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Wealth Management

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Investor Insight

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Simple Ways to Save Tax

Now is the perfect time to be proactive and consider some simple tips to reduce your future tax bill.

- **Maximize RRSP contributions —** Repeated all too often perhaps, but this is still one of the best tax shelters for most Canadians. Get an immediate deduction and defer tax on investment returns until retirement.

- **Shelter investment income from tax** — If you earn investment income personally, consider maximizing contributions to your Tax-Free Savings Account (TFSA). Unlike Registered Retirement Savings Plan (RRSP) contributions, TFSA contributions are not deductible for tax purposes; however, income earned in the account accumulates tax-free and is not subject to tax when withdrawn.

- **Combine saving with learning —** Registered Education Savings Plans (RESPs) are a great way to income split with your children and/or grandchildren while providing the gift of higher education. Contributions to the plan are not eligible for a tax deduction; however, income accumulates tax-free in the account, the government matches a portion of your contributions (in effect providing a guaranteed return on your investment), and the income earned and grants received in the account will be taxed in your child's or grandchild's hands (presumably at a lower marginal tax rate) when distributed to him/her.

- **Make your interest tax deductible** — Interest paid on loans used to earn income from investments is deductible for tax purposes. As a result, to the extent possible consider restructuring your debt obligations to ensure that your interest expense becomes tax deductible.

- **Make your portfolios tax efficient** — When reviewing your portfolio structure, it is important to understand how different forms of income are taxed. Interest income and foreign dividends are subject to the highest rate of tax, capital gains are subject to the lowest rate of tax and Canadian dividend income falls in the middle (except in provinces/territories where the effective tax rate on Canadian dividend income is less than the effective tax rate on capital gains). From a tax perspective only, it may be more efficient to hold interest-producing investments in tax-deferred or tax-free accounts (i.e., RRSP and TFSA) and investments intended to produce capital gains in non-registered accounts.

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- **Match capital losses with capital gains** — In situations where you have unrealized personal capital losses and your spouse or holding company has unrealized capital gains (or vice versa), various planning techniques may be available to offset the capital gains with the available capital losses in order to minimize taxes.
- **Make (efficient) donations** — Charitable donations can provide valuable tax credits. Your gifting can be even more tax efficient by donating marketable securities with accrued gains to the charity instead of cash, as the resulting capital gain is not subject to tax.
- **Income-split with family members** — If you are subject to tax at the highest marginal tax rate, you may consider using a family trust or a prescribed rate investment loan to split income with a spouse or children who are subject to lower marginal tax rates.
- **Seek credit** — There continue to be many changes to tax legislation, so be aware of the tax credits available to see if they apply to you in the current or future tax years. For example, you may wish to enroll your children in eligible fitness programs if you haven’t already done so, to take advantage of the children’s fitness tax credit. Other tax credits may be available for expenses relating to public transit or for allowable medical expenses for dependents, as examples.

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