Don’t wait until it’s too late to start tax planning!

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Managing Your Money

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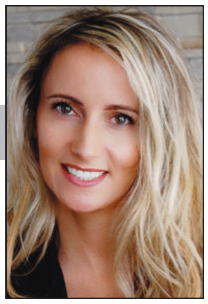

Four months are already gone…the clock is ticking. This is the time of year when many people are kicking themselves for not having looked at their tax planning early last year. If your accountant is giving you bad news about owing taxes, this may be a good time to start planning, so it doesn’t happen again next year. In many cases, the impact of tax planning depends on how many months it’s been in effect during the year. With four months already gone, don’t wait too much longer. There are, of course, many possible tax strategies. Let me share a few that I often see overlooked.

> *”In many cases, the impact of tax planning depends on how many months it's been in effect during the year.”*

Interest income: While interest income is not all bad, it can be highly taxable. Interest income can come from a variety of sources such as bank accounts, bonds, GICs, mutual funds, ETFs, etc. Unlike other sources of investment income, interest is 100% taxable. So, if you look at your tax return and notice a high amount of interest income, consider other investment options. It could be shifted to dividends. Or a corporate structure could be used to convert the interest to capital gains. Both dividends and capital gains are less taxable than interest. If you have equity investments in your registered portfolios, and fixed-income investments in your non-registered portfolio, you could swap positions to shelter the more highly taxable interest from taxes. If you’re working with a financial advisor, they should be noticing this each year when they review your tax return and make recommendations that fit with your risk profile and reduce your taxes.

Deductible interest: If you have non-registered investments and you also have debt that you are paying interest on, consider looking at swapping the debt for the investments. I recently had a client come in to discuss a new project they were getting started on. They are nearing retirement and have decided to build a country home up north. They planned to take a mortgage on their current home to fund the new construction. After some tax planning, we managed to use a strategy that created a tax deduction of approximately $30,000 - $35,000 in taxes over the next 15 years through interest deductibility. I used the same strategy myself when I bought my last car. Of course, the amount of tax savings depends on interest rates, which will likely go down over the next couple of years, as well as your tax bracket.

Deductibility of Investment Counsel Fees: Comprehensive investment counsel fees are often charged to clients based on the value and composition of their assets. The fees charged typically cover a range of services including investment advice and account management services. In many circumstances, these fees may be deductible by clients for tax purposes. As with most things tax related, there are rules around this deduction. In the case of mutual funds, while the fees “hidden” in the mutual fund are not deductible, they can often be “unbundled” to allow for a portion of the fee to be deducted from your personal taxes. Unfortunately, fees charged on registered accounts such as RRSPs, RRIFs, RESPs, and TFSAs are not deductible.

> *“Being a business owner opens a whole new set of doors to tax planning. There are abundant tax opportunities that exist for business owners.”*

End-of-year tax planning: For those who are lucky enough to receive an unexpected (taxable) amount during the year or have a high taxable income, there are always opportunities before year end to create some deductions - from the straightforward RRSP contribution to the more complex flow-through investments. There also may be opportunities to trigger capital losses (just be aware of the denied loss rules and make sure to work around them).

Businesses: Being a business owner opens a whole new set of doors to tax planning – from hiring your children, to depreciation, to cash damming and more. There are abundant tax opportunities that exist for business owners. Working with an accountant, tax lawyer, and financial planner familiar with corporate tax planning can get you the best possible tax outcome.

No one enjoys paying taxes, and it is our right as Canadians to reduce our taxes as much as legally possible. Tax evasion is a crime - but tax planning, by leveraging our fiscal knowledge and tax strategies, is legal. Therefore, with the 2022 tax season behind us, and four months of 2023 are already gone, get started on discovering what tax strategies may work for you. And for parents wanting to instruct their kids about taxes, consider this funny quote on taxes by Bill Murray: “The best way to teach your kids about taxes is to eat 30 percent of their ice cream.”

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