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TaxNewsFlash

Canada

2022 Year-End Personal Tax Planning Tips

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As we prepare to close out 2022, it's a good time to take a closer look at your finances and think about if there are any ways to improve your tax position. This year, inflation in Canada rose significantly due to the high cost of energy and food. In response, the Bank of Canada announced a series of interest rate hikes throughout 2022. Given these economic pressures, it is important to consider available opportunities and planning choices before the end of this year to ensure you are achieving your financial goals in a tax effective manner.

As part of your year-end planning, there are also upcoming changes to consider. You may want to think about whether the new trust reporting requirements proposed to apply to taxation years ending after December 30, 2023 could affect you, and whether it may make sense to either wind up or restructure any affected trust arrangements before December 31, 2022.

Year-end planning checklist

You can use this checklist of top tax issues to help you make the most of your potential tax savings opportunities for 2022. This checklist outlines important issues, deadlines and tax tips that you should consider, and includes an appendix outlining the 2022 top marginal income tax rates for individuals in each province/territory. While these suggestions can be helpful when considering your annual personal income tax return, don't forget that scheduling regular reviews can ensure your tax planning is effective all year round.

Checklist — Top tax issues you should consider before 2023

Your tax deadlines

- ✓ Are you prepared to meet upcoming deadlines to achieve 2022 tax savings?

Your investments

- ✓ Have you maximized your TFSA contribution?
- ✓ Should you sell investments with unrealized capital losses/gains?

Your family

- ✓ Have you considered income splitting loans with family?
- ✓ Are you moving to a new province/territory?
- ✓ Did you sell your home?
- ✓ Are you saving for your first home?

Your retirement and estate planning

- ✓ Have you maximized your RRSP contribution?
- ✓ Is it time to wind up your RRSP?
- ✓ Do you have a trust (including a bare trust)?

Other planning opportunities

- ✓ Did you contribute to an RESP for a child?
- ✓ Have you made a charitable donation?
- ✓ Do you drive a company car?
- ✓ Have you paid your personal tax instalments?
- ✓ Do you need to make a taxpayer-relief request?

Your tax deadlines

Are you prepared to meet upcoming deadlines to achieve 2022 tax savings?

In some cases, you have to make payments by December 31, 2022 to be eligible for tax deductions or credits on your 2022 personal income tax return. Certain payments due during the first 60 days of 2023 may also be eligible for 2022 tax savings. Ensure you are aware of the upcoming deadlines:

Payments due by December 31, 2022

- Charitable gifts
- Medical expenses
- Union and professional membership dues
- Investment counsel fees, interest, and other investment expenses
- Certain child and spousal support payments
- Political contributions
- Deductible legal fees
- Interest on student loans

- Contributions to your RRSP if you turned 71 during 2022 (you will also have to wind up your RRSP by this date).

Payments due by January 30, 2023

- Interest owed on intra-family loans
- Interest payable by you on loans from your employer, to reduce your taxable benefit.

Payments due by February 14, 2023

- Reimbursement of personal car expenses to your employer to reduce your taxable operating benefit from an employer-provided car.

Payments due by March 1, 2023

- Deductible contributions to your own RRSP or a spousal RRSP
- Contributions to provincial labour-sponsored venture capital corporations
- RRSP repayments under a Home Buyers' Plan or a Lifelong Learning Plan.

Your investments

Have you maximized your TFSA contribution?

You can contribute up to $6,000 into a TFSA for 2022, as long as you are 18 or over and resident in Canada. If you have not made any TFSA contributions in previous years and are 31 or older in 2022, you may be able to contribute a total of $81,500.

If you need to withdraw funds from your TFSA, consider doing so by the end of the year rather than waiting until early 2023, because these withdrawals are not added to your TFSA contribution limit until the beginning of the year following the year you made the withdrawal. For example, if you withdraw $5,000 from your TFSA in December 2022, your TFSA contribution limit will be increased by $5,000 in 2023. However, if you withdraw $5,000 from your TFSA a month later in January 2023, your TFSA contribution limit will not be increased by $5,000 until 2024.

Should you sell investments with unrealized capital losses/gains?

If you own investments with unrealized capital losses, consider selling them before year-end to realize the loss and apply it against any net capital gains you realized during the year or in the past three years. However, it's important to comply with special tax rules designed to stop the artificial creation of tax losses when selling these investments (e.g., the superficial loss rules). If you intend to do any last-minute 2022 trades, consider completing all trades on or before December 20, 2022, and confirm the settlement date with your broker.

If you have unused capital losses, consider whether it may be beneficial for you to sell investments with unrealized capital gains now to use these losses and improve your cash flows.

