Client Strategies

Less tax, more money to invest

Take advantage of year-end tax strategies

No one likes paying more in taxes than necessary, especially when that money can be used towards elements of your financial plan, such as investments, that could benefit you over the long-term. Here are a few year-end tips to help trim your 2013 tax bill.

Realize capital losses

Investors may sell investments in a non-registered account that have declined in value to realize capital losses. Then they may apply those losses against capital gains realized in a non-registered account during the year. If losses are still outstanding, they may use them to help offset capital gains realized in a non-registered account in any of the three preceding years or in any future year.

Note that this strategy may not be favourable for investors who plan to repurchase their investment in the near future—say, in early January, after selling in late December. Under the Income Tax Act (Canada), investors who buy a security back within 30 days of selling it only experience a "superficial loss." In this case, the loss will be used to increase the security's adjusted cost base—but it will only benefit investors when they sell the security (and don't repurchase it within moving 30 days) down the road.

Of course, staying out of an investment for more than 30 days to avoid the superficial loss rule could result in an investor missing an upswing in the security's price, which could potentially benefit them more than the tax savings.

Tax-saving New Year's resolutions

Help keep the momentum going with these tax-saving strategies:

1. Contribute to an RRSP, TFSA and/or RESP as early in the year as possible to help maximize tax-deferred or tax-free growth.
2. Avoid waiting until the New Year to get a tax refund by letting the Canada Revenue Agency know about regular RRSP contributions made year-round.

Contribute to a TFSA

Contributions to a Tax-Free Savings Account (TFSA) can be made year-round and unused contribution room accumulates from year to year. One advantage of investing in a TFSA is that you start earning tax-free income sooner. Canadian residents, age 18 and older, can contribute annually to a TFSA[1]. The annual contribution limit for 2013 and 2014 is $5,500. This is an increase from the annual contribution limit of $5,000 for the years 2009 through 2012. That means if you've never contributed to a TFSA but were eligible every year, you have $25,500 in room— with another $5,500 available in January. Be careful if you've already maximized your contributions and made a withdrawal from your TFSA in 2013. You cannot contribute the withdrawn amount until the beginning of 2014 or you will face a penalty tax for over-contributing to your TFSA.

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Contribute to an RESP

Every year, the government offers individuals the opportunity to set aside money for a child's education in a Registered Education Savings Plan (RESP) and potentially benefit from tax-deferred investment growth and a Canada Education Savings Grant (CESG). The CESG is worth 20 percent of your contribution, up to an annual maximum of $500 and a lifetime maximum of $7,200.

Contributing before year-end gives your money more time to compound on a tax-deferred basis and ensures you take advantage of the CESG - free money that has the opportunity to grow alongside your own. If you have unused grant room from a previous year, you can receive up to $1,000 by contributing $5,000 before December 31.

Make a final RSP contribution

Canadians who turn 71 in 2013 must convert their Registered Retirement Savings Plan (RRSP) into a form of retirement income, such as a Retirement Income Fund (RIF) by December 31. However, before they do this, they can make a final contribution if they have contribution room available.

Make a spousal RSP contribution early

If you contribute to a spousal RRSP in December 2013, keep in mind that money withdrawn from your spousal RRSP in 2013, 2014 or 2015 will be attributed to you rather than to your spouse. However, if you don't make any further contributions, money withdrawn from the spousal RRSP in 2016 or later will count as income for your spouse.

On the other hand, if you wait and contribute to a spousal RRSP in January 2014, money withdrawn in 2014, 2015 or 2016 will be attributed to you rather than to your spouse. You will have to wait until 2017 for a withdrawal to count as income for your spouse, which is a full year longer even though the contribution was made only one month later.

Pay for expenses

One of the most obvious year-end tax strategies is to maximize deductions and tax credits by paying for a wide range of expenses before December 31—including union or professional dues, child care expenses, disability supports, moving expenses, tuition and children's fitness programs. Find a complete list of potential deductions and tax credits at http://www.cra-arc.gc.ca/tx/ndvdls/tpcs/ncm-tx/rtrn/cmpltng/ddctns/

Give to charity

Charitable donations also generate tax credits for individuals. If you donate publicly traded stocks, you'll receive a tax receipt for the fair market value of the security—and you do not have to pay any capital gains tax if the security has increased in value.

Starting in 2013 through to 2017, the federal government is also offering a bonus credit of 25% on the first $1,000 of donations for first-time donors. This results in a total credit of 40% on the first $200 of donations, 54% on the next $800, and 29% thereafter.

Schedule meetings with your financial advisor

Now is an ideal time to schedule meetings with your financial advisor to discuss year-end tax strategies and, at the same time, develop a plan for RRSP season that could make the rush to the RRSP deadline less stressful. A financial advisor can help you with options for allocating RRSP contributions in the new year or to set up a regular investment plan now that maximizes your RRSP contributions going forward.

The money you may save with year-end tax strategies can be used towards long-term investments and insurance protection that may help you reach your goals and help improve your future financial well-being.

For more information, talk to your financial advisor today.

[1]Individuals must be the age of maturity to open a TFSA with select financial institutions. In certain provinces and territories, the age of majority is 19, which may delay the opening of a TFSA. However, the accumulation of contribution room will start at age 18. 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, trading, or tax 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. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus, which contains detailed investment information, before investing. Mutual funds are not covered by the Canada Deposit Insurance Corporation or by any other government deposit insurer and are not guaranteed or insured. Their values change frequently and past performance may not be repeated. TD Mutual Funds are managed by TD Asset Management Inc., a wholly owned subsidiary of The Toronto-Dominion Bank and are available through authorized dealers. All trademarks are the property of their respective owners. ®The TD logo and other trade-marks are the property of The Toronto-Dominion Bank.

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