IG PRIVATE WEALTH MANAGEMENT

2021 year-end tax planning checklist for individuals

Our team of financial planning experts, who specialize in tax, insurance, estate planning and more, created this tax planning tool to help you identify strategies that could help you reduce your taxes this year and possibly into the future.

Even though financial planning is a year-round activity, certain issues become especially important as year-end approaches.

The following checklist will help identify and explain strategies that could reduce your taxes this year or next.

- Saving for retirement with RSPs
- Planning your retirement income
- Investment planning and income splitting
- Tax-Free Savings Accounts (TFSAs)
- Charitable gift planning
- Registered Education Savings Plans (RESPs)
- Home Buyers' Plan (HBPs)
- Maximizing deductions and credits
- Registered Disability Savings Plans (RDSPs)
- COVID-19 economic relief measures – tax considerations

Please note: This document is for federal tax purposes only. If you require additional tax planning guidance specific to your province or territory, please contact your accountant or IG Wealth Management Consultant.

Saving for retirement with RSPs

Aside from making your 2021 RSP contribution by the March 1, 2022 deadline, be sure to take the following into consideration.

Do you have unused RSP contribution room?

Yes No

If you have contributed less to your RSP than the maximum permitted in prior years or you had earned income in 2020, you should have unused RSP contribution room available. Look at how your marginal tax rate compares to future years and consider topping up your RSP to the maximum allowed. In many cases, individuals are in a lower tax bracket in retirement than during their working years, meaning you not only get a tax deduction from your RSP contribution today, but the deduction may be at a higher tax rate than the rate that will eventually apply to the RSP withdrawals. The result - tax deferral and tax savings – a win/win. You may even want to consider borrowing to make your contribution. Your IG Consultant can help you maximize your RSP contribution room to take advantage of all the benefits RSPs have to offer.

Would a spousal RSP contribution make sense?

Yes No

Once you've decided to make an RSP contribution, you have to decide if it is best to contribute to your own plan or a spousal RSP for your spouse or common-law partner. You receive the tax deduction either way, but the difference lies in who pays tax on the withdrawals. As a general rule, your spouse or common-law partner would pay tax on withdrawals from a spousal plan as long as you have not contributed to a spousal RSP in the year of the withdrawal or the previous two calendar years. If you have, the withdrawals could be taxed to you under what are referred to as the attribution rules. If you plan to contribute to a spousal RSP, make your contribution before year-end to minimize the possibility of attribution rules applying on future withdrawals.

Under another strategy, if your spouse passed away this year, you can still consider making a final contribution to a spousal RSP if your spouse has unused RSP contribution room. The contribution can be deducted against income on your spouse's final tax return.

Planning your retirement income

Have your retirement income needs changed? Are you receiving excess retirement income, e.g., RIF income that is not required for your lifestyle and is greater than your required minimum withdrawals?

Yes No

Consider contacting your IG Consultant to discuss options such as basing your RIF withdrawals on the age of your spouse or common-law partner. The minimum annual withdrawal increases with age, so basing the RIF minimum withdrawal on the age of a younger individual reduces the taxable amount that must be taken into income.

Do you qualify for the pension income credit?

Yes No

Claiming this credit may allow you to receive the first $2,000 of your pension or RIF income without paying federal taxes (provincial credit amounts vary). The same income that qualifies for the pension income credit can also open up certain planning strategies such as pension income splitting with a spouse or common-law partner. The keys to both planning opportunities are your age and the type of retirement income received. Not sure if you qualify? Contact your IG Consultant to find out.

Did or will you reach age 71 this year?

Yes No

RSP contributions are allowed to your own RSP until the end of the year in which you reach age 71. This means that if you have or will reach age 71 this year and have unused RSP contribution room, you should make your RSP contribution by December 31st.

If you're still working and have earned income in the year you reach age 71, this will create RSP room for next year. Since you wouldn't be able to contribute next year, consider making an RSP over-contribution in December based on your anticipated RSP room for next year. This strategy means that you will over-contribute for one month and be subject to a 1% per month penalty tax; however, you will also be entitled to an RSP deduction for next year that will provide tax savings that should far outweigh the penalty tax. Your earned income from this year will generate additional RSP contribution room as of January 1 that will, with proper planning, eliminate the overcontribution made in December of this year.

If you have a younger spouse or common-law partner, an alternative would be to continue to make tax-deductible contributions to a spousal RSP next year as long as the contributions are made before the end of the year in which they reach age 71.

