CESTNICK

TAX MATTERS

Do the little things right to save tax amid COVID-19

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As we do our best to deal with the COVID-19 pandemic, our government has been handing out much-needed financial support to Canadians. And in the midst of this, taxes are on the minds of many of us. We have to think about taxes today, firstly because it's tax season and personal tax returns are due by June 1 this year. Taxes also come to mind because, with all the support being provided by the government, we have to wonder who is going to pay for all this. We all know the answer to that, of course: you and me.

You might consider preparing for the increase in taxes we're bound to see in the near future. How? By doing the little things right to save tax. Now, most believe in paying their fair share of taxes, which is what the taxman expects, but we tend to pay much more than that. Here's a list of key "little things" to implement this year that can make a difference to your tax bill.

START A HOME-BASED BUSINESS

You may be working from home today. So, consider self-employment, even part-time. This is still one of the best tax shelters out there. A business may allow you to claim a deduction for a number of things you're likely paying for already, such as mortgage interest, property taxes, rent, utilities, home repairs, a computer, gas for your car, car repairs, car and home insurance, and more. Our tax law says that any costs incurred to produce income from your business can be deducted, as long as they are reasonable in amount. So, make working from home part of your routine even after COVID-19.

SPLIT INCOME WITH FAMILY MEMBERS

This is the idea of moving income from the hands of one family member to another who will pay tax at a lower rate. There are a few ways to do this. You might choose to pay your children or spouse wages to help in your business. Or consider making a loan to your spouse for him or her to invest (wait until July 1 to make this loan since the prescribed rate, which you'll need to charge, is expected to drop from 2 per cent to just 1 per cent at that time). Also, consider: Contributing to a spousal registered retirement savings plan (RRSP); investing for capital growth through an in-trust account for your minor children; paying the household expenses to free up a lower-income spouse's cash to invest; paying an adult child to look after the younger kids (age 16 or younger) or to help in a move; splitting your eligible pension income with your spouse; or contacting the government to split your Canada Pension Plan benefits with your spouse.

RECONFIGURE YOUR PORTFOLIO

What type of income does your portfolio generate each year? Interest is highly taxed, so consider holding interest-bearing investments in your tax-free savings account, RRSP, or in the hands of someone in the family who will pay tax at a lower rate (watch for the attribution rules; you might have to make a prescribed-rate loan to your family member to allow them to pay the tax). If you want to sell or transfer investments from one account to another, or to another person, to reduce the continuing tax bill, today might be an ideal time since many investments have declined in value and the tax cost of making these changes could be small.

OWN YOUR HOME

There's no place like home – for tax-free returns. Any profit on the sale of a principal residence can be tax-free. Your home should be first and foremost a lifestyle decision, and an investment second. Nevertheless, the financial benefits of home ownership over the long run can be huge. You might find it a little more affordable to buy a home today than a year ago given the slowdown in the real estate market and declining interest rates.

MAKE INTEREST DEDUCTIBLE

You can make a portion of your mortgage interest deductible by starting a part-time business from home. Or, if you have investments currently held outside your registered plans and you also have non-deductible debt, consider liquidating some of your investments (count the tax cost first) and paying down your debt, then borrow to replace those investments. This will open the door to deducting your interest costs since you'll be borrowing to earn investment income.

TAKE NON-TAXABLE BENEFITS AT WORK

Speak to your employer about making your compensation tax-efficient. If you can negotiate non-taxable benefits, you'll be receiving a form of compensation that never shows up on your tax return; things such as: personal counselling, certain membership fees, employer-provided day care, discounts on merchandise, use of recreational facilities, certain group plans, reimbursement for a loss on the sale of your home (if your employer requires you to move), and the list goes on.

None of these ideas on their own will make you wealthy, but together they add up to big tax savings over time.

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