CESTNICK

TAX MATTERS

Nine resolutions that can make for a better year for your finances in 2021

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When it comes to New Year's resolutions, fitness and finances are usually the order of the day. As for me, I'm just waiting for my wife to tell me what my resolutions are for 2021. Carolyn has already suggested that when it comes to fitness, my resolutions should include helping all my friends gain 10 pounds so I can look like I'm in shape.

As for finances, do you have any resolutions? I'd like to suggest a few things to consider in the categories of investing, debt and taxes.

INVESTING

1. Contribute to registered plans. For Canadians without a pension plan at work, a tax-free savings account (TFSA) and registered retirement savings plan (RRSP) are a must. Another year means another $6,000 you can contribute to your TFSA. In fact, if you've never contributed to a TFSA and have been eligible since the accounts were introduced in 2009, you could contribute $75,500. As for your RRSP, check your Notice of Assessment from the taxman for your allowable contribution limit.

2. Pay yourself first. Many Canadians saved a lot more in 2020 than in previous years – largely because of the COVID-19 pandemic and staying at home so much. Rather than going back to your old ways of spending, put in place a "pay yourself first" plan in which you set aside a certain amount every month and invest the money. Make this non-negotiable. Your financial health could depend on it.

3. Own real estate. Owning real estate can create wealth in a few ways: 1) an increase in equity as you pay down your mortgage (like a forced savings plan); 2) potential growth in value over the long term; 3) potential income if you earn rents; 4) a tax deferral from claiming depreciation (capital cost allowance) on a rental property; and 5) potential tax savings on a sale – through the principal

residence exemption or capital gains treatment.

DEBT

4. Track your spending. There's perhaps nothing more important to start 2021 than to make sure your expenses are not higher than your income, so you keep your debt under control. It's important to understand where your money is coming from and going to. It's easier than ever to track your spending by using apps such as mint.com or Quicken.

5. Pay down debt. According to the 2019 Canadian Financial Capability Survey, household debt represented an average of about 177 per cent of disposable income in 2019. Nearly three-quarters of Canadians have some type of outstanding debt, while almost a third believe they have too much debt. For every dollar of debt paid off, you achieve a guaranteed after-tax rate of return equal to the interest rate on your debt. Pay down your "bad" debt first, which is debt with a high rate of interest and used for personal consumption (think credit cards).

6. Make your debt deductible. Good debt is that with low interest rates used to buy appreciating or income-producing assets and for which the interest is deductible. Consider using cash or non-registered investments to pay down existing non-deductible debt, then reborrow to replace those investments or cash. This will create a deduction for your interest costs.

TAXES

7. Start a business. Many people have turned to full-time or part-time self-employment to supplement their incomes during the pandemic. A business provides a tax shelter because you can deduct any reasonable costs (including home office and vehicle costs – things you pay for anyway) that you incurred for the purpose of earning income from your business. It can also provide an opportunity to pay family members who are involved in your work.

8. Split income with family. This is the idea of shifting income from one family member, who may pay tax at a high rate, to another who will pay tax at a lower rate. As mentioned, salaries from a business can accomplish this. Or consider lending money to a lower-income spouse for investment purposes. If you charge the prescribed rate (currently just 1 per cent) – a rate that can be locked in indefinitely – then your spouse can pay the tax on the income earned on the loaned funds.

9. Reduce your taxes at source. If you usually expect a refund when you file your tax return, it may be possible to reduce the tax deducted from your pay at work to increase your take-home pay instead. You simply file Form T1213 with the Canada Revenue Agency and provide proof of the deductions or credits that will give rise to your refund. If approved, the CRA will send you a letter you can provide to your employer to reduce your taxes deducted each payday.

Canadians and their Money: Key Findings from the 2019 Canadian Financial Capability Survey (canada.ca)

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