Tax Planning for Individuals

2021-2022

When it comes to tax planning, if you wait until tax time, then it may be too late to put some tax planning strategies in place. Rather than waiting until the last minute, you should consider strategies that you can enact throughout the year. This article is intended for individuals resident in Canada who are not U.S. citizens, green card holders or U.S. residents (collectively referred to as a U.S. person). If you are a U.S. person, the comments provided in this article may not be suitable.

Let’s look at some tax-planning opportunities; the information provided in this article may not apply to your situation please speak with your tax advisor before taking any course of action.

Credits & Deductions

Credits reduce how much tax you pay and there are two types of credits: refundable and non-refundable. Refundable tax credits are credits that will be paid to you when they exceed the amount of tax you owe for a given year. Non-refundable tax credits may be used to reduce your taxes payable to zero. Where your non-refundable tax credits exceed your taxes otherwise payable, the excess will not be paid to you. Deductions, on the other hand, reduce your taxable income, which will reduce your taxes otherwise payable.

If you are in a high tax bracket, a deduction may provide broader tax savings compared to tax credits. Most tax credits are applied at the lowest tax rates, while deductions generally provide tax savings equivalent to the taxpayer’s marginal tax rate.

The Workplace

For many Canadian taxpayers, their annual income tax is the result of their employment income. Your employer is required to withhold tax at source and send it to the Canada Revenue Agency (CRA). However, if you anticipate a refund based on personal tax credits, Registered Retirement Savings Plan (RRSP) contributions, medical expenses or charitable donations, consider reviewing the Form TD1, Personal Tax Credits Return you file with your employer and your eligibility to reduce the amount withheld at source for taxes. You may have to complete and submit form T1213 Request to Reduce Tax Deductions at Source to the CRA and obtain their approval for reduced withholding before your employer will reduce the amount withheld.

If you receive an interest-free or low-interest loan from your employer, you are required to include in income any benefit that you receive on the loan. The benefit is calculated based on the CRA’s quarterly prescribed interest rate. However, any interest that you have paid to your employer in the year or by January 30th of the following year reduces your taxable benefit. When the funds you have borrowed are used for the purchase of investments or an automobile to be used for your work, you may be able to claim a deduction that will reduce the impact of the loan interest.

If you receive stock options as a part of your remuneration, you are considered to have received a taxable benefit when you exercise the option. The taxable benefit is the difference between the fair market value of the shares at the time of exercise and the exercise price. Under certain circumstances, you may be eligible for a 50% deduction (25% in Quebec) of the taxable benefit income inclusion provided that the shares are normal common shares, the exercise price is not less than the fair market value of the shares when the option was granted, and neither you, nor any of your family members has a controlling interest in the company. On June 29, 2021, *Federal Bill C-30, Budget Implementation Act, 2021, No. 1*, received royal assent. *Bill C-30* enacts the new rules for the taxation of employee stock options that had been announced in the federal government’s November 30, 2020 Fall Economic Statement. The bill imposes a 50% stock option deduction, on certain stock options, restricted to a $200,000 annual vesting limit to stock options granted on or after January 1, 2020.

There are a number of tax credits and deductions that you can claim on your income tax return based on your workplace. The **Canada Employment Amount** is a federal non-refundable tax credit intended to help cover work-related expenses such as home computers, uniforms and supplies, is 15% of $1,257 for the 2021 tax year.

Teachers and early childhood educators can claim refundable, federal **Eligible Educator School Supply Tax Credit** up to 15% of $1,000 worth of eligible supplies that include consumable supplies and prescribed durable goods such as books, games, puzzles, containers and education support software.

If you are normally required to travel for your job, you can claim **travelling expenses** such as food, beverage, lodging and transportation, provided that under your contract of employment you are required to pay your own travelling expenses and you do not receive a non-taxable allowance, or reimbursement, for these expenses. You should obtain and keep a completed and signed copy of Form T2200, Declaration of Conditions of Employment from your employer. Travelling expenses generally does not include transportation between home and work.

