Year-End Tax Planning Tips

Since many tax strategies require foresight to be effective, tax planning should be a year-round activity. However, as we approach year-end there are still opportunities to reduce your 2015 tax bill. Consider the following year-end tax-saving strategies.

1. Tax-loss selling – Deadline: December 24

December 24, 2015 is expected to be the last buy/sell date for Canadian securities to settle in 2015 (based on trade date plus three 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 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 charities, 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 2015, you must ensure all charitable donations are made before December 31, 2015.

December 31 is also the final payment date in order to receive a 2015 tax deduction or credit for expenses such as childcare, medical, tuition and the children's fitness and arts tax credits.

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 RRSP into a 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 2016. This way, the amount withdrawn is added back to your TFSA contribution limit on January 1, 2016 (rather than 2017).

5. RRSP contributions for those turning 71 - Deadline: December 31

If you turned 71 years of age in 2015, 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 2015 that will generate RRSP contribution room for 2016, consider making your 2016 RRSP contribution early – in December 2015. 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 2016 tax return) should exceed the penalty tax.

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6. Payment of quarterly tax installments – Deadline: December 15

Many Canadian investors are required to make income tax instalment payments since tax is not deducted at source on investment income. If your estimated income tax payable for the year, or 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.

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.

BMO Wealth Management
BMO Nesbitt Burns