



2021 year end tax tips

November 1, 2021

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Tax planning should be a year-round affair. But as year-end approaches, now is a particularly good time to review your personal finances and take advantage of any tax planning opportunities that may be available to you before the December 31st deadline.

As we enter the final weeks of 2021, here are some tax tips you may wish to consider for:

- Investors
- Families with students
- Family members with disabilities
- Individuals making gifts
- Individuals expecting changes to tax rates; and
- Business owners and employers.

Investors

Tax-loss selling

Tax-loss selling involves selling investments with accrued losses at year end to offset capital gains realized elsewhere in your portfolio. Any net capital losses that cannot be used currently may either be carried back three years or carried forward indefinitely to offset net capital gains in other years.

In order for your loss to be immediately available for 2021 (or one of the prior three years), the settlement must take place in 2021. The trade date must be no later than December 29, 2021 to complete settlement by December 31st.

If you purchased securities in a foreign currency, the gain or loss may be larger or smaller than you anticipated once you take the foreign exchange component into account. For example, Jake bought 1,000 shares of a U.S. company in November 2012 when the price was USD \$10 per share and the U.S. dollar was at par with the Canadian dollar. Today, the price of the shares has fallen to USD \$9 and Jake decides he wants to do some tax loss harvesting, to use the USD \$1,000 [(USD \$10 minus USD \$9) times 1,000] accrued capital loss against gains he realized earlier this year.

Well, before knowing if this strategy will work, he'll need to convert the potential U.S. dollar proceeds back into Canadian dollars. If the exchange rate is USD \$1.00 = CAD \$1.25, selling the U.S. shares for USD \$9,000 yields CAD \$11,250. So, while there is a capital loss of USD \$1,000 (USD \$10,000 minus USD \$9,000) in U.S. currency, there is actually a capital gain of CAD \$1,250 (CAD \$11,250 minus CAD \$10,000) for Canadian tax purposes. If Jake had gone ahead and sold the U.S. stock, he would actually be doing the opposite of tax loss selling and accelerating his tax bill by crystallizing the accrued capital gain in 2021!

Superficial loss

If you plan to repurchase a security you sold at a loss, beware of the “superficial loss” rules that apply when you sell property for a loss and buy it back within 30 days before or after the sale date. The rules apply if property is repurchased within 30 days and is still held on the 30th day by you or an “affiliated person”, including your spouse or partner, a corporation controlled by you or your spouse or partner, or a trust of which you or your spouse or partner are a majority beneficiary (such as your RRSP or TFSA). Under the rules, your capital loss will be denied and added to the adjusted cost base (tax cost) of the repurchased security. That means any benefit of the capital loss could only be obtained when the repurchased security is ultimately sold.

Transfers and swaps

While it may be tempting to transfer an investment with an accrued loss to your RRSP or TFSA to realize the loss without actually disposing of the investment, the loss is specifically denied under our tax rules. There are also harsh penalties for “swapping” an investment from a non-registered account to a registered account for cash or other consideration.

To avoid these problems, consider selling the investment with the accrued loss and, if you have the contribution room, contributing the cash from the sale into your RRSP or TFSA. If you want, your RRSP or TFSA can then “buy back” the investment after the 30-day superficial loss period.

Make RRSP contributions

Although you have until March 1, 2022, to make RRSP contributions for the 2021 tax year, contributions made as early as possible will maximize tax-deferred growth. Your 2021 RRSP deduction is limited to 18% of income earned in 2020, to a maximum of \$27,830, less any pension adjustment plus any previous unused RRSP contribution room and any pension adjustment reversal.

Delay RRSP withdrawals under the HBP or LLP

You can withdraw funds from an RRSP without immediate tax under the Home Buyer’s Plan (up to \$35,000 for first-time home buyers) or the Lifelong Learning Plan (up to \$20,000 for post-secondary education). With each plan, you must repay the funds in future annual instalments, based on the year in which funds were withdrawn. If you are contemplating withdrawing RRSP funds under one of these plans, you can delay repayment by one year if you withdraw funds early in 2022, rather than late in 2021.