In December 2020, the CRA implemented new measures to simplify the process to allow employees to claim the **home office expense deduction** as a result of having to work remotely in 2020 due to the current public health situation even though the requirement to work from home was not formally part of their employment contract. In order to qualify for the deduction, among other conditions, an employee must have worked over 50% of the time from home for at least four consecutive weeks in 2021. Employees using the temporary flat rate method may claim $2 for each day that they worked from home, up to $500 (max. of 250 working days) of home office expenses. They would not be required to track detailed expenses, nor would their employer be required to provide a signed Form T2200, Declaration of Conditions of Employment, in order for the employees to claim the home office expenses. Employees whose home office claims are more than $500 in 2021 and 2022 may find it more beneficial to use the detailed method which allows them to make a claim based on actual expenses incurred but requires them to keep documentation to substantiate the expenses and obtain from their employer the appropriate signed supporting form.

Regardless of whether an employee chooses to use the temporary flat rate method or the detailed method, a Form T777S, Statement of Employment Expenses for Working at Home due to COVID-19, needs to be filed. For those opting for the detailed method, a Form T2200, or a simplified version, Form T2200S, is required to be completed, signed and kept by the employees for their records. Revenu Quebec has adopted a similar approach as the CRA and requires employees to file form TP-59.S Expenses Related to Working Remotely Because of the COVID-19 Pandemic for employees who use the temporary flat rate method or the detailed method to claim their home office expenses for 2021.

Union and professional dues related to your employment are deductible if paid by you and are not reimbursed by your employer or paid on your behalf by your employer and reported as income.

Legal fees may be deductible under certain circumstances and may be subject to limitations: to earn income from business or property; to collect unpaid wages; to collect or establish a right to a pension benefit or retiring allowance; to obtain an

order or enforce child support; for advice or assistance to respond to the CRA when they reviewed your income, deductions, or credits for a particular taxation year or to object or appeal your income tax assessment.

You may deduct **eligible moving expenses** if you moved at least 40 kilometers for a new work location or to run a business. The deduction is generally limited to the income for the year of the move and from the new work location or business and may be further reduced if you receive reimbursements and allowances for moving expenses and such amounts are not included in your income. Eligible moving expenses may include but are not limited to you and your family's reasonable travel costs related to the move, cost of transporting or storing household effects, and costs incurred for cancelling a lease of your old residence.

The **Canada training credit (CTC)** is a refundable tax credit that allows Canadians in the workforce aged 25 to 65 whose income is between $10,000 and $150,473 to claim a $250 annual credit up to a lifetime limit of $5,000. This credit may be used to offset the cost of eligible tuition fees paid for courses in the 2020 taxation year and onwards.

Climate Action Incentive (CAI), the delivery of this refundable credit claimed annually on the tax return will change to quarterly payments through the benefits system starting in the 2021 taxation year instead of being claimed on the tax return. Payments begin on July 2022, for payments for April 2022 to March 2023. Provinces applicable include Alberta, Manitoba, Ontario and Saskatchewan.

Personal & Family

You can claim a **basic personal amount (BPA)**, which is a non-refundable tax credit on your federal income tax. It is designed to allow individuals with income lower than the BPA amount to receive a full reduction from federal income and for individuals with income higher than the BPA amount to receive a partial reduction. For the 2021tax year you can claim a federal non-refundable credit of 15% for the first $13,808 of your income ($14,398 for 2022).

If you are supporting your spouse or common-law partner who lives with you and whose net income for the year is less than the BPA, you can claim a spouse or common-law partner amount. If you do not have a spouse or common-law partner and you support a dependent relative who lives with you and whose net income for the year is less than the BPA, you can claim an amount for an eligible dependent. You may be able to claim a deduction for eligible child care expenses if they are incurred to allow you or your spouse or common-law partner to work, carry on business, attend school or carry on grant-funded research. The eligible child care expenses must be claimed by the spouse or common-law partner with the lower income. The annual child care expense deduction is limited to the following amounts:

- $8,000 for a child under the age of seven at the end of the year,
- $5,000 for a child age seven to sixteen at any time during the year, $5,000 for a child over age fifteen through the year who has a physical or mental infirmity and is dependent,
- and $11,000 for a child who qualifies for the disability tax credit.