Investment planning and income splitting

Have you realized, or do you plan to realize capital gains this year?

Yes No

If yes, consider triggering a capital loss prior to the end of the year. Capital losses can be used to offset capital gains in the current year, reducing any taxes that would otherwise be associated with the gains. Did you also know that if your capital losses realized exceed your capital gains realized in the year, any excess can be applied against gains in any of the three prior calendar years? If you paid tax on capital gains realized in any of the last three years, consider realizing capital losses even if you have not realized gains this year in order to recover taxes paid in those years. This strategy can help you minimize taxes for this year and potentially help you recover taxes paid on previously reported capital gains. Note also that any unused capital losses may be carried forward indefinitely to be applied against future capital gains.

Are you triggering capital gains as a tax-efficient form of income?

Yes No

If yes, consider delaying the sale of the investments until after December 31 of this year. This will allow you to push the gains and the related tax bill to April 2023 when you file your 2022 tax return. Just remember that taxes should not be the only factor in making investment decisions.

Do you have investment-related expenses that can be used as a deduction on your personal tax return?

Yes No

If you have non-registered investments for which you are charged an advisory fee, those expenses will generally be deductible for income tax purposes. You cannot deduct advisory fees for TFSAs, RSPs, RIFs, RESPs or RDSPs. Interest paid on certain loans where the proceeds are used to earn income from a business or investments can also be tax deductible.

Would income splitting opportunities with a spouse or your children improve your overall tax situation?

Yes No

If you have family members who are in a lower tax bracket, consider the use of a spousal loan or funding a family trust with a prescribed rate loan. The interest

owing on the prescribed rate loan must be paid to the lender by January 30 of the year following the calendar year to which the interest relates in order to avoid the attribution rules. If attribution applies, the purpose of the loan would be defeated. If paid on time, the lender will have to include the interest income from the loan on their tax return, while any income earned from the borrowed funds would be taxable to the borrower. Depending upon the use of the borrowed funds, the interest on the prescribed rate loan may be deductible for the borrower. With the prescribed interest rate being at a historic low of 1% and subject to change every calendar quarter, you may want to explore this option prior to year-end.

Tax-Free Savings Accounts (TFSAs)

Have you made a TFSA contribution yet this year?

Yes No

Consider contributing to a TFSA to take advantage of tax-sheltered savings. Contributions to a TFSA are not tax deductible, but income and growth inside the plan along with contributions can be withdrawn tax-free. The contribution limit this year is $6,000, but don't forget about any unused contribution room that is carried forward from year to year. If you have never contributed to a TFSA, you may be able to contribute up to the accumulated limit of $75,500 in the current year. The sooner you contribute to a TFSA, the faster your investments can grow tax-free. Talk to your IG Consultant to calculate your unused contribution limit today.

Will you be withdrawing funds from a TFSA?

Yes No

If so, a withdrawal before December 31st will create contribution room of an equal amount in January of next year. If you delay the withdrawal until the new year, you will not get the contribution room created from the withdrawal until the following year, delaying by a full year how quickly you can replenish your TFSA for the amount withdrawn. Note that the amount added to your contribution room is the full amount of the withdrawal, not simply the amount of your original capital withdrawn.

Have you considered using TFSAs for income splitting?

Yes No

In many cases, gifting money to a spouse or common-law partner will result in any related investment income and gains being taxed to you, not them. One of the few exceptions to this rule relates to TFSAs. You can gift money to a Canadian resident spouse or common-law partner who can then use those funds to make contributions to their own TFSA, with future withdrawals tax-free to them and no tax consequences to you.

Charitable gift planning

Are you considering a donation to a charity this year and next?

Yes No

Donating to a registered charity by the end of the year provides valuable tax credits. The first $200 of donations you claim on your tax return receive a lower donation tax credit rate than donations claimed above $200. To limit donations subject to the lower $200 credit rate, consider bringing forward donations planned early in the new year and make them prior to December 31st in order to combine them onto your current year tax return. In addition, the federal donation tax credit is enhanced if your income is in the top tax bracket. Rules vary by province, but there may also be an increase to the provincial donation tax credit based on your income.

Do you have publicly-traded securities or mutual funds with accrued gains?

