An Overview of Tax Changes in 2008

We offer a succinct overview of tax changes leading into the New Year. For further tax detail and/or specific strategy, don't hesitate to give us a call.

2008 Tax Brackets & Personal Tax Credits

The basic personal amount, as well as the spousal or partner amounts, was increased to $9,600.

Range	Rate
$0 – 37,885	15%
$37,886 – 75,769	22%
$75,770 – 123,184	26%
$123,184 +	29%

RRSP

The maximum annual RRSP contribution limit is up to $20,000 from $19,000 in 2007.

RRIF

The minimum required RRIF withdrawal for 2008 will be lowered by 25%.

The reduced RRIF withdrawal applies to 2008 and is available to RRIF-holders of all ages. People who have already made a RRIF withdrawal this year will be able to put the excess 25% back into their plans until whichever date comes later – March 1, 2009, or 30 days after the RRIF measure is passed into law.

RESP

While the 2007 federal budget eliminated the annual RESP contribution limit and increased the lifetime RESP contribution limit to $50,000, this year's federal budget brought two more positive changes. The first is the extension of time limits for RESPs.

Contributions to RESPs can now be made for 31 years following the year in which the plan is entered into (up from 21 years). Additionally, the RESP can remain open for 35 years following the year of opening.

The second change announced this year was a relaxing of the rules surrounding payments made to the RESP beneficiaries. If a student graduated in May with extra funds remaining in the plan, a six month grace period has now been introduced that allows RESP beneficiaries to receive Educational Assistance Payments (EAPs).

Creditor Protection

July 2008 ushered in changes to the federal Bankruptcy and Insolvency Act. The new legislation contains the long-awaited change extending creditor protection in the event of bankruptcy to all RRSP and RRIF savings in Canada.

The new law formally exempts all RRSPs and RRIFs from being liquidated on behalf of creditors when an investor declares personal bankruptcy. The only condition is that any RRSP contributions made in the 12 months prior to bankruptcy will not be exempt from seizure unless your provincial law states otherwise.

Tax-Free Savings Accounts (TFSAs)

Finally, perhaps the biggest tax announcement in 2008 was the introduction of the new TFSA, set to launch on January 1, 2009. These new accounts will allow Canadian residents 18 years of age or older to contribute up to $5,000 per year to their TFSA, and any income or gains will remain tax free for life when earned inside the TFSA.

Unlocking Federal Life Income Funds

May 2008 saw the formal adoption of the new federal unlocking rules. The rules allow individuals who have funds in federal locking-in RRSPs and life income funds (LIFs) to have greater access to their money beyond current maximum withdrawal limits.

Individuals can now access funds from their LIFs in three situations: small balances, financial hardship and a one-time 50% unlocking.

Individuals who are at least 55 years of age with locked-in RRSPs and LIFs worth less than the small balance limit ($22,450 in 2008) can wind up their accounts and take the cash (which would be fully taxable) or transfer the funds to another tax-deferred savings vehicle (eg. RRSP or RRIF) in which there are no maximum withdrawal limits.

Under the "financial hardship" option, any LIF holder, regardless of age, who is facing a job upset, medial- or disability-related expenses can unlock up to the small balance limit.

Also, for those at least 55 years of age to unlock up to 50% of their LIF holdings and either cash them out (fully taxable) or transfer the funds into an RRSP or RRIF.

Tax-loss selling

For tax-loss selling, the trade date in Canada must be by December 24, 2008. This will ensure that the settlement takes place in 2008 and that all losses realized are available to the taxpayer this year. Also, remember that capital loss can be carried back 3 years and forward indefinitely. In a year like 2008, this strategy can prove to be worth its weight in gold.

Of note, if you are considering the benefits of charitable donations, remember that the capital gains tax is nil when you donate in-kind. A prudent choice when it comes to tax management.

Payments Required by Year-End

December 31 is the final payment date to claim a 2008 tax deduction/credit for various items, including:

- Alimony payments
- Charitable donations
- Child care expenses
- Interest expense on money borrowed to earn investment income
- Investment counseling fees

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