Make TFSA contributions

The TFSA dollar limit for 2021 is \$6,000 but there is no deadline for making a TFSA contribution. If you have been at least 18 years old and resident in Canada since 2009, you can contribute up to \$75,500 in 2021 if you haven’t previously contributed to a TFSA.

Take TFSA withdrawals

If you withdraw funds from a TFSA, an equivalent amount of TFSA contribution room will be reinstated in the following calendar year, assuming the withdrawal was not made to correct an over-contribution.

Be careful, however, because if you withdraw funds from a TFSA and then re-contribute in the same year without having the necessary contribution room, overcontribution penalties can result. If you wish to transfer funds or securities from one TFSA to another, you should do so by way of a direct transfer, rather than a withdrawal and recontribution, to avoid an overcontribution problem.

If you are planning a TFSA withdrawal in early 2022, consider withdrawing the funds by December 31, 2021, so you would not have to wait until 2023 to re-contribute that amount.

Pay investment expenses

Certain expenses must be paid by year end to claim a tax deduction or credit in 2021. This includes investment-related expenses, such as interest paid on money borrowed for investing and investment counseling fees, for non-registered accounts.

Convert your RRSP to a RRIF by age 71

If you turned age 71 in 2021, you have until December 31 to make any final contributions to your RRSP before converting it into a RRIF or registered annuity.

It may be beneficial to make a one-time overcontribution to your RRSP in December before conversion if you have earned income in 2021 that will generate RRSP contribution room for 2022. While you will pay a penalty tax of 1% on the overcontribution (above the \$2,000 permitted overcontribution limit) for December 2021, new RRSP room will open up on January 1, 2022 so the penalty tax will cease in January 2022. You can then choose to deduct the overcontributed amount on your 2022 (or a future year's) return.

This may not be necessary, however, if you have a younger spouse or partner, since you can still use your contribution room after 2021 to make contributions to a spousal RRSP until the end of the year your spouse or partner turns 71.

Use a prescribed rate loan to split investment income

If you are in a high tax bracket, you may wish to have some investment income taxed in the hands of family members (such as your spouse, common-law partner or children) who are in a lower tax bracket; however, if you simply give funds to family members for investment, the income from the invested funds may be attributed back to you and taxed in your hands, at your high marginal tax rate.

To avoid attribution, you can lend funds to family members, provided the rate of interest on the loan is at least equal to the government's "prescribed rate," which is 1% until at least March 31, 2022.¹ If you implement a loan before that date, the 1% interest rate will be locked in and will remain in effect for the duration of the loan, regardless of whether the prescribed rate increases in the future. If you previously entered into a prescribed rate loan at a higher interest rate, our report, "[Prescribed rate loans: The one per cent solution](#)"² provides some tips (as well as some cautions) that may allow you to take advantage of the current 1% rate while it is in effect. Note that interest for each calendar year must be paid annually by January 30th of the following year to avoid attribution of income for the year and all future years.

When a family member invests the loaned funds, the choice of investments will affect the tax that is paid by that family member. It may be worthwhile to consider investments that yield Canadian dividends, since a dividend tax credit can be claimed by individuals to reduce the tax that is payable. When the dividend tax credit is claimed along with the basic personal amount, a certain amount of dividends can be received entirely tax-free by family members who have no other income.

For example, an individual who has no other income and who claims the basic personal amount can receive about \$54,000 of eligible dividends in 2021 without paying any tax, other than in the provinces of Manitoba, Newfoundland and Labrador, Nova Scotia, P.E.I. and Quebec, where there may be a bit of provincial tax owing on this amount.

You should consult with tax and legal advisors to make arrangements to implement a prescribed rate loan. By putting a loan into place before the end of the year, you could benefit from income splitting throughout the upcoming year and for many years to come.

¹ Quarterly prescribed interest rates are available online at canada.ca/en/revenue-agency/services/tax/prescribed-interest-rates.html.

² The report "Prescribed rate loans: The one per cent solution" is available online at cibc.com/content/dam/personal_banking/advice_centre/tax-savings/prescribed-rate-loans-en.pdf.

