TAKING ADVANTAGE OF TAX SAVINGS

It's Not Too Late

CK WEALTH
MANAGEMENT

As we approach the end of 2023, many people are taking a look at how to optimize tax savings on their investment portfolios. This is an important part of any investment strategy and we have a few options for you to consider implementing.

EXAMINE YOUR ASSETS AND ALLOCATIONS

Meet with your advisor and look where your assets and investments are housed. Assets earning interest could be moved to registered plans (RPPs, RRSPs, DPSPs, RESPs, RDSPs, and TFSAs) to defer paying tax on the interest while other assets would do better as a stand-alone.

LOOK AT YOUR CAPITAL GAINS VS CAPITAL LOSSES

Can you defer any capital gains into 2024? For example, if you have an investment you want to sell, can you hold off until January to move that taxable income into the new year? Are you in a position where selling an investment to offset a capital loss would be more advantageous?

Consider donating securities that have appreciated in value. You won't pay capital gains on donated securities AND you get the tax receipt for the donation itself.

TAX LOSS SELLING

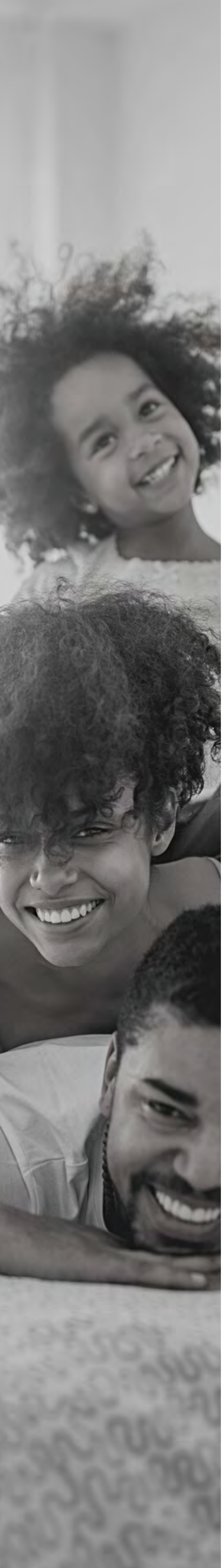
Have any of your investments lost value over the past year? Can you take advantage of tax loss selling? That's when you deliberately sell an asset at a loss, to offset capital gains earned elsewhere.

Selling at a loss can be applied against against capital gains taxes paid over the past 3 years, helping you recover money previously paid out in taxes. This also applies if you close any options contracts with capital losses.

If this is something you and your financial advisor want to explore, note that the trade must be complete by December 27, 2023, so that it closes by December 29, as December 31 is on a Sunday this year.

If you think the stock might rebound in the new year, be aware of the Canadian "superficial loss" rule, that states that if you or someone closely affiliated with you (a spouse, child etc.) or a product you own control that they are a beneficiary of (RRSP, TFSA etc.) repurchase the exact same product within 30 days, the capital loss will be denied.

It's important to discuss this with your financial advisor as it may be worth holding onto the stock into the new year, selling it in 2024 and then carrying the loss BACK into 2023.



OTHER SOLUTIONS

Could you transfer assets that have lost value to a child? You get the advantage of the capital loss AND they benefit from the investment recovering in value over time.

Another option is to investigate the benefits of a "capital gains reserve." You can establish one of these if the proceeds from your investment will be collected over a period of time. This allows you to spread out the capital gains taxes into years where you may have less income. A capital gains reserve can be in place for a maximum of five years.

NEW TAX CREDITS FOR 2023

The Multigenerational Home Renovation Tax Credit

The federal government will provide a refundable tax credit of up to $7500 for building a secondary suite in your home. The value of the credit is 15% of eligble expenses OR $50,000 – whichever amount is less.

You may also be able to take advantage of the Home Accessibility Tax Credit on up to $20,000 worth of renovations/improvements or the Ontario Seniors Care at Home Tax Credit of 25% of eligible medical expenses that support aging at home, up to $6,000 and 25% of costs incurred to make their homes safer an more accessible, up to $10,000.

CHANGES IN FEDERAL TAX BRACKETS

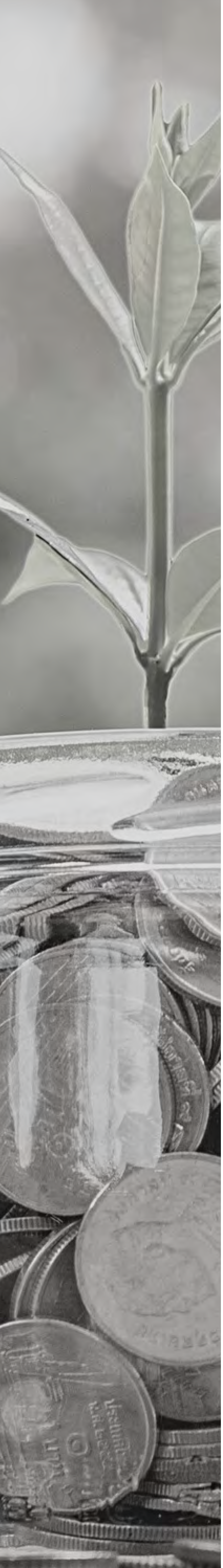
The federal government has adjusted the tax brackets for 2022, so you may find you have been bumped into a lower tax bracket without knowing it:

- $15,000 to $53,358 of income (15%)
- $53,359 to $106,717 (20.5%)
- $106,718 to $165,430 (26%)
- $165,431 to $235,675 (29%)
- $235,675.01 and higher (33%)

DEDUCTING EXPENSES AND INTEREST

Determining which expenses and interest costs are deductible is another way to lower taxes owed. These deductions can include investment counselling fees and interest on loans used to purchase investments. Fees related to registered plans are not deductible.

If your interest costs are nondeductible, consider how you could reduce that debt. It may sound circular, but you can use your investments to pay down the debt and then borrow to replace those assets. The interest on this new loan would be tax-deductible, thereby offsetting the nondeductible interest costs.



How do you know if your interest costs are deductible? They must meet one of four criteria:

- Was the money used to earn income from a business or property?
- The costs are being claimed during the year you paid the interest.
- You must be legally obligated to pay the interest.
- The interest rate being charged must be "reasonable”, following current market rates.

If you have any questions about eligibility, check with your accountant or financial advisor.

TAKE ADVANTAGE OF AVAILABLE CONTRIBUTION ROOM

Make sure that you max out any available contribution room in your TFSA and RRSP.

If you are looking to invest in mutual funds, wait until the new year, especially if the fund is likely to pay out taxable distributions.

This happens when a mutual fund disperses income across the various mutual fund units, becoming taxable income to the unitholders (you). This lowers the overall income tax paid by the mutual fund company on the fund and improves their overall rate of return.

If you want to make withdrawals against these investments, you need to know the best times to do this.

If you’re planning to withdraw from your TFSA, you should do that before the end of the year.

If you're withdrawing from your RRSP to participate in something like the Home Buyer's Plan or looking into investing in bonds, try to delay this until the new year, so that you have the maximum amount of time before you need to pay tax on interest or repay the loan.

Eligible Canadians between 18 and 75 who have never owned a home can also take advantage of the new First Home Savings Account contribution amounts of up to $8,000.

While we advise making tax-planning decisions at regular intervals during the year, it's certainly not too late to make changes and adjustments to your portfolio to minimize your tax situation for 2023.

Consult your tax advisor, accountant, or financial advisor to determine the most advantageous options for your individual situation.