Douglas A. Boufford

CHARTERED ACCOUNTANT

Maximize your RRSP contributions Amounts that you contribute to your RRSP (or spousal RRSP, if applicable) are deductible from your income. These include amounts contributed during the year and during the first fifty-nine (59) days of the following year. Tax is deferred on all income earned inside of your RRSP until you begin receiving an RRSP income.

Make spousal RRSP contributions by December 31st

If your spouse's retirement income is expected to be lower than yours, consider contributing funds to your spouse's RRSP rather than your own plan (you can still claim the deduction on your return). Your spouse may then be able to withdraw funds in the future and pay less tax than you would pay on the same amount of income. The timing is important though - for the withdrawal to be taxed in your spouse's hands. it cannot be withdrawn until the third year after the calendar year in which you last contributed to any of your spouse's RRSPs - otherwise it will be taxed in your hands

Ensure that interest expense is tax-deductible

In general, interest is deductible for tax purposes provided it is paid of payable in the year, there is a legal obligation to pay the interest and the interest was incurred on funds borrowed to earn business or property income (except capital gains). Therefore, if you have to borrow money, you should borrow for business or investment purposes, before you borrow for personal reasons. When repaying debt, always repay loans on which the interest is non-deductible before you repay debts on which the interest is deductible.

Maximize charitable donations tax credit

Consider donating listed public securities directly to your favorite registered charitable organization. This will give you a greater tax benefit than if you sold the securities and then donated the cash proceeds to the charity.

Ensure your "charitable donations" are deductible

The charitable donations tax credit is only available for donations made to registered charities, registered Canadian amateur athletic associations, Canadian municipalities, and the Canadian federal and provincial governments. To obtain the charitable donations tax credit, you must include the original official receipt issued by the registered charity or association, with your tax return. Photocopies of receipts or the filing of canceled cheques, are not acceptable. These official receipts will include the registration number of the charitable institution. There are many organizations soliciting funds from the public, some of them purportedly to send children to certain events, or supposedly, on behalf of local police or fire organizations. Ensure that your contributions are going to a true charitable association and that your receipt has a charitable registration number printed on it.

Split income with your spouse Most couples will pay less income tax in total if each partner earns part of the family's investment income, rather than one partner earning all of it. In addition, the higher income spouse should assume most or all of the personal household expenses, leaving the lower income spouse with as much disposable income as possible to be used for investment purposes. The investment income so earned, would normally be taxable at a lower rate.

Realize losses to offset any gains

If you've already realized or plan to realize a taxable capital gain in this year, consider selling investments with accrued capital losses before the end of the year to offset against the capital gains. If you engage in this strategy, make sure that you do not run afoul of the special tax rules designed to stop the artificial creation of tax losses.

Reduce net income to avoid the OAS clawback

If possible, defer income to a future year or maximize your deductions this year, to reduce your net income and the clawback of Old Age Security. If you are considering making the election to include all of your spouse's taxable Canadian dividends in your income, ensure that you are not subjecting yourself to the OAS clawback, by increasing your net income.

Split CPP benefits with your spouse

The Canada Pension Plan Act permits you to assign a portion of your retirement pension to your spouse. In many cases the assignment of benefits allows you and your spouse to equalize CPP retirement benefits.

Consider a RESP for your children

If you have a child or grandchild under 18, you may want to consider starting a registered education savings plan. A RESP can help you build an education fund for your child or grandchild by allowing you to earn investment income in a tax-deferred environment. Recent changes to the RESP system, including the introduction of Canada Education Savings Grants (CESGs), have made these plans more attractive than they were in the past. Under the CESG program, the government will provide a direct grant to the RESP of 20% of the first $2,000 of annual contributions made to the RESP in a year.

Tax Instalments and Withholding Taxes

If you are required to make quarterly tax instalments, you should review your expected tax liability before remitting your final instalment (which is due December 15th). This will be especially important where your mix of salary/dividends has changed from year to year, or where you have had unusual income inclusions last year, or expect increased deductions in the current year. You are required to make quarterly instalments if the difference between your total tax payable (federal and provincial) and the amount withheld at source is greater than $2,000 in 2000 and in either of the two prior years. The amount of your instalment payment can be based on either your actual tax for the preceding year or an estimate of your tax for the current year. One other option is to pay the amount reported on the notice from CCRA. However, this option may not be the most advantageous from a cash flow perspective, especially if your tax liability for the current year has decreased and/or the amount of tax withheld at source has increased. CCRA charges interest on late or deficient instalment payments. It is important to ensure that adequate instalments are made on the required dates. If you discover during the year that you should have been making higher instalments, it is possible to catch up because CCRA will calculate credit interest on overpayments and apply that against interest charges on deficiencies.

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