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YEAR-END TAX PLANNING CONSIDERATIONS

PREPARED BY

HENDRY WARREN LLP

Year-End Tax Planning Considerations

As the 2022 calendar year is quickly coming to a close, now is a great time to consider some year-end tax planning opportunities and start to get prepared for the upcoming 2022 tax filings that are due in the first part of 2023.

Capital Loss Planning

Before the end of 2022, it is a good idea to take a look at your cumulative capital gains that have been triggered to-date on sales within your non-registered investment portfolio, sales of real estate or sales of any other capital property. If this ends up being a large amount, you may want to consider triggering some capital losses in your non-registered investment portfolio before the end of 2022, as these can be used to offset capital gains and reduce your income tax burden for the 2022 taxation year.

Care should be taken when triggering capital losses that a same or similar property has not been purchased 30 days before the sale or will not be purchased within 30 days after the sale, that has resulted in a capital loss, to ensure the superficial loss rules do not kick in for tax purposes. This would result in the capital loss not being able to be claimed at the time of sale, but will be added to the adjusted cost base (ACB) of the same or similar property, which essentially defers the realization of the capital loss until an eventual future sale of the same or similar property. This same or similar property includes purchases made by yourself, your spouse or common-law partner, a corporation controlled by you or your spouse or common-law partner, your TFSA or RRSP.

Capital losses can be carried back to up to three taxation years to offset capital gains triggered in those years or can be carried forward indefinitely to offset capital gains in future taxation years. Therefore, even if you do not have substantial capital gains in 2022, it still might make sense to trigger capital losses before the end of 2022, if you had substantial capital gains in one or more of the three prior taxation years (2019 to 2021), to recover some tax paid on capital gains incurred during those taxation years.

Prescribed Rate Loans

If you were looking to set-up a prescribed rate loan to split income with your spouse or split income with other family members (via a family trust), you might want to consider completing this before the end of 2022. When funds are provided to a spouse or a non-arm's length party under the age of 18, there is potential that income earned on these funds can attribute back to the individual where the investment funds originated from. A way around these attribution rules is to set-up a prescribed rate loan, where an individual loans the funds at the prescribed interest rate in place by the Canada Revenue Agency ("CRA"), at the time the loan was made. Any interest on the loan for a taxation year is required to be paid by no later than January 30th of the subsequent tax year, to ensure attribution does not apply to the income earned on the loaned funds. For example, if a prescribed rate loan is made in 2022 by you to your spouse, the interest on this loan at the CRA prescribed interest rate, must be paid by your spouse to you by no later than January 30, 2023, to ensure attribution does not apply to income earned by your spouse from this loan.

It is important to consider setting these loans up before the end of 2022, as the CRA is raising its prescribed interest rate from 3% to 4%, effective January 1, 2023. Therefore, any of these loans set-up before the end of 2022 can use the prescribed interest rate of 3%, whereas, any loans set-up on January 1, 2023 or later will be required to use the prescribed interest rate of 4%.

Tax-Free Savings Account ("TFSA") Withdrawals

If you are planning to make any withdrawals from your TFSA in the near future, it makes sense to make these withdrawals before the end of 2022. You are only able to contribute funds to your TFSA up to the amount of your contribution room for a given taxation year. If you go over this contribution room, these overcontributions are subject to penalties and interest payable to the CRA. When you make a withdrawal from your TFSA, the withdrawn amount is not added back to your contribution room until, January 1st of the following taxation year. Therefore, any withdrawals made from your TFSA in 2022, will be added to your contribution room as of January 1, 2023. If you delay in making any planned withdrawals until 2023, these withdrawals will not be added back to your contribution room until January 1, 2024. Therefore, if you are planning to make withdrawals from your TFSA in the near future, it makes sense to make these no later than December 31, 2022 instead of waiting until 2023, as this will provide more flexibility for your TFSA contribution room in 2023, rather than having to wait until 2024 for these withdrawals to be able to be contributed again.

Please note that any withdrawals being made as a result of overcontributions to your TFSA, will not be added back to your contribution room in the following taxation year.

Capital Gains Deferral

If you are planning to sell capital property, such as a cottage or secondary property (that is not your principal residence) before the end of 2022 and are expecting a large capital gain to result on the sale, you may want to consider your income expected for 2022 versus 2023, before completing the sale. If your income is expected to decrease in 2023, it might make sense to defer the sale until 2023, in order to use up your lower marginal tax rates and pay less tax on the capital gains incurred on the sale of the capital property.

Sales Qualifying for the Lifetime Capital Gains Exemption ("LCGE")

If you are planning to sell Qualified Small Business Shares ("QSBC"), which the capital gains on such a sale qualify for the LCGE, you might want to consider deferring this sale until 2023. The LCGE amount is indexed annually and will be increasing to $971,190 from $913,630 in 2023. This will allow for an additional $57,560 of capital gains from the sale of QSBC shares to be sheltered from tax by the LCGE.

Expenses and Non-Refundable Tax Credits

Before the end of 2022 you may want to consider paying any medical, childcare or non-registered investment management fee expenses in 2022, for those coming due in 2023. These expenses must be paid during a taxation year to be able to be claimed as a tax deduction (investment management fees and childcare expenses) or a tax credit (medical expenses) during that taxation year. Therefore, if some of these amounts are not paid until early 2023, they cannot be claimed until your 2023 tax return, however if paid before 2022, they can be claimed on your 2022 tax return.

Another consideration is if you were planning to make any charitable donations in the near future, you should plan to make these before the end of 2022. This will allow you to claim the charitable donations tax credit in 2022 instead of waiting for 2023 for these donations, which can allow you to reduce your taxes payable on your 2022 tax return.

Upcoming Dates to Keep in Mind

December 15, 2022

- last 2022 personal quarterly tax instalment deadline

December 28, 2022

- last day to sell securities on Canadian and US markets to realize a gain or loss for the 2022 taxation year, as generally takes 2 business days to settle any requested sales

December 31, 2022

- last day to make charitable contributions and pay medical, childcare, and non-registered investment management fee expenses that can be claimed on your 2022 personal income tax return
- if you turned 71 in 2022 this is the last day before your RRSP must be converted to a RRIF
- last day to withdraw funds from your TFSA, if you want these withdrawals to be added back to your contribution room for 2023

January 30, 2023

- last day to pay prescribed rate loan interest on loans outstanding in 2022 to ensure attribution rules do not apply to the income earned on the loaned funds

February 28, 2023

- filing deadline for 2022 T4/T5 slips for employers/corporations/trusts

March 1, 2023

- last day to make RRSP contributions that can be deducted on your 2022 personal tax return

March 31, 2023

- filing and payment deadline for T3 trust tax returns with a December 31, 2022 year-end
- filing and payment deadline for NR4 information returns for Canadian payers and agents who made income payments to non-residents of Canada during the 2022 calendar year
- filing and payment deadline for T1OVP return for excess contributions made to a RRSP by an individual during the 2022 calendar year

May 1, 2023

- payment deadline for 2022 personal income tax return liabilities
- filing deadline for majority of 2022 personal income tax returns
- filing and payment deadline for 2022 underused housing tax return

June 15, 2023

- filing deadline for 2022 personal income tax return, if you or your spouse earned self-employment income in 2022

June 30, 2023

- filing and payment deadline for RC243 return for excess contributions made to a TFSA by an individual during the 2022 calendar year

Contact Us

Give us a call for more information about this article at 613-235-2000 or send an email to info@hwllp.ca.