On the other hand, if you have investments that you are planning to sell with unrealized capital gains but no capital losses to offset the capital gains, consider whether it may be beneficial for you to sell those investments after 2022, so that you will be taxed on the gains in 2023 instead of this year.

In each case, tax considerations should not override your investment decisions.

Your family

Have you considered income splitting loans with family?

As interest rates continue to increase, you may want to consider locking into income splitting loan arrangements with family members or a family trust at the CRA's current prescribed interest rate of 3%, before it rises to 4% on January 1, 2023. By having a family member or family trust invest the borrowed funds at a higher rate of return, you can transfer future investment income earned on the funds to your spouse or another family member who has little or no other income and thus pays little or no tax. If properly implemented, you can effectively arrange for all investment income earned over 3% to be taxed at the lower-income-earning family member's tax rate while the loan is outstanding.

Note that income splitting loans between an individual and a private company may be subject to the tax on split income rules.

Are you moving to a new province/territory?

If you are planning on moving to another province/territory, remember that your province/territory of residence on December 31, 2022 may be the one that you pay your taxes to in respect of all income earned in 2022. If you're moving to a higher-tax province/territory, you may want to delay your move until the new year, if possible. If you're moving to a lower-tax province/territory, you may want to take up residence there by December 31, 2022. Please see the Appendix for the top marginal income tax rates for individuals in each province/territory.

You should also consider how the timing of your move could affect the size of your donation tax credit claim for 2022, as the donation tax credit rate differs by province/territory (e.g., the top donation tax credit rate in Alberta is 54.0% compared to 50.4% in Ontario). For more details, see Appendix I in *TaxNewsFlash-Canada* 22-49, "Make the Most of Your 2022 Charitable Gifts".

Did you sell your home?

If you sold your principal residence this year, you must disclose and report certain information about the sale in your 2022 personal income tax return. Keep any documents related to the sale on-hand for when you prepare your return. If you fail to report the sale as required, the sale may become taxable because you won't qualify for a "principal residence exemption" on any capital gain that arises from the sale.

Are you saving for your first home?

If you are saving for your first home but don't expect to make a purchase for several years, you may want to consider opening a new tax-free First Home Savings Account (FHSA) once this new type of account is available. To open an FHSA, you must be resident in Canada and at least 18 years old. You must also not have lived in a home that you owned at any time in the year the account is opened, or during the preceding four calendar years.

If you decide to open an FHSA, you can deduct your contributions (subject to an annual limit, and a maximum cumulative limit of $40,000) and the income earned in the account is not taxable. In addition, you won't have to pay tax on withdrawals from your FHSA used to purchase your first home. However, keep in mind that if you make an FHSA withdrawal to purchase a home, you cannot also make a Home Buyers' Plan withdrawal for that same property.

The legislation for the new FHSA has not yet been enacted, but is proposed to come into force on April 1, 2023.

Your retirement and estate planning

Have you maximized your RRSP contribution?

You have until March 1, 2023 to make your RRSP contribution (or a spousal RRSP contribution) for 2022. Keep in mind these three factors that limit the amount you can contribute:

- A dollar limit ($29,210 for 2022 and $30,780 for 2023)
- A percentage of your previous years' "earned income" (18%)
- Your pension adjustment (which represents the notional value of pension contributions made by you and your employer in the year).

Deducting your RRSP contribution when computing your taxable income reduces your after-tax cost of making that RRSP contribution. For example, if the top marginal income tax rate applies to you, and you are a resident of Newfoundland and Labrador (where the combined top marginal income tax rate is 54.8%), a $1,000 RRSP contribution only costs you $452, after tax savings.

If you contributed more than the maximum to your RRSP, you need to consider how you can withdraw your overcontributions. It is important to note that, at any one time, up to $2,000 can be overcontributed without penalty. However, any amount above this $2,000 threshold is subject to a penalty tax of 1% per month until the excess is withdrawn.

You should think about contributing to a spousal RRSP if you anticipate your spouse will earn less income than you on retirement. The advantage of a spousal RRSP is that your spouse will be the one who ultimately reports the income for tax purposes when the funds are withdrawn on retirement, which can result in significantly less tax on the income.

Is it time to wind-up your RRSP?

If you turned 71 in 2022, you need to wind-up your RRSP by December 31, 2022. Remember that, in this situation you only have until December 31, 2022 (not March 1, 2023) to make a contribution to your RRSP for 2022.

Do you have a trust (including a bare trust)?

If you have a trust (including a bare trust), you may need to provide additional information in a trust income tax return each year, even if your trust has no income and no activity. In particular, the additional information to report includes the name, address, date of birth, jurisdiction of residence and taxpayer identification number (e.g., SIN) of the settlor, trustees, beneficiaries (including contingent beneficiaries) and protector of your trust. Note these new trust reporting requirements have recently been delayed by one year, and are now proposed to apply to taxation years ending after December 30, 2023. For more details, see *TaxNewsFlash-Canada* 22-51, "New Reporting Rules — Review Your Trust Structure Now".

