FINANCIAL POST

Out with the old, in with the new: Four tax tips that are unique to 2016

JAMIE GOLOMBEK | October 28, 2016 8:52 AM ET
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Chris Roussakis/Postmedia Here are a few, new tips that are unique to the 2016 year end.

New Year's Day may be more than two months away, but when it comes to year-end tax planning, you may be slowly running out of time to take advantage of some tax savings opportunities that are only available until Dec. 31, 2016. Here are a few, new tips that are unique to the 2016 year end.

Tax-free rebalancing of corporate class mutual fund investments before Dec. 31 (new for 2016)

Canadian mutual funds can be structured as either trusts or corporations. Many mutual fund corporations are organized as "switch funds" and offer a different type of asset exposure in each fund. Each fund, however, is structured as a separate class of shares within the same mutual fund corporation.

The benefit of the switch fund structure is that investors are able to exchange shares of one class of the mutual fund corporation for shares of another class, in order to switch their economic exposure among the mutual fund corporation's different funds, without triggering a disposition for tax purposes.

Under the current tax rules, the exchange from one class of shares to another is deemed not to be a disposition for income tax purposes, allowing investors to take advantage of this rule and rebalance their portfolios on a tax-deferred basis. This deferral benefit is not available to taxpayers investing in mutual fund trusts or investing on their own account directly in securities.

This year's federal budget announced a change, which will be effective Jan. 1, 2017, such that a switch within the mutual fund corporation from one class of shares to another will result in a disposition for tax purposes at fair market value. Where the switch occurs between different series of the same class, where the underlying portfolio does not change but merely the fees or expenses differ, the switch will continue to occur on a tax-deferred basis.

The new rule will begin to apply to switches after Dec. 31, 2016, meaning that investors have just a couple of months to continue to take advantage of the current rules and rebalance their mutual fund corporation portfolios on a tax-deferred basis before the new rules come into effect in 2017.

Children's fitness and arts credits (final time in 2016)

The 2016 tax year is the final year that parents can claim two popular federal credits for children's activities. The non-refundable children's arts credit is based on up to $250 of qualifying expenses, and the refundable children's fitness tax credit is based on up to $500 of qualifying expenses.

If you won't be spending enough in 2016 to maximize these credits, consider prepaying these expenses for 2017. For example, if you plan to enroll your child in soccer or piano programs for 2017, you can claim the credit(s) in 2016 if you pay for the activities by Dec. 31.

Make renovations for home accessibility (new for 2016)

Last year's federal budget introduced a new, non-refundable Home Accessibility Tax Credit (HATC), beginning in 2016, to assist seniors and those eligible for the disability tax credit with certain home renovations. Those entitled to the credit include not only the seniors and those eligible for the disability tax credit, but also many people related to such a person.

The tax credit is equal to 15 per cent of up to $10,000 of expenses per year towards renovations that permit these individuals to gain access to, or to be more mobile or functional within, their home, or reduce their risk of harm within their home or from entering their home.

The HATC applies in respect of payments made by Dec. 31 for work performed and and/or goods acquired in 2016. A single expenditure may qualify for both the HATC and the medical expense tax credit, and both may be claimed.

Examples of expenditures that will qualify for this new tax credit include: the installation of grab bars, wheelchair ramps and walk-in bathtubs and showers. Some expenses such as those for routine maintenance, household appliances, or those made with the primary intent of improving or maintaining the value of the property will not qualify.

School Supply Tax Credit (new for 2016)

Finally, if you're an educator, be sure to take advantage of the new Teacher and Early Childhood Educator School Supply Tax Credit, which is meant to compensate teachers and early childhood educators who often incur personal, unreimbursed costs to purchase teaching supplies to enhance the students' classroom learning environment.

The new tax break, introduced for 2016 and future tax years, allows eligible educators to claim a 15 per cent refundable tax credit for up to $1,000 in qualifying school supply expenses each year. For the cost of supplies to qualify, employers will be required to certify that the supplies were purchased "for the purpose of teaching or otherwise enhancing learning in a classroom or learning environment." Educators should retain their receipts in case they need to be verified.

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References

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