TAX MATTERS

Want to defer your taxes? Try these ideas

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I have a friend whose motto is "Hard work pays off eventually, but laziness pays off now." Spoken like a true procrastinator. There are few benefits to procrastination unless you're talking about paying your taxes. Who wants to pay taxes before they have to? No, I'm not suggesting that you simply delay filing your tax return or make your tax instalments late. I'm talking about structuring your affairs so that you're entitled to pay your taxes later, rather than sooner. Deferring tax is a key pillar of tax planning and allows you to put your hard-earned money to work and keep it in your pocket longer. Today, I want to share a few ideas that might enable you to defer tax.

Make your tax payments on time, but not before. Most Canadians remit their taxes during the year in the form of amounts deducted from their pay, or through tax instalments made regularly. But are you sending the taxman too much? If you're expecting a refund when you file your tax return this spring, and this happens every year, consider remitting less tax throughout the year. If you make instalments, simply reduce the level of your payments to reflect the correct amount and if you have tax deducted from your pay at work, you can apply to the Canada Revenue Agency (CRA) to have your tax deductions reduced (use Form T1213, available at cra.gc.ca, for this purpose).

Consider a capital gains reserve when selling an asset. Are you selling an asset at a profit? It may be possible to spread the capital gain over a period as long as five years if you defer the collection of some of the sale proceeds until a future year, or years. How? By taking back a properly worded promissory note instead of cash for all or some of the sale proceeds. You'll be entitled to a deduction (a reserve) for part of the taxable capital gain on the sale (equal to the proportion of the sale proceeds to be collected in a future year). You'll have to pay tax on at least 20 per cent of the gain each year.

Consider investments that provide a return of capital. There are many mutual funds, or other investments, that make distributions (to meet your cash needs) in the form of your capital returned to you. When you get your capital back, there's no immediate taxation. The capital returned to you will reduce your adjusted cost base (ACB) in the investment, and when you sell the investment later you are likely to have a taxable capital gain.

Contribute to an individual pension plan. If you operate a business through a corporation, you might want to consider establishing an individual pension plan. This is a pension plan set up for the benefit of one employee or senior executive. Depending on your age, contributions to an IPP can be greater than what you might be able to contribute to an RRSP. Given the proposed changes around the taxation of passive income inside private corporations, sheltering passive income in an IPP might be more attractive than ever.

Consider an estate freeze to defer tax. An estate freeze is the idea of taking certain assets that you own and freezing the value of those assets at today's values. The future growth is then passed to, in most cases, your kids. Tax on that future growth is deferred until your kids sell the assets or pass away, which is usually a much later point in time than taxes owing on your death.

Leave it to your spouse or spousal trust when you're gone. When you pass away you're deemed to have sold all your capital property at fair market value, so that a taxable capital gain could be triggered. If you leave those assets to your spouse or common-law partner, or a trust for that person, the otherwise ugly deemed disposition takes place at your cost amount, not at fair market value. The result is that taxes will be deferred until your spouse sells the assets or passes away.

Correction: Last week, I wrote about an income-splitting strategy that involved lending money from your corporation to an adult child whereby the child (and not you) would pay the tax on the loan amount if not repaid within a certain time. Upon reviewing the proposed tax changes introduced on Dec. 13, 2017, in more detail, there was language introduced in those provisions that shut down this opportunity.

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