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Six tax-wise New Year's resolutions for 2017

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I suggested to Carolyn and the kids that we come up with three New Year's resolutions as a family. Everyone had to come up with one idea, then we'd vote on the top three resolutions. The suggestions included: Have more family dinners, stay active together, reduce screen time and have less structure and more free time. All good ideas, for sure.

Then I suggested we improve creativity by taking duct-tape art classes. "Dad, that sounds only slightly more fun than your idea last year, which was watching the Cable Public Affairs Channel (CPAC) on TV every Saturday morning," my daughter Sarah said. Then I suggested that our family resolution should include saving more in taxes – another flop with the kids until I told them we'd use the tax savings for a trip somewhere. Consider one of the following ideas to bring a tax-wise New Year's resolution to life.

1. **Reduce the taxes deducted from your pay.** Expecting a refund when you file your tax return this spring? If this is a regular occurrence for you due to certain deductions or credits you can claim, consider applying to the taxman today for permission for your employer to reduce the amount of tax deducted from each paycheque. The result will be more money in your pocket throughout the year to invest, pay down debt or spend. Just file Form T1213 to request the reduction.

2. Start a home-based business. Self-employment, even part-time, is one of the greatest tax shelters because it will open the door to tax deductions for things you're probably paying for anyway, including a portion of: Property taxes, mortgage interest, home repairs, home insurance, landscaping, utilities, vehicle expenses (repairs, insurance, licence fees, gas and oil, car loan interest, capital cost allowance), computer expenses and more. Pay your kids or spouse to help in the business to split income. You may even consider incorporation if the business grows in size and profitability.

3. Set up a family trust to split income. In the last federal budget, the Liberals got rid of several tax credits that saved families with children meaningful tax dollars, including: the education, textbook, fitness and art tax credits, and the Family Tax Cut (an income-splitting tax credit). How can you make up for these lost credits? In 2017, consider lending money to a family trust with the purpose of earning income in the trust and having that income taxed in the hands of children or a low-income spouse. The result may be little or no tax on that income, depending on the income level of family members. Those low-taxed dollars can then be used to pay for things for those family members. Visit a tax pro to talk about the opportunities because the rules are complex.

4. Lend money for a non-income-producing purpose. Consider making a loan to your spouse or an adult child for some non-income-producing purpose. Perhaps you can pay for something your family member would normally pay for themselves. This could free-up any income earned by those family members. Perhaps they can then use those earnings for investment purposes; they could contribute to a tax-free savings account or registered retirement savings plan, or simply invest those dollars outside a registered plan.

5. Say "no thanks" to a company car. If you're an employee who has been provided a company car to drive, you could face two taxable benefits each year: the "stand-by charge" and the "operating cost benefit." The bottom line is that, in some cases, the full value of the car could be added to your income over about a four-year period. That's a hefty tax hit. Consider, instead, providing your own vehicle for use in your work and receiving a tax-free vehicle allowance from your employer to cover the costs. The allowance can be tax-free if it is based on kilometres driven for work purposes.

6. Withdraw your paid-up capital. If you're a shareholder in a private company, you may have "paid-up capital" (PUC) in your shares. PUC is a cousin to your adjusted cost base (ACB) – but is a little different. The amount of your PUC can be withdrawn on a tax-free basis from your corporation (there are a couple of ways to accomplish this; visit a tax pro for more). If you're planning to hold a portfolio of marketable securities in your corporation, but can pull some dollars out tax-free as a return of your PUC, you may be better off investing those dollars outside of your corporation because corporate tax rates on investment income are not very attractive in most provinces today.