

You and your taxes: Establishing a year round process.

Does most of your tax planning take place during the last few months of the year? If so, you are not alone. However, to effectively reduce your current and future tax liabilities, tax planning should be a year round endeavor. Here are some opportunities.

Split your income

Income splitting involves structuring your affairs to move income into the hands of a lower-income family member who will pay less tax.

A spousal RRSP allows a higher-income spouse to contribute to the RRSP of a lower-income spouse. At retirement, this can help shift more income to the spouse who is expected to be in a lower tax bracket.

Another possibility is a spousal loan. As long as a prescribed rate of interest is paid, a spousal loan can be an effective way to transfer assets from a spouse in a higher tax bracket to a spouse in a lower tax bracket.

Donate securities

If you are considering a charitable donation, you may want to give stocks, bonds, or other publicly traded securities, including mutual funds. You'll be deemed to have sold the investments at fair market value, however, any capital gains will be eligible for a reduced capital gains inclusion rate of 25% instead of 50%.

Create deductible debt

Tax deductible loan interest can be a great tax-saver. One strategy is to convert all or part of your mortgage debt into an investment or business loan.

For example, you could sell some investments to pay off your mortgage, then take a loan to repurchase the investments. This will effectively replace your non-deductible mortgage debt with a deductible investment loan.

Maximize your RRSP

Your RRSP is one of the few good tax shelters left. But don't wait for the deadline to make your contribution. The sooner you invest, the longer your savings will be able to grow on a tax deferred basis. A monthly RRSP contribution plan can make this easy. And, if you have significant unused RRSP contribution room, a short-term loan is often a great way to catch up.



Consider an RESP

Today, a four-year university education in Canada costs \$32,000 or more. In 18 years, using a 5% annual inflation factor, that number could rise to \$77,000. Although contributions to a Registered Education Savings Plan (RESP) are not tax deductible, the income earned in the plan grows tax-free until it is withdrawn by the student. Plus, you could receive up to \$500 a year in government grants to help your savings along. Consider this option if you have children with ambitions for higher education.

Make the right decisions all year

- Tax planning means that you are entitled to arrange your affairs, within the limits of law, so that you pay a minimum amount of tax.

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