In addition to this annual limit, the deduction is also subject to an overall limit of two-thirds of the earned income of the lower-income spouse or single parent.

Students

If you are enrolled in an educational program and are considered a full-time qualifying student for 2020, 2021 or 2022, post-secondary school scholarships, fellowships, and bursaries that you received in 2021, are not taxable to you. However, if you are considered a part-time qualifying student, the exemption amount is limited to tuition paid and costs of program-related materials. Please note that your post-doctoral fellowships are considered as taxable income You are entitled to non-refundable tax credits for the eligible tuition fees paid to a Canadian University, college or other post-secondary educational institution, or to an educational institution certified by the Minister of Employment and Social Development Canada. The tax receipt or form you receive from your educational institution will indicate your eligible tuition fees which may include admission fees, library and laboratory facilities charges, exam and application fees, charges for certificates, diplomas or degrees, membership or seminar fees specifically related to an academic program and its administration, any mandatory computer service fees and academic fees. Certain ancillary fees and charges, such as health services fees and athletic fees may also be included in eligible tuition fees. Note that the federal education and textbook tax credits were eliminated in 2017, however, any unused amounts may be carried forward from previous years may be claimed in later years.

Unused tuition amounts can, subject to limitation, be transferred to your spouse or common-law partner, your parent or grandparent, or your spouse's or common-law partner's parent or grandparent. You are permitted to use a combination of transferring part of your unused tuition amount and keeping the remaining balance for use in future years. However, unused amounts carried forward may not be transferred in a subsequent year. You are eligible for non-refundable tax credits on interest paid on your student loan if you received the loan under the *Canada Student Loans Act*, the *Canada Student Financial Assistance Act*, the *Apprentice Loans Act* or similar provincial or territorial government laws. You may claim this credit on the interest paid in the year or any of the five preceding years.

If you moved at least 40 kilometers within Canada to be closer to a qualified post-secondary institution you are attending as a full-time student, you may deduct eligible moving expenses against your income from scholarships, fellowships, bursaries, study grants, and artists' project grants/awards. If you moved to work or run a business, such as for summer employment or for a work semester in a co-operative program, you may also deduct eligible moving expenses if your relocation was at least 40 kilometers. The deduction is limited to the income you earned at the new work or business location.

People with Disabilities

If you suffer from a severe and prolonged impairment of physical or mental function, you may be able to claim a federal non-refundable Disability Tax Credit (DTC) of 15% of $8,662 for the 2021 tax year. 870Generally, an individual who is blind, markedly restricted in at least one of the basic activities of daily living, significantly restricted in two or more of the basic activities of daily living, or requires life-sustaining therapy may be eligible for the DTC if the

impairment is prolonged or is expected to last for a continuous period of at least 12 months and is present all or substantially all of the time (at least 90% of the time). In order to claim the DTC, Form T2201, Disability Tax Credit Certificate must be submitted and approved by the CRA. In completing Form T2201, depending on the nature of your impairment, it will need to be filled in and certified by a medical doctor, a nurse practitioner, an optometrist, an audiologist, an occupational therapist, a physiotherapist, a psychologist or a speech-language pathologist. If you were eligible for the DTC for previous years but did not claim the disability amount, you may be able to request a reassessment to apply an adjustment.

If you have an eligible dependent who qualifies for the DTC and was resident in Canada at any time in 2021, you may be able to claim all or part of your dependent's disability amount if the dependent is unable to use it due to insufficient income. Your spouse or common-law partner, child, grandchild, parent, grandparent, sibling, aunt, uncle, niece or nephew who depends on you on a regular and consistent basis for necessary maintenance or the basic necessities of life can be treated as an eligible dependent.

