Don't Leave Tax Planning Too Late!

By the time spring approaches and personal tax season is well underway, it is often too late to do much to save taxes. Instead, planning ahead and taking action before the close of the year can be one of the best ways to improve your tax position.

Here are some actions that should be considered before December 31st. Be sure to speak with a tax advisor for the best advice relating to your personal situation.

1. Tax-Loss Selling. You may wish to sell investments with accrued losses before the end of the year to offset any taxable capital gains realized in your portfolio. Net capital losses that cannot be used in the current year may be carried back three years to recover taxes paid on the taxable capital gains realized in those years, or they may be carried forward indefinitely.

There may also be an opportunity to transfer capital losses between spouses in the event that one spouse has unrealized capital losses while the other spouse has capital gains in the current year or any of the preceding three tax years.

Be aware of the "superficial loss" rules, which will deny a capital loss in the event that a security sold at a loss is repurchased by you, your spouse or a corporation or trust (or any "affiliated person" as defined within the Income Tax Act) held by either of you within 30 calendar days before or after the sale date and still held by the party on the 30th day after the realization of the loss.

2. Charitable Contributions. Donations must be made by December 31st to claim a tax credit for that particular tax year. Donations of marketable securities with accrued gains will generally entitle you to a tax receipt for the fair market value of the security being donated, and at the same time eliminate any capital gains tax.

3. RESP Contributions. Registered Education Savings Plan (RESP) contributions must generally be made by December 31st to be eligible for the Canada Education Savings Grant (CESG), through which the government matches 20 percent of contributions annually (to a maximum of $500 per year and a total of $7,200 per lifetime limit).

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4. Investment-Related Expenses. Interest paid on loans used to earn investment income or investment counselling fees for non-RRSP accounts must be paid by December 31st to claim a tax deduction or credit for the tax year in question.

5. Other Expenses. Medical expenses, professional dues, child-care expenses interest on student loans and spousal support payments must all be paid before year end to be eligible in that year's tax return. However, you may be able to prepay certain expenses, such as the children's fitness credit, as long as the receipt has been issued in the year corresponding to the tax year in question.

6. TFSA Withdrawals. If you plan on withdrawing funds from your Tax-Free Savings Account (TFSA), consider doing this before the end of the year. This is because TFSA contribution room isn't added back until the beginning of the following year after the withdrawal.

Plan Ahead for Best Results

Of course, many tax planning strategies exist — we have only highlighted a handful of actions that should be considered before the end of the year to be effective. Tax planning should be a year round exercise to ensure that you take advantage of all the opportunities available to you.