

BY



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120 COLUMNS LATER

There are fewer tax shelters, but other opportunities have emerged to help investors.

The years really can get away from us. And things certainly have changed since I wrote my first column for *Advisor's Edge* back in the summer of '98. That article covered investment basics, and it's interesting to look back at developments in the tax world ever since.

In 1998, the top marginal personal rate ranged between 44% and 54% and the related taxable income threshold was about \$62,000. Capital gains were subject to a 75% income inclusion rate, and a \$500,000 capital gains exemption was available for certain property. My message in that column? *Tax represents a substantial cost to investors and although it shouldn't be the driving force in investment decisions, it's an area that deserves significant attention.*

So what's changed? On the plus side, personal tax rates have come down. The top marginal rate now ranges between 39% and 47% and it kicks in at about \$123,000 of taxable income. We've seen a number of tax improvements in relation to registered savings, including increased contribution limits, introduction of pension-adjustment reversals, advancement of the RRSP maturity age limit, elimination of the foreign content restriction, and most recently, the introduction of tax-free savings accounts.

For non-registered investing, the capital gains income-inclusion

rate has come down to the pre-1988 rate of 50%, and the effective tax rate on Canadian dividends has been reduced (although that's going up again in a few years). The capital gains exemption has increased to \$750,000, and fishing property has been added to the list of things eligible for exemptions. Additional tax-deferral opportunities have surfaced, including capital gains deferral on small business reinvestment, and deferral of stock option benefits to the year of disposition of the related shares. And, to promote charitable giving, capital gains have been eliminated for donations of public securities.

Tax assistance in relation to education has certainly improved with added tax credits, introduction of the Life-long Learning plan, the tax exemption for scholarships, and improvements to RESPs—the addition of CESG in particular. We've seen enhanced tax benefits for families with children and disabled relatives, including the new registered disability savings plan (not available yet) and a number of tax benefits geared toward seniors, including the introduction of alter ego and joint-partner trusts and pension-income splitting.

But it's not all rosy. There are many areas where tax rules have become more restrictive, and tax authorities more aggressive.

Kiddie tax has put a major dent

in income splitting with minor children, foreign property reporting requirements along with rules relating to non-resident trusts, and offshore investment funds have limited the use of tax havens, and the preferential tax treatment afforded to income trusts is being eliminated beginning in 2011. Draft legislation on interest deductibility and limited deductibility for other expenses was introduced in 2000, but nothing further has progressed.

To increase the responsibility and accountability of investment promoters and advisors, third-party penalties were introduced for participation in false tax statements. Tax rules have been introduced to curb tax benefits in relation to various donation plans and the CRA has embarked on an aggressive attack on tax shelters, aiming to reassess all returns where tax shelter deductions were claimed.

What do I say to advisors 10 years later? Just like in 1998, *tax represents a substantial cost to investors, and although it shouldn't be the driving force in investment decisions, it's an area that deserves significant attention.*

But there's more. You must also be diligent and do your homework. Look for tax planning opportunities that fit with your client situation, know what the current tax rules are, and know what the tax authorities don't like. **AE** **KATZ**