



## Portfolio Strategy

Here we go again. Another COVID variant has been uncovered in South Africa. The market's swift downward reaction was not unexpected, especially given the strength we saw in equities in the beginning of November and even year-to-date. Before panicking though we recognize that society is much better equipped to deal with this development than it was just a year ago. We expect to get more clinical information on the severity of the variant soon, while, Pfizer, Moderna, AstraZeneca and JNJ are already testing the efficacy of existing vaccines against this variant. Adjustments to formulations may have to be made but Pfizer has stated that it can adapt the current vaccine within six weeks and ship initial batches within 100 days in the event of an escape variant. Moderna also said a new formulation could be ready in early 2022 if needed.

During November, equity markets in both Canada and the US ended the month in negative territory as early month gains were reversed on the new variant news. The S&P/TSX was off 1.6%, while the S&P 500 was down 0.7% in USD. A weaker Loonie in November allowed US equities to make gains when converted to Canadian dollars. In total the Canadian dollar was down over 3% vis-à-vis its American counterpart. Our North American equity portfolio was up over 1.5% during the month aided by strong gains in a number of US stocks, such as Nvidia, Albemarle, Parker Hannifin and Johnson Controls.

Through the month, we made some changes to our portfolios, selling Air Canada, and PayPal as well as taking some profits in Nvidia. With the proceeds we purchased Great-West Lifeco, Nutrien and a US small cap index. In fixed income markets, a flight to safer investments led to higher bond prices and strong gains in both Canada and the US bond indices.

As a result of our trading during the month we decreased cash, increased equity exposure and kept fixed income unchanged. Relative to a neutral weighting in our portfolios we are positioned with an overweight to equity and underweight to fixed income.

## Year End Tax Planning

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 2021 tax bill. The attached document discusses year-end tax savings strategies that may be available, depending on your personal situation.

As always, if you have any questions, please do not hesitate to contact us.

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# 2021 Year-End Tax Planning Tips

November 2021

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 2021 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 29

Wednesday, December 29, 2021 is expected to be the last buy/sell date for securities to settle in 2021 (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 2021, you must ensure all charitable donations are made before December 31, 2021.

December 31 is also the final payment date for many other tax deductions or credits that can be claimed on your 2021 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 2022. This way, the amount withdrawn will be added back to your TFSA contribution limit on January 1, 2022 (rather than 2023).

## 5. RRSP contributions for those turning 71

### Deadline: December 31

If you turned 71 years of age in 2021, 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 2021 that will generate RRSP contribution room for 2022, consider making your 2022 RRSP contribution early – in December 2021. 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 2022 tax return) should exceed the penalty tax.

## 6. Payment of quarterly tax instalments

### 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.

## 7. Federal COVID-19 relief measures

### Deadline: December 31

As a result of the ongoing economic impact of the COVID-19 pandemic, many Canadians continued to receive government assistance in 2021, including the Canada Recovery Benefit (“CRB”), the Canada Recovery Caregiving Benefit (“CRCB”) or the Canada Recovery Sickness Benefit (“CRSB”).

Although the CRB program ended October 23, 2021, the Federal government recently proposed to extend the CRCB and the CRSB until May 7, 2022, and increase the maximum duration of these benefits by two weeks. The government also proposed to establish a new program, namely the “Canada Worker Lockdown Benefit” which would provide \$300 a week in income support to eligible workers whose employment is interrupted due to a local lockdown anytime between October 24, 2021 and May 7, 2022.

As noted in our publication, *Update on Canada’s COVID-19 Economic Response Plan*, these benefits are taxable and must be reported as income when filing a 2021 income tax return. Accordingly, in early 2022, the government will issue a T4A tax slip for 2021 showing the total amount of CRB, CRCB or CRSB received. However, only 10% income tax was withheld upfront on the payment of these benefits, so it will be important to set aside adequate funds for any tax liability due upon the filing of your 2021 tax return depending on your other sources of income and your marginal tax rate. In addition, some Canadians who received these benefits may be required to repay all or a portion of these benefits if they applied and later found that they were not eligible, received any payments in error or received more than what they were entitled to receive based on the eligibility criteria. In these scenarios, provided the ineligible benefits are returned before **December 31, 2021**, the amount shown on your 2021 tax slip will be reduced by the amount of the repayment so that you will only report the amount shown on the tax slip as income (and will not need to claim a further deduction).

In addition, since the CRB has an income threshold of \$38,000, recipients will have to reimburse \$0.50 for every dollar of net income earned above \$38,000, which is (re)payable on your income tax return for the year; however, the reimbursement is limited to the benefit amount received for that year. Therefore, if you received the CRB in 2021 and earned more than \$38,000 net income in the calendar year, you will need to reimburse some or all of this benefit at tax time. Accordingly, it will be important to review your tax situation promptly and set aside any additional funds to cover any required repayment, or any excess tax liability over the 10% tax withheld upfront.

For more information on these Federal Covid-19 relief measures, please ask your BMO financial professional for a copy of our publication, *Update on Canada’s COVID-19 Economic Response Plan*. Our publication also highlights the following changes proposed recently to business support programs:

- Extension of the Canada Recovery Hiring Program (“CRHP”) until May 7, 2022;
- Cessation of the Canada Emergency Wage Subsidy (“CEWS”) and Canada Emergency Rent Subsidy (“CERS”) as of October 23, 2021; and
- Introduction of new targeted support programs for businesses that are still facing significant pandemic-related challenges, namely the Tourism and Hospitality Recovery Program (“THRP”) and the Hardest-Hit Business Recovery Program (“HHBRP”).

### Stay tuned

It will also be important to keep apprised of any developments related to possible forthcoming tax changes following the re-election of the Liberal Party in the recent 2021 Federal Election. Specifically, in the 2021 Federal Budget, the Liberals proposed a number of personal tax changes including a new Luxury Tax applicable on the sale of new luxury cars and aircraft with a retail sale price over \$100,000, and new boats over \$250,000. They also proposed a new national, annual one per cent tax on the value of non-resident, non-Canadian owned residential real estate that is vacant or underused. Both budget measures were also highlighted in the Liberal’s 2021 election platform and were subject to recent public consultations with stakeholders, for possible implementation on January 1, 2022.

Given that the Liberals will form a minority government, it will likely be necessary to compromise with another Federal party, such as the NDP, in order to pass any legislation. It is therefore worth noting that the NDP election platform pledged to increase taxes on the wealthy, including specific proposals to raise the capital gains inclusion rate to 75% (from 50%), as well as to increase the top Federal marginal rate by 2% (to 35%).

Consequently, it will be important to follow any developments regarding the possible introduction of income tax proposals prior to year end, as certain tax measures could take effect as early as 2022. For more information, ask your BMO financial professional for a copy of our publication, *Possible Income Tax Changes Following the Recent Federal Election*.

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, 2021); amendments to the recently-enacted

tax legislation affecting intergenerational transfers of family businesses; and an increase to the disbursement quota for charities, potentially beginning as soon as 2022. For more information on these potential 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 *2021 Federal Budget Review*, 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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