2017 Year-End Tax Planning Tips

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 2017 tax bill. The following are year-end tax-saving strategies that may be available, depending on your personal situation.

1. Tax-loss selling

Deadline: December 27

Wednesday, December 27, 2017 is expected to be the last buy/sell date for securities to settle in 2017 (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 2017, you must ensure all charitable donations are made before December 31, 2017.

This year marks the final year of the temporary First-time Donor's Super Credit ("FTDSC"). The FTDSC provides a one-time additional 25% federal tax credit for a 'first-time' donor, on up to $1,000 of cash donations. Monetary donations made up until December 31, 2017 (or in any of the four preceding years after March 20, 2013) are eligible for the FTDSC to the extent that you (or your spouse or common-law partner) have not claimed the federal donation tax credit for any year after 2007.

December 31 is also the final payment date in order to receive a 2017 tax deduction or credit for expenses such as childcare, medical and tuition tax credits. Also note that 2017 is the first year for the new Canada Caregiver Credit, which was introduced in the 2017 Federal Budget to enhance the tax relief provided to caregivers supporting their family members.

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 2018. This way, the amount withdrawn will be added back to your TFSA contribution limit on January 1, 2018 (rather than 2019).

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5. RRSP contributions for those turning 71

Deadline: December 31

If you turned 71 years of age in 2017, 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 2017 that will generate RRSP contribution room for 2018, consider making your 2018 RRSP contribution early – in December 2017. 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 2018 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.

7. Private corporation tax planning - Income-splitting

Deadline: December 31

Tax proposals released in July 2017 seek to broaden existing tax provisions that prevent income-splitting using private corporations involving family members who are minors. These current tax rules assess a top marginal tax rate on certain income (generally dividends) received by a minor child from a related private corporation. The proposals seek to expand the types of income that would be subject to these rules and broaden their application to family members of any age. The proposals introduce a reasonability test (based on labour and capital contributions, and risk factors assumed in the business) for adult family members receiving distributions. To the extent amounts received by adult family members from related private corporations are not 'reasonable,' top marginal tax rates will apply (as is the case currently for minor children). Further clarity on these new rules is expected to be released by the government later this year with a proposed effective date of January 1, 2018.

In light of these proposals, and any further direction provided by the government later this year, consider paying adult family members aged 18 or older who are in lower tax brackets – particularly those not actively involved in the private corporation's business – increased amounts of dividends in 2017. Such distributions could maximize the ability to split income from the business for one final year assuming that the expanded income-splitting rules will be effective in 2018 and later years, as intended. If several family members hold the same class of shares, consider restructuring the share capital of the corporation so that different family members own separate classes of shares in order to facilitate flexibility in the amount of dividends paid to your family members, depending on the impact of these proposed new rules to each person.

For further information regarding these important tax proposals, please ask your BMO financial professional for a copy of our publication **Tax Proposals Affecting Private Corporations: Initial Government Response Following Consultation Period**.

Please stay tuned for future developments regarding these income tax proposals.

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Seek professional advice

Please speak to your BMO financial professional if you would like more information on these year-end strategies.

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.

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Please note that December 31 is the deadline for many of the planning tips discussed in this article. Since December 31, 2017 falls on a Sunday, the last business day in 2017 is Friday, December 29 so investors should plan accordingly.

ID0023 (11/17)