



Make 2020 Less Taxing

Tradition has it that at the turn of the year, we make resolutions for self-improvement. If you are looking for ideas, what better place to begin than with your financial well-being. Achieving your investment goals should involve more than just investment performance. Minimizing the impact of taxation can play a significant role in building wealth. Even small reductions in taxes over time can make a large impact to your overall returns.

What did you do to reduce your tax bill last year? As we enter a new decade, perhaps there are opportunities to improve your tax position. Here are a handful of suggestions to start your thinking:

- 1. Contribute to your RRSP** – The deadline for Registered Retirement Savings Plan (RRSP) contributions (for the 2019 tax year) is Monday, March 2, 2020. Don't overlook the value of tax-deferred growth over time. If you have a spouse, consider the opportunity to contribute to a spousal RRSP. If one spouse has the prospect of earning a high level of income in retirement while the other will have little or no income, a spousal RRSP may be an effective income-splitting opportunity.
- 2. Maximize your TFSA** – The annual Tax-Free Savings Account (TFSA) dollar limit for 2020 is \$6,000. This brings the lifetime contribution amount to \$69,500 for eligible individuals since the TFSA's inception in 2009. If you have not maximized contributions to your tax-advantaged accounts, consider setting up a monthly contribution plan.
- 3. Split income, save tax** – Review your family's potential tax bill to determine if there are income-splitting opportunities. While the federal government has eliminated many opportunities over the years, there are still various strategies to consider. This may include paying reasonable salaries to spouses/children for services provided to a self-employed business/private company, splitting eligible pension income with a spouse on a tax return, or setting up a loan at the prescribed interest rate where proceeds are used for investment purposes by a spouse.
- 4. Review your investment location** – If you hold multiple types of accounts (i.e., non-registered, RRSP, TFSA), consider that the same investment may be taxed differently depending on the type of account in which it is held. This can have an impact on your resulting after-tax dollars. As one example, it may be beneficial to hold foreign (non-U.S.) dividend-paying equities outside of an RRSP. This is because foreign dividends are usually subject to a foreign withholding tax. In non-registered accounts, there is a federal (and sometimes provincial) foreign tax credit

available to partially or fully recover this tax. However, when these stocks are held in registered accounts, this credit is not available.

- 5. Plan for your retirement accounts** – If you are close to or currently in retirement, a review of your accounts may help to minimize tax or make the most of available tax credits. By understanding your sources of retirement income (such as pension plans, RRSPs/RRIFs, income from investments, etc.), you may be able to prioritize their withdrawal to maximize tax efficiency. For instance, there may be benefits to withdrawing funds from non-registered investments before redeeming funds held in tax-sheltered plans so you can continue to defer paying tax on registered investments. This may help to preserve the power of tax-free compounding as long as possible. Or, forward planning may be needed in order to preserve government income-tested benefits. We can help you identify opportunities that relate to your specific situation.
- 6. Get organized for tax season** – While personal income tax returns will not be top of mind for a few months, why not organize your records before the crunch season approaches? This may prevent medical expenses, donations, business charges and other receipts from being missed or overlooked. Consider starting a new tax folder to begin the 2020 tax year on great footing.

- 7. Plan for your business** – If you are a small business owner, speak to an accountant or tax planner to review the options for the year ahead. The tax rules affecting small businesses continue to change. Have you accounted for the passive income rules that came into effect last year? A variety of strategies may help to navigate these new rules, such as establishing a registered pension plan (i.e., an Individual Pension Plan) or purchasing a corporately-owned, exempt permanent life insurance policy to extract funds from the business.

We Can Help

Tax planning continues to be an important part of investing as it can play a significant role in improving longer-term returns. If you need assistance with any of these ideas, please call the office. Also consider seeking advice from professional tax advisors regarding your particular situation.