INVESTMENT INSIGHT

Tax tips – lower your tax bill

Nobody likes to pay more tax than they have to. With a little planning and these tips, you can be on your way to a lower tax bill.

Deductions will actually reduce your taxable income so the tax reduction will be reflected at your marginal tax rate. Non-refundable tax credits can also reduce your tax owing, but are generally calculated at the lowest tax rate.

However, if the total of the deductions and non-refundable credits is more than your taxes owing, you will not get a refund for the difference.

Refundable tax credits may also be available to reduce or eliminate the amount of tax you owe. If you are eligible for a refundable credit and the amount of the credit is larger than your taxes owing, you will receive a refund for the difference

What follows are some tips on making use of deductions and federal tax credits that are available to you and can help you on your way to the lowest tax bill possible.

DEDUCTIONS THAT WILL REDUCE YOUR TAXABLE INCOME

CONTRIBUTE TO YOUR REGISTERED RETIREMENT SAVINGS PLAN (RRSP) OR TO A SPOUSAL RRSP

Contributions you made to your RRSP or to a spousal RRSP in the year or within the first 60 days of the next calendar year can be deducted from income (up to your contribution limit). An exception is in the year you turn age 71, the final contribution to your RRSP must be made by December 31 of that year. After age 71, you can still contribute to a spousal RRSP until December 31 of the year your spouse[1] turns 71.

[1]Includes a spouse or common-law partner as defined by the *Income Tax Act* (Canada).

You can choose when to take the deduction for your contributions. RRSP deductions can be carried forward indefinitely, long after your RRSPs are closed, and can be spread out over several years in order to reduce taxable earnings in your retirement years.

INTEREST AND CARRYING CHARGES

Fees paid to manage or administer your non-registered investments can be deducted. Also keep in mind that most of the interest charges you paid on borrowed money can be deducted from your income as long as the borrowed money was used to earn income from non-registered investments or from a business.[2]

CHILD CARE EXPENSES

Qualifying child care expenses paid to someone who takes care of your children so you or your spouse can earn income, go to school or conduct research can be deducted. Qualifying child care expenses can include amounts paid to a child at least 18 years of age to look after siblings 16 years of age or younger.

Generally only the spouse with the lower net income (even if it is zero) can claim these expenses. However, the higher income spouse may be able to claim the child care expenses under specific situations such as when their spouse was enrolled in an educational program.

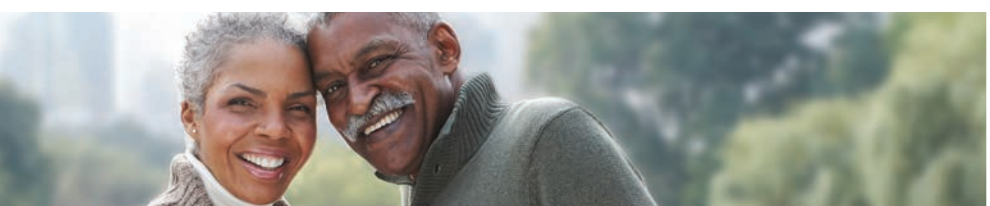
MOVING EXPENSES

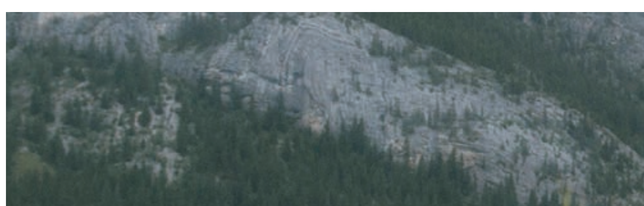
You can claim expenses that you paid for moving at least 40km closer to a new place of work or to take courses as a full-time student. However, these expenses can only be deducted from the taxable income earned at that new location or from any taxable amount of scholarships, fellowships, bursaries, certain prizes, and research grants. You can carry forward unused amounts until you have enough eligible income to claim them.

REALIZE CAPITAL LOSSES

Consider realizing capital losses before year end. A capital loss must be deducted against any capital gain in the current year and the excess, if any, may be carried back three years or carried forward indefinitely in order to reduce a taxable capital gain reported at that time.

[2]In regards to Quebec fiscal legislation, the deductibility of investment expenses incurred by an individual or trust is limited to the amount of investment income earned during the year.





MAXIMIZE YOUR NON-REFUNDABLE TAX CREDITS TO REDUCE TAXES PAYABLE

Some tax credits can be claimed by either spouse. Others can be transferred to a spouse if the spouse originally eligible for that credit is not taxable or the credits have reduced the amount of tax owing to zero.

HOMEOWNERS

The First-Time Home Buyers' Tax Credit is available to reduce the costs associated with a first home purchase completed after January 27, 2009.

Either spouse can claim the credit or you can share the credit. However, the total of both claims cannot exceed $5,000.

PENSION INCOME

The pension income tax credit is available on the first $2,000 of eligible pension income.

