Tax code, like cat hair in your peanut butter.

A few years ago, when one of our elder daughters achieved “Novice” driver status, she seemed to suddenly disappear from our hectic home for a time. She was a busy gal, what with work and grade 12, and an active social life. We had helped the older kids with a little purple ramshackle sedan we called the Barney Car, and she put it to good use, driving it everywhere, coming home only when she got hungry or tired enough to step out of the little purple rust monster for a few hours.

After about a week of this, she stormed in to the kitchen like a long-lost relative, tossed the keys on the counter, and as she poked her head in the fridge, announced authoritatively: “Someone needs to put some gas in that little car.”

She was, of course, technically accurate. I mentioned in reply: “Yes, so true. And someone also needs to upgrade the insurance to account for the new primary driver change. Who might that be?”

She actually had a great job, and was earning a chubby union wage at a local government service. After listening to other influential adults complain about the lack of adequate servicing for this or that department, she had developed a pretty firm opinion on how things ought to be. She was a smart girl, and feeling a bit rich, like so many do while pursuing an education living blissfully in their parents’ basement with a part-time job. She hadn’t been looking particularly closely at her pay slips until one day she did. When she saw the difference between her gross and net pay, she was incredulous: “What is with all these deductions off my cheque? What gives them the right to take my money? And where on earth does it all go?”

Tax code. Like cat hair in your peanut butter, it gets on everything, sticks to the roof of your pay slip, and gags your bank balance, but alas, we implicitly agree to it when we expect services from the great ubiquitous “them.”

2017 Year-end Tax Ideas – part 5
In addition to those ideas outlined over the past few weeks, here are a smattering of other ideas to consider when wrapping up year-end tax planning considerations.

Tax shelters
You may consider purchasing a tax shelter such as limited partnership units or flow-through shares before year-end in order to receive tax deductions. A tax shelter is generally structured so that the expenses incurred by the tax shelter in the first few years are flowed directly to you so that you may deduct them against any of your taxable income. As with any investment, the investment potential of the tax shelter and not just the initial tax savings should be considered when deciding whether to invest in a tax shelter.

Moving within Canada
The marginal tax rates may vary significantly by province or territory. For example, combined with the federal rate, the top marginal tax rate in Nunavut is 44.5% and the top combined rate in Nova Scotia is 54.0%. Since you are subject to tax based on your province or territory of residence on December 31st, if you are moving to a province or territory with a lower tax rate, consider moving prior to year-end. Since your place of residence at year-end is what matters, if you are moving to a province or territory with a higher tax rate, consider delaying your move until early 2018.

Interest on family loans
If you set up a spousal loan or funded a family trust with a prescribed rate loan, remember to pay the interest owing by January 30, 2018. The borrower may be able to claim a deduction for the interest paid on their tax return. The lender will have an income inclusion on their tax return. The timing of the income deduction and inclusion depends on the year the interest relates to, when the interest is paid, and the method (cash versus accrual) you regularly follow in computing your income.

Re-filing your tax waiver
If you normally file a tax waiver (CRA Form T1213 Request to Reduce Tax Deductions at Source) to have your employer reduce taxes withheld at source from your pay, don’t forget to re-file this form as it must be submitted and approved by the CRA annually. If you have not filed this form in the past, consider doing so if you normally receive a tax refund when you file your tax return. This will allow you to have more cash flow during the year to accomplish various financial goals such as making monthly RRSP contributions, making additional mortgage payments, or reducing or eliminating other personal loans or credit card debt.

The CRA will normally approve the tax waiver for individuals who expect the following types of deductions: RRSP contributions, alimony payments, carrying charges, childcare expenses, and employment expenses, among others. Approval of the tax waiver by the CRA usually takes about six weeks; therefore, to be on time for the 2018 tax year, you should have already started this process, or be well underway.

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.