

20 smart tax tips for Canadians

----- How to trim your family's tax bill -- and put extra cash in your pocket.

By Cheryl Embrett

Tired of handing over almost half of your hard-earned money to the tax collector? We asked financial experts across Canada for timely tips to help you trim your family's tax bill as well as smart strategies that'll add up to more savings next tax season.

1. Make RRSP contributions automatic

Set up an automatic contribution plan throughout the year, advises Teresa Black Hughes, a senior financial planner and investment adviser at Solguard Financial Ltd./Peak Securities Inc. in West Vancouver. Either arrange to have deductions taken directly from your paycheque or have the funds debited from your bank account each month and deposited into an RRSP.

TIP: By contributing \$100 each month, you'll boost your retirement nest egg to \$138,029 after 35 years (assuming an annual return of six per cent) compared with \$131,272 if you invest the same amount in yearly \$1,200 lump sums.

2. Borrow money to save money

If you don't have extra cash for an RRSP contribution, you may be better off borrowing the money than not contributing at all, says Tim Wallis, a financial consultant with IPC Investment Planning Council in Waterloo, Ont. The long-term benefits of deferring taxes and earning compound interest outweigh the interest costs of borrowing to make a contribution.

TIP: Hold off on the loan if you have a whopping credit card bill. It makes more sense to pay the credit card off first, says Wallis.

3. Avoid getting a tax refund

While getting back a juicy tax refund may feel good, a large return is actually a sign of poor tax planning, says Wallis. "Think of it as giving the government an interest-free loan." While that money was sitting with the government for 12 months, it could have been earning you interest in an investment. To keep that money in your own pocket, ask your employer for a T1213 Form to reduce the amount of taxes taken off your paycheque each month.

TIP: Put that extra \$150 a month on a \$200,000 mortgage at six per cent amortized at 25 years and it'll be paid off five years earlier -- a savings of \$43,254.

4. Spend less

"Spending less money is the most overlooked way of reducing your tax bill," says Lori

Bamber, a financial counsellor in Port Moody, B.C., and author of *Financial Serenity: Successful Financial Planning and Investment for Women* (Prentice Hall, 1999). "We always think in terms of income tax and forget that we pay GST plus provincial sales tax for most of the products we buy."

TIP: Keep your purchases to a minimum to avoid tax.

5. Invest in your kids

If you have school-age children, consider contributing to a registered education savings plan (RESP). You won't get a tax deduction, but the earnings will grow tax-free for up to 25 years or until the funds are withdrawn by your college-bound scholar.

TIP: Make a contribution of up to \$2,000 a year for each child under 19 and Ottawa kicks in free money -- a Canadian education savings grant of 20 per cent of your contribution to a maximum of \$400 a year.

6. Reap the benefits of the self-employed

If you own your own business, consider paying your kids or a lower-income-earning spouse a salary or wages and deduct it against your income. Bamber, for example, pays her daughter to file and answer the phones in her home-based business instead of giving her an allowance.

TIP: If you work out of a home office, you can also write off a portion of all eligible home costs, including mortgage interest, property taxes and utilities.

7. Make moving costs count

While moving house and home is never easy, there are some major tax breaks to help ease

the pain. If you relocated at least 40 kilometres in 2005 to start a new job or business, you can deduct most of the costs.

TIP: Wallis says a lot of moving deductions get missed because people aren't sure what they're entitled to. For a full listing of moving expenses, go to the Canada Revenue Agency's website at www.cra-arc.gc.ca/tax/individuals and search "moving."

8. Add up all your medical expenses

Many of us assume we don't have enough medical expenses to get a tax credit (the total amount of receipts must exceed \$1,844 or three per cent of net income, whichever is less), but they can add up quickly. Look for things that aren't an eligible expense under your group plan and don't forget to include any health-care premiums you're paying at work, advises Cleo Hamel, a senior tax analyst with H&R Block in Calgary.

TIP: Keep in mind that you can claim expenses for any 12-month period ending in the tax year you're filing (June 2005 to May 2006, for example), so pick the period that includes as many expenses as possible to maximize the credit.

