2019 YEAR-END INVESTMENT AND TAX STRATEGIES

As 2019 nears an end there are important investment and tax strategies to be reminded of. With each strategy, there are nuances, and every situation is unique to you, therefore if you have any questions, reach out to us well in advance of December 31, 2019. In some instances, strategies may take time to facilitate, therefore, prior to November 30 is suggested.

Convert your RRSP to a RRIF

If you turn age 71 in 2019, you must convert your RRSP into a RRIF or an annuity before December 31. Not doing this could result in your RRSP accounts being deregistered and the entire value would be classified as income.

Tax Free Savings Account (TFSA) contributions and withdrawals

Contributing to a TFSA is a terrific way to grow your money tax free. Any individual who is 18 years and who has a valid social insurance number is eligible to open a TFSA. The contribution room in 2019 is $6,000 and if you have not contributed to it since its inception in 2009, your limit is $63,500. The sooner you contribute, the more time there is to have your money compound tax free.

If you plan to make a withdrawal from your TFSA, do it before December 31 as the amount withdrawn will be added to your contribution room for the following year.

There is an important distinction with naming a beneficiary in your TFSA that is described in the beneficiary designation section below. Please familiarize yourself with it.

RRSP Contribution

If you have not made your 2019 RRSP contribution, consider setting up a Pre-Authorized Contributions (PAC). A PAC is a fixed amount which can be contributed to your RSP on a regular basis. You select the amount and the frequency and the contributions. The benefits are dollar-cost averaging and it happens automatically and there is no need to worry about making a large lump sum contribution when the RSP contribution deadline is approaching. The contribution limit in 2019 is the lesser of 18% of your previous year's earned income, up to a maximum of $26,500. The deadline for a 2019 contribution is March 1, 2020. If you are turning 71 in 2019, you are permitted one last RRSP contribution prior to December 31, 2019.

Update your will and power of attorney

This topic is very comprehensive and if you do not have a will or power of attorney in place, we suggest that you do not delay. There are numerous decisions to be made regarding your medical care and to ensure that your assets are managed and distributed according to your wishes. A "do it yourself" will kit is not recommended, and we can refer you to qualified estate planning lawyers for this very important function. If you have a will and "life events occurred," consider having it reviewed to ensure that it is still relevant and represents your wishes as you currently intend.

Tax-loss selling

Tax-loss selling is a strategy applicable only in taxable accounts that can lower your taxes owed by selling investments at a loss and then utilizing the losses to offset realized capital gains on other investments. While it is common and tempting to hold on to poorly performing investments until you break even, sometimes it is best to accept the loss and thereby create future tax-free gains. If you do not have realized capital gains in 2019, capital losses can be carried backward up to three years and/or carried forward indefinitely.

Beware of the superficial loss rule and the capital loss rules with contributions in kind.

Charitable contributions

Charitable contributions qualify for a tax credit for up to 75% of your net income. In the year of death and one year prior, the limit is 100% of net income. If you contribute over $200, then it qualifies for a tax credit at the highest tax rate, and under $200, it qualifies at the lowest tax rate.

Another consideration is to donate publicly traded securities (stocks, bonds, mutual funds) that have appreciated in value in your non-registered account. The benefit is that you receive a tax receipt for the market value but do not pay capital gains on the appreciation. You must contribute before December 31 and only registered charities can issue official receipts for tax purposes. To confirm whether a Canadian charity is registered, visit **the CRA website.**

Beneficiary designations

This does not have a December 31 deadline but it's a good time to double check that you have designated beneficiaries on all registered accounts. A beneficiary is the person or entity that will receive the proceeds from your account when you pass away. Without a beneficiary named, your estate is the default beneficiary and there could be taxes and delays in accessing the proceeds. Keep in mind that due to life events such as death, separation and divorce, your beneficiaries should reflect the changes in your life.

With TFSA beneficiary designations, there is a choice to name a "beneficiary" or a "successor holder." Upon the death of one spouse, the TFSA amount transfers tax free to the surviving spouse, however, there must be room in the surviving spouse's TFSA to accommodate that growth and the growth will be taxed to the surviving spouse. With a "successor holder" named, the growth transfers tax free and there is no contribution room limit.

There are similar important considerations for married, common law, widowed and single individuals with a RRSP or RRIF. If you are uncertain if you selected the proper designations or if they reflect your intentions, reach out to us and we can help.

Emergency fund

Depending where you are at in your life stage, having a minimum of 3 to 6 months living expenses can be very helpful when life presents an unexpected challenge.

Interest payments on prescribed rate loans

If you made a prescribed rate loan to your spouse, common-law partner, minor child or family trust, the interest payment on these loans must be made by January 30 of the following year in which the interest accrued. If the payment is not made then, the entire strategy can fall apart and the attribution rules would apply, resulting in the income earned becoming taxed to the lender.

Review the diversification and investment selection in your portfolio

How long has it been since your portfolio has been reviewed? Does it require rebalancing? Are the investment selections appropriate given the market conditions and do they still reflect the recommendations from your financial plan? Is the portfolio diversified into non-correlated asset classes?

These are all questions that should be addressed annually and if this conversation hasn't occurred, then aim to have it before year end. We are happy to assist.

Regardless of what phase of life you are in, it's always a good idea to review your financial plan, investments and estate planning documents. Do they reflect your current reality? Even if your documents are up to date, checking in with your legal and financial professionals about your long-term plans can ensure you are set up for success in the years to come.

Ready to talk?

We are here to help. Contact us at invest@sightlinewealthmgt.com.

IMPORTANT INFORMATION

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