Families with students

Make RESP contributions

RESPs allow for tax-efficient savings for children's post-secondary education. The federal government will pay into an RESP a Canada Education Savings Grant (CESG) equal to 20% of the first \$2,500 of annual RESP contributions per child or \$500 annually. While unused CESG room is carried forward to the year the beneficiary turns 17, there are a couple of situations in which it may be beneficial to make an RESP contribution by December 31.

Each beneficiary who has unused CESG carry-forward room can have up to \$1,000 of CESGs paid into an RESP annually, with a \$7,200 lifetime limit, up to and including the year in which the beneficiary turns 17. If enhanced catch-up contributions of \$5,000 (i.e. \$2,500 x 2) are made for just over seven years, the maximum total CESGs of \$7,200 will be obtained. If you have less than seven years before your (grand)child turns 17 and haven't maximized RESP contributions, consider making a contribution by December 31.

Also, if your (grand)child turned 15 this year and has never been a beneficiary of an RESP, no CESG can be obtained in future years unless at least \$2,000 is contributed to an RESP by the end of the year. Consider making your contribution by December 31 to receive the current year's CESG and create CESG eligibility for 2022 and 2023.

Take RESP withdrawals for students

If your (grand)child is an RESP beneficiary and attended a post-secondary educational institution in 2021, consider having Educational Assistance Payments (EAPs) made from the RESPs before the end of the year. Although the amount of the EAP will be included in the income of the student, if the student has sufficient personal tax credits, the EAP income will be effectively tax-free.

If your (grand)child is an RESP beneficiary and stopped attending a post-secondary educational institution in 2021, EAPs can only be paid out for up to six months after the student has left the school. You may, therefore, wish to consider having final EAPs made from RESPs of which the student is a beneficiary.

Pay interest on student loans

You can claim a non-refundable tax credit in 2021 for the amount of interest paid by December 31 on student loans received under the *Canada Student Loans Act*, the *Canada Student Financial Assistance Act*, the *Apprentice Loans Act* or a similar provincial or territorial government law. Note that while only the student can claim the student loan interest credit, the interest on the loan itself can be paid either by the student or by someone related to the student, such as a (grand)parent.

Family members with disabilities

Make renovations for home accessibility

The non-refundable Home Accessibility Tax Credit (HATC) assists seniors and those eligible for the disability tax credit with certain home renovations.

The tax credit is equal to 15% of up to \$10,000 of expenses per year towards renovations that permit these individuals to gain access to, or to be more mobile or functional within, their home, or reduce their risk of harm within their home or from entering their home.

The HATC will apply in respect of payments made by December 31st for work performed or goods acquired in 2021. A single expenditure may qualify for both the HATC and the medical expense tax credit, and both may be claimed.

Contribute to a Registered Disability Savings Plan (RDSP)

RDSPs are tax-deferred savings plans available for Canadian residents eligible for the Disability Tax Credit. Up to \$200,000 can be contributed to the plan until the beneficiary turns 59, with no annual contribution limits.

While RDSP contributions are not tax deductible, all earnings and growth accrue on a tax-deferred basis.

Federal government assistance in the form of Canada Disability Savings Grants (CDSGs), which are based on contributions, and Canada Disability Savings Bonds (CDSBs) may be deposited directly into the plan up until the year the beneficiary turns 49. The government may contribute up to a maximum of \$3,500 CDSG and \$1,000 CDSB per year of eligibility, depending on the net income of the beneficiary's family. Eligible investors may wish to contribute to an RDSP before December 31 to get this year's assistance. There is a 10-year carryforward of CDSG and CDSB entitlements.

RDSP holders with shortened life expectancy can withdraw up to \$10,000 annually from their RDSPs without repaying grants and bonds. A special election must be filed with the Canada Revenue Agency (CRA) by December 31 to make a withdrawal in 2021.

Pay family medical expenses

A tax credit may be claimed when total eligible medical expenses exceed the lower of 3% of your net income or \$2,421 in 2021.

