YETP – 2

Don't pay what you are not required to pay. More year-end tax tips for 2017.

In the late seventies my dad was in his early sixties, divorced, and often sad, lonely. The two of us lived in a modest condo in Burnaby next to a train track and a busy freeway. For solace, he saved all his vacation time for camping and fishing trips in the central and southern interior of BC. Both of us endured the drudgery of our busy city lives by looking forward to the next trip fishing "up country."

His girlfriend was a kindly woman who lived way across town on the West Side of Vancouver. Despite the fact that Dad was short, bald bought all his clothes (and mine) at the Salvation Army, he had a spell over this sweet old gal that spilled over into her generosity as my first boss – she hired me to do yard work. I would forgo my Saturday sleep-in, get up and catch the long bus ride to the Oakridge area, and set to work pulling weeds, cutting grass, painting fences and so on.

As I approach my sixties, the significance of her gesture settles in on me. She was better at gardening than me by a long shot, and certainly had more passion for it than I could muster at the time. She fed me a hardy lunch at mid-day, visited with me generously, and even played the piano and violin for me.

One day after work I splurged a couple of Saturday's wages on a birthday gift for my dad – a brand new fishing reel. But as I proudly carried it home on the bus, I must have got to day dreaming, and lost it somewhere between Oakridge Station and Kootenay Loop. I was crushed. But as a gesture of her feelings for my dad (and her goodness toward me) Dad's girlfriend insured me against my absentmindedness, and advanced the money toward the repurchase so I could give Dad his gift on time.

Of course there is not always a sweet old lady hiding around the corner to indemnify us against lost money. Although it's nice to pitch in, and we should all do our share, taxes, are in a sense, lost money. Here in part 2 of our annual look at year-end tax planning, we explore some simple but effective tools available to reduce or defer taxes.

Capital gains deferral
As we approach the end of 2017, if you currently have unrealized capital gains you may want to defer triggering them until 2018 if:
a) You expect that your marginal tax rate will be lower in 2018 than in 2017;
b) You want to defer paying taxable capital gains payable for a year (to April 2019);
c) If you have net capital losses in 2017. You can carry back those losses against previously realized capital gains for three years, but only after the losses are used to offset gains in the current year. Therefore, realizing capital gains at the end of 2017 would reduce the amount of capital losses you could carry back.

As always, consider the investment merits of deferring the sale of a security to the following year before looking at the tax benefit.

Year-end bonus planning
Receiving a bonus prior to year end creates additional RRSP contribution room for 2018 if you have not yet reached the maximum 2018 RRSP limit, and may also allow greater employee/employer pension contributions and/or employee profit sharing plan contributions for 2018, if these contributions are based on the prior year's total compensation.

Alternatively, if you expect to be in a lower tax bracket next year, consider deferring the receipt of your bonus (if your employer permits) to early 2018. If the bonus is paid directly to you, there will be withholding taxes at source on the bonus payment. However, if your employer permits, some or all of the withholding taxes on the bonus may not have to be withheld if the bonus or a portion of it is transferred directly to your RRSP. You must have adequate unused RRSP deduction room in the year of transfer.

As an alternative to cash, you can also donate publicly listed securities in-kind to qualified charities without being subject to tax on the realized capital gain. You will receive a donation tax receipt equal to the fair market value of the security at the time of the donation.

Low-income year

If you expect to be in a low marginal tax bracket for 2017 and in a much higher marginal tax bracket in retirement, you may want to consider making an early withdrawal from your RRSP before year-end, benefitting from your lower tax rate now. If you can reinvest the RRSP funds withdrawn in your non-registered account, you can take advantage of the preferred income tax treatment on capital gains, Canadian dividends and return of capital.

Furthermore, if you can reinvest the RRSP funds withdrawn in your Tax-Free Savings Account you do not pay any future tax on the income earned or capital gains realized. The drawback of this strategy is a prepayment of income tax and lost tax deferral on the growth of the RRSP funds withdrawn.

Mark Ryan is an Investment Advisor with RBC Dominion Securities Inc. (Member–Canadian Investor Protection Fund), and these are Mark's views, and not those of RBC Dominion Securities. This article is for information purposes only. Please consult with a professional advisor before taking any action based on information in this article. Mark can be reached at mark.ryan@rbc.com.