For more information, please see: https://www.canada.ca/ en/revenue-agency/services/tax/individuals/segments/ tax-credits-deductions-persons-disabilities/disability-taxcredit.html

Medical Expenses

You are entitled to a non-refundable tax credit for eligible medical expenses paid by you and your spouse or common-law partner over a certain threshold, which is the lesser of 3% of your net income or a flat amount of $2,421 for 2021 ($2,479 for 2022). You can claim medical expenses for yourself, your spouse or common-law partner and your or your spouse's or common-law partner's dependent minor children. If you and your spouse or common-law partner paid eligible medical expense on behalf of a close relative who is dependent on you or your spouse or common-law partner for support, the medical expenses that exceeds the threshold amount for the dependent, may also be claimed. In addition, medical expenses can be claimed for any 12-month period ending in the taxation year that have not been previously claimed (24-month period in the event of death).

Generally eligible medical expenses are not restricted to expenses paid in Canada or for medical services provided in Canada, subject to some exceptions. If your medical expenses are reimbursed by an insurance plan, you can only claim the portion of the expenses that were not reimbursed.

The list of eligible expenses is extensive and includes, but is not limited to, the following common medical expenses:

- Prescription drugs, medications and other substances;
- Cost of attendant care and care in certain types of facilities;
- Vision care such amounts paid for eyeglasses or fees paid to a medical practitioner for eye exams and treatments, such as laser eye surgery;
- Guide and hearing-ear dogs and other animals;
- Hearing aid devices;
- Medical services and fees such as ambulance service, dental services, hospital services, etc.; or

- Construction and renovation costs related to certain changes made to a home such as to provide accessibility;

For more information, please see: https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/about-your-tax-return/tax-return/completing-a-tax-return/deductions-credits-expenses/lines-33099-33199-eligible-medical-expenses-you-claim-on-your-tax-return.html

Seniors

Service Canada has implemented a process to automatically enroll seniors who are eligible to receive the Old Age Security (OAS) pension and Guaranteed Income Supplement (GIS), if applicable. The GIS provides a monthly non-taxable benefit to Old Age Security (OAS) pension recipients who have a low income and are living in Canada. If you can be automatically enrolled, Service Canada will send you a notification letter the month after you turn 64. However, if you are not selected for automatic enrolment, you will need to apply for the OAS pension (and GIS, if applicable).

For more information on OAS auto-enrollment please see: https://www.canada.ca/en/services/benefits/publicpensions/cpp/old-age-security/apply.html

You can defer the receipt of OAS benefits up to five years (60 months) after the month you turn 65 in exchange for a higher monthly amount. If you delay receiving your OAS pension, your monthly pension payment will be increased by 0.6 percent for every month you delay receiving it, up to a maximum of 36 percent at age 70. You may consider this planning strategy if receiving OAS during those five years will result in a clawback of your benefits. The OAS clawback applies if your net income for the year exceeds an annual threshold. For 2021, the threshold is $79,845 ($81,761 for 2022). The amount of the clawback is equal to the lesser of your OAS payments or 15% of the amount that your net income exceeds the threshold. For 2021, full OAS clawback will occur when your net income reaches $129,757.

You may be eligible for the one-time payment for older seniors if you were born on or before June 30, 1947 and were eligible for the Old Age Security pension in June 2021. You can receive one taxable grant payment of $500 if you meet the eligibility requirements.

If you have received a notification letter for automatic enrolment, you may notify Service Canada that you wish to defer the receipt of OAS (and GIS, if applicable) benefits by logging into your My Service Canada Account or sending a letter to Service Canada. In general, you cannot receive the GIS unless you are receiving the OAS benefits. Therefore, if you delay receipt of your OAS benefits, you will not receive the GIS, if applicable.

If you turned 60 in 2021 and made contributions, you may be eligible to receive Canada Pension Plan (CPP) or Quebec Pension Plan (QPP) benefits. The standard age to start the CPP/QPP is age 65, however you may elect to receive CPP/QPP benefits as early as age 60. If you choose to start receiving your pension earlier this will result in a reduced benefit payment. If you start receiving your CPP/ QPP retirement pension before age 65, benefit payments will decrease by 0.6% each month, up to a maximum reduction of 36% if you start at the earliest possible age of 60.

