Back to School: Back to Focusing on your Taxes

It's time to put away the patio chairs, cover up the BBQ, and take out your rakes and start carving pumpkins because summer has ended and fall has arrived. In the midst of all of the fall fun ahead, it is also important not to forget to deal with your taxes and make sure that you take advantage of the government programs that may be available to you.

Now that the kids have gone back to school and routines are becoming more familiar, this is the perfect opportunity to align your financial interests by ensuring that your tax and estate plans are both up to date as well as efficient as possible.

With that in mind here are some year-end tips for your consideration:

Consider selling investments that are underwater - This title does not refer to a self contained underwater breathing apparatus (SCUBA), but it does refer to tax loss selling. Tax loss selling is a tax strategy that provides investors with the opportunity to reduce taxes payable on capital gains both in the current year as well as gains realized over the previous three taxation years. In addition to being allowed to carry capital losses back three years (Note this can be accomplished by filing CRA Form T1A,) losses may also be carried forward indefinitely.

Donate your winners to charity - The 2006 Federal budget made significant strides in easing the tax burden of Canadians who intended to transfer assets to their favorite charities by completely eliminating the capital gains tax on gifts of "qualified property" (including publicly listed securities and ecologically sensitive land) to charitable organizations and public foundations. These improvements to the income tax act make charitable giving a very useful tax minimization tool.

Contribute to an RRSP or set up a spousal plan if you are too old - If you celebrated your 71st birthday in 2011 you have until December 31 to convert your RSP to a RIF. While this is also your last opportunity to contribute to your own RRSP, you may still be able to reap the benefits of RSP contributions. If your spouse is under age 71 you may contribute to a spousal RRSP up until the calendar year end that your spouse also celebrates his/her 71st birthday provided you have earned income in the previous year.

Save for your children's education - While Canadians pay their share of taxes our government has introduced programs to help us save. In fact a Registered Education Savings Program (RESP) is eligible to receive a maximum of $7,200 in government grants per beneficiary. If you did not contribute to an RESP last year then December 31 is the last day to contribute to it and receive the governments Canada education savings grant (CESG) for 2010. Note that in this case a contribution of $5,000/beneficiary would have to be made by Dec 31 in order to receive the government maximum CESG of 20%.

Create pension income and realize a tax credit - If you are over age 65 you can claim a tax credit on the first $2,000 of pension income from a company pension plan or from your RIF or RSP. One strategy you may want to consider entails transferring enough from your RRSP (about $50,000) to a RIF in order to create a RIF minimum payment of $2,000.

While the end of the year is a good time to ensure that you take advantage of the programs, tax credits and deductions that the Canadian government makes available, it is also an excellent time to reflect on our legacies.

Some activities that you may want to undertake are:

Review your will
Many Canadians do not have an estate plan and if they do the chances that they have discussed it with their heirs are slim. Reviewing your estate planning documents (your will and powers of attorney) should ideally be done at least every three years and if there has been a material change in your circumstances, such as to your finances, health, marriage, intention, legacies or province of residence these documents should be updated.

Review your risk management plan
Risk management is more than just asset allocation and the volatility surrounding mutual funds and other investment products, as it also involves ensuring that should you are protected should unforeseen events such as illness, disability, early death and even the chance that you outlive your savings occur. While many of us continue to think that such events will not happen to us, disability insurance is arguably even more important, because it's statistically more likely that you will get injured than die while you're in the workforce. Reviewing your risk management plan should be a priority for all.