



If tax planning happens to be on your list of things to do, what follows are some tax tips that may help.

### **CONTRIBUTE TO YOUR REGISTERED RETIREMENT SAVINGS PLAN (RRSP)**

The earlier you contribute, the more your savings can grow sheltered from taxes. If you haven't contributed to your RRSP for the current tax year, don't wait until the end of February. You'll still get the tax write-off but it's better to contribute now. To find out how much contribution room you have, refer to last year's Notice of Assessment. Also, contributing to a spousal RRSP in December, rather than in January, means that amounts can be withdrawn without attribution back to the contributor one year earlier than would otherwise be the case.

### **USE YOUR RRSP CONTRIBUTION ROOM**

While unused contribution room carries forward, lost investment returns are simply gone. If you make timely maximum contributions, even modest investment returns will compound over the years to make a significant

difference in the amount of capital available when you retire. If you don't have enough cash to make your full contribution – or to catch up from previous years – consider an RRSP loan.

After you make your RRSP contribution consider when to claim the deduction so as to maximize the tax savings. For example, if you have much lower than normal earnings this year, it may make sense to make your RRSP contribution now, but delay claiming the deduction until a future year when you expect to be taxed at a higher marginal rate.

### **ARE YOU TURNING 71 THIS YEAR?**

If you will be 71 by the end of this year, you must terminate your RRSP no later than December 31st. There are many options available: transferring your RRSP to a Registered Retirement Income Fund (RRIF), purchasing an annuity, receiving a lump sum or choosing a combination of these options.

The last date that you can make an RRSP contribution is December 31st of the year in which you turn 71 – unless you have a younger spouse. If you have not maximized RRSP contributions in previous years and have unused contribution room, you can make a lump sum contribution before closing your RRSP. Once your final contribution is made, the deductions can be used in any future year, whenever they are most beneficial for you in reducing taxable earnings. For example, if you deposit \$50,000 into an RRSP in your 71st year, you could spread the deduction over ten years by claiming \$5,000 per year. This strategy could result in tax savings at your highest marginal tax rate each year for the next 10 years.

If however you have no carry-forward RRSP contribution room but have earned income in the year you turn 71, you'll have RRSP contribution room next year but no RRSP. You may want to consider making next year's contribution in December of this year, just before your required conversion date. The penalty for the over-contribution will only be one per cent for the month. However, on January 1st, your overcontribution disappears, and you'll get a tax deduction on next year's tax return or whenever you choose to claim it.

### **ARE YOU OVER AGE 71?**

Regardless of your age, if you have qualifying earned income or unused RRSP contribution room, you can contribute to a spousal RRSP prior to December 31st of the year your spouse turns 71 and claim the deduction on your tax return whenever it is most advantageous to you. This strategy is particularly attractive if you anticipate your spouse's retirement income will be lower than yours.

### **FIRST-TIME HOMEBUYERS**

If you are thinking about buying your first home and are planning to take advantage of the Home Buyers' Plan (HBP), you may wish to delay your RRSP withdrawal under the HBP until January. Under the plan, you may take up to \$25,000 from your RRSP without penalty provided you repay the funds over a 15-year period. These repayments must begin two years after the initial

withdrawal. Since the repayment schedule is calculated according to the calendar year, if you wait and make your withdrawal in January instead of December, you can delay your first repayment for one more year.

### **DON'T FORGET ABOUT REGISTERED EDUCATION SAVINGS PLANS (RESPS) AND TAX FREE SAVINGS ACCOUNTS (TFSAS)**

If you have children or grandchildren consider opening up an RESP. If you have already opened an RESP, try to make your contributions by year-end to maximize the benefits. While contributions themselves are not tax deductible, RESPs are still a tax deferred investment vehicle that benefits from time and compound investment returns. In addition, your annual contributions are enhanced by the Canadian Education Savings Grant (CESG), which matches 20 per cent of your contribution providing up to \$500 annually for each child in the plan.

