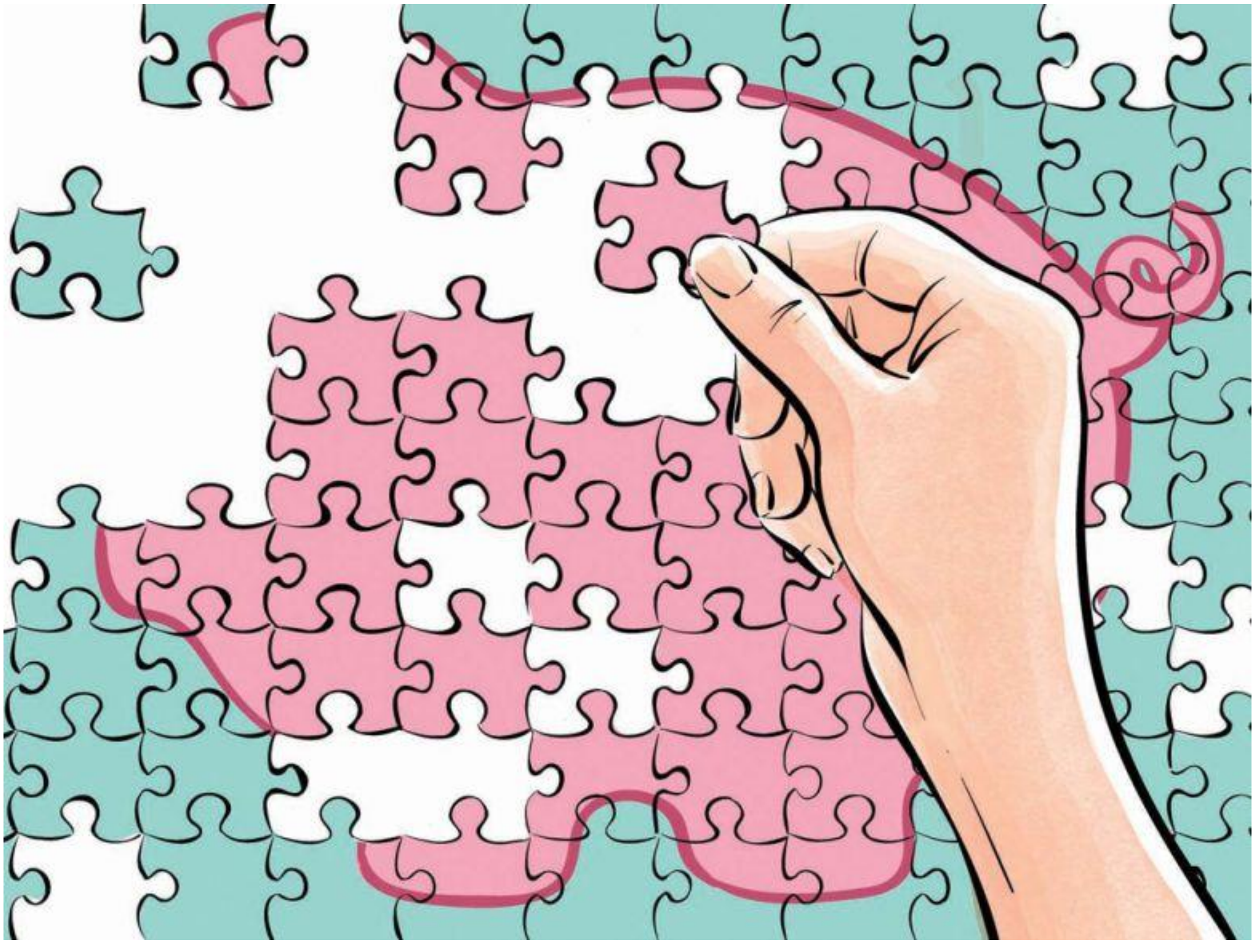
FINANCIAL POST

Tax tips to kickstart 2019 for every age group, from teens to seniors

Jamie Golombek: Why teens may want to consider filing taxes even if they're not required to, plus one way employees can boost cash flow all year long



Attention teens: Earned income in 2018 could create RRSP contribution room that may be used in future years.*Illustration by Chloe Cushman/National Post files*

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Welcome to 2019 — the dawn of a brand new tax year. Here are some tax tips for each age and stage to get you off on the right tax foot for the year ahead.

