FINANCIAL POST

Why it’s time to time to start talking about your end-of-year tax plans

JAMIE GOLOMBEK | October 21, 2016 1:04 PM ET
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Fotolia It's good to think about your plans now.

While it may seem premature to talk about year-end tax planning before Halloween, when it comes to registered plans, you may be grateful for some advance warning in case the looming December 31st deadline interferes with your 2016 contribution plans.

RRSPs

While the general deadline to contribute to an Registered Retirement Savings Plan (RRSP) isn't until 60 days after the end of the year (March 1, 2017), individuals who turned 71 in 2016 must make any final RRSP contribution by Dec. 31. If you have a spouse or partner younger than 71, there's no rush, as you can contribute to a spousal RRSP until the normal March 1 deadline.

Of course, the bigger choice you need to make if you turned 71 this year is what to do with your RRSP, which must be wound up by Dec. 31. The most popular option is to convert your RRSP to an Registered Retirement Income Fund (RRIF), in which case minimum annual withdrawals based on an age-determined formula and the RRIF's fair market value must be taken out annually. The other option is to use the RRSP funds to purchase a registered annuity.

If you have earned income in 2016 that will generate RRSP contribution room for 2017, it may be beneficial to make a one-time over-contribution to your RRSP in December before conversion. Although you will pay a penalty tax of one per cent on the over-contribution (above the $2,000 permitted lifetime over-contribution limit) for December 2016, new RRSP room will open up on Jan. 1, 2017, so the penalty tax will cease at that time. You can then choose to deduct the over-contributed amount on your 2017 (or a future year's) return. Again, this may not be necessary if you have a younger spouse or partner, since, as discussed above, you can still use your contribution room after 2016 to make contributions to a spousal RRSP until the end of the year your spouse or partner turns 71.

TFSAs

The Tax-Free Savings Account (TFSA) dollar limit for 2016 is $5,500, down from $10,000 last year, but there is no deadline for making a TFSA contribution. If you have been at least 18 years old and resident in Canada since 2009, you can contribute up to $46,500 to a TFSA in 2016 if you haven't previously contributed to a TFSA.

Make RESP Contributions

Registered Education Savings Plans (RESPs) allow for tax-efficient savings for children's post-secondary education. The federal government provides a Canada Education Savings Grant (CESG) equal to 20 per cent of the first $2,500 of annual RESP contributions per child, or $500 annually, to a lifetime limit of $7,200. While unused CESG room is carried forward to the year the beneficiary turns 17, there are a couple of situations in which it may be beneficial to make an RESP contribution by Dec. 31.

Each beneficiary who has unused CESG carry-forward room can receive up to $1,000 of CESGs annually up to and including the year in which the beneficiary turns 17. If enhanced catch-up contributions of $5,000 (i.e. $2,500 x 2) are made for just over seven years, the maximum total CESGs of $7,200 will be obtained. If you have less than seven years before your child or grandchild turns 17 and haven't maximized RESP contributions, consider making a contribution by the end of the year.

Also, if your child or grandchild turned 15 this year and has never been a beneficiary of an RESP, no CESG can be claimed in future years unless at least $2,000 is contributed to an RESP by the end of the year. Consider making your contribution by Dec. 31 to receive the current year's CESG and create CESG eligibility for 2017 and 2018.

Contribute to an RDSP

Registered Disability Savings Plans are tax-deferred plans open to Canadian residents eligible for the Disability Tax Credit, their parents and other eligible contributors. Up to $200,000 can be contributed to the plan until the beneficiary turns 59, with no annual contribution limits. While contributions are not tax deductible, all earnings and growth accrue on a tax-deferred basis.

Federal government assistance in the form of matching Canada Disability Savings Grants (CDSGs) and Canada Disability Savings Bonds (CDSBs) may be deposited directly into the plan up until the year the beneficiary turns 49. The government will contribute up to a maximum of $3,500 CDSG and $1,000 CDSB per year of eligibility, depending on the net income of the beneficiary's family. Eligible investors may wish to contribute to an RDSP before Dec. 31 to get the 2016 tax year's assistance, although this may be less of a priority since unused CDSG and CDSB room can be carried forward for up to 10 years.

Financial Post

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