2020 Year-End
Tax Planning Tips

November 2020

Since many tax strategies require foresight to be effective, tax planning should be a year-round activity. However, as the year end approaches there are still opportunities to consider in order to reduce your 2020 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

Tuesday, December 29, 2020 is expected to be the last buy/sell date for securities to settle in 2020 (based on trade date plus two 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 2020, you must ensure all charitable donations are made on, or before December 31, 2020.

December 31 is also the final payment date for many other tax deductions or credits that can be claimed on your 2020 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 2021. This way, the amount withdrawn will be added back to your TFSA contribution limit on January 1, 2021 (rather than 2022).

5. RRSP contributions for those turning 71

Deadline: December 31

If you turned 71 years of age in 2020, 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 2020 that will generate RRSP contribution room for 2021, consider making your 2021 RRSP contribution early – in December 2020. 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 2021 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. RRIF withdrawals

Deadline: December 31

In recognition of the volatile market conditions in 2020 resulting from the COVID-19 pandemic, and the potential impact on retirement savings, the required minimum Registered Retirement Income Fund ("RRIF") withdrawal amount was reduced by 25% for 2020. Individuals who have not already withdrawn more than the (reduced) 2020 minimum amount are advised to contact their BMO financial professional for further information, including any potential reduced withdrawals and withholding tax implications applicable to your situation, and/or to take advantage of this reduced RRIF minimum withdrawal amount for 2020.

8. Federal COVID-19 relief measures

Deadline: December 31

As a result of the economic impact of the COVID-19 pandemic, many Canadians received government assistance in 2020, including the Canada Emergency Response Benefit ("CERB") or the Canada Emergency Student Benefit ("CESB"), the latter of which provided income support to post-secondary students for lost work opportunities.

As noted in our publication, *Update on Canada's COVID-19 Economic Response Plan*, both the CERB and the CESB are taxable and therefore will need to be reported as income when filing a 2020 income tax return. Accordingly, in early 2021, the government will issue a T4A tax slip for 2020 showing the total amount of CERB or CESB received. However, no income tax was withheld 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 2020 tax return next spring, depending on your other sources of income and your marginal tax rate.

In addition, some Canadians who received the CERB or CESB may be required to repay all or a portion of these benefits if they applied and later found that they were not eligible, mistakenly received multiple payments or received more than what they were entitled to receive based on the eligibility criteria. In these scenarios, the government has advised that if the ineligible CERB or CESB payments are returned before December 31, 2020, the Canada Revenue Agency will not include the amount repaid on the T4A slip.

9. Employee stock options

Deadline: To be confirmed

Draft legislation introduced in 2019 seeks to change Canada's beneficial employee stock option tax treatment. Specifically, the legislation proposes to apply a $200,000 annual limit (per vesting year) on certain employee stock option grants (based on the fair market value of the underlying shares at the time the options are granted) that can receive tax-preferred treatment under the current employee stock option tax rules (i.e., 50% taxable). Employee stock options above the limit will be subject to the new (proposed) employee stock option tax rules (i.e., full taxation of the employment benefit).

Employee stock options granted by Canadian-controlled private corporations ("CCPCs") will not be subject to the new limit. In recognition of the fact that some non-CCPCs could be start-ups, emerging or scale-up companies, those non-CCPCs that meet certain prescribed conditions will also not be subject to the new limit.

Although this draft legislation was to be effective for options granted on, or after January 1, 2020, the Federal government subsequently indicated that it would announce a new coming-into-force date and details on how it intends to move forward with this measure in the 2020 Federal Budget (which has not yet been released as a result of the COVID-19 pandemic). As a result, affected individuals and employers should pay close attention to possible forthcoming announcements on these proposals.

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.

Please speak to your BMO financial professional for more information, or if you would like to discuss one or more of these year-end tax strategies.

BMO Private Wealth