

# 2024 Year-End Tax Planning Tips

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 2024 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/Increased Capital Gains Inclusion Rate

### **Deadline: December 30**

Monday, December 30, 2024 is expected to be the last buy/sell date for securities to settle in 2024, as a result of the move to a T+1 settlement in 2024 (i.e., trade date plus one business day). 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.

However, effective for capital gains realized on, or after, June 25, 2024<sup>1</sup>, the capital gains inclusion rate increased from one-half to two-thirds for corporations and trusts, and from one-half to two-thirds on the portion of capital gains realized annually in excess of \$250,000 by individuals. In other words, individuals will be allowed an annual \$250,000 threshold below which the capital gains inclusion rate will remain at the previous rate (50%)<sup>2</sup>. As a result of these changes in the capital gains inclusion rate, the calculation of net capital gains/losses in 2024 is now considerably more nuanced. Specifically, separate calculations will be required to differentiate the net capital gains/losses realized before and after June 25, 2024. These complexities could impact the implementation of a tax-loss selling strategy – particularly for individuals with net capital gains >\$250,000 in 2024, and any corporate or trust investors.

In addition, some higher income individuals who will continually be subject to the higher capital gains inclusion rate each year (by annually exceeding the \$250,000 threshold) may seek to pro-actively realize net capital gains to this threshold annually, to reduce future capital gains tax at the higher 2/3 inclusion rate on dispositions that would otherwise occur in the near term (or at death).

As always, 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, due to the superficial loss rules. For more information on tax-loss selling, including the nuances for 2024, please see our BMO publication, *Consider Tax-Loss Selling in Your Year-End Planning*.

## 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 2024, you must ensure all charitable donations are made on, or before, December 31, 2024. In determining the extent of their charitable giving for 2024, large donors may also wish to consider the potential impact of the recent changes to the Alternative Minimum Tax (“AMT”) effective for 2024 (see Tip #8 in this publication).

December 31 is also the final payment date for many other tax deductions or credits that can be claimed on your 2024 tax return, such as childcare, medical, tuition and interest 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 in 2024. If you are 65 years of age or older, 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 could allow you to benefit from this credit.

## 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 2025. This way, the amount withdrawn will be added back to your TFSA contribution limit on January 1, 2025 (rather than 2026).

## 5. RRSP contributions for those turning 71

### Deadline: December 31

If you turned 71 years of age in 2024, 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 2024 that will generate RRSP contribution room for 2025, consider making your 2025 RRSP contribution in December 2024. 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 2025 tax return) should exceed the penalty tax.

## 6. Payment of quarterly tax installments

### Deadline: December 15<sup>3</sup>

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 (plus any carryforward available from the previous year to a maximum of \$16,000), 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 2024. For further information and planning considerations, read our *First Home Savings Account* publication.

## 8. Alternative Minimum Tax

Introduced in 1986, the Alternative Minimum Tax (“AMT”) regime seeks to ensure that high income earners pay a minimum amount of income tax each year, and cannot artificially reduce their taxable income through excessive use of deductions or credits. Recent changes were made to the AMT regime effective for 2024, including broadening the AMT base, further limiting tax preference items (i.e., exemptions, deductions and credits) and increasing the AMT tax rate. Some high-income individuals (especially those with substantial capital gain or dividend income) claiming significant deductions and credits (including charitable donations) and Family Trusts may be affected by these amendments, which are now in effect for 2024. Investors with significant gains/losses should also note that only 50% of carryover losses will be applied for AMT purposes, whereas gains will be fully taxable. Please see our publication *Alternative Minimum Tax* and speak with your tax advisor for assistance regarding your personal situation, to determine the possible application of AMT.

## 9. Employee Ownership Trusts

The 2023 Federal Budget 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. Changes to the tax legislation were recently enacted to introduce this dedicated trust vehicle tailored to facilitate employee ownership and/or the transition of a privately-owned business to its employees, effective 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, especially in light of the significant tax incentives provided for qualifying transfers to an EOT (including a potential \$10M capital gains exemption). For further details, please see our BMO publication, *Employee Ownership 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 Private Wealth professional.



<sup>1</sup> As of the time of writing, the 2024 changes to the capital gains inclusion rate remain draft legislation, so it is possible that these amendments may not ultimately be enacted into law as described (or at all). Accordingly, please consult with your tax advisor for the current status of these legislative changes and for specific direction in your particular situation.

<sup>2</sup> Note that the annual \$250,000 threshold can be combined to reduce the taxation of employee stock option benefits, at the taxpayer's discretion. Accordingly, a further consideration exists for individuals exercising employee stock options in 2024.

<sup>3</sup> Extended to the following Monday, as the 2024 deadline falls on the weekend.

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