



CESTNICK

TAX MATTERS

The three tax Ds that matter most for Canadians in 2026

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Last week I shared a [high-level framework](#) for thinking about tax and estate planning in 2026. I wrote about the five Ds of tax planning and another five for estate planning. Today I want to talk about the three Ds that likely matter most when reducing your taxes. If you only focus on three tax “levers” this year, choose these.

Deducting

Deducting involves claiming deductions and credits to save tax. Consider these ideas:

Start a home-based business: When you own a small business – even part-time – you’re allowed to claim a deduction for any reasonable costs incurred for the purpose of earning income from the business. This can include things you’re paying for anyway, such as mortgage interest, property taxes, vehicle costs, computers, mobile phones, internet and supplies.

[Tim Cestnick: Focus on the 10 Ds for tax and estate planning in the new year](#)

[Tim Cestnick: Here’s a procrastinator’s guide to the Top 10 last-minute tax tips](#)

Claim home office expenses: Whether you’re an employee or self-employed, you may be able to deduct a portion of your home office costs. For employees, your employer will have to sign Form T2200 and require you to work from home at least half the time.

Unfortunately, the list of deductions is not as generous as for self-employed folks. Go to www.canada.ca and search “home office expenses” for more.

Deduct vehicle costs: Again, both employees and the self-employed may be able to claim a portion of vehicle costs related to work. Even if you receive a reimbursement or allowance from your employer, you may be able to include those amounts in your income, then deduct actual vehicle costs if they’re higher. You’ll need to track your business kilometres to justify your claim. Employees will also need Form T2200 signed by their employer.

Write off interest costs: Track your interest on borrowings. If you borrow to earn income, then the interest is generally deductible, even if the investment becomes worthless or is sold

at a loss, provided you reinvest the proceeds. Also, use cash or investments to reduce non-deductible debt, then reborrow to replace those assets, which will make the interest deductible if you hold the cash or investments in non-registered accounts.

Deferring

Pushing a tax bill to a future year gives you use of the funds in the meantime – which is valuable.

Make use of registered plans: RRSPs provide a deduction for contributions, and tax is deferred until you make withdrawals. Investment income is also sheltered until funds are withdrawn. A first home savings account (FHSA) is even better if you qualify, offering a deduction today and tax-free withdrawals if you buy a home. RESPs and TFSAs don't provide deductions but allow tax-deferred growth and tax-efficient, or tax-free (in the case of TFSAs), withdrawals later.

Avoid excessive tax payments: Are you expecting a big tax refund when you file your return each year? If so, you're lending money to the government without interest. If you make tax installments quarterly, reduce these installments to match more closely what you actually owe. And if you're an employee, you can use Form T1213 to apply to reduce the tax deducted from your pay.

Minimize portfolio turnover: If you minimize the frequent buying and selling in your investment portfolio, this will push taxes to the future by reducing the realization of capital gains and will improve after-tax returns. It also encourages long-term decision-making and allows compounding to work its magic.

Dividing

Are you looking to split income with family members? The following ideas are in addition to those I shared in [my article from Oct. 29, 2025](#).

Transfer money for business: If you lend money to your spouse, child or another family member to enable them to earn income from a business, they'll face the tax on any profits – not you. You might also consider funding a partnership with a family member to allow a splitting of income.

Lend money to free up earnings: Consider lending money to an adult child or other family member if they have other earnings. Provided they invest their own income in a portfolio, there will be no attribution of income back to you. Your loans may enable them to cover costs of living while freeing up their own earnings for investment.

Transfer investment income to an adult child: If you want investment income taxed in an adult child's hands rather than yours, consider gifting funds to invest. The attribution rules won't apply here. But if you structure the transfer as a loan, you could still pay tax on any income earned if the taxman concludes that a main purpose of the loan was to reduce your taxes.

Invest inheritances in the right name: If a family member receives an inheritance, consider keeping those funds invested in the name of that family member alone. This way, all income earned on the inherited funds will be taxed in that person's hands.

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