Alternatively, you may decide to defer receipt of CPP/QPP benefit payments until after age 65 in which case your pension entitlement will be increased by 0.7% per month, up to a maximum of 42% at age 70. There is no benefit to defer beyond age 70 as the maximum monthly amount you can receive is reached when you turn 70.

When you apply for your CPP benefits, you may apply online or using a paper application. Under certain circumstances, you may not be eligible to apply online, such as if you live outside Canada. The time frames for processing your application will depend on the method you use to apply for your CPP benefit. For paper applications, it normally can take up to 120 days before you receive a notification. For QPP benefits, you may apply online for your retirement pension one to three months before the date on which you would like to receive our first payment. If you wish to share your CPP or QPP benefit with your spouse or common-law partner the election must be done at the time of application. The amount of pension shared will be based on the credits received by each partner during their period of cohabitation and can be applied even if one partner has never contributed to the program.

You may be able to make a joint election with your spouse or common-law partner to **split eligible pension income** by up to one-half if certain requirements are met. Form T1032, Joint Election to Split Pension Income must be completed annually and filed by your tax return filing due date in order to make the pension income splitting election. You should speak with your tax advisor to determine the optimal allocation of pension income and the impact of pension income splitting on other personal tax credits such as the spouse or common-law partner, age, and medical expense credits as well as the impact on the OAS clawback.

There are a few additional non-refundable tax credits designed especially for the benefit of seniors. You will be eligible for the **age amount** of up to $7,713 if you are 65 or older on December 31, 2021 ($7,898 for 2022). This amount is reduced by 15% of your net income above $38,893 in 2021 ($39,826 for 2022) and eliminated if your net income exceeds $90,313 in 2021 ($92,479 for 2022).

A non-refundable tax credit for the **pension income amount** is available for up to $2,000 of eligible pension income that you receive in the tax year. Eligible pension income generally includes payments from a registered retirement income fund (RRIF), a life income fund (LIF), a deferred profit sharing plan (DPSP) or a private pension such as Defined Benefits (DB) pension. Payments from the CPP/QPP, OAS or GIS, death benefits and retiring allowances are not eligible. If you are younger than 65, pension amounts received from a deceased spouse or common-law partner may also qualify.

December 31 of the year you turn age 71 is the last day you can make an RRSP contribution. However, if you still have unused RRSP contribution room you may be able to continue to make contributions to a spousal RRSP as long as your spouse or common-law partner is still under the age of 71.

In the year you turn age 71, you **must withdraw funds from your RRSP, or transfer your RRSP holdings** on a tax-deferred basis to a **Registered Retirement Income Fund (RRIF)** or use your RRSP funds to purchase an annuity. If you choose to withdraw funds, your RRSP issuer will withhold tax. If you transfer the funds directly to a RRIF or purchase an annuity, the issuer

should not withhold tax. For funds transferred to a RRIF, you are required to withdraw an annual minimum amount starting in the year after the year you establish a RRIF, however, in many cases there is no maximum withdrawal limit. The minimum amount may be based on your age at the beginning of each year. If you have a younger spouse or common-law partner, it is possible to reduce the required annual RRIF minimum withdrawal based on their age. You can make this election when you set up the RRIF, however, once this election is made, you cannot change it.

Families

Considering the progressive tax rates on your income, you may explore opportunities **to income split with your family to reduce your family's overall tax burden.** The Income Tax Act (Canada) contains specific measures to prevent various kinds of income splitting. However, there remain some income splitting opportunities to help facilitate tax efficiency in your family. This strategy could be particularly appealing to households where there is an income discrepancy between different family members.

If you transfer or loan property, including money, directly or indirectly to your spouse or common-law partner, all income or loss from the property, and any capital gain or loss on the disposition of the property will be attributed back to you due to the attribution rules. However, the attribution rules will not apply on subsequent property income earned on previously attributed income, commonly referred to as second generation or secondary income. For example, if you give your spouse or common-law partner $10,000 in bonds and they earn $1,000 in income, this income will be attributed to you and taxed as your income. When your spouse reinvests the $1,000 and earns $100, the $100 is not attributed to you and your spouse will be taxed on this second generation income.

