



22 of the Best Tax Tips for Individuals

Individuals

- 1 **RRSP** – you should not pass up this great interest-free loan from CRA. RRSP limits are 18% of prior year earned income less any PA (Pension Adjustment) or PSPA (Past Service Pension Adjustment), to a maximum of \$19,000 in 2007 and \$20,000 in 2008.
- 2 **Over-contribute to your RRSP** - you can over-contribute up to \$2,000 to your RRSP without penalty. The earnings on this over-contribution will accumulate tax-free, and it can be deducted in future years. However, if the excess contribution exceeds \$2,000, a penalty of 1% per month applies.
- 3 **Contribute early to your RRSP** - you would be wise to contribute as early as possible to your RRSP. The result can be a 10% increase in the final value of your plan.
- 4 **RRSP Administration fee** - the administration fee on a self-directed RRSP is not deductible. Accordingly you should have the fee deducted directly from the plan.
- 5 **RRSP loans not deductible** – where possible, structure loans so that the interest is deductible. i.e. use savings for personal items, and borrow for investment or business purposes.
- 6 **Allowable business investment loss** - should you dispose of shares or debt issued by a small business corporation (SBC) at a loss, the resulting allowable business investment loss may be offset against income from all sources.
- 7 **Any home can be principal residence** - a home in another country can qualify as a principal residence if you occupy that home on a seasonal basis and are a Canadian resident in that year.
- 8 **Medical expenses any 12 months** - carefully select the 12-month period for medical expenses deductible in the current year. Keep any current year receipts not claimed in the current year for next year.
- 9 **Quarterly instalments** - monitor your quarterly income tax installments. If you estimate that your current year liability will be less than the previous year due to higher RRSP contributions, interest expenses, etc., you should consider reducing later installments.

Families

- 10 **One spouse** - one spouse should claim all medical expenses.
- 11 **Other spouse, maybe** - one spouse should claim all charitable donations for the family if the total exceeds \$200.

- 12 **Split political donations** - conversely, political donations should be split between two spouses with taxable incomes to maximize credits.
- 13 **Single parent** - if you are a single or separated parent, claim the "equivalent to married" tax credit for supporting a child or person related by blood, marriage or adoption.
- 14 **Students** - if a student does not need the full tuition fee or education tax credit to reduce his/her taxable income to zero, any excess amount may be transferred to a spouse or parent.
- 15 **Spouse's dividends** - check to determine the benefits of transferring your spouse's Canadian dividends to your tax return – the savings could amount to several hundred dollars.
- 16 **Charitable donations, use unrealized gains** - if you have unrealized capital gains on your portfolio and you plan to make a charitable donation, you can make the donation and not have to pay tax on the capital gains.
- 17 **Split CPP** - split CPP benefits between you and your spouse to gain the benefit of some income splitting and perhaps to mitigate the claw back of Old Age Security benefits received.
- 18 **Split pensions** - new rules in 2007 allow you to split pension benefits with your spouse.
- 19 **Will to your spouse** - ensure that your spouse is the beneficiary of your RRSP and heir to your vacation property so that income and capital gains taxes can be deferred until the later of your and your spouse's death.

Entrepreneurs & Managers

- 20 **Pension income credit** - if you are age 65 or over, be sure to take advantage of the pension income credit by converting a portion of your RRSP to a retirement income stream that will provide you with at least \$2,000 of eligible pension income.
- 21 **Reasonable salaries to family members based on work they do** - you may pay a reasonable salary to your spouse and/or children working in your business. Besides saving tax by splitting income with lower-marginal-rate family members, this will entitle them to make RRSP and CPP contributions.
- 22 **\$750,000 capital gains exemption** - consider using the \$750,000 capital gains exemption by selling shares to your spouse where your small business corporation has substantial accrued capital gains. However, it is necessary to **consider alternative minimum tax and other factors.**