Under age 65, only income received directly from a pension plan or received from other registered plans or an annuity due to the death of your spouse qualifies. If you are 65 years of age or older at the end of the year, income from other registered plans such as Registered Retirement Income Funds (RRIFs) or annuities purchased with your RRSP as well as the taxable portion of an annuity contract, including a GIC, from an insurance company will qualify for the pension income tax credit.

If you are unable to use the full credit, you can transfer the unused portion to your spouse. Also, if you have eligible pension income, you may consider whether splitting up to half of that income with your spouse makes sense when you file your tax return.

MEDICAL EXPENSES

Individuals can claim any eligible medical expenses that were not paid for by a provincial or private plan. In fact, even if you have private coverage, the premiums you pay are eligible medical expenses.

Either spouse can claim eligible medical expenses for themselves and/or any dependent children under 19 years of age that were incurred in a 12-month period that ends in the year. It is almost always better for the spouse with the lower net income (provided he or she is in a taxable position) to claim medical expenses because the credit is reduced by a percentage of net income.

DONATIONS AND GIFTS

The credit for donations is two-tiered with a greater credit on donations over $200. Spouses are allowed to pool their donation receipts and to carry forward donations for up to five years.

By carrying forward donations and then having them all claimed by one spouse, the $200 threshold with the lower credit is only applied once.

Also keep in mind that if you donate stocks, mutual funds or segregated fund contracts directly to a charity you will get a donation receipt for the fair market value but the tax on any capital gain will be eliminated.

TUITION, EDUCATION AND TEXTBOOK AMOUNTS

A student may claim the tuition paid in the year to attend a post secondary institution as long as the amount paid to the institution was at least $100 for the year.

A student is also entitled to an education tax credit for each month they are enrolled full-time or part-time in a qualifying education program at a designated educational institution. In addition, any student who is eligible for the education tax credit is also eligible for a textbook tax credit.

Part or all unused tuition, education and textbook amounts for the year may be transferred to a spouse, parent or grandparent or can be carried forward to a future year to be used by the student at that time.

INTEREST PAID ON YOUR STUDENT LOANS

A student may be able to claim most of the interest paid on their loan in the year and/or the preceding five years if the loan was received under the Canada Student Loans Act; the Canada Student Financial Assistance Act; or under a similar provincial or territorial law for post-secondary education.

Only the student can claim interest paid on their student loans. Amounts that are not claimed in the year can be carried forward to any of the next five years.

PUBLIC TRANSIT PASSES

Individuals can claim the cost of public transit passes that are valid for at least one month. Public transit includes transit by local bus, streetcar, subway, commuter train, commuter bus and local ferry.

The credit can be claimed by either spouse for themselves and/or any dependent children under 19 years of age.

CHILDREN'S ARTS

Parents can claim up to $500 in eligible fees for the enrolment of a child under 16 in an eligible artistic, cultural, recreational, or developmental activity.

An additional claim of $500 is available for a child who is under age 18 and eligible for the disability amount as long as the fees were $100 or more.

The credit can be claimed by either parent. Note that expenses that are claimed under the Child Care Expense Deduction are not eligible to be claimed under the Arts Tax Credit.

FAMILY CAREGIVER

In order to assist families to care for infirm dependent relatives, a family caregiver may be able to claim an additional amount of $2,000 for an infirm dependent under one of the following dependency-related credits: the spousal or common-law partner credit, the child tax credit, the eligible dependent credit, the caregiver credit, or the infirm dependent credit.

The family caregiver credit will apply to each of your dependants if more than one qualifies for the amount.

REFUNDABLE TAX CREDITS REDUCE YOUR TAX AND MAY ENTITLE YOU TO A REFUND

CHILDREN'S FITNESS

Parents can claim up to $1,000 in eligible fees for the enrolment of a child under age 16 in an eligible program of physical activity. An additional claim of $500 is available for a child who is under age 18 and eligible for the disability amount as long as the fees were $100 or more.

WORKING INCOME TAX BENEFIT

The working income tax benefit (WITB) is available to low-income working individuals and families. You can claim the WITB if you are age 19 or older at the end of the year and a Canadian resident throughout the year. If you are also eligible for the disability amount you may also be eligible to claim an annual disability supplement.

MEDICAL EXPENSE SUPPLEMENT

In addition to claiming a non-refundable medical expense tax credit and, where applicable, the disability supports deduction, if you have high medical expenses and low income for a tax year, you may be able to claim a refundable medical expense supplement when filing your tax return.

PAY TAX-DEDUCTIBLE OR TAX-CREDITABLE EXPENSES BEFORE YEAR-END

A variety of expenses can only be claimed as a tax deduction or tax credit on your tax return if the amount is paid by the end of the calendar year. If the intention is to pay a tax-deductible or tax-creditable expense early next year, consider paying the amount by the end of this year in order to get the benefit of the tax deduction or tax credit on this year's tax return.

Examples of tax-deductible expenses include interest, carrying charges, and employment related car expenses. Examples of tax-creditable expenses include medical expenditures, donations, and children's fitness and arts programs.

FOR MORE INFORMATION CONTACT YOUR ADVISOR OR VISIT MANULIFE.CA/INVESTMENTS

MK2365E 10/2015