The application of the attribution rules may be avoided if you loan funds to your spouse or common-law partner as a **prescribed rate loan (PRL)**. This strategy requires formal documentation and a promissory note should be signed that clearly states the interest at the prescribed interest rate in effect at the time the loan is made, which is set by the CRA every quarter. For the loan to remain effective, the borrowing partner must pay the interest at least annually, by January 30th of the year following the year in which the interest accrued. When the loan is used for investment purposes, the borrowing partner may be able to deduct the interest expense against the income earned. The partner who loaned the funds would report and pay tax on the interest income received from their spouse or common-law partner.

You may wish to consider the timing of establishing a PRL. The prescribed rate is set at 1% for the fourth calendar quarter of 2021 and is subject to change. When setting up a PRL, you have the option to lock in the interest rate at the prescribed rate that is in effect at the time the loan is made, as long as the interest is paid on time each year. You may consider other income-splitting strategies such as **gifting an investment asset or funds for investment purposes to your adult children**. Generally, there will be no attribution of income when you make such a gift to an adult child. However, if you gift investment assets to your adult child, you will be considered to have disposed of the asset for proceeds equal to the fair market value of the property at the time it is gifted and you may be subject to tax on the resulting capital gain.

Special rules apply for minor children under age 18 who are related to you such as your children or grandchildren. For the purposes of the attribution rules, a related minor will also include a niece or a nephew. These rules may result in the attribution of income on property loaned or gifted to a minor child. However, these attribution rules do not generally apply to capital gains of the minor child which may provide a tax planning opportunity.

Since 2018, income splitting between certain family members, by way of a private company, may be subject to a Tax on Split Income (TOSI). Before moving ahead with any variation of an income-splitting strategy, you should speak with your TD advisor and tax advisor about your specific circumstances to determine the potential tax outcome.

If your family has a trust created for estate planning and income splitting purposes, the trustee should review the income earned by the trust for the tax year with a tax advisor. Depending on the terms, tax status, and beneficiaries of the trust, and the type of income earned, or received, by the trust, consideration will need to be given as to whether income should be retained in the trust or be paid, or made payable, to the beneficiaries. The discussion between the trustees and a tax advisor should occur well in advance of year end to ensure that any determinations in respect to distributions can be made.

If a trust is set up while the settlor (the contributor of the assets) is alive, it is known as an inter vivos trust. The income earned by an inter vivos trust is taxed at the highest marginal tax rate. A testamentary trust is created in a person's Will and takes effect upon their death. Income earned in a testamentary trust that is designated as a graduated rate estate may benefit from the use of graduated tax rates (i.e. the marginal tax rates as the amount of income increases) for 36 months after the date of death. This may also apply if the beneficiaries are eligible for the federal disability tax credit. Otherwise, a testamentary trust is also generally taxed at the top marginal rate.

Therefore, if your family's trust is taxed at the top marginal rate, it could be beneficial to allocate trust income to beneficiaries in lower tax brackets and reduce your family's overall taxes. On the other hand, if the beneficiaries are in the top tax bracket, the overall tax effect may not differ significantly if the funds are retained in the trust.

Canadian residents pay both federal and provincial/ territorial income tax. The provincial rates vary by province. Therefore, if your family is planning to move to a higher-tax jurisdiction, you may consider delaying the move until after December 31 to take advantage of the lower tax rates in your current province/territory of residence. In contrast, the opposite is true if you are moving to a lower tax jurisdiction and you may wish to take up residence in your new province before the end of the year.

Income splitting within the family can be an effective way to help reduce your overall tax bill. However, you need to be aware of what transactions will attract the application of the income attribution rules — resulting in an adverse impact on your taxes. Does your family have a trust? Given the trustee's duties and the tax rules that apply to trusts, these can be complex to administer. Speak to your TD advisor and tax advisor or lawyer about your options.

