CESTNICK

TAX MATTERS

Seven tax-saving ideas to consider before year-end

SPECIAL TO THE GLOBE AND MAIL
PUBLISHED SEPTEMBER 7, 2023

My wife is a member of the "DIN-DIN" club, as she calls it. "DIN" stands for "do it now." The truth is, she gets more done before noon than most people do in a week. She always gives her to-do list 100-per-cent effort. As for me, I'm more of a procrastinator. Don't get me wrong, I do think that giving 100 per cent is a good idea – unless you're donating blood.

I know, I know – procrastination is the thief of dreams. It's also the thief of big tax savings because certain things should be done before year-end to save taxes for 2023. Today, I want to get a head start and focus on a few tax-saving ideas that may take some time to complete before Dec. 31.

Open a first home savings account (FHSA). Residents of Canada 18 or older who qualify as first-time homebuyers have been able to open an FHSA since April 1. It's a type of registered plan – similar to an RRSP – that allows you to save money to help purchase a home. You can contribute as much as $8,000 each year, to a lifetime maximum of $40,000, and can deduct your contributions. But, unlike an RRSP, you don't have the option of waiting until early in 2024 to contribute for 2023 if you want a deduction this year. So open an FHSA today and contribute before year-end.

Spend money on renovations. Seniors, or those supporting them, should think about paying home renovation expenses before the end of 2023. You may qualify for the multigenerational home renovation tax credit (MHRTC) if the costs are incurred to create a secondary unit that allows you to live with a qualifying relative. The credit is offered on up to $50,000 of costs and can put as much as $7,500 back in your pocket. Also, the home accessibility tax credit (HATC) can be claimed on up to $20,000 of renos, saving up to $3,000 in taxes, where costs are incurred to allow you to more easily gain access to, or become more mobile within, your home.

Consider a tax shelter. There are some investments available that can provide tax savings through special deductions. Some limited partnerships and flow-through share investments come to mind. The key with tax shelters is to understand the underlying investment risk so you don't let the tax tail wag the investment dog. Some of these shelters take time to find and are only open for

investment during certain windows, so start looking now if this interests you.

Purchase capital assets. If you're an employee who provides a car or certain other assets for work, or you own a business, consider accelerating the purchase of depreciable assets (office furniture, computers, a vehicle, etc.) before year-end. The accelerated investment incentive allows for an increased first-year capital cost allowance (CCA) deduction for most depreciable assets acquired and available for use before 2028. Also, the new immediate expensing incentive allows for deducting, to a maximum of $1.5-million a year, the cost of certain types of assets acquired after Dec. 31, 2021, and available for use before 2025. Also, consider delaying the sale of depreciable assets until after year-end.

Consider incorporation. Businesses that are incorporated pay a very low rate of tax – an average of about 11 per cent across the country (varies by province or territory) – on the first $500,000 of active business income. Incorporation can also provide personal protection from business liabilities and can make estate planning easier. So consider incorporating your business before year-end to take advantage of these tax and other benefits.

Make interest deductible. You can reduce the burden of high interest costs by deducting your interest. How? By ensuring that your borrowed money is being used for income-producing purposes. You could, for example, use any savings or investments to pay down non-deductible debt and then reborrow to replace the savings or investments. If the newly borrowed money is being used to earn interest, dividends, rents or royalties, then you should be able to deduct the interest. There's still time in 2023 to create interest deductions through this type of manoeuvre.

Undertake Bill C-208 planning. New tax rules were introduced in June, 2021, in Bill C-208 to make it easier for families to complete intergenerational business transfers. When the rules were introduced, they inadvertently opened the door to allow owners to strip funds out of a corporation at capital gains tax rates rather than dividend rates (called "surplus stripping") without a genuine transfer of a business between family members. The 2023 federal budget closes this opportunity starting Jan. 1, 2024. There's time before year-end, however, to take advantage of the current rules to access funds in a corporation at capital gains rates. Speak to a tax pro about it.

Tim Cestnick, FCPA, FCA, CPA(IL), CFP, TEP, is an author, and co-founder and CEO of Our Family Office Inc. He can be reached at tim@ourfamilyoffice.ca