ON GUARD
NATIONAL ASSOCIATION OF FEDERAL RETIREES NEWSLETTER

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The Ottawa Branch Report

CALL FOR NOMINATIONS
FSNA OTTAWA BRANCH
BOARD OF DIRECTORS

SUBMISSIONS DUE:
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FSNA Ottawa Branch
Unit B-2
2285 St. Laurent Blvd.
Ottawa, ON K1G 4Z5

Tel: 613-737-2199
Fax: 613-737-9288

E-mail:
info@fsnaottawa.com

Website:
www.fsnaottawa.com

Editor: Randy Ervin & Peter Joyce

E-mail: editor_redaction@fsnaottawa.com

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YEAR-END FINANCIAL AND TAX PLANNING

December 31 is a significant date for financial planning purposes. Many items which are creditable or deductible for tax purposes must be paid by Dec. 31. These include alimony and maintenance, child care expenses, investment counsel fees, professional dues, charitable donations, medical expenses and political contributions. For some other types of contributions (outlined below), other dates are indicated by the Canada Revenue Agency (CRA).

As federal retirees, we may have income from employment as well as our public service pension, CPP and OAS. For CRA, the "earned income" year-end is Dec. 31, but if you have investment income, the calendar varies.

Interest income is normally declared on the anniversary date of acquisition in the year it accrues (earned, whether paid or not). Dividend income is declared in the year it is received. New investments in exchange traded funds or mutual fund trusts should be reviewed with your financial advisor as to the timing of year-end taxable distributions — potentially to be avoided.

Capital gains are declared when realized, but you can affect when a capital gain (or loss) is made by deciding when to sell an investment. A month or two before year-end it is wise to speak with a financial adviser to see if it is worthwhile to sell loss-making investments to "cover" the amount of a potential taxable gain from previously sold investments. Marketable securities being sold for tax planning or other purposes must be sold before calendar year-end, but also before the three day settlement period. To avoid potential difficulties, it is best to sell before December 25, and have the transaction clearly recorded in the "current" calendar year.

RRSP contributions for income earned in 2013 must be made by March 1, 2014. However, if you are turning 71 in 2013 you must collapse your RRSP before December 31, 2013. If you have earned income you may wish to make a final RRSP contribution in December of the year you or a younger spouse turns 71, before full conversion. A financial advisor can help you to decide the best path, and to transfer your funds into an annuity or a Registered Retirement Income Fund (RRIF).

As either spouse approaches age 71, you may wish to review your anticipated taxable incomes after pension splitting, as it may be preferable to withdraw funds from an RRSP before age 72 when additional taxable income from the RRIF may result in the incremental clawback of OAS at 15% on top of your regular marginal tax rate.

Registered Disability Savings Plan (RDSP) contributions, whether for opening, contributing to or applying for a matching grant must be done by December 31st annually.

RESP contributions similarly have a maximum grant catch-up provision of $1,000 prior to December 31st annually and for 15 year old children, $2,000 must be in by December 31st (or a history of contributions) to be eligible for grants in the subsequent two years.

Tax-Free Savings Accounts (TFSAs) accrue additional contribution room for adult Canadians each January 1st. The annual limit is presently $5,500, but includes amounts withdrawn in previous calendar years or amounts below your contribution limit for earlier years. Before Dec. 31 you should pre-arrange your next year's contribution with your advisor to occur right at the beginning of January, to shelter your funds from taxation immediately.

Timing the reimbursement of funds withdrawn from a TFSA is critically important. If you reimburse in the same year as you have withdrawn funds, you can inadvertently generate an "over-contribution", creating a tax liability. If you have over-contributed, CRA will advise you by letter. There may be a need to file a TFSA tax return, which must be done before June 30 of the following year.

An *inter vivos,* or a family trust, must have a December 31 year-end, and its T-3 tax return must be filed by April 1st.

A prescribed rate spousal or trust loan established at the 1% rate available until September 30th, must have annual interest paid by January 30th of the following year.

While the rules appear to be complicated and the deadlines vary, the best approach is to maintain an ongoing conversation with your financial advisor, including regular reviews of your investments, to ensure that decisions are timely, respectful of your needs and consider the tax implications of your personal situation.

Note: *The facts and opinions expressed in this article are those of the author, Robert Todd. They should not be understood to necessarily reflect the policy or opinion of the FSNA Ottawa Branch.*

Robert Todd is an FSNA member and a Director of Tradex, an Ottawa-based Member of the Mutual Fund Dealers Association of Canada. Tradex services are available exclusively to current and retired public sector employees and their family members.

Tradex wishes to congratulate FSNA members for achieving the "Thanks-a-Million Award" for its 2012 Government of Canada Charitable Workplace Campaign (GCWCC).

As part of the GCWCC campaign, Tradex will donate to the GCWCC on an ongoing basis, 5% of any new Registered Education Savings Plan (RESP) contributions or transfers. A tax receipt for the donated amount is issued in the contributor's name. Full details at www.tradex.ca. Last year through this charitable offer, Tradex contributed $10,000 to the GCWCC.

Spouses are requested to advise FSNA when a member passes away.

That will alleviate the awkward aspect of volunteers at the office having to follow up when a member's dues are cancelled.

Beneficiaries are encouraged to contact the office if they want to continue the membership or need assistance with administrative procedures.

Please contact the FSNA Ottawa Branch by calling
613-737-2199
or
e-mailing
info@fsnaottawa.com