TAX MATTERS

Push your 2018 taxes to a future year for real savings

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A good friend of mine works for a collection agency and spends his days calling people who are delinquent in their payments for all type of things. He has heard every excuse in the book from people trying to explain why they're late with their payments. "I get nervous when I see my bank balance drop too low," one man said. The best excuse might have been from the woman who explained that her veterinarian recommended she put her dog in daycare three days each week to socialize him. At $50 a day for her doggy daycare, she quickly ran out of money to pay her bills.

When it comes to paying the taxman, later is generally better than sooner. But rather than skipping out on paying taxes you owe, why not set yourself up to legally push your tax bill to a future year? If you act before year-end, you may be able to push part of your 2018 tax bill to 2019 – or later.

THE TAX RATES

Indexing of tax brackets and credits is the first benefit of pushing a tax bill to a future year. For example, tax brackets and credits have been indexed upward for 2019 by 2.2 per cent, so that the lowest federal tax bracket in 2019 won't end until you've earned $47,630 (the figure is $46,605 for 2018). And you won't be pushed into the highest tax bracket until you're earning $210,371 in 2019 ($205,842 for 2018).

Also, the basic personal amount (the amount that every Canadian can earn before taxes apply) will increase to $12,069 in 2019 (it's $11,809 for 2018). None of these changes will make you rich, but it's better than a kick in the pants.

THE TIME VALUE

The second benefit of deferring tax to a future year is the time value of those tax dollars. For example, if you owe $1,000 to the taxman for 2018 and are able to push that tax bill to 2019, and can earn, say, 5 per cent on your money, that $1,000 tax bill will actually cost you just $952 in today's dollars. How so? Well, if you were to take $952 today and set it aside for one year and earned 5 per cent, you'd end up with $1,000 one year from now to pay that tax bill.

If you can defer that $1,000 tax bill for five years, 10 years, or 20 years, it would cost you just $784, $614, or $377 respectively in today's dollars, assuming the same 5-per-cent return.

THE STRATEGIES

So, what can you do today to push a 2018 tax bill to 2019 or later? Consider these ideas.

Contribute to your RRSP. You have until March 1, 2019, to contribute to your registered retirement savings plan for 2018 and claim an RRSP deduction for that contribution on your 2018 tax return.

Defer dividends until 2019. If you're a business owner and are thinking of paying yourself dividends, consider waiting until January to push the tax bill to 2019.

Defer a bonus payment. Whether you're self-employed or an employee, you may want to push a bonus off until January to take advantage of the new tax brackets and credit amounts.

Borrow to make certain payments before year-end. You can always borrow to make certain deductible payments before Dec. 31 (such as child care, donations, medical expenses) and then receive dividends or bonuses in January to pay off that debt.

Delay the completion of certain work. If you're self-employed and can delay completing certain work until the new year, you can also delay invoicing for that work and avoid paying tax in 2018.

Wait until the new year for dispositions. If you're thinking of selling certain assets in the near-term that will give rise to a capital gain, consider waiting until early in 2019 to make the sale.

Delay purchasing certain investments. If you're planning to make certain investments (mutual funds, for example) that may make a taxable distribution between now and Dec. 31, consider waiting until January to make that investment.

Claim a capital gains reserve. If you've sold an asset in 2018 for a gain, but haven't fully collected your sale proceeds in 2018, you should be able to claim a reserve (deduction) for the portion of the capital gain (the rules are complex so speak to a tax pro).

Convert your RRSP if you're 71. If you turned 71 in 2018, you must convert your RRSP to a registered retirement income fund (RRIF) or an annuity on or before Dec. 31. Failure to do so will mean you pay tax on your RRSP assets.

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