TAX-PLANNING OPPORTUNITIES

Tax Strategies During Uncertain Times

The markets may not have been too kind thus far in 2022, but there may be ways to engage in tax strategies during these uncertain times:

Donations to Charity — During more challenging economic times, a gift to a charity may be even more appreciated. If you donate shares "in kind" to an eligible charity, you will receive a donation receipt for the fair market value of the shares. If the shares are in a non-registered account and have appreciated in value, the donation will also eliminate the tax liability on the capital gains triggered. However, the shares must be donated in kind — do not sell them first and donate the proceeds, as part of the tax benefit will be lost. For securities that have declined in value, consider selling them and donating cash. You'll be entitled to the capital loss, as well as a donation tax credit.

Tax-Loss Selling — With the challenging markets, you may find that some investments have declined in value. If investments held in non-registered accounts are sold for less than their original cost, this will result in a capital loss. For tax purposes, 50 percent of the loss can be used to offset taxable capital gains realized during the year. If you don't have sufficient taxable capital gains to offset the losses, the net capital loss can be carried back three taxation years, or carried forward indefinitely to use against net capital gains. Be aware of the superficial loss rules, which may defer, suspend or deny the capital loss if you or an affiliated entity acquires the same security 30 days before/after the date of the loss transaction.

Gifts to Adult Children — Gifting investments that have declined in value to an adult child will not only trigger a capital loss in your hands but can put subsequent capital gains/income in the hands of someone in a lower tax bracket, resulting in less taxes payable for a family unit. For estate planning, transferring assets to children while alive can simplify an estate and reduce its value, subjecting it to less probate fees or estate administration tax (if applicable) at death.

Shifting Assets to a TFSA or RRSP — During uncertain times, many quality investments may have price setbacks that are temporary. Some investors may wish to repurchase an investment that has lost value and continue holding it for the longer term. Keeping in mind the superficial loss rules, once 30 days have passed, contributing funds to a registered account like a TFSA or RRSP (subject to available contribution room) may be a way to potentially benefit from a tax opportunity if the investment regains its value. With the TFSA, any future capital gains will not be taxed. With the RRSP, future growth will be tax sheltered and investors will receive a tax deduction for the contribution on their taxable income; however, original contributions and any gains will be subject to tax when withdrawn.