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Certain life events have potential tax implications. They can be age related, such as turning age sixty five, or they may arise due to various life choices, such as getting married, having children or moving to a new city. In this edition of the Canadian Tax Planners Newsletter, we shall review the tax implications of reaching various age milestones, plus tax tips and traps related to various life events.

### **Age Milestones**

When individuals reach various ages, they qualify, or may lose certain credits, deductions or tax planning opportunities that were not available in the previous year. The tax impact may be specific to the individual or impact family financial planning strategies. We shall review a number of the more important age milestones and the related tax ramifications.

**Age 16** – Certain tax benefits cease once a child reaches the age of sixteen. This includes:

- a parent can no longer claim the \$500 fitness credit, which is available for each child under the age of 16 who participates in various fitness activities. The child must be under 16 years of age at the beginning of the year in which an eligible fitness expense was paid. If the child is disabled, the age limit is eighteen
- children in low income families no longer qualify for the Canada Learning Bond
- child care expenses cannot be claimed for a child who has reached the age of seventeen by the end of the year

**Age 18** - When an individual reaches the age of majority, they are treated as an adult for income tax purposes. The key changes when an individual turns age eighteen include:

- the attribution rules no longer apply
- the individual is subject to Canada Pension Plan payments on employment income
- contributions to a Registered Educational Savings Plan no longer generate a Canada Education Savings Grant

Let's review various situations that can impact an individual that turns eighteen

**Attribution Rules** – The attribution rules restrict various family income splitting strategies. These rules require that if an individual loans or gifts money to a spouse or child under the age of eighteen, any investment income is considered to be income of the individual that transferred the money. An exception to this rule is that capital gains generated by an individual under the age of eighteen are not attributed back to the individual that made the transfer. These rules apply if the child is under the age of eighteen at the end of the year.

There is a section of the Income Tax Act that restricts income splitting with individuals who have reached the age of eighteen, if they do not deal at arm's length with the transferor. However, this restriction applies when saving taxes is the only motivation of the transaction. Many gifts and loans between a parent and an adult child are not subject to this restriction as the transaction satisfies a family financial objective, such as funding an education.

**Canada Pension Plan** – Once individuals reaches the age of eighteen, they must start contributing to the Canada Pension Plan on their employment and self-employment income. If an employer hires students, there is an advantage to hiring those who have not yet reached the age of eighteen.

There are no age restrictions for Employment Insurance, as an amount paid to a sixteen year old would be subject to EI. However, if an employer pays a salary to a related party, the amount is not subject to Employment Insurance. Related persons are defined as individuals connected by blood relationship, marriage, common-law relationship, or adoption. In cases where the employer is a corporation, the employee will be related to the corporation when the employee is related to a person who controls the corporation. Although neither the employee nor employer will have to make EI payments, the employment will not qualify for EI benefits should the individual make a future claim.

**Note** – The remainder of this article is only available to subscribers of the Canadian Tax Planners Newsletter. If you elect to subscribe and wish to receive a copy of this newsletter, advise us accordingly and the complete article will be forwarded by return mail.