Life Letter

Start your 2006 tax planning now

It is too late to do anything about our 2005 income tax plans. However, now is the time to plan for 2006. After all, most people spend more time planning a vacation than their finances. Consider:

Actually owing a little bit to the taxman - Each year, Canada Revenue Agency (CRA) gives out tax refunds totaling over $12 billion. Almost 60% of Canadian taxpayers get refunds that average about $1,000. CRA gets to use this money, *your* money, all year and does NOT pay you any interest on it.

Carl liked getting a big tax refund each year. Because of RRSP contributions and a change in his marital status, he gets about $5,000 refunded every spring. He would much rather use his own money during the year than lend it to CRA interest-free.

He had not made any changes to his TD1 form since he started working, even though his situation had changed. Carl completed a new form for his employer and now they withhold much less for tax purposes each paycheque. By also completing a form *T1213 - Request to Reduce Tax Deductions at Source* and filing it with CRA, he arranged to have his monthly RRSP deposits deducted from his income *before* taxes are calculated.

Carl realizes that it is much better for him to owe a few hundred dollars in taxes each year than to lend his money to CRA just to get a big refund.

Being more generous to charities - Statistics show that Canadians are pretty stingy when it comes to charitable giving compared to many other countries. Along with the good feeling you get by helping out a charity, you can also get a nice tax reduction.

Natalie earns about $45,000 per year and gives a little bit to charities. The first $200 of donations gets her a tax break (in the form of a non-refundable tax credit) of 16% federally. She also gets the break on her provincial taxes. Everything over the $200 gets her a tax break of 29% federally. At Natalie's income level, her top federal tax rate is only 22%. This represents a tax break 7% greater than the maximum she actually pays in taxes.

Buying a Tax Advantaged Insurance Plan (TAIP) - A TAIP is a life insurance policy that allows you to deposit more than the actual cost of the insurance death benefit into it. The excess deposits earn interest, either tax-deferred or tax-free.

Rick had a need for some life insurance. He chose a policy that allows him to pay more than the minimum required to cover the insurance cost. The policy also has a maximum premium he can pay that keeps the policy "exempt" for tax purposes. Any deposits Rick makes between the minimum and maximum accumulate on a tax-deferred basis.

On death, the face amount of his policy, plus whatever his additional deposits have grown to, will actually be paid to his beneficiaries ***tax-free***. Rick can make withdrawals from his policy, up to the adjusted cost base (ACB), tax-free. If he withdraws more than the ACB, he will be fully taxed on the excess. But his money will have had taxes deferred on the growth until then. This plan works best if Rick has already maximized his RRSP contributions.

This article is for information purposes only and is not intended to provide specific income tax advice.

Want help with your financial strategies? Call today!

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