Now's the Time for Investment Tax Planning

"Collecting more taxes than is absolutely necessary is legalized robbery."
Calvin Coolidge, 1872-1933

Most of us have a strong opinion about taxes and it's likely not far from what Coolidge expressed in the last century. Even so, many investors today think it may be easier to ignore issues involving taxes than to implement strategies to minimize their tax bill to the Canadian Revenue Agency (CRA).

With year-end approaching, now is an opportune time to implement strategies that work best for you and your investment portfolio. It often pays to know your action plan before the year-end deadline looms for your trading activities and getting charitable donation receipts. Here are some strategies for consideration:

Look for tax selling opportunities

Now is a good time to review your non-RRSP investment portfolios and business investments to identify where capital gains or losses should be crystallized before year end. Bear in mind that any tax advantage must be set against the quality and investment outlook of the security. Tax planning should influence, but never overwhelm, your overall strategic investment objectives. Unused capital losses for this year can be carried forward or retroactively applied against capital gains taxes paid in three previous taxation years.

Give and you shall receive

Charitable giving is another investment tax strategy that has a year-end deadline. All charitable donations can be carried forward up to five years, but those to be claimed in the current tax year must have a receipt issued before December 31st. Over $200 gets you a minimum 29 percent federal tax credit and a maximum 33 per cent federal tax credit to the extent the taxpayer's income is subject to the top 33 per cent federal income tax bracket. Provincial credits can take the tax credit even higher.

One strategy to consider is donating marketable securities that have realized a substantial capital gain. The gifting is considered a sale of the securities. However, the federal government has reduced the capital gains tax to zero (instead of the normal 50 percent) on capital gains of gifted securities. This means you pay no tax and you can claim the full market value of the securities as your charitable donation.

Don't neglect your RRSP or your RRIF

Your registered retirement savings plan needs to be reviewed. Even though you have until the end of February to make a contribution, now is the time to decide on the size of your contributions. Check last year's tax records and see if you have built up a sizable unused contribution limit over the years. It may be worthwhile getting a one-year loan while current interest rates are relatively low and making a dent in that unused limit. Any interest costs are not a deductible expense.

If you are turning 71 this calendar year, you should be planning with your financial advisor to wind up your RRSP by the end of the year and convert it into an annuity or roll it over into a Registered Retirement Income Fund. If you have earned income, this will create new contribution room. If you turned 71 this year, you must make your contribution by December 31st of this year and before you wind up your RRSP. You will have a one percent penalty per month for any additional contribution you make over the $2,000 penalty-free over-contribution, but you will have an RRSP deduction in the next year.

Some trades to avoid

Just as there are some actions you'll need to take between now and the end of the year, there are also trading activities you'll want to avoid. Equity-based mutual funds for instance often declare their income, including annual capital gains in December, and you'll be on the hook for the full year's share of those gains. Postpone buying into an equity mutual fund till January. Similarly, put off purchasing GICs and other interest bearing investments until January, and by doing so defer tax on those investments into the next taxation year.

Income splitting with a spouse

If you made an prescribed interest rate loan to a spouse, who invested the money, you must make sure that interest on the loan is paid by January 30th to avoid the attribution rules requiring you to report any income earned on the lent money.

Get advice

When you're not facing a year-end deadline, you have the luxury of time to make the right planning decisions. It will not only save you money and make your investments work harder for you, but you will also go into the holiday season with peace of mind. Your Raymond James financial advisor can work with your accountant or tax specialist to ensure that your tax-planning strategies are right for your situation.

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