KPMG

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2023 Year-End Personal Tax Planning Tips

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As we prepare to wrap up 2023, it's the perfect time to take a closer look at your finances and consider ways to improve your tax position. This year, Canada's economy was affected by higher mortgage interest rates and ongoing economic uncertainty. 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 trust reporting requirements for taxation years ending after December 30, 2023 could affect you, as well as the alternative minimum tax (AMT) changes proposed to take effect for taxation years that begin after 2023.

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 2023. This checklist outlines important issues, deadlines and tax tips that you should consider, and includes an appendix outlining the 2023 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 2024

Your tax deadlines
☑ Are you prepared to meet upcoming deadlines to achieve 2023 tax savings?

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

Your family
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☑ Are you saving for your first home?
☑ Have you filed an annual Underused Housing Tax (UHT) return?

Your retirement and estate planning
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☑ Did you turn 71 in 2023?
☑ Do you have a trust (including a bare trust)?

Other planning opportunities
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☑ 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 2023 tax savings?

In some cases, you have to make payments by December 31, 2023 to be eligible for income tax deductions or credits on your 2023 personal income tax return. Certain payments due during the first 60 days of 2024 may also be eligible for 2023 tax savings.

Ensure you are aware of the upcoming deadlines:

Payments due by December 31, 2023

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

- Interest on federal or provincial student loans
- Contributions to your RRSP if you turned 71 during 2023 (you will also have to wind up your RRSP by this date).

Payments due by January 30, 2024

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

Payments due by February 14, 2024

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

Payments due by February 29, 2024

- 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 $6,500 into a TFSA for the 2023 calendar year, 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 32 or older in 2023, you may be able to contribute a total of $88,000.

If you need to withdraw funds from your TFSA, consider doing so by the end of the year rather than waiting until early 2024, 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 2023, your TFSA contribution limit will be increased by $5,000 in 2024. However, if you withdraw $5,000 from your TFSA a month later in January 2024, your TFSA contribution limit will not be increased by $5,000 until January 1, 2025.

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. If you intend to do any last-minute 2023 trades, consider completing all trades on or before December 20, 2023, and confirm the settlement date with your broker. You should also make sure you comply with special tax rules designed to stop the artificial creation of tax losses when selling these investments (e.g., the superficial loss rules). In particular, you should be mindful that the securities sold that generate losses should not be repurchased within 31 days to ensure the loss is available.

If you have unused capital losses carried forward from prior years, 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 is more beneficial for you to sell those investments in 2023 or 2024. As part of this analysis, you should consider how the changes to AMT proposed to take effect for taxation years that begin after 2023 could affect capital gains that you realize in 2024. These complex rules may increase your tax burden in 2024 and should be discussed with your KPMG advisor as soon as possible. For more information, see *TaxNewsFlash-Canada* 2023-34, "Revised AMT Rules — Review Your Tax Plans Now".

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

Your family

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, 2023 may be the one that you pay your taxes to in respect of all income earned in 2023. 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 are moving to a lower-tax province/territory, you may want to take up residence there by December 31, 2023. 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 2023, as the donation tax credit rate differs by province/territory (e.g., the top donation tax credit rate in Alberta is 54% compared to 50.41% in Ontario).

For more details, see Appendix I in *TaxNewsFlash-Canada* 23-43, "Make the Most of Your 2023 Charitable Donations".

Did you sell your home this year?

If you sold your principal residence this year, you must disclose and report certain information about the sale in your 2023 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. If you owned the property for less than 12 months prior to the sale, new "residential property flipping" rules may apply to tax the gain as business income (instead of a capital gain), subject to certain exceptions. If this rule applies and the gain is treated as business income, note that the profit from the sale is taxed at regular income rates and the principal residence exemption is not available.

