it may be beneficial to leave funds in your corporation for investment, rather than withdrawing the funds and investing personally, due to a significant tax deferral advantage. The amount that was deferred could be used as investment capital in the corporation, which could then generate additional investment income. In that report, however, it was assumed that personal funds, once withdrawn from the corporation, would be invested in a non-registered account, leaving investment income exposed to taxes.

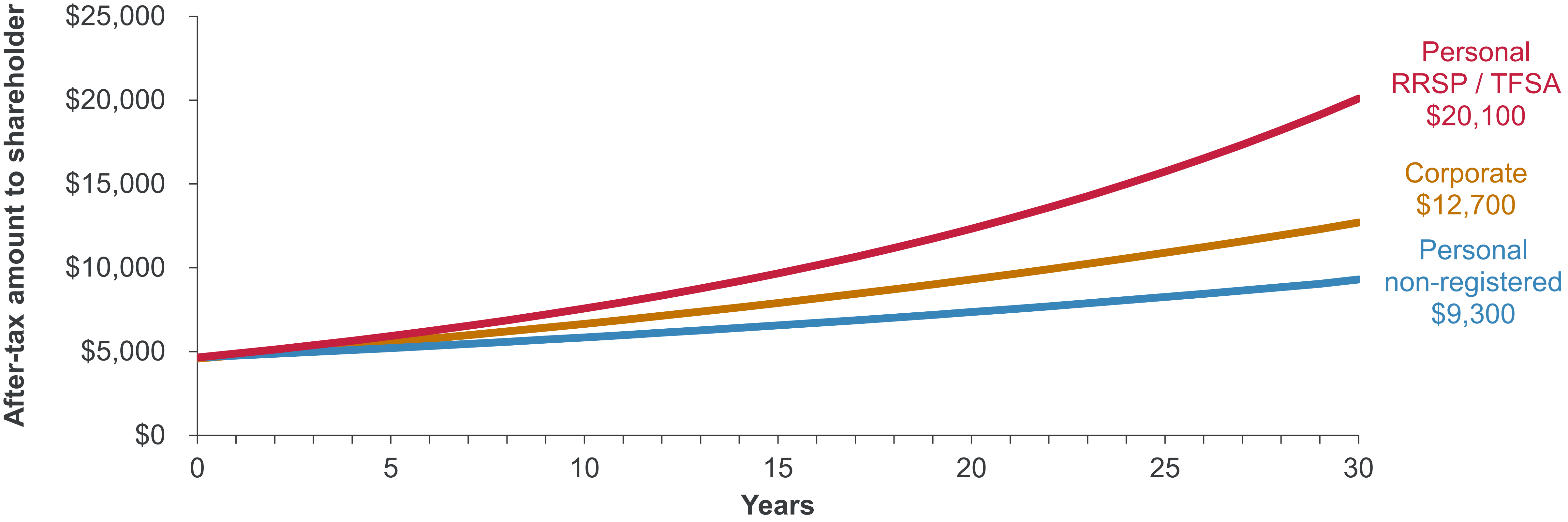
What if personal funds were, instead, invested in a TFSA? This report will show that, instead of leaving funds in your corporation for investment, using funds withdrawn from your corporation to maximize your TFSA may be a smart choice.

Using corporate business income to fund a TFSA contribution

TFSA contributions can only be made personally and not by your corporation.[3] As a result, to make a TFSA contribution using income from your company, you must first withdraw the funds from your corporation. Perhaps the starting point, then, is to determine how much business income would you need to earn in your corporation in order to have enough after-tax funds to personally contribute to your TFSA. The answer is affected by corporate and personal tax rates, which vary by province or territory, and whether business income is eligible for the small business deduction (SBD Income)[4] or is General Income that is not eligible for the small business deduction.[5]

cibc.com/content/dam/personal_banking/advice_centre/tax-savings/tfsas-for-business-owners-en.pdf

ON 2024: Corporate vs. personal investing, $10,000 SBD income, 5% interest



Starting capital for investment (assuming the shareholder has the required RRSP and TFSA contribution room) would be:

- $8,780 ($10,000 - $1,220 corporate tax) in a corporation.
- $10,000 in an RRSP, when funds are distributed as salary due to the corporate tax deduction for salary and personal tax deduction for RRSP contributions.
- $4,650 ($10,000 - $5,350 personal tax on salary) in a TFSA or non-registered investments.

