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Tax Tips

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Start planning for your 2010 taxes early. Don't wait until it's too late to minimize your 2010 tax bill. Here's what you need to know in advance to make the best use of available opportunities.

Tax Tips you need to know now, before the year ends!

Start planning for your 2010 taxes early:

Investors may be able to leverage tax-loss selling to reduce or recover taxes. Consider making use of capital gains or investment transfer opportunities to reduce or delay taxes payable for the 2010 tax year.

❖ Investment deadline – tax-loss selling

You may still own securities or mutual funds which have not recovered from the horrific market downturn of 2008. It may be desirable to sell some of these investments at a loss in order to offset the capital losses against capital gains this year or in the past 3 years.

This strategy will help you to reduce taxes on capital gains in 2010 and recover taxes paid on previously reported capital gains.

Capital losses are used to offset capital gains in the current year first, then any excess can be applied against capital gains in any of the three prior calendar years. It is preferable to carry back losses to the earliest year possible since the oldest years will expire first.

For most securities and mutual fund trades, you will need three business days for the transaction to settle. Therefore, you will need to place your stock or mutual fund trade by December 24th, 2010 in order to ensure the trade settles in 2010 and that any losses realized are available this year.

❖Capital gains - opportunities

Capital gains are triggered when an asset is sold for more than what you paid for it. While capital gains are a tax efficient form of income, there are other opportunities to treat capital gains in a manner that will reduce the tax bill even further.

Here are some ideas to consider:

1) Crystallize In-trust for (ITF) accounts where the beneficiary has little or no income. With the use of the basic personal amount ($10,382 for 2010), you may trigger up to $20,764 in capital gains without paying any tax.

2) Delay any sale until after December 31st, 2010. Doing so allows you to push your tax bill to April 2012, the time you have to file your 2011 personal tax return.

3) Structure the sale of an asset such that the proceeds are collected over more than one year. The capital gains reserve allows you to spread the tax liability over a maximum period of five years if you receive payment over five years.

4) Claim the $750,000 capital gains exemption if you're selling qualifying small business shares (QSBC) or qualified farm/fishing property. Even if you do not plan on selling your QSBC shares, farming / fishing property, consider crystallizing the shares / property in order to bump up the ACB of your shares / property. This is a highly complex area of tax law and you need to seek professional help about this strategy.

❖Investments transfer to a child

Consider transferring investments that have dropped in value to a minor child before December 31. You will trigger a capital loss that can be offset against capital gains this year or in the previous three years. In addition, you can pass the tax liability for any future growth of the investment to the minor child, since the attribution rules do not apply to capital gains triggered by minor children.

❖Registered Education Savings Plan (RESP)

You should take advantage of the benefits of contributing to an RESP before year end. It entitles you to a grant, known as the Canada Education Savings Grant (CESG) equal to 20% of the first $2500 of annual RESP contributions per child , up to $500 per year, or $1000 if there is unused grant room because of contributions of less than the maximum CESG-eligible contributions from previous years. Consider contributing at least $2,500 to an RESP by year-end to receive the maximum CESG for 2010, or possibly more if you have unused grant room from previous years. The deadline to get the 2010 CESG is December 31.

If you haven't started an RESP for your growing children it may not be too late to maximize the CESG. In fact, if your child is age 10 or younger, you still have the opportunity to maximize the CESG. Also, if your child is age 15 and you have never started an RESP for that child, consider contributing at least $2,000 by year-end.

Otherwise, your child is not eligible to receive any CESG at age 16 or 17, regardless of whether RESP contributions are made in those years.