Yes No

If you have the option of donating cash or publicly-traded securities/mutual funds that have appreciated in value, consider donating the latter "in-kind". You will receive a tax receipt equal to the market value of the investment and any resulting capital gain will be exempt from tax. If you wish to donate securities before the end of the year, don't wait until the last minute as additional time may be required for the financial institution and charity to process the request.

Registered Education Savings Plans (RESPs)

Do you have children for whom you could create an RESP? If you are already an RESP subscriber, have you contributed yet this year?

Yes No

Contributions to an RESP entitle you to a Canada Education Savings Grant (CESG) of up to $500 per year or $1,000 if there is unused grant room from previous years. If your child has available grant room that exceeds $1,000, consider making a contribution for them to an RESP prior to year-end to not only maximize the grants received this year, but allow for more grants to be received next year as well. In addition, if the beneficiary of your RESP is turning 15 this year, certain factors must be satisfied by the end of the year to remain grant eligible to the end of the year they turn 17. Speak with your IG Consultant to help you maximize your CESG.

Home Buyers' Plan (HBP)

Are you planning an HBP withdrawal soon?

Yes No

The Home Buyers' Plan allows you to borrow funds from your RSP to purchase your first home, provided a multitude on conditions are met. Consider these HBP rules when deciding when to withdraw via an HBP:

1 | You must purchase a qualifying home by October 1 of the year following the withdrawal.

2 | All withdrawals must be made in the same calendar year.

3 | Repayments of the withdrawal(s) must begin two years following the year of withdrawal.

Delaying your withdrawal to next year will allow you more time to purchase a home, make more withdrawals if necessary (up to a maximum of $35,000), and extend the time before you have to begin repaying the funds.

Have you made an HBP withdrawal in the last two years?

Yes No

The HBP requires that repayments of withdrawals begin two years following the year of withdrawal. Be sure to make your required RSP repayment and designate the contribution as a repayment on Schedule 7 of your personal tax return to avoid any unnecessary income inclusion. Check your Notice of Assessment from the Canada Revenue Agency (CRA) for more information if you're unsure of your repayment requirement.

Maximizing deductions and credits

In order to be able to claim a tax deduction or a tax credit, many items need to be paid by December 31st. These include:

- Attendant care costs
- Childcare expenses
- Employment expenses
- Interest costs and investment counsel fees
- Interest on student loans
- Moving expenses
- Political donations
- Professional membership fees
- Spousal support
- Tuition fees
- Union dues

Ensure you pay all these amounts prior to the end of this year to get maximum value on your current year tax return.

Registered Disability Savings Plans (RDSPs)

Do you or a loved one qualify for the Disability Tax Credit (DTC)?

Yes No

If you do, consider establishing an RDSP to assist in securing the financial future of a beneficiary with a disability. While contributions to an RDSP are not tax deductible, RDSP investment returns grow on a tax-deferred basis for as long as the funds are in the plan. While there is no annual contribution limit, there is a lifetime contribution limit of $200,000 while the Canada Disability Savings Grant (CDSG) and the Canada Disability Savings Bond (CDSB) can significantly increase the total RDSP value. Depending upon family income levels, an individual can generate between $1,000 and $3,500 of CDSG and up to $1,000 of CDSB each year. You are eligible to make an RDSP contribution for any year the beneficiary is eligible for the DTC, however CDSG and CDSB can only be carried forward 10 years therefore making a contribution prior to the end of the year may allow you to receive CDSG or CDSB that would otherwise be lost. Talk to your IG Consultant to determine the contributions needed to maximize the CDSG and CDSB.

COVID-19 economic relief measures – tax considerations

Measures Impacting Individuals

Employment Insurance (EI) Programs

Temporary measures were introduced in 2021 and remained in place for at least part of 2021 to increase access to EI benefits. Individuals who are not eligible for EI may be eligible for one of the following three programs:

- Canada Recovery Benefit (ended October 23, 2021)
- Canada Recovery Sickness Benefit
- Canada Recovery Caregiving Benefit

It is important to understand that while there has been some withholding tax applied to these payments, taxpayers may still owe taxes when they file their 2021 tax return.

For more information on these measures please contact your IG Wealth Management Consultant.

At IG Wealth Management, we believe in comprehensive financial well-being that comes from the power of expert advice to change lives for the better. We are committed to helping Canadians feel empowered about their finances and to improving their ability to achieve their personal financial goals by synchronizing all aspects of their financial lives through the IG Living Plan*.

For more information, please contact your IG Consultant.

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