Investing

Generally, interest on debt that you have taken on for the purpose of earning income may be tax deductible. If you currently have debt where interest is not deductible (e.g., mortgage for a personal residence) you may consider re-structuring your debt so that the interest is deductible for tax purposes. This may include selling some of your non-registered investments to pay off existing debt and borrowing to make investments in your non-registered accounts.

A common query for investors as tax time nears is what to do about capital losses. If you have realized capital gains in 2021, or in any of the three previous years, you could consider selling investments which have decreased in value to offset your gains and lower your tax bill. Any tax-loss selling of exchange-traded securities must have a settlement date before the end of the year. For the 2021 tax year, assuming a 2-day settlement period, trades must be made by December 29, 2021 — (December 28, 2022 for the 2022 tax year).

Generally, your current year's capital losses must be applied first against your current tax year's capital gains. If you have capital losses that cannot be used in the current year, you may carry back losses to the three previous years to be deducted against capital losses in those years or carry forward to apply to future years.

It is important to note that capital losses may be denied if the same or identical capital property is acquired by you or certain related parties, such as your spouse or common-law partner, within 30 days before or after the sale. This restriction is called the superficial loss rule.

An additional consideration when contemplating tax loss selling is if the investment is purchased and held in a foreign currency. Investments purchased and held in foreign currencies may be affected by fluctuating foreign currency exchange rates. What may appear to be a capital loss may result in a capital gain if the value of the Canadian dollar has declined relative to the currency tied to the investment(s). Speak with your TD advisor if you hold foreign currency denominated investments and wish to sell such investments with a loss to reduce your tax bill.

A capital gains reserve may be available to you if you sell capital property and receive proceeds over a number of years (instead of in full at the time of sale). If you will be selling capital property with an accrued gain, look at negotiating the terms of the sale so you can collect the proceeds over a period of five years or less. You may be able to claim a capital gains reserve that will allow you to report a portion of the capital gain in the year you receive the proceeds of disposition. Consult with your tax advisor as claiming a reserve may not be beneficial if you will be higher tax brackets in the later years or it may cause OAS clawback over several years.

Tax-efficient investing should be a part of your investment strategy. While tax-planning should not be the sole determinant for your investment strategy, it should complement your overall goals and objectives for building your net worth. Speak with your TD advisor and tax advisor about your goals and how to ensure your investments are tax-efficient.

Registered Retirement Savings Plans (RRSPs) and Tax Free Savings Accounts (TFSAs)

One of the most important dates in the year relating to your personal income taxes is the deadline for contributing to your **RRSP**. For the 2021 tax year, you have until March 1, 2022 to make a contribution which may be deducted on your 2021 personal income tax return (March 1, 2022 for the 2022 tax year).

You may have **unused RRSP deductions** if you have been contributing less than the RRSP deduction limit available to you. If you have sufficient cash, you may want to consider making contributions up to your unused RRSP deduction limit, resulting in more money being saved for your retirement and reducing your taxes in the year. If you anticipate being in a higher tax bracket in the future, you may choose to use the RRSP deduction later while benefiting from the tax-deferred growth now.

Consider income-splitting with your spouse or common-law partner using a **spousal RRSP**. You can contribute to a spousal RRSP, subject to your deduction limit, and claim the deduction in your income tax return. If your spouse makes a withdrawal from the spousal RRSP in the year of your contribution or in the next two calendar years, it will be taxable in your hands due to the spousal RRSP attribution rules.

Generally, you may pay investment management fees for your registered accounts such as RRSP, RRIFs, and RRSPs, either from the registered account or from outside of those registered accounts. The CRA has indicated that if you choose to pay investment management fees outside the registered account, you need to ensure that you are paying the fees as the controlling individual of the registered account.

As one of the key pillars of saving for retirement in Canada, annual contributions to your RRSP can benefit you in the long run as well as at tax time. Have you reviewed your wealth plan with the aim of maximizing your RRSP contributions? Talk to your TD advisor to consider what will work for you.

