

2020 year-end tax planning checklist





Our holistic approach to financial planning and wealth management begins with gaining a deep understanding of all aspects of your financial life.

Our team of financial planning experts, who specialize in tax, insurance, estate planning and more, created this tax planning tool to help you identify strategies that could help you reduce your taxes this year and possibly into the future.





Even though financial planning is a year-round activity, certain issues become especially important as year-end approaches.

The following checklist will help identify and explain strategies that could reduce your taxes this year or next.

- Saving for retirement with RSPs
- Retirement
- Investment planning
- Registered Education Savings Plans (RESPs)
- Tax-Free Savings Accounts (TFSAs)
- Home Buyers' Plan (HBP)
- Registered Disability Savings Plans (RDSPs)
- Charitable gift planning
- Marital status and home ownership
- Business owners
- COVID-19 economic relief measures – tax considerations

Please note: this document is for federal tax purposes. If you require additional tax planning guidance specific to your province or territory, please contact your accountant or IG Wealth Management Consultant.

Saving for retirement with RSPs

Aside from making your 2020 RSP contribution by the March 1, 2021 deadline, be sure to take the following into consideration.

Do you have unused RSP contribution room?

Yes No

If you have contributed less to your RSP than the maximum permitted in prior years, you should have unused RSP contribution room carried forward. Look at how your marginal tax rate compares to future years and consider topping up your RSP to the maximum allowed. You may even want to consider borrowing to make your contribution. Your IG Consultant can help you maximize your RSP contribution room to take advantage of all the benefits RSPs have to offer.

Would a spousal RSP contribution make sense?

Yes No

If you plan to contribute to a spousal RSP, make your contribution before year-end to minimize the possibility of attribution rules applying on future withdrawals.

If your spouse passed away this year, you can still consider making a final contribution to a spousal RSP if your spouse has unused RSP contribution room. The contribution can be deducted against income on your spouse's final tax return.



Retirement

Have your retirement income needs changed? Are you receiving excess retirement income, e.g., RIF income that is not required for your lifestyle and is greater than your required minimum withdrawals?

Yes No

Consider contacting your IG Consultant to discuss options such as basing your RIF withdrawals on the age of your spouse or common-law partner or maximizing pension income splitting opportunities.

Do you qualify for the pension income credit?

Yes No

Claiming this credit may allow you to receive the first \$2,000 of your pension income or RIF without paying federal taxes (provincial amounts vary) and open up certain planning strategies such as pension income splitting. Not sure if you qualify? Contact your IG Consultant to find out.



Investment planning

Did or will you reach age 71 this year?

Yes No

RRSP contributions are allowed to your own RSP until the end of the year you turn age 71, so if you turn 71 this year and have earned income, consider making an RSP over-contribution in December. This strategy means that you will over-contribute for one month and be subject to a 1% per month penalty tax; however, you will also be entitled to an RSP deduction that will provide tax savings that far outweigh the penalty tax. Your earned income from this year will generate additional RSP contribution room as of January 1 that will, with proper planning, eliminate the over-contribution from December of this year. If you have a younger spouse or common-law partner, an alternative would be to continue to make tax-deductible contributions to a spousal RRSP next year as long as the contributions are made before the end of the year in which they reach age 71.

Do you have potential capital gains this year?

Yes No

If yes, consider triggering a capital loss prior to the end of the year. Capital losses can be used to offset capital gains in the current year and any excess can be applied against gains in any of the three prior calendar years. This strategy will help you minimize taxes for this year and potentially help you recover taxes paid on previously reported capital gains.

Are you triggering capital gains as a tax-efficient form of income?

Yes No

If yes, consider delaying the sale of the investment until after December 31 of this year. This will allow you to push your tax bill to April 2022 when you file your 2021 tax return. Just remember that taxes should not be the only factor in making investment decisions.

Do you have investment-related expenses that can be used as a deduction on your personal tax return?

If you have non-registered investments for which you are charged an advisory fee, those expenses will generally be deductible for income tax purposes. You cannot deduct advisory fees for TFSAs, RRSPs, RRFIs, RESPs or RDSPs. In certain situations, premiums on insurance policies that are mandated by lenders may be deductible.



Registered Education Savings Plans (RESPs)

Do you have children for whom you could create an RESP? If you are already an RESP subscriber, have you contributed yet this year?

Yes No

Contributions to an RESP entitle you to a Canada Education Savings Grant (CESG) of up to \$500 per year or \$1,000 if there is unused grant room from previous years. If the beneficiary of your RESP is turning 15 this year, certain factors must be satisfied by the end of this year to remain grant eligible to the end of the year they turn 17. Speak with your IG Consultant to help you maximize your CESG.

Tax-Free Savings Accounts (TFSAs)

Have you made a TFSA contribution yet this year?

