Year-End Tax Planning Tips

Although tax planning should be a year-round affair since many tax strategies require foresight to be effective, there are still opportunities to reduce your 2012 tax bill, particularly if you act before the end of the calendar year.

Consider the Following Six Year-End Tax-Saving Strategies

1. Payment of Quarterly Tax Installments – Deadline: December 15

Individuals whose estimated income tax payable for the year, or payable for either of the two preceding years, exceeds $3,000 ($1,800 for Quebec residents) may be required to pay income tax installments. Personal tax installments are due four times a year, with the final installment due December 15. Canadian investors are often required to make installments since tax is not deducted at source on investment income; if an investor falls short on any required installments, he/she could incur non-deductible interest or penalties.

2. Tax-loss Selling – Deadline: December 24

If you have investments that have depreciated in value, consider selling these investments before year end to offset capital gains realized earlier in the year to reduce your overall tax bill. It is important to ensure that a sale makes sense from an investment perspective, since stocks sold at a loss cannot be repurchased until at least 30 days after sale to be effective. Be sure to work with your BMO Nesbitt Burns Investment Advisor as well as your tax advisor in implementing this strategy.

3. Charitable Donations & Other Tax Credits/ Deductions – Deadline: December 31

Instead of donating cash to charities, investors should consider donating appreciated publicly-traded securities. This strategy can provide a tax credit equal to the value of the securities donated, while also potentially eliminating the capital gains tax otherwise payable on the gain accrued on the security. Ensure all charitable donations are made before December 31, in order to receive a tax receipt for 2012.

December 31 is also the final payment date for a 2012 tax deduction or credit for expenses such as childcare, medical, tuition and the recently introduced children's fitness and arts tax credits.

4. Pension Income – Deadline: December 31

To the extent that you are not otherwise already taking advantage of the maximum pension income tax credit, consider creating up to $2,000 of eligible pension income. One possible strategy for individuals aged 65 or older involves converting a portion of your RRSP into a RRIF to receive up to $2,000 of qualifying RRIF income before the end of the year.

5. TFSA Withdrawals – Deadline: December 31

If you are planning a withdrawal from your Tax-Free Savings Account (TFSA), consider making this withdrawal in December instead of waiting until the new year; a withdrawal would result in additional TFSA contribution room in the following year.

6. RRSP Contributions for those turning 71 – Deadline: December 31

Individuals who turned 71 years of age in 2012 must collapse their RRSP by the end of the year. Such individuals should consider a final RRSP contribution, assuming any unused contribution room exists. Seniors and/or retirees should also take note of some of the important tax changes in recent years (such as pension income splitting, amendments to the Canada Pension Plan and the introduction of the TFSA) that may impact their tax planning.

The planning tips in this publication are neither a comprehensive review of the subject matter covered nor a substitute for professional tax advice. These tax strategies may or may not be appropriate for you. As such, we encourage you to consult with your tax advisor to confirm the suitability for your particular situation.