### **CONTRIBUTE TO YOUR TAX FREE SAVINGS ACCOUNTS (TFSA)**

TFSA's also offer tax-free investment growth and tax-free withdrawals. In addition, the amount you withdraw will be added back to your available room the following year so you are able to save for short term needs, such as home renovations, as well as long term goals, such as saving for retirement.

### **PENSION INCOME TAX CREDIT**

If you are 65 years of age or older you are entitled to deduct, from taxes payable, a federal tax credit equal to 15 per cent of the lesser of: pension income received and \$2,000. If you don't have pension or RRIF income eligible for this tax credit there may still be options available to you. For example, interest earned on an annuity or a Guaranteed Interest Contract (GIC) issued by an insurance company is reported as annuity income and qualifies for the credit. On \$2,000 of eligible pension income the federal tax credit is worth \$300. This tax saving is enhanced by provincial tax credits which vary by province. If you have a spouse in a lower tax bracket, you may also want to consider splitting

up to 50 per cent of the income that qualifies for the pension income credit by completing an election on your tax return to reduce the overall family tax payable.

## **MEDICAL EXPENSES AND CHARITABLE DONATIONS**

Some tax credits can be claimed by either spouse. Medical expenses and charitable donations are two examples. It is almost always better for the spouse with the lower net income (provided he/she is in a taxable position) to claim medical expenses because the credit is generally reduced by a percentage of net income.

The credit for charitable donations is a two-tiered federal credit worth 15 per cent on the first \$200 and 29 per cent on the balance. Provincial credits vary but work on the same basis with a more generous credit on donations over \$200. Spouses are allowed to claim the other's donations and to carry forward donations for up to five years. By carrying forward donations and then having them all claimed by one spouse, the first \$200 threshold with the lower credit is only applied once.

If you will be both making a charitable donation and selling securities with an accrued capital gain, consider giving the securities as a charitable donation to take advantage of the government incentive program that reduces the capital gains inclusion rate in half from 50 per cent to zero per cent. In other words, there will be no taxes owing from the disposition of the securities donated directly to a charity.

## **CHECK WHETHER INTEREST ON YOUR LOANS IS DEDUCTIBLE**

If you have any non-deductible interest such as a mortgage, car loan or RRSP loan, this is great time to review your situation. While this interest is nothing but a personal expense, interest on loans to earn income from a business or property is – in most circumstances – tax deductible. It could be worthwhile to ask your advisor if you can reorganize your investments to make the interest tax deductible.

## **USE YOUR CAPITAL LOSSES**

Stock market volatility causes many investors to worry about their investments and consider reorganizing their portfolios. The *Income Tax Act* requires capital losses to be first applied against capital gains realized in the current year. If there is a balance remaining, it can be used to reduce taxable capital gains in any of the three preceding years or in any future year.

The best strategy is to carry the losses back to the earliest year in which you have capital gains before they fall out of the three-year window. Keep the superficial loss rules in mind, which limit your ability to claim a capital loss. Your loss may be denied if the same or identical asset is acquired within the 30 days before and after the sale and is still held 30 days after the sale by you, your spouse or a corporation controlled by you.

## **REDUCING THE TAX WITHHELD BY YOUR EMPLOYER**

You may have large tax-deductible payments that are made every year such as RRSP contributions, child care expenses, alimony payments or interest payments on investment loans. Since these payments are made after receiving salary or other income, the deductions are not taken into account when calculating the amount of tax withheld on your income. This means that you will usually have a large tax refund due when you file your tax return.

One way to pay less tax immediately is to complete form T1213, available at [www.cra-arc.gc.ca/E/pbg/tf/t1213/t1213-04e.pdf](http://www.cra-arc.gc.ca/E/pbg/tf/t1213/t1213-04e.pdf), and submit it to your employer once you have it approved by CRA.

Quebec residents must also complete and file form TP-1016 *Application for a Reduction in Source Deductions of Income Tax* with the Quebec Ministère du Revenue to ensure they receive both federal and provincial source deduction relief.

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