For medical expenses, it may be worthwhile to look for unclaimed expenses prior to 2021 as well. The medical expense tax credit (METC) may be claimed for eligible medical expenses that were paid during any 12-month period that ended within the calendar year (extended to 24 months when an individual died in the year.)

Charitable giving

Make charitable donations

Both the federal and provincial governments offer donations tax credits that, in combination, can result in tax savings of up to 54% of the value of your gift in 2021, depending on your province or territory of residence.

With total cash donations up to \$200 in a year, the federal donation credit is 15% of the donation amount. For total donations exceeding \$200 in a year, the federal donation credit jumps to 29% (33% to the extent taxable income exceeds \$216,511) of the donation amount. Provincial donation credits are also available and the total credit may be up to 54% once total annual donations exceed the \$200 in a calendar year.

December 31 is the last day to make a donation and get a tax receipt for 2021. Keep in mind that many charities offer online, internet donations where an electronic tax receipt is generated and emailed to you instantly.

Gifts "in-kind"

Gifting publicly-traded securities, including mutual funds and segregated funds, with accrued capital gains "in-kind" to a registered charity or a foundation not only entitles you to a tax receipt for the fair market value of the security being donated, it eliminates capital gains tax too. You should plan gifts in-kind well before year end, to allow for sufficient time to make arrangements.

Individuals with changes to tax rates

If you anticipate that your income tax rates will be substantially different in 2022, it may be worthwhile to shift income and expenses between 2021 and 2022, where feasible.

Perhaps you may have just started, or returned to, work in 2021 so your income (and taxes) may be lower in 2021 than in the future. If so, you may wish to realize income in 2021 by taking steps such as selling investments with a capital gain, exercising stock options or taking bonuses in 2021 rather than 2022, where feasible. It may also make sense to defer deductible expenses until 2022 where possible.

On the other hand, you may anticipate that your tax rate could decrease in 2022, perhaps if you plan to retire or if you had a one-time sale of an appreciated investment. If you expect your tax rate to be lower in 2022, you may wish to defer income by taking steps such as waiting to sell investments with a capital gain, exercise stock options, take bonuses or distribute dividends to owner-managers from a corporation, where feasible, in 2022 rather than 2021.

You may also wish to know about potential changes to tax laws that could affect you. Some tax measures were proposed during the election that, if implemented, may increase your future taxes. For example, the Liberals' pre-election proposal to tax residential properties held for less than one year could result in tax payable on a principal residence if you sell your home within the first year. A 15% minimum tax may also apply if you have income in the top tax bracket. It is also possible the NDP might persuade the minority Liberal government to implement some of the NDP election promises, such as increasing the top marginal tax rate by 2% to 35% (from 33%) or increasing the inclusion rate for capital gains from the current 50% rate to perhaps 75%.

You may consider recognizing these types of income now, where practicable, before any new measures that could increase your taxes may come into effect. The report [Planning for a potential hike in the capital gains inclusion rate](#)³ looks at some potential planning that may help you minimize the tax impact of any increase in the capital gains inclusion rate.

Some new tax credits were also proposed in the Liberal election platform that may lower your future taxes if implemented. For example, the Liberals have proposed a 15% Multigenerational Home Renovation tax credit on up to \$50,000 in renovation and construction costs if you add a secondary unit to your home so a family member can live with you. You may consider delaying such expenditures in the hope that this credit is formally introduced.

Business owners and employers

Compensation planning for owners of incorporated businesses

A corporation may distribute its income to you (as a shareholder and employee of the corporation) either as salary or dividends.

If corporate income is paid to you as salary (or bonus), the corporation (employer) can claim an income tax deduction for the salary (and applicable payroll taxes), which reduces its taxable income. You include the salary in your taxable income and pay tax at personal, graduated tax rates.

As an alternative to distributing income as salary, the corporation can pay tax on its corporate income. In the year the income is earned or a future year, the corporation can distribute its after-tax corporate income to you as dividends. You generally pay no tax on capital dividends⁴ and pay a lower tax rate (than for salary) on eligible and non-eligible dividends due to dividend tax credit (DTC), which is meant to compensate for taxes paid by the corporation.

