

# Ten Financial Resolutions for 2019

As you consider your financial priorities for the coming year, here are some financial resolutions that could help you save taxes, protect your portfolio, and position you for financial success in 2019.

## 1. Pay off holiday credit card debt

If you're like many Canadians who overspend during the holiday season, focus on paying off your credit card debt as quickly as possible, concentrating on paying off the highest interest rate credit cards first. Once you've paid off your holiday purchases, consider setting aside a certain amount of money each month in a separate account so you have money available to enjoy the 2019 holiday season without again going into debt.

## 2. Start tax planning for 2019

Many investors wait until year end before thinking about how to reduce their annual tax bill. As a result, they often miss out on available tax planning opportunities. Tax planning should be a year round activity in order to maximize the savings opportunities available to you. Ask your BMO financial professional for a copy of our **2019 Personal Tax Calendar**, which summarizes important tax deadlines and provides tax planning tips for you to consider throughout the coming year.

## 3. Meet with your financial professional to review your financial plan and investment portfolio

Ongoing conversations with your BMO financial professional are important to ensure your financial plan remains on track and your investment portfolio is properly positioned to meet your financial goals and objectives.

A discussion with your financial professional will help identify areas of your financial plan that may require updating due to changes in your personal situation that either happened in 2018 or will take place in 2019.

A regular review of key planning areas such as retirement, estate and insurance will ensure your financial plan continues to address your personal priorities.

It's also important to review your investment portfolio regularly to determine whether your risk tolerance has changed, reconfirm your investment objectives and discuss rebalancing your asset mix, if needed.

## 4. Make your RRSP and TFSA contributions

Making regular **Registered Retirement Savings Plan** ("RRSP") contributions is one of the best ways to ensure you save enough for your retirement. The deadline for making your 2018 RRSP contribution is March 1, 2019. If you've already made your 2018 RRSP contribution, consider making your 2019 RRSP contribution early, instead of waiting until 2020, in order to maximize the tax deferred compounding inside your RRSP. The maximum RRSP contribution available for 2018 is \$26,230, and \$26,500 for 2019.

The benefits and flexibility provided by a **Tax-Free Savings Account** ("TFSA") make it ideal for saving for multiple financial goals. The TFSA contribution limit for 2019 has increased to \$6,000. Unused contribution room – dating back to 2009 when TFSAs were first introduced, or the year you turned 18 – carries forward and can be used in a future year.

You may want to consider gifting funds to your spouse or common-law partner, or adult children to allow them to contribute to their own TFSA (subject to their personal TFSA contribution limit). Income earned within their TFSA will not be attributed back to you.

## 5. Reduce tax with income-splitting

Under our tax system, the more you earn, the more you pay in income taxes on incremental dollars earned. The 2019 personal federal income tax brackets and rates are reflected in the table below. With this in mind, it may make sense to spread income among family members who are taxed at lower marginal rates in order to lower your family's overall tax burden, subject to the income attribution rules. Some of the more common income-splitting strategies include<sup>1</sup>:

- An interest-bearing loan at the Canada Revenue Agency's ("CRA") prescribed interest rate to family members in a lower tax bracket;
- Pension income-splitting between spouses (or common-law partners);
- Gifts to adult children or other adult family members (other than a spouse or common-law partner); and
- Gifts to a minor child – directly or through a trust structure – to acquire investments that generate only capital gains.

### 2019 Personal Federal Income Tax Brackets and Rates

Taxable Income	2019 Rate
Up to \$47,630	15.0%
\$47,630 - \$95,259	20.5%
\$95,259 - \$147,667	26.0%
\$147,667 - \$210,371	29.0%
Over \$210,371	33.0%

<sup>1</sup> On a related note, be aware that new tax proposals that seek to limit income-splitting with certain adult family members involving private companies became effective in 2018. For more information, please ask your BMO financial professional for a copy of our publication, **Tax Proposals Affecting Private Corporations: "Income Sprinkling" Draft Legislation Revised.**

## 6. Protect your credit score

Building and maintaining a good credit history is important as lenders will view your credit report and credit score when deciding whether to grant a loan or credit card, as well as determining the interest rate you'll be charged. In addition, a potential employer or landlord may use your credit report to help determine your dependability.

## 7. Make your portfolio tax-efficient

When evaluating an investment for your portfolio you should consider the impact of income taxes, since not all investment income is taxed in the same manner. Despite the wide range of investments available there are three basic types of investment income: interest, capital gains and dividends. Interest income is fully taxable at your marginal tax rate, whereas you only pay tax on 50 per cent of a capital gain. Canadian dividends also receive special tax treatment through federal and provincial dividend gross-up and tax credit mechanisms.

Because each type of investment income is taxed differently, it's important to look at the after-tax rate of return and not only the stated interest rate, yield or projected growth rate. The table on the following page illustrates the approximate rate of return, by province, for eligible dividends and capital gains that will result in the same after-tax return as an investment that pays interest income at five per cent. For example, a B.C. resident in the top marginal tax bracket who earns a return of five per cent in interest income will keep 2.51 per cent after-tax. The same investor will only need to earn a return of 3.66 per cent in eligible dividends, and 3.34 per cent from capital gains, in order to net the same 2.51 per cent after-tax return as the five per cent interest-paying investment.

