

You and your taxes: Establishing a year round process

Does most of your tax planning take place during the last few months of the year? If so, you are not alone. However, to effectively reduce your current and future tax liabilities, tax planning should be a year round endeavour. Here are some potential opportunities that may be considered within the limits of tax laws applicable to these situations. Please consult with your own tax advisor to determine which opportunities are appropriate and relevant to your specific circumstances.

Split your income

- Income splitting involves structuring your affairs to move income into the hands of a lower-income family member who will pay less tax.
- A spousal RRSP allows a higher-income spouse to contribute to the RRSP of a lower-income spouse. At retirement, this can help shift more income to the spouse who is expected to be in a lower tax bracket.
- A spousal loan is another strategy for income splitting. As long as a prescribed rate of interest is paid by the borrower, a spousal loan can be an effective way to transfer assets from a spouse in a higher tax bracket to a spouse in a lower tax bracket.
- The pension income splitting measure introduced by the federal government in October 2006 allows the higher income earning spouse to allocate up to 50% of his or her pension income to the lower income earning spouse where it would be taxed at their lower marginal rate. Income eligible for income splitting is as follows:
 - **For people age 65 and older**, eligible pension income includes lifetime annuity payments under a registered pension plan (RPP), a registered retirement savings plan (RRSP) or a deferred profit sharing plan (DPSP), and payments from a registered retirement income fund (RRIF).
 - **For individuals younger than 65**, eligible pension income includes only lifetime annuity payments from an RPP (employer-sponsored pension) and certain other payments received upon the death of a spouse or common-law partner.

Donate securities

If you are considering a charitable donation, consider donating publicly-traded securities such as stocks, trust units, exchange-traded funds, warrants etc., as well as mutual fund units and bonds to a public charity (charitable organization and public foundations). In doing so, capital gains tax is eliminated on the transfer of this gift.

This donation must be an "in kind" transfer of the security itself, not the cash proceeds of a sale of the security. The transfer is best made electronically from the donor's investment account to the charity's custody or brokerage account.

Tax-Free Savings Account

The Tax-Free Savings Account (TFSA) is a flexible, registered, general-purpose savings vehicle that allows Canadians to earn tax-free investment income to more easily meet lifetime savings needs. The TFSA complements existing registered savings plans like the Registered Retirement Savings Plan (RRSP) and the Registered Education Savings Plan (RESP).

Create deductible debt

Tax deductible loan interest can be a great tax-saver. One strategy is to convert all or part of your mortgage debt into an investment or business loan.

For example, you could sell some investments to pay off your mortgage, then take a loan to repurchase the investments. This will effectively replace your non-deductible mortgage debt with a deductible investment loan.

Maximize your RRSP

Your RRSP is one of the few good tax shelters left. But don't wait for the deadline to make your contribution. The sooner you invest, the longer your savings will be able to grow on a tax deferred basis. A monthly RRSP contribution plan can make this easy. And, if you have significant unused RRSP contribution room, a short-term loan is often a great way to catch up.

Consider an RESP

Today, a four-year university education in Canada may cost \$32,000 or more in tuition fees. In 18 years, using a 5% annual inflation factor, that number could rise to \$77,000. Although contributions to a Registered Education Savings Plan (RESP) are not tax deductible, the income earned in the plan grows tax-free until it is withdrawn by the student. Plus, you could receive up to \$500 a year in government grants to help your savings along. Consider this option if you have children with ambitions for higher education.

Make the right decisions all year

Year round tax planning means that you are entitled to arrange your affairs, within the limits of law, so that you pay a minimum amount of tax.

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