Another valuable planning vehicle is the **TFSA**. While you do not get a deduction for income tax purposes by contributing to a TFSA, any income or capital gains earned within a TFSA, as well as your original contribution, are not taxable when you make a withdrawal. The TFSA contribution limit for 2021 is $6,000 ($6,000 for 2022) and in 2021, if you are 28 years or older and have been a Canadian resident continuously since age 18, you may be able to contribute a total of up to $75,500 in 2021 (up to $81,500 in 2022). Any amount withdrawn (with the exception of certain qualifying transfers and distributions) can be contributed back to the TFSA as of the beginning of the following year.

In considering what **types of investments** to hold within your RRSP/spousal RRSP, consideration should be given to any foreign investments that may be subject to foreign withholding taxes. The tax treaty between Canada and the U.S. exempts certain U.S. investments from U.S. withholding tax such as dividends received on shares of U.S. corporations held within an RRSP, RRIF and other qualified retirement accounts. However, withholding tax may apply on income earned from other foreign investments. It is important to note that foreign withholding tax paid on investments within an RRSP or TFSA may not be recoverable and may not be claimed using the foreign tax credit.

COVID-19 Benefits

Individuals can choose to claim deductions for repayments before January 1, 2023 of certain COVID-19 benefits they were not entitled to receive on their income tax return. Targeted interest relief is provided for those who received COVID-19 benefits in 2020. Qualification includes, filing a tax return for 2020, taxable income of $75,000 or less in 2020 and have received income support in 2020 through the COVID-19 benefits, including the Canada Emergency Response benefit, the Canada Emergency Student Benefit and the Canada Recovery Benefit.

Donating to Charity

Charitable giving can be a good way to give back to the community while also decreasing your tax bill. In a given tax year, all or a portion of your gifts to Canadian registered charities or other qualified donees may be eligible for the charitable donation tax credit, a non-refundable tax credit. In general, you may claim eligible amounts from official donation receipts issued before December 31 to you or your spouse or common-law partner. You may also claim any unclaimed donations made in the previous five years. The eligible amounts claimed in a year are subject to a limit of 75% of your net income, with certain exceptions. Gifts of certified cultural property or ecologically sensitive land may be eligible up to 100% of your net income. Consideration must also be given to how you make your charitable donation. A cash donation or a gift in kind may result in different tax treatments.

The charitable donation tax credit is calculated with two rates for both federal and provincial/territorial purposes and generally, for eligible amounts above $200, a higher rate would apply to provide a higher tax credit.

Do you donate on an ad hoc basis or do you have a charitable giving plan? Perhaps you would like to work through the steps involved in creating a charitable giving plan. When you have a plan in place, you can consider several charitable giving strategies or a combination of strategies may be suitable for you.

If you own a corporation, or have stock options, the Income Tax Act also provides unique benefits for giving back.

Speak with your TD and tax advisors about how you could give tax efficiently

For more information and a list of charities and other qualified donees, please see: https://www.canada.ca/en/revenueagency/services/charities-giving/giving-charity-information-donors.html

Conclusion

Opportunities arise at year end as a well as throughout the year to save on your, and your family's, overall tax bill. Ensure you keep current on the latest tax strategies by meeting with your TD advisor well before the end of the tax year. Meanwhile, we'll have annual updates of this article to help you.

The information contained herein has been provided by TD Wealth and is for information purposes only. The information has been drawn from sources believed to be reliable. The information does not provide financial, legal, tax or investment advice. Particular investment, tax, or trading strategies should be evaluated relative to each individual's objectives and risk tolerance. TD Wealth represents the products and services offered by TD Waterhouse Canada Inc., TD Waterhouse Private Investment Counsel Inc., TD Wealth Private Banking (offered by The Toronto-Dominion Bank) and TD Wealth Private Trust (offered by The Canada Trust Company). All trademarks are the property of their respective owners. ® The TD logo and other trade-marks are the property of The Toronto-Dominion Bank or its subsidiaries.

(O222)