Yes No

Consider contributing to a TFSA to take advantage of tax-sheltered savings. Investment income earned in and any withdrawals from a TFSA are tax-free. The contribution limit this year is \$6,000. But don't forget about any unused contribution room.

Do you have unused TFSA contribution room from previous years?

Yes No

Unused TFSA contribution room is carried forward from year to year. If you have never contributed to a TFSA, you may be able to contribute up to the accumulated limit of \$69,500. Talk to your IG Consultant to calculate your unused contribution limit today.

Will you be withdrawing funds from a TFSA?

Yes No

If so, a withdrawal before December 31 will create contribution room of an equal amount in January 2021. If you delay the withdrawal until the new year, you will not get the contribution room created from the withdrawal until 2022.

Have you considered using TFSAs for income splitting?

Yes No

You can gift money to adult family members who are residents of Canada. They can use those funds to make contributions to their own TFSA, and not only are future withdrawals tax-free to the TFSA owner, but there is also no attribution to the individual who made the gift.

Home Buyers' Plan (HBP)

Are you planning an HBP withdrawal soon?

Yes No

Consider these HBP rules when deciding when to withdraw via an HBP:

- 1 | You must purchase a qualifying home by October 1 of the year following the withdrawal.
- 2 | All withdrawals must be made in the same calendar year.
- 3 | Repayments of the withdrawal must begin two years following the year of withdrawal.

Delaying your withdrawal to next year will allow you more time to purchase a home, make more withdrawals if necessary (up to a maximum of \$35,000), and extend the time before you have to begin repaying the funds.

Have you made an HBP withdrawal in the last two years?

Yes No

Be sure to make your required RSP repayment and designate the contribution as a repayment on Schedule 7 of your personal tax return to avoid any unnecessary income inclusion. Check your Notice of Assessment from the Canada Revenue Agency (CRA) for more information if you're unsure of your repayment requirement.

Have you checked to see if you qualify for the first-time home buyers' tax credit (HBTC)?

Yes No

This tax credit allows qualified home buyers to claim a federal tax credit of \$5,000 (provincial amounts vary). Qualifications for the HBTC are the same as for the Home Buyers' Plan.

Registered Disability Savings Plans (RDSPs)

Do you or a loved one qualify for the Disability Tax Credit (DTC)?

Yes No

If so, consider establishing an RDSP to assist in securing the financial future of a beneficiary with a disability. While contributions to an RDSP are not tax deductible, RDSP investment returns grow on a tax-deferred basis for as long as the funds are in the plan. There is a lifetime contribution limit of \$200,000. However, the Canada Disability Savings Grant (CDSG) and the Canada Disability Savings Bond (CDSB) can significantly increase the total RDSP value.

If you are an RDSP holder, have you made a contribution this year?

Yes No

Consider maximizing your RDSP contributions this year to take advantage of the RDSP carryforward rules, which entitle RDSP beneficiaries to previously unclaimed CDSGs and CDSBs for up to ten years.

Charitable gift planning

Are you considering a donation to a charity this year?

Yes No

Donating to a registered charity by the end of the year provides valuable tax credits. Consider donating publicly-traded securities or mutual funds that have appreciated in value. You will receive a tax receipt equal to the value of the investment and any resulting capital gain will be exempt from tax.

Marital status and home ownership

Did you sell a home or rental property?

Yes No

If you sold your home, you could avoid paying tax on any realized capital gain by declaring it as your principal residence, but you need to report the sale on Schedule 3 and possibly on Form T2091 if the full gain is not exempt from tax. If you sold a rental property you need to report the sale on Schedule 3 and file the Form T776 Statement of Real Estate Rentals.

Do you have minor children or other eligible dependents living at home?

Yes No

Ensure that you claim all of the tax credits and deductions for which you are eligible. These could include childcare expenses, the eligible dependent tax credit, the disability amount, the caregiver tax credit and more.

Would income splitting opportunities with a spouse or your children improve your overall tax situation?

Yes No

Consider the use of a spousal loan or funding a family trust with a prescribed rate loan. The lender will have to include the interest income from the loan on their tax return, while any income earned from the borrowed funds is taxable to the borrower. Depending upon the use of the borrowed funds, the interest on the prescribed rate loan may be deductible for the borrower. The interest owing on the prescribed rate loan must be paid to the lender by January 30 of the year following the calendar year to which the interest relates.

Did your marital status change before December 31?

Yes No

If you separate or divorce after December 31, you have to file your income tax return as married. Until the divorce is finalized, you will be required to file your tax return as “separated”. Once your divorce agreement is finalized, you can file your tax return as “divorced”.

When your marital status changes, it's important to notify the Canada Revenue Agency (CRA). If your marital status has changed during the year, you must notify the Agency by the end of the month following your change in status. However, if you are separated, you must wait until you have been separated for more than 90 consecutive days before you notify the CRA. Speak with your IG Consultant, who can help you navigate any available credits and deductions.

Business owners

Did family members provide any services to your business this year?