So how do you choose between salary and dividends?

As a general rule-of-thumb, if you need to withdraw funds from your corporation, perhaps to pay personal expenses, then consider withdrawing salary to create RRSP contribution room. Receiving salary of up to \$162,278 in 2021 would create RRSP contribution room in 2022 of up to \$29,210 (the 2022 maximum).

If you do not need to withdraw funds from your corporation, you may still wish to withdraw sufficient funds to maximize contributions to RRSPs and TFSAs. These plans can effectively provide a tax-free rate of return on investments, as described in the report [Just do it: The case for tax-free investing](#)⁵.

³ This report is available online at cibc.com/content/dam/personal_banking/advice_centre/tax-savings/capital-gains-inclusion-en.pdf.

⁴ Capital dividends, which are not taxable to Canadian residents, can be paid to the extent there is a positive balance in a corporation's notional Capital Dividend Account (CDA). The CDA balance includes 50% of capital gains less allowable capital losses, as well as certain tax-free life insurance death benefit proceeds.

⁵ This report is available online at cibc.com/content/dam/personal_banking/advice_centre/start_savings_plan/pdfs/case-for-taxfree-en.pdf

Finally, consider leaving any remaining funds in your corporation to benefit from the significant tax deferral, which may provide more investment income in the long run than personal investing in non-registered plans. You may then distribute the company's income as dividends in a future year.

The report [Bye Bye Bonus](#)⁶ discusses this compensation decision in greater detail.

Corporate loss planning

Tax-free dividends

If your corporation has unrealized losses in its investment portfolio, it's worth checking to see if there is a positive balance in your corporation's capital dividend account (CDA) before engaging in any tax-loss selling, as discussed above. The CDA is a notional account that tracks the non-taxable portion of capital gains, among other things. Dividends may be designated as capital dividends, which are generally tax-free to the shareholder, if they do not exceed the balance of the CDA. Net capital losses will decrease the CDA and will, therefore, reduce (or possibly even eliminate) the capital dividends that may be paid. Prior to realizing any capital losses, consider paying out any capital dividends to eliminate any positive balance in the CDA.

Loss consolidation

You may have more than one corporation within a corporate group. One (or more) of these companies may be profitable ("Profitco"), and one (or more) may be suffering losses ("Lossco") at this time. The CRA has generally permitted the consolidation of losses within a related group through a variety of methods. For example, Profitco may subscribe for shares of Lossco, which in turn makes a loan to Profitco. Interest payments on the loan will reduce the taxable income of Profitco, and the taxable interest income received by Lossco will be offset by its losses.

As corporate reorganizations are complex, tax and legal advisors should be consulted before implementing any loss consolidation transactions.

Business transition planning

If you're thinking about transitioning your business to new owners and you believe that your business has recently dropped in value, you may want to explore some of the planning considerations, including an estate freeze or refreeze, that are discussed in our report [Tax and estate planning in uncertain times](#),⁷ in advance of the end of the year.

Income splitting

The "tax on split income" (TOSI) rules can apply where an individual receives dividend or interest income from a corporation, or realizes a capital gain, and a related individual is either actively engaged in the business of the corporation or holds a significant amount of equity (with at least 10% of the value) in the corporation. When the TOSI rules apply, dividends are taxed at the highest marginal rate.

If your private corporation has other shareholders, such as your spouse, partner, children or other relatives as shareholders, review the possible impact of the TOSI rules with your tax and legal advisors before paying dividends to these individuals in 2021.

Planning for the TOSI is more fully described in our report [The CCPC tax rules](#).⁸

⁶ This report is available online at [cibc.com/content/dam/personal_banking/advice_centre/tax-savings/jg-dividends-bonus-en.pdf](https://www.cibc.com/content/dam/personal_banking/advice_centre/tax-savings/jg-dividends-bonus-en.pdf)

⁷ The report "Tax and estate planning in uncertain times" is available online at [cibc.com/content/dam/personal_banking/advice_centre/tax-savings/tax-planning-uncertain-times-en.pdf](https://www.cibc.com/content/dam/personal_banking/advice_centre/tax-savings/tax-planning-uncertain-times-en.pdf).