Surplus strips: where are we now?

A capital gains strip allows retained earnings to be extracted as cap gain vs dividend

26% (cap gains rate) vs 47% (non-eligible dividend rate)

Concern is the potential application of the GAAR

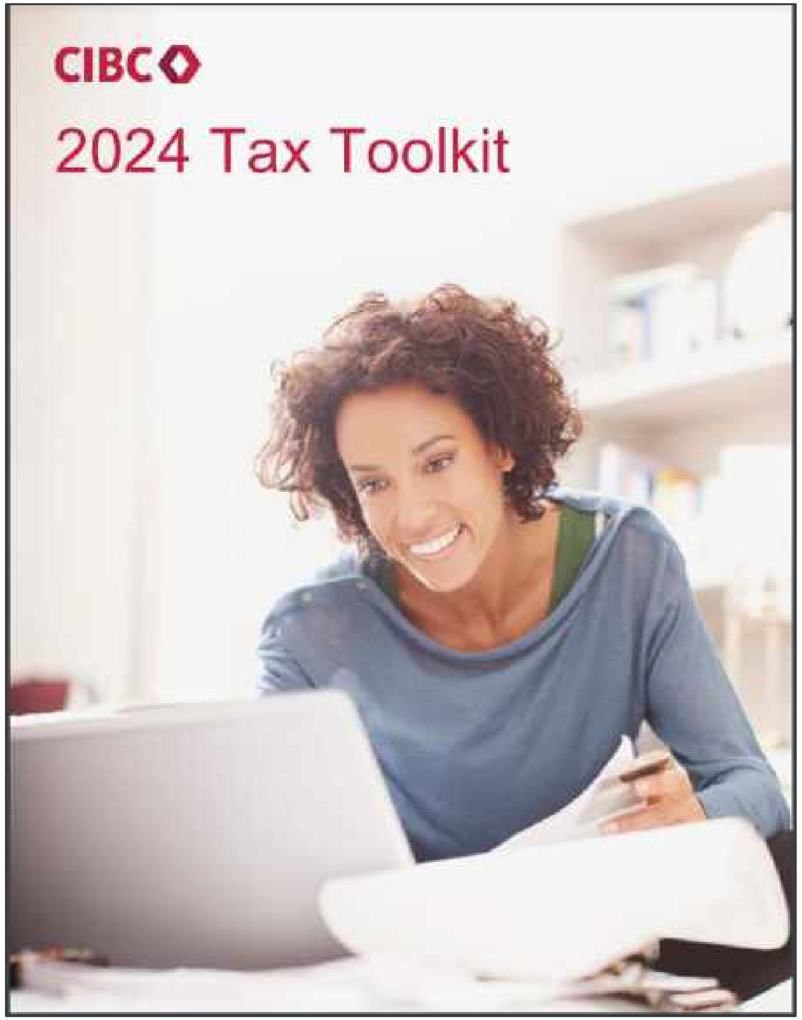
CRA has previously indicated it would challenge strips under GAAR

New GAAR (2024): Strip was used as an example transaction in the technical notes

Where to find more information

CIBC

CIBC Tax Toolkit



cibc.com/content/dam/personal_banking/advice_centre/tax-savings/tax-toolkit-en.pdf

