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WEALTH MANAGEMENT

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Tax Tips for Year End

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With year end always so busy, planning for holidays, vacationing to get away from the snow and cold, and simply keeping up with life, sometimes we have to slow down for a minute to ensure we're taking advantage of all we can in November and December.

So, as the year is drawing to a close, it's time to think about what we can do to manage our taxes, before April comes around again.

What are some of the best items to consider for year end?

- Give generously. Take advantage of charitable giving. Donate over $200 and get maximum tax credit of almost 50%. If you give to charities, try to donate equities with capital gains in non-registered accounts. This gives you a double benefit; you still get the charitable donation tax credit, but you also eliminate the tax on any capital gain that is earned. In this way, you can keep your cash for spending, but know you'll never pay the capital gains tax on the amount you donated.

- Claim the pension tax credit of up to $2000. This can be done, by starting to accept a pension, by converting any RRSP to a RRIF after age 65. In certain circumstances, you can collect this prior to age 65, through collecting a direct pension, and through some special circumstances with Locked-in RIF's & annuities. Check with your accountant to take advantage of this.

- For married couples, you can split your pension or RRIF withdrawals. This doesn't have to be dealt with until April, but it's one of the greatest tax saving strategies since RRSP's were invented. Note, you can also request that the CPP be split, which can help equalize income as well. There are some age restrictions and rules that apply!

- Maximize your TFSA (Tax Free Savings Account) contributions. While this impact is minimal now, any interest earned inside the TFSA is not taxable ever!!! This means, if you transfer in existing investment you will have to claim interest of a GIC, or bond holding, or even an equity with very little gain, you will have to claim interest or growth on what was earned. But all growth and income in the future is 'Tax-Free'. This especially applies to those who are younger, as you can build an income flow within a TFSA that can be drawn upon in retirement with no tax.

- Selling a stock to trigger a gain or loss in this calendar year, if it can help you reduce, or minimize the taxes paid either now or in the future. If you claimed any losses on your tax return in the past, you can use that loss to offset a capital gain in order to reduce or eliminate any taxes. Similarly, if you trigger a loss for this year, you can carry that back up to 3 years, and claim it against your gains, to help recover taxes paid. Note usually transactions must be implemented by Dec. 23rd to settle in the same calendar year.

- Pay your tax installments on time. The final installment is due Dec. 15th. If the government indicates you are required to pay installments, it's best to do so, unless you know you can prove it wasn't necessary. Generally, even if a lesser amount is paid, if you pay something that can be justified, then you will not be charged interest upon filing.

- Ensure any debt is tax deductible. If you incurred some debt this past year, try to ensure the interest can be deducted. If you own any investments, you could consider selling these to pay off the loan. Then borrowing the money back and repurchasing the investments. By doing this, the interest is now tax-deductible, providing there is an income source within the investments held.

- Consider that all charitable donations dividends and healthcare expenses received by either spouse, can all be claimed by one spouse to maximize the benefit.

- Even if you're not working and are over 71, if you still have RRSP contribution room, you can make spousal RRSP contributions to the account of your younger spouse.

- Convert Interest or Dividends to Capital Gains income. Capital gains are taxed at half the level of interest. Some items offer an income flow in a corporate class environment. This means that income can flow through as a potential capital gain. It also means that income can be paid out regularly, but is taxed as "return of capital" and the increase on your taxable income is minimal. This can also apply to Dividend income. While dividend income is tax preferred on the final tax calculation, dividends actually impact your Old Age Security as they increase the income that's used to calculate if you qualify. For non-registered accounts, check into this before year end as it can help position your income for better tax treatment this year and beyond.

One Final Note: Since Old Age Security is clawed back & paid out based on the prior year's income, for many people, one key strategy is to ensure you maintain an income level at or below $73,756 to avoid any clawback. By implementing some of the above strategies, particularly the income splitting, charitable giving and the corporate class for income whether it be interest or dividends, you may find over time your tax bill can consistently be lower by implementing and drawing on these strategies.

For all these strategies, make sure you check with your accountant and financial advisor to implement them properly. All in all, paying taxes is a necessary evil of earning an income. I personally believe we're far better off to pay tax and enjoy the luxury of cashflow, rather than the other options. Here's to a smooth tax season!

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