2023 Year-End
Tax Planning Tips

November 2023

Since many tax strategies require foresight to be effective, tax planning should be a year-round activity. However, as year-end approaches there are still opportunities to consider to reduce your 2023 tax bill. The following information relates to year-end tax-savings strategies that may be available, depending on your personal situation.

1. Tax-loss selling

Deadline: December 27

Wednesday, December 27, 2023 is expected to be the last buy/sell date for securities to settle in 2023, based on trade date plus two business days. You may want to review your non-registered investment portfolio to consider the sale of any securities with accrued losses to offset any capital gains realized in the year; or the three previous taxation years, if a net capital loss is created in the current year.

It is important to ensure that a tax-loss sale makes sense from an investment perspective, since stocks sold at a loss cannot be repurchased until at least 31 days after the sale to be effective.

2. Charitable donations and other tax credits/ deductions

Deadline: December 31*

Instead of donating cash to a charity, consider donating appreciated publicly-traded securities. This strategy provides a charitable tax receipt based on the value of the securities donated, while potentially eliminating the capital gains tax otherwise payable on these securities, if they were sold. In order to receive a tax receipt for 2023, you must ensure all charitable donations are made on, or before, December 31, 2023. In determining the extent of their charitable giving for 2023, donors may also wish to consider the impact of the forthcoming changes to the Alternative Minimum Tax ("AMT") slated for 2024 (see the section entitled "Stay tuned" later in this publication).

December 31 is also the final payment date for many other tax deductions or credits that can be claimed on your 2023 tax return, such as childcare, medical and tuition expenses.

3. Pension income

Deadline: December 31*

If you are not already taking full advantage of the Federal Pension Income Tax Credit, consider creating up to $2,000 of eligible pension income. If you are 65 years of age or older, consider converting a portion of your Registered Retirement Savings Plan ("RRSP") into a Registered Retirement Income Fund ("RRIF") to receive up to $2,000 of qualifying RRIF income before the end of the year.

4. TFSA withdrawals

Deadline: December 31*

If you're planning to make a Tax-Free Savings Account ("TFSA") withdrawal in the near future, consider making the withdrawal in December instead of waiting until 2024. This way, the amount withdrawn will be added back to your TFSA contribution limit on January 1, 2024 (rather than 2025).

5. RRSP contributions for those turning 71

Deadline: December 31*

If you turned 71 years of age in 2023, you must collapse your RRSP by the end of this year. Consider making a final contribution towards your RRSP if you have unused contribution room, prior to closing it. If you have any earned income in 2023 that will generate RRSP contribution room for 2024, consider making your 2024 RRSP contribution in December 2023. While you will be charged a one per cent penalty tax for the month of December, the tax savings on your RRSP contribution (which can be claimed on your 2024 tax return) should exceed the penalty tax.

6. Payment of quarterly tax installments

Deadline: December 15

Many Canadian investors are required to make quarterly income tax installment payments since tax is not deducted at source on investment income. You may be required to pay income tax installments if your estimated net income tax payable for the year, and net payable for either of the two preceding years exceeds $3,000 ($1,800 for Quebec residents). Personal tax installments are due four times a year, with the final installment due December 15.

If you fall short on any required installments, non-deductible interest or penalties may be incurred. Therefore, it is important to determine if your year-to-date installments are sufficient – in light of these requirements – based on your estimated income tax payable for the year.

7. Tax-free First Home Savings Account

Deadline: December 31*

Introduced in 2023, the tax-free First Home Savings Account ("FHSA") is a new registered savings account allowing first-time home buyers to save up to $40,000 towards the purchase of their first home. Combining hallmark attributes of RRSPs and TFSAs, contributions made into the FHSA are tax-deductible and income earned in an FHSA is not subject to tax. Qualifying withdrawals (including investment income) from the FHSA, to purchase a first home, will be non-taxable. First-time homeowners, who are at least 18 years of age or older, are eligible to open an FHSA, subject to an annual contribution limit of $8,000, with a lifetime limit of $40,000. However, unlike an RRSP, contributions to an FHSA must be made before the end of the calendar year to provide a current year deduction; eligible first-time home buyers should therefore consider opening an FHSA and making a contribution before the end of 2023. For further information and planning considerations, read our *First Home Savings Account* publication.

