TAX MATTERS

Year-end tax tips for the family: A gift that will likely keep on giving

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My family – particularly the kids – teach me about fashion all the time. For example, I've learned about vests. Life vests and and fishing vests can come in handy. But under no circumstances should I wear a sweater vest or leather vest. The other day, I wore a leather jacket and my daughter, Sarah, said she loved it. But when I wore my leather vest, she told me it wasn't "cool." So, apparently, "cool" is all about leather sleeves (to borrow from an observation made by comedian Demitri Martin).

While my family teaches me about fashion, I teach them about finances (I'm not sure, but I think my kids are starting to enjoy our weekly talks about money). The lesson this week was about year-end tax planning for families. Here are seven tax tips for families to consider before Dec. 31.

Make a loan to your spouse

Set yourself up for tax savings in 2018 by lending money to your lower-income spouse so that he or she can pay the tax on any investment income on those dollars going forward. To avoid the attribution rules in our tax law (which will cause the investment income to be taxed in your hands instead), you'll need to charge the prescribed rate of interest on that loan. That rate is just 1 per cent until Dec. 31, and you can lock in this rate indefinitely. Your spouse will have to pay the interest by Jan. 30 each year, for the prior year's interest charge. You'll have to report the interest, your spouse can claim a deduction for it, and if your spouse is earning more than 1 per cent annually on the investments, you'll come out ahead as a family.

Lend money for a TFSA contribution

Consider lending money to your spouse or adult child to contribute to his or her tax-free saving account. The contribution limit to a TFSA for 2017 is $5,500, and up to $52,000 in total if you've been 18 or older since 2009, when the TFSA was introduced, and you haven't contributed yet. The attribution rules won't apply to TFSAs since there is no taxable income, as long as the money remains in the plan.

Invest the Canada Child Benefit in your child's name

In 2016, the Canada Child Benefit (CCB) was introduced and provides a meaningful monthly payment to many families. If you invest those dollars in the name of your child, in an in-trust account, the income and growth of those dollars won't be subject to the attribution rules, but instead can be reported in the hands of your child, generally facing little or no tax. This allows the funds to compound more quickly.

Utilize first-time home buyer incentives

If you purchased your first home in 2017, or will be buying a place before Oct. 1 next year, consider making a withdrawal of up to $25,000 from your registered retirement savings plan before year-end, under the Home Buyers' Plan. Withdrawals under the HBP must generally be made in a single calendar year. The withdrawals can be made tax-free if you qualify, although you'll have to repay the amount over a 15-year period. You may also qualify for the first-time home buyers' credit (a maximum of $750; plus, an additional provincial credit of up to $1,100 if you live in Saskatchewan).

Utilize the Lifelong Learning Plan

You can withdraw up to $10,000 annually, or $20,000 in total, from your RRSP, tax-free, under the Lifelong Learning Plan to help cover the cost of full-time (or part-time if you have a disability) training or education for you, your spouse or common-law partner. Consider making a withdrawal before year-end. The amount will have to be repaid over time.

Evaluate your estate plans for non-resident kids

If your children are currently residing outside of Canada, and particularly if they're likely to remain non-residents longer term, you should revisit your estate planning to figure out whether your will or other planning should be adjusted. The holiday season is a great time to have a chat about your planning with the kids.

Consider tax changes south of the border

If you're a U.S. citizen living in Canada, you should be aware of proposed tax changes south of the border that could affect your tax planning heading into 2018. U.S. President Donald Trump's tax proposals include reducing the number of tax brackets and increasing the dollar thresholds where the rates apply, increasing the standard deduction, eliminating the deduction for medical costs and state and local taxes, and eliminating the alternative minimum tax, among other things.