

Year-end tax tips for the wise

By implementing a few key strategies, such as income splitting and charitable giving, you may find over time your tax bill can consistently be lower.

By Janine Purves

As the year draws to a close, it's time to think about what we can do to manage our taxes, before April comes around again.

Here are some of the best strategies to consider for year end

- Take advantage of charitable giving. Anything donated over \$250 gets maximum tax credit of approximately 46 per cent. If you give to charities, try to donate equities with capital gains in non-registered accounts. This gives you a double benefit; you still get the charitable-donation tax credit, but you also get to waive paying tax on any capital gain that is earned. In this way, you can keep your cash for spending, but know you'll never pay the capitalgains tax on the amount you donated.
- Claim the pension tax credit of up to \$2,000. This can be done by starting to accept a pension, by converting any RRSP to a RRIF after age 65. In certain circumstances, you can collect this prior to age 65 through collecting a direct pension, and through some special circumstances with locked-in RIFs and annuities. Check with your accountant to take advantage of this.
- For married couples, you can split your pension or RRIF withdrawals. This doesn't have to be dealt with until April, but it's one of the greatest taxsaving strategies since RRSPs were invented. Note, you can also request that the CPP be split, which can help equalize income as well, though there are certain age restrictions.
- Maximize your TFSA (Tax Free Savings Account) contributions. While this impact is minimal now, any interest earned inside the TFSA is not taxable ever. This means, if you transfer in a GIC, or bond, or even an equity with very little gain, you will only have to claim interest or growth on what was earned prior to moving it into the TFSA. I realize that right now interest rates are so low, it really doesn't seem to matter. But, they will increase sometime, so planning for that time now and protecting any income/growth from tax is a good planning tool.

- Sell a stock to trigger a gain or loss in this calendar year, if it can help you minimize the taxes paid either now or in the future. If you claimed any losses on your tax return in the past, you can use that loss to offset a capital gain in order to reduce or eliminate any taxes. Similarly, if you trigger a loss for this year, you can carry that back up to three years, and claim it against your gains, to help recover taxes paid. Note, any transactions must be implemented by Dec. 23 to be settled in the 2009 calendar year as this is the final full market day that items can be processed.
- Pay your tax installments on time. The final installment for 2009 is due Dec. 15. If the government indicates that you are required to pay installments, it's best to do so, unless you know you can prove it wasn't necessary.
- Ensure any debt is tax deductible. If you incurred some debt this past year, try to ensure the interest can be deducted. If you own any investments, you could consider selling these to pay off the loan, then borrowing the money back and repurchasing the investments. By doing this, the interest is now converted and is tax-deductible, providing there is an income source within the investments held.
- Even if you're not working and are over 71, if you still have RRSP contribution room, you can make spousal RRSP contributions to the account of your younger spouse. Sometimes this can help reduce your taxes, while equalizing income planning for the future.

One final note: since Old Age Security is clawed back and paid out based on the prior year's income, for many people, one key strategy is to ensure you maintain an income level at or below \$65,000 to avoid any clawback.

By implementing some of the above strategies, particularly income splitting and charitable giving, you may find over time your tax bill can consistently be lower.

All in all, paying taxes is a necessary evil of earning an income. I personally believe we're far better off to pay tax and enjoy the luxury of cash flow, rather than the other options.

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