



Five ways to minimize your 2022 tax bill

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The start of the year is the perfect time to review your tax minimization strategies for the year ahead. Here are five things to consider in 2022.

Tax-smart portfolio rebalancing

If you've got equities in your non-registered portfolio, now may be a good opportunity to discuss rebalancing your non-registered portfolio with your financial advisor to potentially defer the capital gains tax by up to 15 months.

For example, let's say your target portfolio allocation is 70 per cent equities and 30 per cent bonds or fixed income. You go online and see that your portfolio, is actually skewed 80 per cent equities and 20 per cent fixed income. To rebalance back to your target 70/30 mix, you may wish to sell some equities and replace them with fixed income. By putting in your sell order in 2022, the taxes owing on that capital gain won't be due until May 1, 2023 (as the normal April 30 tax deadline falls on a Sunday).

Tax-gain donating

In 2022, be strategic in your charitable giving by making a budget for your annual donations. If you're holding significant appreciated securities in your non-registered portfolio, consider donating them "in-kind" to charity. Not only will you get a receipt equal to the fair market value of the securities donated, but you won't pay any capital gains tax on the accrued appreciation, saving you up to about 27 per cent tax, depending on your province or territory of residence and income level, had you sold them and not donated them to charity.

If you give to multiple charities but would rather not deal with the process involved in transferring securities in-kind to each individual charity, consider establishing a "donor advised fund" with a community foundation at the beginning of 2022. You get the tax receipt up-front at the time of donation and can then work with the foundation as to where you wish the funds to go – to any of Canada's over 85,000 registered charities. It's an easy way to make one, in-kind gift, save the capital gains tax on the appreciation and benefit the causes you care about.

Maximize all registered plans

The numbers are in for 2022: you can contribute 18 per cent of your 2021 earned income to your RRSP (less any pension adjustment) up to a maximum of \$29,210. This maximum is reached if your 2021 income was \$162,278 or higher.

The 2022 TFSA limit is \$6,000. If you've never opened up a TFSA, in 2022 you can immediately contribute a cumulative \$81,500 to your TFSA provided you were at least 18 from 2009 and resident in Canada throughout those years.

If you've got kids, and there's any remote chance they will head off to pursue some post-secondary education, consider contributing at least \$2,500 annually for each kid to their Registered Education Savings Plan (RESP) to get the maximum Canada Education Savings Grant of 20 per cent or \$500. If you've missed a prior year, consider doubling up to get \$1,000 of CESGs all at once.

And if someone in your family has a severe disability and qualifies for the disability tax credit, don't forget the Registered Disability Savings Plan (RDSP), where just \$1,500 of annual contributions can yield \$3,500 of annual Canada Disability Savings Grants and \$1,000 of annual Canada Disability Savings Bonds, depending on the age of the individual and their family income.

Make your interest tax deductible

Interest you pay on money borrowed to earn business or investment income is generally tax deductible whereas interest on consumer debt and your home mortgage is not deductible. But there may be a way to do a debt-swap whereby you convert non-deductible interest into tax deductible interest.

For example, let's say you have some non-registered investments. You may wish to consider selling them to pay off your mortgage (non-deductible debt) and then borrowing back the funds, perhaps by getting a secured line of credit on your now fully-paid off home, for investment purposes (tax-deductible debt). This allows you to effectively write off what otherwise would have been non-deductible personal mortgage interest. Things to consider are any penalties for extinguishing your mortgage early, any tax on gains on the investments you liquidate, and whether a borrowing-to-invest strategy is right for you.

Students may also be entitled to a tax break on certain interest payments. Under the tax rules, student loan interest may qualify for a 15 per cent non-refundable federal tax credit provided the loan was taken out under the *Canada Student Loans Act*, the *Canada Student Financial Assistance Act*, the *Apprentice Loans Act*, or a similar provincial / territorial act.

A quick word of caution, however, for students looking to refinance those government-authorized student loans – the interest on a renegotiated loan from a financial institution does not qualify for the tax credit. So, before refinancing, be sure that the lower interest rate you're hopefully getting on your new loan more than compensates you for the loss of that tax credit.

Get organized, now, for tax season

Start now to organize your 2022 tax receipts into categories: medical receipts, donations, business expenses, etc.

This also includes going through your e-mail in-box and either printing or setting up a special electronic folder for any donation e-receipts you will receive in 2022 so you're not scrambling come tax time in the spring.

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