Stay tuned

It will also be important to keep appraised of any developments related to forthcoming tax changes as the Federal government proposed a number of significant tax changes affecting individuals and private companies that are scheduled to take effect in 2024, as follows:

Alternative Minimum Tax

As initially highlighted in its 2021 Election Platform, the Federal Liberal government is seeking to ensure that high income earners pay income tax at a rate of at least 15 per cent each year and cannot artificially reduce their taxable income through excessive use of deductions or credits. Although the current Alternative Minimum Tax ("AMT") regime has been in place since 1986, the government proposed a new minimum tax regime, the details of which were released in the 2023 Federal Budget. Key design features of the new AMT regime proposed include broadening the AMT base, further limiting tax preference items (i.e., exemptions, deductions and credits) and increasing the AMT tax rate. Many high-income individuals (especially those with substantial capital gain or dividend income) claiming significant deductions and credits (including charitable donations) and many Family Trusts may be affected by these amendments, which are proposed to take effect in 2024. Investors with significant gains/losses should also note that the proposals will allow only 50% of carryover losses applied for AMT purposes, whereas gains will be fully taxable. Review our BMO publications, *2023 Federal Budget Review and Proposed Changes to the AMT Could Complicate Charitable Giving* and speak with your tax advisor for assistance regarding your personal situation, to determine the possible application of AMT.

Private Corporations – Proposed Tax Changes
Intergenerational Transfers of Family Business

Business owners seeking to access the Lifetime Capital Gains Exemption ("LCGE") on a sale or transfer of their family business after 2023, will need to ensure that the transfer meets the specific criteria intended to reflect the hallmarks of a "genuine" intergenerational family business transfer, including the greater involvement of children and gradual withdrawal of parents from the business. As a result of proposed changes to the tax legislation introduced in the 2023 Federal Budget, family business owners – particularly those contemplating an intergenerational transfer in the near future – should consult with their tax advisors for direction in their particular situation and determine if any action should be undertaken prior to the January 1, 2024 proposed implementation date of these important changes. For more information, please see our BMO publication, *Intergenerational Transfers of Family Businesses.*

Employee Ownership Trusts

The 2023 Federal Budget also outlined proposals to introduce the concept of an Employee Ownership Trust ("EOT"), which is a form of employee ownership where a Trust holds shares of a corporation for the benefit of the corporation's employees. EOTs can be used to facilitate the purchase of a business by its employees, without requiring them to pay directly to acquire shares. For business owners, an EOT can also provide an additional option for sale/succession planning. The introduction of this dedicated Trust vehicle tailored to facilitate employee ownership and/or the transition of a privately–owned business to its employees is scheduled for 2024. Business owners contemplating a sale or transition of their business should consult with their tax advisors for more information on this new structure. For further details, please see our BMO publication, *2023 Federal Budget Review*.

Other significant forthcoming tax measures include proposals to modernize and strengthen the General Anti-Avoidance Rules ("GAAR") effective for transactions on, or after January 1, 2024, and the introduction of new tax reporting requirements for trusts (effective for taxation years ending after December 30, 2023). For more information on this new reporting requirement please ask your BMO financial professional for a copy of our publication, *New Tax Reporting Requirements for Trusts*.

Seek professional advice

These tips are neither a comprehensive review of the subject matter, nor a substitute for professional tax advice. Be sure to consult with your external tax and legal advisors to confirm the suitability of any of these strategies for your personal situation.

For more information, please speak with your BMO financial professional.

BMO Private Wealth

*Please note that December 31, 2023 falls on a Sunday. The last business day in 2023 is Friday, December 29, so please plan accordingly.

ID0023 (11/23)