Get Your Money Working as Hard as You Do

These days, people seem to have more work responsibilities than ever. People are being so taxed at their job that the last thing they need is to be heavily taxed by the Canada Revenue Agency (CRA). While income taxes help support your quality of life through health care, social programs, infrastructure upkeep and more, it's always valuable to find ways of reducing your personal tax burden.

Here are a few tax-efficient strategies to help you accomplish this goal.

Take advantage of registered plans

Whether you have a workplace registered retirement savings plan (RRSP) or pension plan, or contribute to your own RRSP to top up your workplace plan, using registered plans can help lower income tax. Many employers contribute to your plan and give you the option of making your own contributions as well. They might match to some extent, such as 50% of your contribution, up to a certain limit. Any contribution will lower your gross income for the year, dollar for dollar, which means less income tax to pay. As an added perk, investment growth in your plan is tax deferred. Also, if you receive a performance bonus at work, you may be allowed to invest it directly into your plan (as long as you don't exceed your overall contribution limit), which saves tax.

Make use of non-registered accounts

If you contribute the maximum to your RRSP and still have funds available, consider a non-registered investment account. You won't get a tax refund but you can earn tax-favourable income like capital gains and dividends from stocks, mutual funds or ETFs. If you borrow money from a financial institution to invest, the loan interest charged is tax deductible. Conventional wisdom suggests that it's better to use the money you have to pay off debt like credit cards or car loans, and borrow money to invest so your loan interest is deducted on your tax return.

Start your own business

Maybe it's a "side job" where you unleash your entrepreneurial spirit, or it could be a full-time endeavour. Regardless, being your own boss can be financially beneficial. You may deduct certain expenses related to operating your business and earning an income, which lowers your tax obligations. Eligible expenses include business rent or mortgage payments, utility bills, company vehicle, related insurance policies, supplies and more. You may also deduct salaries for employees, which is especially helpful if you hire your spouse. Paying your spouse's salary is a form of income splitting that may reduce your family's overall tax bill, similar to other income-splitting strategies like spousal loans or spousal RRSPs.

Learn to dislike tax refunds

This strategy may sound counterintuitive, but often you'll receive an income tax refund because your employer is withholding too much tax from your paycheques. You're basically giving the government an interest-free loan! You may reduce "tax withheld at source" by completing the CRA's Form TD1 Personal Tax Credits Return that captures what personal tax credits you intend to claim on your income tax return, so your employer can more accurately calculate how much to deduct from your pay. Also, Form T1213 lists the deductions and credits not on the TD1 form, such as child care and medical expenses. If the CRA approves your form, they'll send a letter that you forward to your employer, instructing them to reduce tax withheld at source. By holding onto more of your pay year-round instead of collecting an annual refund, you gain access sooner to money that can be used to invest or pay down debt.

We have the expertise to help manage your finances. Contact us to learn more about strategies for reducing taxes and keeping more of your hard-earned money.

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