Year-End Planning Tips

Dec 12 2022

Now is usually the best time to consider harvesting tax losses before the year-end to manage your overall income tax situation, based on various types of earned or investment incomes.

Investors have a few weeks left to sell unwanted assets like individual stocks, mutual funds, cryptos, equity funds, bond funds and so on. The settlement date must occur within the 2022 calendar year or by December 30th. You should also be aware of how the Christmas Holiday break may affect settlement timeframes.

Normally, investors often seek to offset capital gains earned in some investments by selling investments that are showing a loss from the original purchase price. The capital losses generated from this sale may then be used to reduce tax owing on any capital gains earned. This year is likely to be different and there may be less advantages to this type of strategy compared to other years. The reason for the difference is that during the past calendar year most types of investments have produced capital losses so there is less urgency to reduce taxes on capital gains.

However, if you currently hold investments you were planning to sell anyway (because they no longer suit your investment strategy or personal situation) then you may wish to consider tax loss selling in 2022. You can carry forward tax losses and deduct them in future years against future capital gains and this can be done going forward forever. You can also carry those losses backwards against previous income tax returns for up to three years*.

As tax-loss selling can be a complex situation, we always recommend that investors should consult with their financial advisor before making a final decision.

You may also want to consider topping up your RESP contributions for the year - to a maximum of $5000 - to qualify for highest level possible of educational Grant money.

Depending on your situation, topping up your TFSA contribution (up to $6,000) can also be a good long-term strategy to lower your overall tax bill. The new limit for 2023 has increased to $6,500.

Self-employed individuals may wish to review their use of any Health Spending Accounts and complete any dental, or medical or other eligible expenses such as RMT massage treatments.

December is also usually a good time to make an RRSP contribution - with investment markets at a possible low point - especially if you are under age 50 with a longer time horizon. This will allow you take advantage of more compounding of your investment returns over time.

Finally, this is also a great time of year to prepare your annual household spending budget. It may be wise to consider adding in some flexibility for items such as higher energy costs or higher interest rates – especially if you are looking to renew a mortgage in the next year.

Regardless of what is happening in the Canadian economy, it is always very important to maintain your savings discipline. Saving monthly is ideal, but if cash flow is tight, you may need to reduce the actual amount saved. We recommend contributing at least something every month to maintain your savings habit so that you can reap the benefits of long-term asset accumulation.

Call us today for a discussion about your specific situation [1] and how to maintain a long-term focus, even with unexpected bumps along the way.

* Government of Canada: How do you use a capital loss? - https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/about-your-tax-return/tax-return/completing-a-tax-return/personal-income/line-12700-capital-gains/capital-losses-deductions/you-use-a-capital-loss.html [2]

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