

Pay Less, Save More

Year-end tax strategies to help you save money

Every year, you have the chance to take advantage of a range of tax-saving opportunities—and this year, on the heels of the worst recession since World War II, your efforts to find savings wherever possible are likely more important than ever. After all, it's only natural after having watched your portfolio get buffeted by the global economic downturn that you may be in the mood to preserve capital. What better way to do that than to minimize the amount of money you have to pay in taxes?

This article outlines some strategies you can use to help reduce your tax bill next April, assuming you take action before year-end. As with any tax strategy, it's important that you consult with your tax specialist for specific tax advice.

Registered Retirement Savings Plans

If you turned 71 this year you have some decisions to make regarding your Registered Retirement Savings Plan (RSP)—you can withdraw the funds and pay tax on the entire amount, purchase an annuity from an insurance company or convert your RSP to a Registered Retirement Income Fund (RIF) by December 31st. However, if you still have contribution room available, you have an opportunity to make one last RSP contribution before the end of the year. That way, you'll benefit from a tax deduction against any income earned this year.

If you haven't yet turned 71 and have contribution room available you can give your money more time to compound tax-deferred by avoiding the RSP rush and making your contribution before year-end. One of the top mistakes made with RSPs is that "often people rush to make a last-minute RSP contribution and give little thought to the underlying investment."¹ You can help change that trend this year. Last-minute contributors often 'park' their money temporarily in a low interest bearing account or a money market fund. However, when you contribute outside the hectic RSP season, you can choose how to allocate your money as soon as you make the contribution—giving your investment greater growth potential.

Non-registered investment accounts

If you have unrealized capital losses in a non-registered account and plan to sell those investments in the near future, you can choose to realize the losses before year-end and apply them against taxable capital gains incurred in this or the previous tax year. If you choose to take advantage of this strategy, keep in mind that the transaction must be completed and settlement must occur no later than December 31st, so don't leave the transaction to the last minute. On the flip side, if you've made the decision to sell investments with unrealized capital gains you may want to wait until after December 31st so the gains are taxable in the following tax year.



The advantage of filing early

Because of the economic downturn, some people—including business owners and retirees—may not have earned as much as they did in 2008 and, therefore, may have overpaid their quarterly tax installments. Furthermore, the tax-saving opportunities as outlined in this article may put them in a refund-pending position. If possible, it's wise for those expecting a refund to get their tax filing paperwork in order as soon as possible so they can file early and get their money back sooner.

Registered Education Savings Plans

If you're saving for your children's education through a Registered Education Savings Plan (RESP) you must make contributions before December 31st to be eligible for the Canada Education Savings Grant (CESG) for the year. Of course, as with an RSP, contributing earlier has the added advantage of giving your money more time to compound on a tax-deferred basis.

Tax-Free Savings Accounts

Because unused Tax-Free Savings Account (TFSA) contribution room can be carried forward indefinitely, there's no pressure to contribute before year-end. However, the earlier you maximize your \$5,000 in contribution room, the longer that money can grow tax-free. It's a good idea to start thinking about next year's TFSA contribution too since you'll get another \$5,000 in contribution room come January 1st.

More ways to save taxes

You can choose to incur a range of expenses before year-end to maximize this year's tax deductions and tax credits. For example, you may want to:

- make charitable donations before December 31st and consider donating publicly listed securities with unrealized capital gains instead of cash;
- pay deductible expenses before December 31st, including annual union and professional dues, child care expenses, spousal and child support payments, interest on investment loans and safety deposit box charges;
- maximize tax credits by, for example, buying public transit passes and paying for children's fitness programs before December 31st, and
- schedule home renovations so costs are incurred before February 1, 2010, to take advantage of the new Home Renovation Tax Credit (only expenses incurred after January 27, 2009, count towards this credit).

Bottom line

You may not be able to influence interest rates, inflation or the stock markets, but you do have some control over how much you pay in taxes. Here are some simple steps you can take before December 31st:

- Contribute to an RSP, RESP or TFSA early and take advantage of tax-deferred or tax-free growth—with an RESP, you'll also receive this year's CESG.
- Maximize tax deductions and tax credits by incurring certain expenses before year-end.
- Prepare paperwork now and file taxes early if you're expecting a refund.

If you own your own business you can also consider hiring your spouse and children and paying them reasonable salaries for their work. The salaries are deductible from business income, and the earned income builds RSP contribution room for family members. Business owners may also want to stock up on office supplies before the end of the year to maximize their deductible expenses.

These are just some of the strategies that can help you save money by reducing your taxes if you act before year-end—but it makes even more sense to save taxes year-round. When you make tax planning an integral part of the financial plans you develop with your financial advisor and speak to a skilled tax specialist for specific guidance, you have the potential to optimize your tax savings, which, at the end of the day, means more money in your pocket. In addition, the money you save in taxes can be invested appropriately to help build your long-term savings.

For more information, talk to your Financial Advisor today.

¹ Keith and Kevin Greenard, "The top 10 mistakes made with RRSPs," National Post, February 8, 2008: www.nationalpost.com/story.html?id=287879 (accessed on August 12, 2009). The statements contained herein are based on material believed to be reliable. Where such statements are based in whole or in part on information provided by third parties, they are not guaranteed to be accurate or complete. The article does not provide individual financial, legal, tax or investment advice and is for information purposes only. Particular investment or trading strategies should be evaluated relative to each individual's objectives and risk tolerance. TD Asset Management Inc. ("TDAM"), The Toronto-Dominion Bank and its affiliates and related entities are not liable for any errors or omissions in the information or for any loss or damage suffered.

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