⁸ The report "The CCPC tax rules" is available online at [cibc.com/content/dam/small_business/day_to_day_banking/advice_centre/pdfs/business_reports/private-corporation-tax-changes-en.pdf](https://www.cibc.com/content/dam/small_business/day_to_day_banking/advice_centre/pdfs/business_reports/private-corporation-tax-changes-en.pdf)

Passive investment income

The first \$500,000 of active business income in a Canadian-controlled Private Corporation (CCPC)⁹ generally qualifies for the small business deduction (SBD), which reduces the corporate tax rate by 12 to 20 percentage points in 2021, depending on the province or territory. This means there may be significantly more after-tax income in your corporation for investment when the SBD is available.

The government believed this posed an unfair advantage and, so, new rules were introduced effective in 2019 which affected the amount of income that's eligible for the federal SBD. The SBD is generally reduced by \$5 for each \$1 of passive income over \$50,000 in the previous year. Once passive income reaches \$150,000 in the previous year, none of the current year's business income may be eligible for the lower tax rates.

If your corporation is approaching the \$50,000 limit for passive income in 2021, consider a "buy and hold" strategy to defer capital gains. Also, consider whether an Individual Pension Plan or corporately-owned exempt life insurance may be appropriate, as income earned within these plans will not be treated as passive income.¹⁰

Ontario and New Brunswick have not followed the federal measure, so the provincial SBD is still available for active business income up to \$500,000 annually in these two provinces. This may lessen the negative tax impact of the federal measure. You should consult a tax advisor prior to year-end to determine how provincial and federal measures may apply.

You may also wish to withdraw sufficient salary from your private corporation by December 31 to maximize contributions to RRSPs and TFSAs. These registered investment plans may offer benefits beyond those available with corporate investments, as outlined in our reports [RRSPs: A smart choice for business owners](#)¹¹ and [TFSAs for business owners... A smart choice](#)¹². Receiving salary of at least \$162,278 by December 31, 2021 may allow the maximum RRSP contribution of \$29,210 in 2022. Reasonable salaries may also be paid to family members who work in the business to allow them to make contributions to RRSPs and TFSAs. This will also reduce future investment income within the corporation, perhaps preserving access to the SBD, as discussed above.

Planning for passive investment income is more fully described in our report [CCPC tax planning for passive income](#).¹³

Conclusion

These tips highlight various ways you can act now to benefit from tax savings when you file your 2021 personal tax return. But keep in mind that tax planning is a year round affair. Be sure to speak to your tax advisor well in advance of tax filing season if you want more information on reducing your taxes.

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⁹ The SBD is available to a CCPC that earns active business income up to the annual limit of \$500,000 federally and provincially or territorially (except in Saskatchewan where it's \$600,000) in 2021. The SBD must be shared among associated corporations.

¹⁰ A tax advisor should be consulted before investing in an Individual Pension Plan or corporate owned life insurance. You should also consider whether these strategies fit into your overall financial plan.

¹¹ The report "RRSPs: A smart choice for business owners" is available online at [cibc.com/content/dam/small_business/advice_centre/business-reports/RRSPs-for-business-owners-en.pdf](https://www.cibc.com/content/dam/small_business/advice_centre/business-reports/RRSPs-for-business-owners-en.pdf).

¹² The report "TFSAs for business owners... A smart choice" is available online at [cibc.com/content/dam/personal_banking/advice_centre/tax-savings/tfsas-for-business-owners-en.pdf](https://www.cibc.com/content/dam/personal_banking/advice_centre/tax-savings/tfsas-for-business-owners-en.pdf).

¹³ The report "CCPC Tax Planning for Passive Income" is available at [cibc.com/content/dam/small_business/day_to_day_banking/advice_centre/pdfs/business_reports/ccpc-passive-income-en.pdf](https://www.cibc.com/content/dam/small_business/day_to_day_banking/advice_centre/pdfs/business_reports/ccpc-passive-income-en.pdf).

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