### Equivalent Gross Yields by Province

(assumes top marginal tax rate for 2019)\*

Province	Interest at 5% After-Tax Return	Equivalent Eligible Dividend	Equivalent Capital Gain
B.C.	2.51%	3.66%	3.34%
Alberta	2.60%	3.81%	3.42%
Saskatchewan	2.63%	3.74%	3.45%
Manitoba	2.48%	3.99%	3.32%
Ontario	2.32%	3.83%	3.17%
Quebec	2.33%	3.88%	3.18%
New Brunswick	2.34%	3.52%	3.19%
Nova Scotia	2.30%	3.94%	3.15%
P.E.I.	2.43%	3.70%	3.27%
Newfoundland and Labrador	2.44%	4.25%	3.28%

\* Current as of December 31, 2018

## 8. Reduce the amount of withholding tax from your paycheque

While many consider an income tax refund to be a windfall of sorts, a refund means you've given the government a tax-free loan during the year. A tax refund usually occurs because the income taxes that are withheld by your employer exceed your actual tax liability. Income tax withholding rates are an estimate of the taxes you will owe for the year if your only income source is the one upon which the taxes are being calculated. Withholding rates do not take into consideration all income tax deductions and credits such as RRSP contributions, deductible support payments or charitable donations. This can result in an overpayment of tax during the year and provide a refund when you file your tax return.

If you would like your employer to reduce the amount of withholding taxes from your earnings, you can make a request, in writing, to your Regional Taxation Services Office of the CRA and/or Revenu Québec ("RQ"). You will need to include documentation to support your request, such as RRSP contribution receipts or a written court order for

support payments. If approved by the CRA and/or RQ, your employer will receive a letter of authorization to reduce the withholding taxes on your employment income. The reduced withholding taxes mean you will improve your cash flow during the year by increasing your net take home pay, instead of receiving a lump-sum tax refund the following year when you file your tax return.

## 9. Build an emergency fund

If you're not prepared, an unexpected expense can have a significant impact on your finances. By setting money aside in an emergency fund, you'll have funds available to meet life's unanticipated expenses – and reduce the need to rely on credit cards, loans or personal savings – all of which could jeopardize your financial future. While insurance can be helpful for certain emergencies, it's important to have a dedicated source of funding to weather a financial storm.

Consider keeping at least three to six months' worth of living expenses in your emergency fund. It may seem like a daunting goal, especially if you have accumulated debt, such as a mortgage; however, by budgeting a certain amount monthly to emergency fund savings you can work towards your goal over time.

## 10. Make your charitable giving tax efficient

The benefits of making a charitable donation are countless, from helping those in need to the personal satisfaction you feel when giving something back to a cause you feel passionate about. However, with proper planning, you can also reduce your income tax liability and maximize the value of your donation.

A donation of qualifying publicly-traded securities may be preferred over a cash donation of equal value, particularly in cases where you have already decided to dispose of the securities. A charitable tax receipt equal to the fair market value of securities donated to a charity will reduce your taxes through a donation tax credit. For donations made after 2015 that exceed \$200, calculation of the federal charitable donation tax credit will allow higher income donors to claim a federal tax credit at a rate of 33% (versus 29%), but only on the portion of donations made

from income that is subject to the new 33% top marginal tax rate that came into effect on January 1, 2016. When combined with the provincial donation tax credit, the tax savings can approximate 50 per cent of the value of the donation (depending on your province of residence).

In addition, a donation of securities is considered a disposition for tax purposes. However, because of the tax incentives provided on a donation of qualifying appreciated publicly-traded securities to charity, the capital gain inclusion rate is nil instead of the normal 50 per cent that would otherwise apply.

As a final point, consider combining all charitable donations for you and your spouse and claim these on one income tax return for maximum tax savings.

If you'd like to be more strategic with your charitable giving, consider establishing a donor advised fund through the BMO Charitable Giving Program. You can make a charitable contribution to your donor advised fund and obtain the tax savings benefits today, while having the flexibility to make disbursements to your designated charitable beneficiaries over time; ensuring a legacy of giving long into the future. A variety of securities are accepted for contribution in order to establish your donor advised fund, or when making additional contributions, including publicly-traded securities.



Your BMO financial professional is dedicated to helping you plan for your financial success in 2019, and can answer any questions you have about the financial resolutions discussed in this article.



BMO Wealth Management provides this publication for informational purposes only and it is not and should not be construed as professional advice to any individual. The information contained in this publication is based on material believed to be reliable at the time of publication, but BMO Wealth Management cannot guarantee the information is accurate or complete. Individuals should contact their BMO representative for professional advice regarding their personal circumstances and/or financial position. The comments included in this publication are not intended to be a definitive analysis of tax applicability or trust and estates law. The comments are general in nature and professional advice regarding an individual's particular tax position should be obtained in respect of any person's specific circumstances.

BMO Wealth Management is a brand name that refers to Bank of Montreal and certain of its affiliates in providing wealth management products and services. Not all products and services are offered by all legal entities within BMO Wealth Management. BMO Private Banking is part of BMO Wealth Management. Banking services are offered through Bank of Montreal. Investment management services are offered through BMO Private Investment Counsel Inc., an indirect subsidiary of Bank of Montreal. Estate, trust, planning and custodial services are offered through BMO Trust Company, a wholly owned subsidiary of Bank of Montreal.

BMO Nesbitt Burns Inc. provides comprehensive investment services and is a wholly owned subsidiary of Bank of Montreal. If you are already a client of BMO Nesbitt Burns Inc., please contact your Investment Advisor for more information. All insurance products and advice are offered through BMO Nesbitt Burns Financial Services Inc. by licensed life insurance agents, and, in Quebec, by financial security advisors.

® "BMO (M-bar Roundel symbol)" is a registered trade-mark of Bank of Montreal, used under licence. ® "Nesbitt Burns" is a registered trade-mark of BMO Nesbitt Burns Inc. All rights are reserved. No part of this publication may be reproduced in any form, or referred to in any other publication, without the express written permission of BMO Wealth Management.