The Wealth Consultant

"Helping you save strategically"

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2012 Year in Review

Facebook went public and then plummeted in the markets, a Mars Rover captured the hearts of millions, superheroes soared to the top of the box office, Encyclopedia Britannica stopped publishing print editions, Obama got four more years and 'Gangnam Style' took over the world. What will you remember most from 2012?

In 2012, we said goodbye to many iconic figures including the first man to walk on the moon, Neil Armstrong. We lost writers Ray Bradbury and Gore Vidal. We said farewell to musicians and singers, among them Whitney Houston, Donna Summers and Etta James. We lost great actors and personalities such as Ernest Borgnine, Andy Griffith and Dick Clark. And we also lost some Canadian political icons including Lincoln Alexander and Peter Lougheed.

In 2012 we saw policymakers in both the US and Europe, continue to make headlines, as well as the world's biggest power outage in India affect 670 million people.

It's was the year that we saw our Canadian athletes win 18 and 31 medals at the London Olympics and Paralympics respectively. At the Olympics, our women's soccer team captivated a nation with their poise and perseverance in the face of long odds and unnecessary controversy. After the games, soccer star Christine Sinclair won the 2012 Lou Marsh Award becoming the first soccer player to take home Canada's athlete of the year award.

Did you know that?

A lot has changed over the past few years; make sure that you are aware of the following tax savings opportunities that may be available to you.

The Family Caregiver Tax Credit: Is a 15 per cent non-refundable tax credit on amounts up to $2,000 that provides tax relief to caregivers of infirm dependant relatives. This includes, for the first time, infirm spouses, common-law partners, and minor children.

The Medical Expense Tax Credit: In order to fully recognize the medical and disability-related costs incurred by caregivers, the previous $10,000 limit on the amount of eligible expenses a caregiver can claim in respect of financially dependent relatives has been removed.

The First-Time Home Buyer's Tax Credit: Assists first-time home buyers with the costs associated with the purchase of a home. This credit can be worth up to $750.

Don't forget about the Children's Fitness Tax Credit: This is a well-used tax credit that allows families to claim a15 per cent non-refundable tax credit on the first $500 spent on the cost of registering a child in an eligible physical activity program, such as soccer, hockey or gymboree.

If you own a Small Business, take a look at the Hiring Credit for Small Business: Small businesses that meet certain criteria and paid more in Employment Insurance premiums in 2012 than 2011 are eligible for this credit, which can help business owners earn up to $1,000 in tax savings.

The Children's Arts Tax Credit: Canadian families can claim a 15 per cent non-refundable tax credit on the first $500 spent on registering a child in an eligible artistic, cultural or music program.

The Textbook Tax Credit: This credit recognizes the cost of textbooks, and provides tax relief to students in addition to the Tuition and Education Tax Credits. Students must first claim this credit on their personal returns, but may be able to transfer unused amounts to a parent, grandparent, spouse or common-law partner.

The Canada Employment Credit (CEC): Is a 15 per cent non-refundable tax credit on an amount of $1,095 in employment income, the CEC recognizes employees' work expenses for items such as home computers, uniforms and office supplies.

The Public Transit Tax Credit: Allows Canadians to claim the cost of public transit passes for the year.

The Volunteer Firefighters' Tax Credit: Is available to any volunteer firefighter who serves at least 200 hours per year at one or more fire departments in their community.

Transferring Credits: Some tax credits such as such as charitable donations can be transferred between spouses. These credits are often worth slightly more to the higher income earner, depending on the province that is resided in.

Disability Tax Credit: This is a non-refundable tax credit that a person with a severe and prolonged impairment can claim to reduce the amount of income tax paid during the year. If you are eligible to claim this credit you are also eligible to open a Registered Disability Savings Plan. If you have never claimed this amount, the disability tax credit can be claimed retroactively for up to 10 years

Travelers Exemption

The 2012 federal budget also increased the traveler's exemption to $200 from $50 for Canadian shoppers who purchased goods while out of the country for 24 hours. The budget also increased the exemption levels for travelers, who are out of the country for 48 hours or more to $800.