Teens

Most teens don't earn enough income to pay any federal or provincial tax. The no-tax threshold for 2019 is $12,069, which is the basic personal amount, meaning that as long as your taxable income is below this level, you won't owe any tax and generally don't have to file a tax return.

But just because you don't have to file, should you?

That depends on whether you had earned any income in 2018 that could create RRSP contribution room that may be used in future years. For example, if you earned $2,000 in 2018 from some weekend babysitting, reffing ice hockey or being a summer camp counsellor, simply filing a tax return will create $360 (18 per cent of earned income) of RRSP contribution room that may be used in any future year when you have taxable income and you could use the tax deduction.

Post-secondary students

If you're a student in post-secondary school in 2019, you may be the beneficiary of RESP withdrawals this year. Contributions to RESPs are not tax-deductible so they can always be withdrawn from an RESP tax-free provided you're enrolled in post-secondary education. Any other funds coming out of the plan for school are referred to as "educational assistance payments" (EAPs), which include the income, gains and Canada Education Savings Grants in the RESP. When these are paid out, they are taxable to the student receiving the funds.

As a student, not only will you have the $12,069 basic personal amount with which to shelter EAPs, but you can also claim a credit for the cost of tuition. With average undergrad tuition at Canadian schools running at approximately $6,900 for the current academic year, that's a total of nearly $19,000 in non-refundable credits that you might have in 2019 with which to shelter income and EAPs.

Using this knowledge along with an estimate of any part-time or summer job earnings, the RESP subscriber can be strategic on how funds are withdrawn from an RESP in 2019 to minimize tax over the course of your educational program.

Employees

If you're an employee, your employer deducts tax at source from each paycheque. The amount of tax withheld is calculated by your employer by taking into account certain credits to which you are entitled, but without taking into account various other credits and deductions you may ultimately claim when you file your tax return.

If you regularly expect a large tax refund in spring, then January is a great time to get a head start on reducing the amount of taxes withheld by your employer. There are two main ways to do this: revisiting your TD1 form and filing a T1213.

Form TD1, "Personal Tax Credits Return," along with its provincial (or territorial) equivalent, are forms you would have filled out when you first started working for your current employer. The form lists various credits to which you are entitled, such as the basic personal amount, the disability amount and the spouse or common-law partner amount, among others. If your personal situation has changed since you joined your current employer, making you eligible for one or more of these credits, you may wish to complete updated TD1 forms and submit them to your payroll department so your tax deductions at source may be reduced for 2019.

But, for most of us, the root cause of a tax refund are tax deductions and certain other credits that you will take when you file your 2019 return, such as your RRSP contribution, deductible spousal support payments, interest on money borrowed for investment or business purposes, childcare expenses, medical expenses and donations, which aren't reflected when your tax at source is deducted by your employer.

If that's the case, now is a great time to consider filling out CRA Form T1213, "Request to Reduce Tax Deductions at Source," which must be sent to the CRA and, once approved, authorizes your employer to reduce the amount of tax withheld at source for 2019.

Using these methods will improve your cash flow throughout the year — and eliminate your tax refund next filing season. (As I've often said, getting a refund is a sign of poor tax planning!) Plus, the increased cash flow that you'll get with each and every paycheque can be repurposed towards your 2019 TFSA, RRSP or RESP contributions through an automatic investment program.

Retirees

If you're at least 65 years of age but don't have any pension income, consider converting a portion of your RRSP to a RRIF, and then withdrawing $2,000 annually to take advantage of the annual pension income credit. If you don't use the credit in a particular tax year because you don't have pension income, it's lost forever (for that tax year).

Finally, RRIF investors who are at least 65 years of age with a spouse or partner in a lower tax bracket may wish to withdraw more than the statutorily required minimum amount annually if it offers an opportunity for pension income splitting, which can reduce the overall tax burden of the couple over multiple tax years. This, of course, must be balanced between the trade-off of losing the continual tax shelter of investment income that comes with keeping more funds inside your RRIF.

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