

2022 Year-End Tax Planning Tips

November 2022

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 in order to reduce your 2022 tax bill. The following are year-end tax savings strategies that may be available, depending on your personal situation.

1. Tax-loss selling

Deadline: December 28

Wednesday, December 28, 2022 is expected to be the last buy/sell date for securities to settle in 2022 (based on trade date plus two business days). You may want to review your non-registered investment portfolio to consider a 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 2022, you must ensure all charitable donations are made before December 31, 2022.

December 31 is also the final payment date for many other tax deductions or credits that can be claimed on your 2022 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 age 65 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 2023. This way, the amount withdrawn will be added back to your TFSA contribution limit on January 1, 2023 (rather than 2024). On a related note, it was recently announced that the TFSA contribution limit will be increasing from \$6,000 to \$6,500 for 2023.

5. RRSP contributions for those turning 71

Deadline: December 31

If you turned 71 years of age in 2022, you must collapse your RRSP by the end of the year. If you have unused RRSP contribution room, consider making a final RRSP contribution before closing your RRSP; and, if you have any earned income in 2022 that will generate RRSP contribution room for 2023, consider making your 2023 RRSP contribution early – in December 2022. 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 2023 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 instalment payments since tax is not deducted at source on investment income. 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), you may be required to pay income tax instalments. Personal tax instalments are due four times a year, with the final instalment due December 15.

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

Stay tuned

It will also be important to keep apprised of any developments related to possible forthcoming tax changes as the Federal government has proposed a number of personal tax changes following the 2022 Federal Budget. In addition to the recently enacted national, annual one per cent tax on the value of non-resident, non-Canadian owned residential real estate that is vacant or underused (which took effect on January 1, 2022), many of these proposed new measures focus on housing, such as the following:

Tax-Free First Home Savings Account

The 2022 Federal Budget proposed the introduction of the Tax-Free First Home Savings Account ("FHSA"), which is expected to be available sometime in 2023. This new registered account would provide first-time home buyers the ability to save up to \$40,000 towards the purchase of a first home. Combining hallmark attributes of RRSPs and TFSA's, contributions made into the FHSA would be tax-deductible and income earned in an FHSA would not be subject to tax. Qualifying withdrawals (including investment income) from the FHSA to purchase a first home would be non-taxable. First-time homeowners (at least 18 years of age) eligible to open an FHSA, would be subject to an annual contribution limit of \$8,000, with a lifetime limit of \$40,000.

Multigenerational Home Renovation Tax Credit

For qualifying expenses paid after 2022, a new (refundable) Federal Multigenerational Home Renovation Tax Credit will allow families to claim up to \$7,500 (i.e., 15 per cent of up to \$50,000 in eligible renovation and construction costs) for constructing a secondary suite for a senior or disabled (adult) relative.

Residential Property Flipping Rule

For sales of any residential properties after December 31, 2022, homeowners should be aware of new rules proposed that would tax the sale of a property that is held for less than 12 months as business income (and ineligible for the Principal Residence Exemption). However, exemptions would apply for Canadians who sell their home due to certain life circumstances, such as a death, disability, the birth of a child, a new job, or a divorce.

Alternative Minimum Tax

In addition to these housing measures, and 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 reiterated its commitment to examine a new minimum tax regime and plans to release details on a proposed approach in the 2023 Federal Budget.

Other significant tax measures that are expected to be implemented in the coming months include: new tax reporting requirements for trusts (effective for taxation years ending after December 30, 2023); amendments to the recently-enacted tax legislation affecting intergenerational transfers of family businesses; and an increase to the disbursement quota for charities beginning in 2023. For more information on these measures, ask your BMO financial professional for a copy of our publications, *New Tax Reporting Requirements for Trusts*, *Tax Relief Proposed for Intergenerational Transfers of Family Businesses*, and *Federal Budget 2022 – Impact on Charities*, respectively.

Consult with your external tax and legal advisors for direction on possible forthcoming tax changes that could impact your particular situation.

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 tax advisor to confirm the suitability of any of these strategies for your personal situation.

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



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