



CESTNICK

TAX MATTERS

Year-end tax ideas to help you keep more of your investment earnings

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When you do what I do for a living, conversations almost always turn to things financial. I was talking with my nephew, Luke, last week. “Uncle Tim, I’m almost a millionaire,” he said. “Wow, Luke, tell me more” I replied. “Well, I already have all the zeroes, now I just need a ‘1’ to get there,” he said. Building on what I wrote last week, I then shared some year-end tax ideas to help him keep more of his investment earnings for himself. Try these on for size.

Opinion: With fall in the air, investors need to start year-end tax planning

Review what you own where. Not all investment income is taxed the same way. Interest and foreign income are fully taxable, while capital gains and eligible dividends are generally taxed at lower rates. So, consider holding interest-bearing investments inside an RRSP or TFSA and keeping more tax-efficient growth investments in non-registered accounts. Make this change before year-end to set yourself up for greater tax savings going forward.

Use FHSA room if you qualify. A first home savings account is a tax-efficient investment account for eligible first-time home buyers. Contributions are deductible, investment growth is tax-free and qualifying withdrawals for a first home are tax-free. The annual contribution limit is \$8,000, with a \$40,000 lifetime limit. If you qualify as a first-time homebuyer, it’s a no-brainer to set up an FHSA. If you don’t end up buying a home you can roll the FHSA assets to your RRSP. Contribute before year-end to create a 2026 deduction while starting tax-free compounding sooner.

Defer tax on a gain. If you’re selling capital property and don’t need all the proceeds right away, consider whether the buyer can pay you over time. You might even close a sale before year-end and take part of the payment this year and part in January. This way, you can claim a capital gains reserve, which can allow you to spread the tax on the gain over as long as five years. This won’t eliminate the tax, but deferring part of it can improve cash flow and could keep more of the gain out of your highest tax bracket. Talk to a tax pro for more.

Mind the settlement date. Don't leave a tax-motivated sale until the final minutes of December. If you need a transaction to count in 2026, make sure you place the trade in time for it to settle this year. Generally, you'll need one day for settlement, which would make your last trading date on Wednesday, Dec. 30, for this year. Missing the deadline could mean waiting another year to use the tax result you were counting on.

Review foreign property reporting. If the total cost of your specified foreign property exceeded \$100,000 at any time this year, you may have to file Form T1135. This can include foreign securities held through a Canadian brokerage account. Penalties for missing required filings can be painful. Before year-end, make sure you know which assets are foreign property and that your records capture their cost amounts.

Opinion: Year-end is an opportunity for families to focus on tax savings

Look for FAPI exposure. If you own a meaningful interest in a foreign corporation, this can create tax even when the company hasn't paid you a dividend. Canada's foreign accrual property income, or FAPI, rules can require passive income of a controlled foreign affiliate to be included in your personal income annually. If you've invested directly or indirectly in a foreign private company, ask your tax adviser whether FAPI applies before filing season arrives.

Time mutual-fund purchases. Buying a mutual fund just before it makes a year-end distribution can be an unpleasant welcome gift. You could receive a taxable allocation of income or gains that were earned before you became an investor. If you're about to make a sizeable non-registered mutual-fund

purchase, find out whether a distribution is coming. Waiting until after the distribution date could allow you to avoid paying tax sooner than you need to.

Check short-term rentals. Do you own an investment property that you rent short-term? Expenses related to the rental can be denied for tax purposes for periods when the rental is prohibited by your municipality, or when you're not complying with local licensing, permitting or registration requirements. This makes complying with these rules a tax issue too. Before year-end, check that your rental is operating legally so that you'll be able to claim deductions at tax time.

Check your foreign-exchange math. Foreign investments can produce a different gain or loss in Canadian dollars than the one shown in U.S. dollars or other currencies. For Canadian tax purposes, translate both the original cost and sale proceeds using the exchange rate on the date of the transactions or the average for the year (which the taxman will allow) – whichever is best for you. A U.S. stock that fell in U.S.-dollar terms could still produce a Canadian-dollar gain if the U.S. dollar strengthened while you owned it.

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