RELAX!

Here are the Facts on Tax!

By Charlene Birdsall, CPA, CMA, CIM, CFP, National Bank Financial – Wealth Management

As the end of April nears, Canada Revenue Agency (CRA) will be checking your tax returns to make sure you have paid paid paid the man. There are many factors on how much tax you pay to CRA. This actually depends on how much money you made during the year, what eligible deductions you can claim, and also where you live (for income of $150,000, Quebec, Nova Scotia, PEI, and then Manitoba have the highest average tax rates). There are ways you can keep more money in your pocket and the first is by being informed. Here are recommendations to think about before you complete your income tax return.

If you are currently employed

Maximum RRSP Contribution: The maximum contribution limit for 2022 is $29,210; for 2021, it is $27,830. The 2023 limit is $30,780. It is better to make your RRSP contribution early in the year so the money can grow tax free within your RRSP. The contribution limit is the lower of the maximum limit or 18 per cent of your earned income (salary, hourly income, tips, bonuses, commission and rental income are considered earned income, but government benefit plans are not).

Tax Free Savings Account (TFSA) Limit: For 2022, the annual limit is $6,000 with a maximum contribution limit of $81,500 for those eligible to contribute since the TFSA introduction in 2009.

Home Buyer's Amount: Did you buy a home in 2021? You may be able to claim up to $5,000 of the purchase cost and get a non-refundable tax credit up to $750.

Lifetime Capital Gains Exemption: The lifetime capital gains exemption is $913,630 in 2022, up from $892,218 in 2021.

If you have children or dependents

Canada Child Benefit (CCB): In 2022, the maximum CCB is $6,997 per child under the age of six and up to $5,903 for children ages six to 17. In 2021, the CCB is $6,833 per child under the age of six and up to $5,765 for children ages six to 17.

Child Disability Benefit: For families who care for a child under the age of 18 with a severe and prolonged impairment with physical or mental functions, the tax-free child disability benefit for the 2022 tax year is up to $2,985 and up to $2,915 in the 2021 tax year.

Child Disability Amount: The non-refundable tax credit disability amount for children under the age of 18 is $8,870 for the 2022 tax year, with a supplement up to $5,174. For the 2021 tax year, the tax credit is $8,662 with a supplement up to $5,053. Supplements are reduced by childcare expenses that may be claimed.

Canada Caregiver Credit: If you are caring for an infirm dependent age 18 or older, the non-refundable tax credit for the 2022 tax year is $7,525 and for the 2021 tax year, you could claim $7,348. If you have children under the age of 18 with a mental or physical impairment, you may be able to claim up to $2,350 in tax credits in 2022, and up to $2,295 in tax credits for the 2021 tax year.

If you are retired

Age Amount: The maximum amount you can claim in 2022 is $7,898, up from $7,713 in 2021. You can claim this amount if you were 65 years of age or older on December 31 of the taxation year.

Income Splitting: After age 65, you can income split your pensionable income with your spouse which can put you in a lower tax bracket.

Old Age Security (OAS) Threshold: If your net worth income exceeds $81,761 in 2022 or $79,845 in 2021, your OAS would be clawed back $0.15 for every $1.00 exceeding those amounts and completely clawed back with income over $133,141. Starting in July 2022, those ages 75 and older will have their OAS automatically increased by 10 per cent.

Maximize your money

There are a few ways to keep more of your hard-earned money.

1) Maximize your RRSP contribution. You will pay less in income tax!
2) Invest in your Tax Free Savings Account. With this investment vehicle, any interest or dividends or capital gains that you may earn can be sheltered within the TFSA – no taxes are paid here! Also, you can use the TFSA for a savings goal or emergency funds as funds can be withdrawn tax free.
3) Certain investment vehicles allow for unique tax credits, such as labour sponsored funds and flow through shares. It is recommended you consult with your investment advisor or tax specialist to see if these investments would suit you or make an impact for your tax situation. Here are the details:
   a. Labour Sponsored Fund: This can provide between 30 to 35 per cent of the amount invested as a tax credit. (i.e., in Manitoba with $5,000 invested into a labour sponsored fund, the province of Manitoba will provide $750 in tax credits, and the federal government will provide another $750 in tax credits for a total $1,500 in tax credits!).
   b. Flow Through Shares: This invests in mining companies that receive Canadian exploration credits which are flowed through to the investor. If you invest $10,000, you would write off almost all this investment against your income taxes. This type of investment is risky and speculative, but allowed by CRA.

Canada Revenue Agency does not allow tax evasion but does allow for effective tax planning. Therefore, implementing these recommendations could prove to be lucrative to your wealth and wellbeing. ◗

Charlene Birdsall, CPA, CMA, CIM, CFP, is an Investment Advisor and Portfolio Manager for National Bank Financial. You can reach her at charlene.birdsall@nbc.ca. National Bank Financial – Wealth Management (NBFWM) is a division of National Bank Financial Inc. (NBF), as well as a trademark owned by National Bank of Canada (NBC) that is used under license by NBF. NBF is a member of the Investment Industry Regulatory Organization of Canada (IIROC) and the Canadian Investor Protection Fund (CIPF), and is a wholly-owned subsidiary of NBC, a public company listed on the Toronto Stock Exchange (TSX: NA).