Yes No

Consider paying family members, e.g., spouse/children, a salary or wage to shift income into the hands of those who may pay tax at lower tax rates. Bonus: this income-splitting strategy helps children build RSP contribution room. However, ensure that the salaries are reasonable based on the services provided by the family member to the business.

Have you compensated yourself from your corporation?

Yes No

The optimal mix of salary and eligible or non-eligible dividends can only be determined after considering the financial and tax position of both you and your corporation. Before declaring dividends, ensure that the dividends will not be considered split income and subject to the highest marginal tax rate. If the dividends would be considered split income, consider whether any of the exceptions to the tax on split income (TOSI) rules may apply.

Consult with your corporate accountant to determine your optimal compensation mix.

Are you planning to provide a non-cash gift or award to employees?

Yes No

If the fair market value exceeds \$500, including HST/GST and PST, then the amount over \$500 must be included in the employee's income. There are special rules for long-term service awards, which can be given out every five years.

Are you considering selling your business or transitioning it to the next generation?

Yes No

The time to start planning is now as you will want to ensure the process is handled as seamlessly and tax efficiently as possible. Things that you need to consider include: whether it will be a share or asset sale; whether you will be able to use your lifetime capital gains exemption; and whether you wish to implement an estate freeze. It is best to start to plan well in advance so that you get the best possible result from the sale/transition.

Do you have a shareholder loan?

Yes No

If your corporation loaned you money, you must repay the loan within one year of the end of the corporation's tax year in which the loan was made. If the loan is not repaid within this time limit, you will have to include the value of the shareholder loan as income on your personal tax return. If, instead, you have loaned your corporation money, that amount can be repaid to you tax-free.

Does your corporation have a capital dividend account (CDA) balance?

Yes No

There are many ways for your corporation to generate a balance in its CDA. A more common way is when a Canadian private corporation realizes a gain, such as on the sale of its investments. When a gain is realized, the non-taxable portion (e.g. 50%) of the corporation's gain is added to its CDA. Any balance in this account may be distributed to shareholders as a non-taxable dividend provided the required election is filed with the Canada Revenue Agency.



COVID-19 economic relief measures – tax considerations

Measures Impacting Individuals

RRIF minimum reduction

The RRIF minimum for the 2020 taxation year has been reduced by 25%. This is to recognize that the volatile market conditions during the year may impact many seniors' retirement savings, and to help provide some flexibility for those concerned that they may be required to liquidate RRIF assets to meet minimum withdrawal requirements. Individuals that wish to have their RRIF minimum reduced for the year must request the reduction.

Canada Emergency Response Benefit (CERB)

While CERB benefits are taxable, there was no withholding tax applied on these payments. Therefore, individuals who were in receipt of CERB benefits could have a significant tax liability when they prepare their 2020 tax return. Consider setting aside funds to pay these taxes or possible tax deductions or credits to help reduce this possible tax amount owing.

Employment Insurance (EI) Programs

Temporary measures have been introduced to increase access to EI benefits. Individuals who are still not eligible for EI may be eligible for one of the following three programs:

- Canada Recovery Benefit
- Canada Recovery Sickness Benefit
- Canada Recovery Caregiving Benefit

It is important to understand that while there has been some withholding tax applied to these payments, taxpayers may still owe taxes when they file their 2020 tax return.

Measures Impacting Businesses

Canada Emergency Wage Subsidy (CEWS) and the Temporary Small Business Wage Subsidy (TSBWS)

Business owners should ensure that they have reviewed the criteria for these benefits and claimed all benefits available to them. The CEWS & TSBWS are taxable and business owners should ensure that they have funds available to meet any tax liabilities.

For more information on these measures please contact your IG Wealth Management Consultant. You can also ask them for IG Wealth Management's Special Reports and [Infographic on the COVID-19 Government Support Measures](#).

At IG Wealth Management, we believe in comprehensive financial well-being that comes from the power of expert advice to change lives for the better. We are committed to helping Canadians feel empowered about their finances and to improving their ability to achieve their personal financial goals by synchronizing all aspects of their financial lives through the IG Living Plan*.

For more information, please contact your IG Consultant.



ig.ca / [f](#) / [t](#) / [v](#) / [in](#) /

This is a general source of information only, believed to be accurate as of the date of publishing. It is not intended to provide personalized tax, legal or investment advice, and is not intended as a solicitation to purchase securities. For more information on this topic or any other financial matter, please contact an IG Consultant. Trademarks, including IG Wealth Management and IG Private Wealth Management, are owned by IGM Financial Inc. and licensed to subsidiary corporations. Insurance products and services distributed through I.G. Insurance Services Inc. Insurance license sponsored by the Canada Life Assurance Company.

* To learn more about the IG Living Plan, visit <https://investorsgroup.com/why-us/living-plan>

© Investors Group Inc, 2020 INV1883MA_E (11/2020)