2022 YEAR END TAX TIPS

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As we get closer to year end December 31st, 2022, there are a number of things that investors would need to consider before the   to be able to maximize the tax saving opportunities for the current year and even beyond.

[Tax-loss selling]

We'll start with the obvious one.

[Computer-generated (CG) images of stock market data. A man on a laptop at a desk seen through venetian blinds.]

This has been a difficult year in markets for many investors, and you may find that you have some accrued capital losses sitting in a portfolio. What better time than between now and the end of the year, to consider where it makes sense, to do tax-loss selling?

[CG images of stock market data.]

Tax-loss selling is the act of selling a security or a mutual fund that you believe is in a loss position and will not recover anytime soon. What you want to make sure is that you're making the investment decision. But of course, there is the tax benefit, because you get a capital loss, that capital loss must be used first against any other capital gains in the current year 2022. And if there’s excess capital losses, you can actually use that and carry it back up to three calendar years and reclaim capital gains tax in those prior three years, or carry forward indefinitely.

A couple of things to make sure of. Make sure that your trade settles by December 31st so that you get the trade. I think that's a Saturday this year.

So, really the deadline is December the 30th. So, your trade date is typically T+2. So, a couple of days before that, you want to make sure you get your trade in.

And then the other thing you want to be mindful of, as every year, is the superficial loss rules that if you buy it back within 30 days or your spouse or corporation buys it back, even your RRSP or TFSA buys that stock or mutual fund back, that's a superficial loss and ultimately that will be denied. So again, some important things to think about in terms of tax-loss selling.

[Tax deductions]

Another important deadline for December 31st is that certain payments must be made by the end of the year to get the tax deduction for them in the current year.

[People fill out tax forms on a messy desk. An advisor shows a piece of paper to a client. People type on calculators and fill out tax forms.]

So, an example of this is deductible interest. So, let's say you've borrowed money on a margin account, or you borrowed money on an investment loan and you're paying interest on that for the purpose of earning income, because you invested either in a portfolio or perhaps in a business, you want to make sure that you pay the interest by December 31st to claim a deduction on the 2022 tax return.

[A pen writes on a cheque.]

Another example, of course, is charitable giving. Any donations, you want to make sure that those are done by December 31st to be able to get that donation credit in 2022.

[A mother and son volunteer at a food bank. A man spins the wheel at a charity raffle.]

And just remember, that while you're going through your portfolio looking for some of those losses for tax-loss selling, it's also an opportunity, if you have some winners in there, because they've been held for many, many years, to do what I call tax-gain donating: The opportunity to make a donation of appreciated securities to a registered charity or even a donor advised fund, get that tax deduction today, that tax credit on your personal tax return for the value of the donation, and pay no capital gains tax whatsoever on that accrued gain because of the special rule that allows you to do so when donating appreciated securities, including mutual funds, to a registered charity.

[RRSP to RRIF conversions]

Anyone out there who's watching who turns 71 in 2022, this is your last chance to convert your RRSP to a RRIF by the end of the year.

[A senior citizen types on a laptop, looks out the window and discusses finances with a young woman.]

Don't wait till the last minute to do so. If you continue to have earned income in 2022, that creates contribution room for 2023, yet you must collapse your RRSP this year, there is a trick that allows you to make a onetime over-contribution in the month of December, pay the penalty tax and ultimately claim that deduction in a future year. We discuss all those tips and more in our newly published year-end tax planning guide.

[Soft music plays]