Start Planning for 2013

In 2013 your financial plan will no longer include pennies. While saving your pennies has always been a slow and steady way to increase your wealth, the Canadian federal government has found a way to save approximately $11 million a year by no longer making them. That of course is the estimated annual cost of manufacturing a penny. The Royal Canadian Mint will start collecting pennies on Feb. 4, 2013 for recycling, with approximately six billion pennies expected to be collected over the next six years.

Higher Payroll Taxes

Canadians earning at least $47,400 will pay $891.12 in EI premiums this year, up $51.50. Meanwhile employers will pay $1,247.57 per employee, an increase of $71.61.

Canada Pension Plan contributions will also increase by $49.50 to $2,356.20, for those earning at least $51,100. Note that the employer's share will increase by the same amount.

Tax Bracket Increases

2013 will see David Johnston become the first Governor General in Canadian history to pay income tax. He and all other Canadians will now pay taxes at the following federal rates.

Federal Tax Rate	2012	2013
Basic Person Exemption	$10,822	$11,038
15%	Up to $42,707	Up to $43,561
22%	$42,708-$85,414	$43,562 - $87,123
26%	$85,415 - $132,406	$87,124 - $135,054
29%	Over $132,406	Over $135,054

Increased TFSA Contribution Amount

The amount that you can contribute annually to your TFSA has increased by $500 to $5,500. For someone who has never opened up a TFSA before and was at least age 18 in 2009, your total cumulative TFSA contribution room starting January 1, 2013 is now $25,500.

Contributing to an Registered Retirement Savings Plan (RSP)

The maximum RSP deduction limit for 2012 is $22,970. However, if you did not use your entire RSP deduction limit for the years 1991- 2012 you can carry forward unused RSP contributions to 2013. In 2013 the maximum RSP deduction limit increases to $23,820.

Severance Packages

Severance packages are designed to help transition employees to new opportunities. However, when paid as a lump sum they become immediately taxable. Recipients should therefore explore ways to defer the impact of taxation by exploring opportunities such as retiring allowances, retirement compensation arrangements or even using unused RSP contribution room.

Start Planning for 2013

Changes to the Canada Pension Plan (CPP)

In 2013 the maximum CPP retirement benefit for new pensioners will increase from $986.67 to $1,012.50 per month. This increase is calculated based on the average yearly maximum pensionable earnings for the last five years.

If you choose to delay receiving your CPP benefit after age 65 your pension will increase by .70% for every month that you delay taking CPP up until age 70. If you start receiving your CPP pension at the age of 70, your pension amount will be 42% more than it would have been if you had taken it at age 65.

Conversely in 2013 if you decide to receive your CPP benefit before age 65 your monthly pension will decrease by .54% every month. For a person who applies for and receives their CPP retirement pension at age 60, this represents a maximum reduction of 32.4% in 2013 and will gradually increase to 36% by 2016.

Share & Split Income

Income-splitting and sharing can save you thousands of dollars in tax every year, as it allows spouses to shift income from a spouse in a high tax bracket to the spouse in a lower one. Sometimes, this can also reduce or even eliminate the claw backs that exist on government programs such as Old Age Security payments and the age credit.

Make sure that you explore sharing CPP income with your spouse. While pension sharing is technically not the same as pension income splitting, CPP pension sharing can accomplish the same benefits by shifting income to the lower earning spouse.

Pension income splitting is available on several kinds of pension income, such as payments from a company pension plan, RIF payments and annuity payments from an RSP or deferred profit sharing plan, provided that the recipient of this income is over the age of 65.

Pension income splitting can also allow both partners to claim the $2,000 pension income tax credit. If you have not done so already and are over the age of 65, you may want to explore ways to create pension income in 2013.

For those under the age of 65, income splitting may also be accomplished through the creation of a Spousal RSP.

Prescribed rate loan to spouse

The income attribution rules are often triggered when one spouse gifts assets to another .A spousal loan avoids this risk and is a strategy that can be used to transfer investment income from a higher earning spouse to that of a lower earning spouse. As interest rates are still very low, now is an appropriate time to consider this strategy.