CIBC
Wood Gundy

Tax Tips For Investors

FINANCIAL & ESTATE PLANNING

As an investor, there are many factors that you need to consider as part of your long-term investment planning. Also, most of us have a strong desire to invest tax-efficiently and, if that includes you, the following tax tips should be kept in mind when developing your tax planning strategy.

Maximize RRSP

Contribute your maximum Registered Retirement Savings Plan (RRSP) limit every year, at the beginning of the year. If you have any contribution carry forward room, make a point of catching up as soon as possible. An RRSP is a very flexible and tax-efficient way to save for retirement.

Contribute To A Tax-Free Savings Account

The Tax-Free Savings Account (TFSA) allows all Canadian residents age 18 and older to set money aside in eligible investment vehicles and earn tax-free investment income or gains. In 2013 you can contribute up to $5,500 to your TFSA, plus any unused room and any amounts withdrawn in previous years, excluding amounts withdrawn to correct an over-contribution. In addition to these benefits, you will have the flexibility to withdraw your savings whenever you need them.

Review Asset Allocation Of Portfolio

Review your entire portfolio (registered and non-registered) from a tax perspective. If your asset allocation strategy requires you to maintain a large fixed income component, generally try to hold the higher interest-paying investments inside your registered plan, and hold the more "tax-favoured" dividend or capital gains paying investments outside. Also remember that you cannot take advantage of any losses in a registered plan.

Tax Loss Selling

If you have sold some assets and realized capital gains in the year, and you are holding other assets with unrealized losses, consider selling them as well. This will allow you to realize losses to offset the capital gains. This is often referred to as "tax loss selling." The selling transaction must settle before the last business day of the year and you have to watch out for the "superficial loss rules" (e.g., do not repurchase the losing security within 30 days before or after the sale).

Review Non-Registered Investments

If generating income is currently your primary objective, review the tax-effectiveness of your non-registered investments. Consider how much you can receive tax free if you have no other source of income. For example, you can receive approximately $11,000 interest tax free, or approximately $43,000 dividends tax free, or approximately $22,000 capital gains tax free*. In addition up to approxiatemyl $49,000 of "eligible dividends" (essentially dividends paid by Canadian public corporations) can be received free of federal level tax, but not necessarily provincial tax.

*Provincial tax rates will differ and the resulting income levels may be higher or lower in some provinces

Review Tax Credits

Consider electing to report all of your spouse's Canadian dividend income on your own tax return if this will enable you to claim a spousal tax credit. If your spouse reports the dividends and is in a low tax bracket, the dividend gross-up could cause a reduced or lost spousal tax credit and the dividend tax credit may not be of much use. On the other hand, if you report the dividend income, your income will be higher but you will be able to create or increase the spousal tax credit. You should project the taxes both ways to see which provides the best tax savings.

Income Splitting

Take advantage of any income splitting strategies which may be available to you, including spousal RRSPs, RESPs, splitting eligible pension income with your spouse, and transferring assets to create capital gains in the hands of a minor child. But watch out for the rules regarding deemed dispositions and income attribution, and make sure to get professional assistance.

Trusts

Consider setting up an inter-vivos trust to take effect during your lifetime. Also consider setting up testamentary trusts in your Will to take effect at death. Note that transferring assets to a trust may trigger immediate tax consequences. Also note that inter-vivos trusts are subject to the attribution rules and retained income is taxed at the top marginal tax rate, while testamentary trusts are not subject to the attribution rules and retained income is taxed at graduated rates. For more information on the tax planning opportunities available with testamentary trusts, see our special report *"Will Planning To Meet Your Estate Needs".*

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