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 First Home Savings Account (FHSA). 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 (generally subject to an annual limit of $8,000, and a maximum cumulative limit of $40,000) and the income earned in the FHSA is not taxable. In addition, you should not have to pay tax on withdrawals from your FHSA used to purchase your first home. You can withdraw amounts from your RRSP under the Home Buyer's Plan and make a qualifying withdrawal from your FHSA for the same qualifying home, as long as you meet all the conditions at the time of each withdrawal. It is important to note that contribution room to the FHSA does not increase until the FHSA account is opened.

Have you filed an annual return under the Underused Housing Tax (UHT)?

If you own residential property in Canada, you should ensure that you meet the reporting requirements under the new UHT rules. Certain residential property owners are required to file an annual return for each reportable property they own as of December 31, and may also have to pay the 1% UHT unless they qualify for certain ownership exemptions, by April 30 of the following year. These rules apply to Canadian citizens and permanent residents who own certain residential property in their capacity as a trustee of a trust or a partner of a partnership, as well as to non-residents and private Canadian corporations (including bare trustee corporations), among others. Although the first UHT returns and related payments (if applicable) for the 2022 calendar year were due April 30, 2023, the CRA announced that it will waive penalties and interest for any late-filed 2022 UHT returns and related late-paid UHT, provided the affected owner files any required returns and pays any related UHT by April 30, 2024. As a result, if you haven't already, you should act quickly to determine whether you have UHT filing requirements and/or payment obligations. Significant penalties may apply even in cases where a return is required, but no tax is ultimately payable.

For more details, see *TaxNewsFlash-Canada* 2023-39, "UHT — CRA Extends Penalty & Interest Relief to 2024".

Your retirement and estate planning

Have you maximized your RRSP contribution?

You have until February 29, 2024 to make your RRSP contribution (or a spousal RRSP contribution) for 2023.

Keep these three factors in mind when calculating your maximum RRSP contribution limit:

- A dollar limit ($30,780 for 2023 and $31,560 for 2024)
- A percentage of your previous year's "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.

Did you turn 71 in 2023?

If you turned 71 in 2023, you need to wind-up your RRSP by December 31, 2023. Remember that, in this situation you only have until December 31, 2023 (not February 29, 2024) to make a contribution to your RRSP for 2023.

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 and has not previously been required to file a trust return. 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. The new trust reporting requirements apply to taxation years ending after December 30, 2023.

Contact your KPMG Tax Adviser as soon as possible to help you identify any trust arrangements you have that may be affected, including bare trusts and in-trust accounts. For more details on these rules, see *TaxNewsFlash-Canada* 2022-51 "New Reporting Rules - Review Your Trust Structure Now".

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 $240,717.

If you are considering making a charitable donation before the end of 2023, see *TaxNewsFlash-Canada* 23-43, "Make the Most of Your 2023 Charitable Donations". You should also consider the potential impact of the proposed AMT changes on donations made after 2023 and contact your KPMG tax adviser to discuss your donation options. For more information, see *TaxNewsFlash-Canada* 2023-34, "Revised AMT Rules — Review Your Tax Plans Now".

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 2023. 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 2023 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 2023 at the end of February 2024.

If your employer pays any operating costs during 2023 for your personal use of an employer-provided car, make sure you fully reimburse your employer by February 14, 2024, otherwise your taxable benefit for operating costs will be 33¢ per kilometre of personal use for 2023 (less any partial reimbursement).

Pay your tax instalments

If you have to pay your 2023 personal tax in instalments, avoid interest and penalty charges by paying your final instalment by December 15, 2023. If you're behind on your 2023 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, 2023 to make a taxpayer relief request related to 2013. The December 31 deadline specifically applies to relief requests that relate to the 2013 tax year, as well as any interest that accrued during the 2013 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 2023.

Appendix

Combined Top Marginal Income Tax Rates for Individuals — 2023

	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	41.82
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	52.50	26.25	32.40	46.83
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 $971,190 (from $913,630) for 2023. An additional lifetime capital gains exemption of $28,810 is available for qualified farm or fishing property disposed of in 2023.