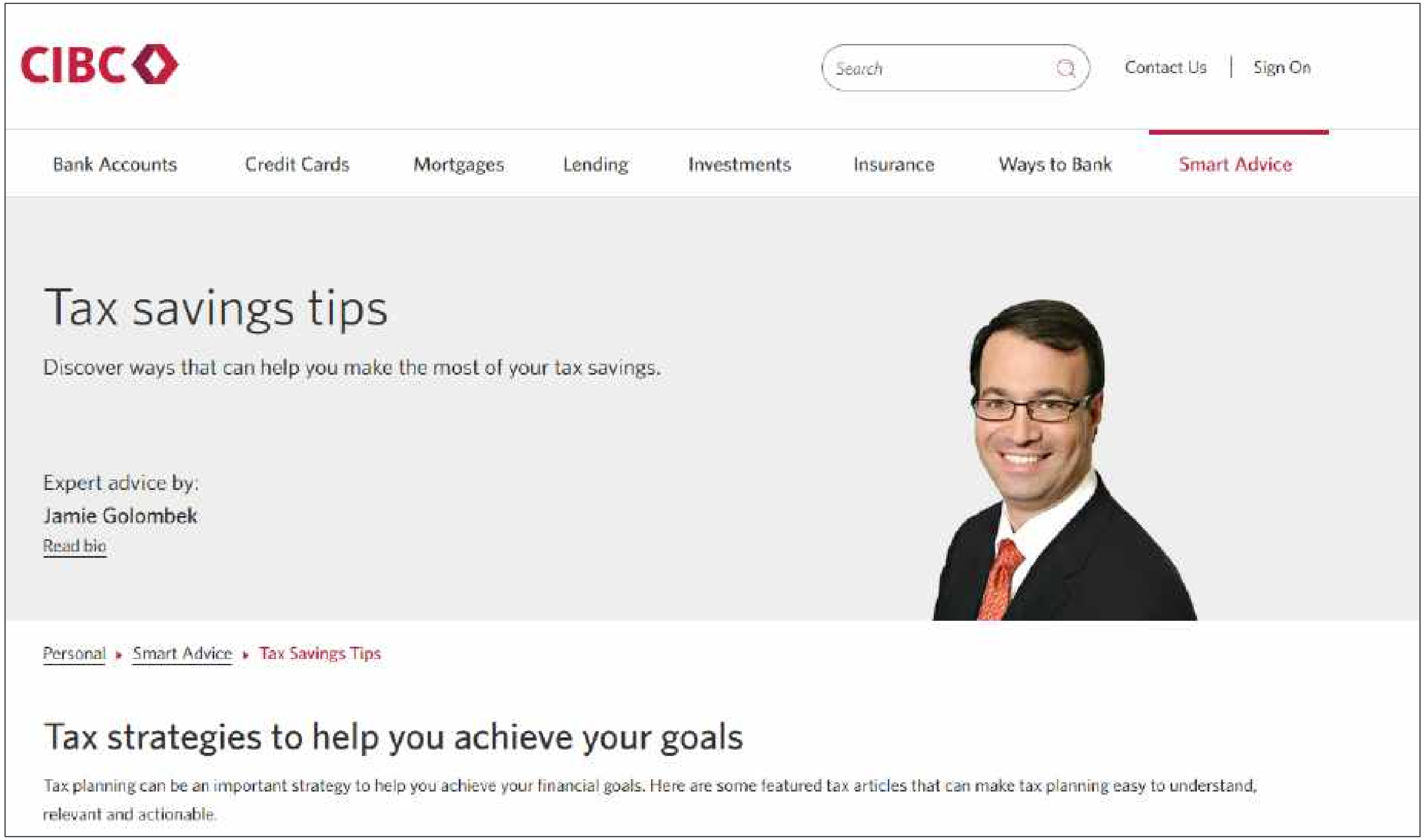
Personal

- Income tax rates
- RRIF and LIF factors
- TFSA, RESP and RDSP info
- Probate fees
- Tax tips

Corporate

- Income tax rates
- Integration

CIBC Smart Advice: Tax Savings Tips



cibc.com/en/personal-banking/smart-advice/tax-savings-tips.html

Questions and answers

cibc.com

jamiegolombek.com

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