TAX MATTERS

A dozen tax tips for the fourth quarter

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In 1997, a man in Frankfurt called the police to report that someone had allegedly stolen his Volkswagen Passat. Last year, his car was found – exactly where he had left it – in a parking garage that is scheduled to be demolished. The man is now 76 years old and was reunited with his car, which is no longer fit to drive and was towed to the scrapyard.

It's easy to be forgetful. I've been known to forget a few things myself – most notably my anniversary. So, each year at about this time, I like to remind Canadians of tax ideas for the fourth quarter of the year. Consider these dozen ideas:

1. Maximize tax deductions and credits. As we near year-end, paying certain costs can provide tax savings, so don't forget about: Moving, medical and child-care expenses, professional or union dues, carrying charges, student-loan interest, tuition, home-accessibility costs and salaries to family working in your business. Consider also accelerating the purchase of, or delaying the sale of, depreciable assets for use in your work so that you can maximize your claim for capital cost allowance.

2. Evaluate donations for 2018. Consider now how much more you're willing to donate to charity on or before Dec. 31. Check out chimp.net for a fantastic online platform to track and plan your donations. Consider also giving through canadahelps.org to making giving easier. If you make a donation of public securities to charity, you'll save even more tax since any capital gain on those securities is eliminated, but start this process well before year-end because of the extra time it may take to co-ordinate the donation.

3. Set up income-splitting today. Save tax in 2019 by ensuring that a lower-income family member pays some of the tax you might otherwise pay. How? Consider a loan to your spouse at the current prescribed rate (2 per cent), transferring investments to adult or minor children, paying adult children to look after those 16 and younger or to help in a move, lending money to family for business purposes and more. Speak to a trusted financial adviser about ideas and how to side-step the attribution rules.

4. Trigger capital losses. Consider selling losers in your non-registered portfolio to realize capital losses. These losses can offset capital gains in the current year or can be carried back up to three years or forward indefinitely.

5. Defer investment dispositions. If you've got winners in your portfolio that you're thinking of selling, consider holding them until the new year to push that taxable capital gain into 2019.

6. Make your final tax instalment for 2018. If all the tax you owe each year is deducted from your pay, you likely don't have to make tax instalments. For those who do make instalments, don't forget to pay your final instalment for 2018 by Dec. 15.

7. Accelerate TFSA withdrawals. If you plan to make a withdrawal from your tax-free savings account soon, consider doing this by Dec. 31 so that you'll be entitled to recontribute that same amount as early as Jan. 1, 2019.

8. Apply to reduce source deductions. If you're entitled to certain deductions or credits that often come back to you as a tax refund each year, consider filing Form T1213 now to reduce the amount of tax withheld from your pay throughout 2019.

9. Review family trust income. If you're the trustee of a family trust that has earned income in 2018, you may need to decide which of the beneficiaries should receive an allocation of that income for tax purposes. Finalize that decision in the next six weeks or so to leave time for trustee resolutions to be prepared by year-end.

10. Time your mutual fund investments. Thinking about investing in a mutual fund soon? Consider waiting until after the fund's distribution date to avoid paying tax on year-end distributions.

11. Make an RRSP advance contribution. If you turn 71 in 2018 you'll have to wind-up your registered retirement savings plan by year-end. If you also have earned income in 2018, which provides RRSP contribution room in 2019, consider making your 2019 contribution in December of this year before winding-up your RRSP forever. You may face a small overcontribution penalty by doing so, but you'll be allowed a deduction in 2019 for the contribution you make in December and this deduction could save you a lot of tax.

12. Consider a tax shelter. Do you have surplus assets and a high level of taxable income? Consider investing in a tax shelter to reduce your taxes payable for 2018. There are several shelters out there, including flow-through shares, but they will come with differing risks. So, speak to a tax and investment adviser before jumping in.

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