

Johnny Depp and Year-End Tax Planning

Dec 10 2018

With the year-end fast approaching, the story about Johnny Depp (and other celebrities with Estate planning woes), act as a cautionary tale for the average Canadian.

Actor Johnny Depp, best-known for his roles in the *Pirates of the Caribbean* movies, made a reported \$650 million USD and finds himself broke according to news reports last July. Since then, a couple of celebrities have died, including Aretha Franklin, with subsequent reports of no Wills in place with clear instructions on how to distribute their often large financial Estates.

The lesson for you is that planning matters and it will make life easier for you and your loved ones. A first step in the planning process is tax minimization before the end of 2018.

Various tax planning ideas include RESP contributions, tax loss selling or profit harvesting for any individual investments owned outside of registered accounts. You can also top up TFSA contributions to a maximum of **\$5,500** for 2018 and another **\$6,000** in early January for 2019¹. You can also consider income splitting with a lower income spouse using loans at the CRA low prescribed loan interest rate of 2% until year-end for the life of the loan, even if interest rates rise during the life of the loan².

Additionally, you can also take advantage of the new rules that allow a child to invest their Canada Child Benefit (CCB) with all income and capital gains being earned tax-free. The CCB is a tax-free monthly payment made to eligible families for children under the age of 18.

For those turning 71, you may need to convert your RRSP to a RIF. And if you are turning age 65 you could consider doing a partial conversion of your RRSP to a RIF if you need income. You may also overcontribute (above the \$2,000 permitted overcontribution limit) to your RRSP in December and then convert it to a RIF a few days later and pay a penalty tax of 1% on the overcontribution amount. This is only recommended if you will have contribution room next year at age 72. You can then deduct this overcontribution against your 2019 or future year's earned income.

For Business Owners:

The new small corporation business tax rules that went into effect in January are now ending the first complete year of existence. The impacts and paperwork as well as tax planning will increasingly be felt going forward.

A couple of key areas of focus include changes to passive income rules and income splitting with family members who are corporate shareholders. The February Federal Budget included a grind-down mechanism for small business deductions. For every dollar of passive (investment income) over \$50,000 such as rent, interest and investments will cut the revenue eligible for the small business rate by \$5.

This affects those businesses who normally build passive assets for future equipment or other upgrades or for business expansion or to purchase real estate for their operations. A couple of strategies for dealing with this situation include capital class mutual funds and cash value life insurance where the investments do not generate passive income per se.

The challenge with the income splitting rules is that they are vague and subject to broad interpretation from the CRA Agents who are enforcing the rules. This is problematic and may cause many disagreements and court battles, which will take years to settle and clarify those rules.

On another note, we have received some reports of people announcing travel plans on their social media such as

Facebook. The result is home break-ins while they are away. **Do not announce such intentions in so public a forum** as there are groups and individuals looking for such announcements and using your absence as an opportunity to break in and make some quick cash at your expense.

[Please call us for a review of your situation to discuss in more detail](#) [1] how you can set up a financial plan to avoid the fate of the Johnny Depp's of the world! The first step on that voyage is to make sure your affairs are set up to be tax efficient.

Have a great Holiday Season from all of us!

¹Advisor's Edge, [TFSA limit for 2019 released](#) [2]. Retrieved on November, 21 2018.

²KPMG, [CRA Prescribed Rate Steady at 2% for Q3 2018](#) [3]. Retrieved on November 21, 2018.

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