Contact your KPMG Tax Adviser as soon as possible to help you identify any trust arrangements you have that may be affected so that you can consider winding up your trust before December 31, 2022 if it no longer serves a purpose, or potentially restructuring your trust if it makes sense to do so. You could also consider closing any in-trust accounts you have before December 31, 2022 since these accounts may also be subject to the new trust reporting requirements.

Other planning opportunities

Did you contribute to an RESP for a child?

If you have an RESP for a child, you can contribute up to $2,500 annually to receive a 20% government grant under the Canada Education Savings Grant (CESG) program. The grant is worth up to $500 per year (to a maximum of $7,200 per beneficiary) for each year a beneficiary is under 18. If you do not make the maximum contribution this year, you can still carry forward entitlement to the grant to a later year (within restrictions). Where entitlement is carried forward, the total CESG per beneficiary per year is capped at $1,000 or 20% of the unused CESG room, whichever is less.

Have you made a charitable donation?

Did you know that there are potential tax savings available to you when you make a charitable donation? For example, if you live in British Columbia, a $1,000 charitable donation could save you $406 in federal and provincial tax, assuming your income is under $221,709.

If you are considering making a charitable donation before the end of 2022, see *TaxNewsFlash-Canada* 22-49, "Make the Most of Your 2022 Charitable Gifts".

Do you drive a company car?

If you drive a car that is owned or leased by your employer, you might be able to reduce the taxable benefit for your use of the car in 2022. The taxable benefit is made up of two elements: a standby charge and an operating cost benefit. The standby charge is based on the cost of the car to your employer (or the leasing cost, if it is leased). If certain conditions are met, your employer can reduce your standby charge to a percentage equal to your personal-use kilometres driven divided by 20,000 (assuming the car was available to you for the full 12 months).

The standby charge may also be reduced by any reimbursement you make in 2022 for your use of the car other than reimbursements of operating costs. If you think you may qualify for a reduced standby charge, be sure to contact your employer to discuss these opportunities well before your employer issues T4 slips for 2022 at the end of February 2023.

If your employer pays any operating costs during 2022 for your personal use of an employer-provided car, make sure you fully reimburse your employer by February 14, 2023, otherwise your taxable benefit for operating costs will be 29¢ per kilometre of personal use for 2022 (less any partial reimbursement).

Pay your tax instalments

If you have to pay your 2022 personal tax in instalments, avoid interest and penalty charges by paying your final instalment by December 15, 2022. If you're behind on your 2022 instalments, you can reduce or eliminate non-deductible interest and penalties by making a "catch-up" and advance payment now (or any time before December 15). If you make an extra or early instalment payment, you can offset some or all of the non-deductible interest that you would have otherwise been assessed.

Make a taxpayer relief request

You have until December 31, 2022 to make a taxpayer relief request related to 2012. The December 31 deadline specifically applies to relief requests that relate to the 2012 tax year, as well as any interest that accrued during the 2012 calendar year for any tax year.

We can help

Even though you only have to file your personal income tax return once a year, taking tax planning steps throughout the year will help you save money at tax time. Your KPMG Tax Adviser can help you review your personal or business tax situation and help you decide which steps you can take before the year-end to help you with the taxes you'll pay for 2022.

Appendix

Combined Top Marginal Income Tax Rates for Individuals — 2022

	Interest and Regular Income	Capital Gains[1]	Eligible Dividends	Non-Eligible Dividends
British Columbia	53.50%	26.75%	36.54%	48.89%
Alberta	48.00	24.00	34.31	42.30
Saskatchewan	47.50	23.75	29.64	42.29
Manitoba	50.40	25.20	37.79	46.67
Ontario	53.53	26.76	39.34	47.74
Quebec	53.31	26.65	40.11	48.70
New Brunswick	53.30	26.65	33.51	47.75
Nova Scotia	54.00	27.00	41.58	48.27
Prince Edward Island	51.37	25.69	34.23	47.04
Newfoundland and Labrador	54.80	27.40	46.20	48.96
Yukon	48.00	24.00	28.92	44.05
Northwest Territories	47.05	23.53	28.33	36.82
Nunavut	44.50	22.25	33.08	37.79

Notes

(1) The lifetime capital gains exemption limit for qualified farm property, qualified fishing property and qualified small business corporation shares increased to $913,630 (from $892,218) for 2022. An additional lifetime capital gains exemption of $86,370 is available for qualified farm or fishing property disposed of in 2022.

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