9. Claim all your child care

"A lot of parents think if a neighbour is taking care of their child, they can't claim it," says

Hamel. "But if you're paying someone and getting a receipt for it, it's a child-care expense." Generally, the lower-income-earning spouse makes the claim, which is either two-thirds of your earned income or the total of the individual maximums for each of your children (\$7,000 for each child under seven and \$4,000 for children seven to 16), whichever is less.

TIP: Make sure you report all your children 16 and under on your tax return, even if you didn't incur child-care expenses for some of them. The tax collector doesn't attach specific child-care expenses to specific children.

10. Don't overlook the child disability credit

If your child has a severe, long-term physical or mental disability, don't overlook the Child Disability Benefit (CDB), which increased to a maximum of \$2,300 a year from \$2,044 effective July 2006.

TIP: To apply for the CDB, you must have Form T2201 completed and signed by a qualified medical practitioner. These forms are processed throughout the year, so you don't have to wait until it's time to file your tax return to apply.

11. Find back-to-school savings

When it comes to paying for Junior's skyrocketing tuition fees, every little bit helps. The new textbook tax credit, for example, will put up to \$65 per month right back into your pocket.

TIP: Remember, too, that any tuition fee and education credits your post-secondary scholar doesn't need to reduce his own tax can be transferred to you, up to a maximum of \$5,000.

12. Take advantage of the Canada Child Tax Benefit

If you had a new addition to the family in the past year and your household income is less than \$35,595, make sure you've applied for the Canada Child Tax Benefit. You'll receive \$1,228 annually for each child, plus an additional \$86 for the third and subsequent children.

TIP: You may also qualify for the new Canada Learning Bond, which is basically a gift from Ottawa of \$500 for each child born after Jan. 1, 2004, and an additional \$100 per year in grant money for up to 15 years. View Service Canada's website for more information.

13. Don't overlook the Universal Child Care Benefit

The Universal Child Care Benefit (UCCB) payment of \$100 a month is available to any child under the age of six regardless of the family's income (keep in mind that amounts received under the UCCB will be taxable in the hands of the lower-income spouse).

TIP: If you're already receiving the Canada Child Tax Benefit, you'll receive UCCB payments automatically; otherwise, you have to register (www.universalchildcare.ca).

14. Pool your charitable donations

If you and your spouse both make charitable donations, combine the receipts and claim them on one return (you only get a 15.5 per cent tax credit for your first \$200 of donations but 29 per cent for everything over that).

TIP: Donations you made in 2006 can be claimed any year up to 2011.

15. Get credit for caring

If you're the caregiver for an ill or aging parent, grandparent or other disabled dependent who is over 18 years old, you may be able to claim the Caregiver's Tax Credit.

TIP: Your dependent's net claim must be less than \$12,509 to qualify, and your maximum claim is \$3,663.

16. Travel the tax-friendly way

If you or a family member uses public transit, make sure you save those pass receipts. They could add up to \$100 in tax savings per family member per year, thanks to a new nonrefundable tax credit that kicked in July 1, 2006.

TIP: The passes have to be for a period of at least one month to qualify.

17. Make maximum use of your investment losses

You can use any 2006 capital loss to decrease your taxes as long as you've realized at least an equal amount in capital gains. Let's say you bought a stock for \$100 last year and it was only worth \$90 when you sold it at the end of the year. That's a capital loss of \$10.

TIP: "Quite often people don't keep track of their losses," says Wallis. "Declare them on your tax return each year and you can carry them forward indefinitely until you need them."

18. Sign the kids up for fitness

The Children's Fitness Tax Credit kicks in for the 2007 tax season for children under the age of 16, so save any receipts for your child's ballet, swimming or other physical activity programs.

TIP: The \$500 tax credit will help compensate for those early morning hockey practices.

19. Invest wisely to avoid taxes

If you've invested both inside and outside an RRSP, you can arrange your portfolio to be tax-smart, says Heather Evans, a tax partner at Deloitte and Touche in Toronto. Capital gains enjoy tax breaks -- they're subject to tax at only half the rate of ordinary income -- while interest payments from bonds and GICs don't.

TIP: "As a rough rule of thumb, it makes sense to keep bonds and GICs sheltered in an RRSP," says Evans.

20. You can appoint the lower-income-earning spouse the investor

If you and your spouse are both earning income, but one is in a much higher tax bracket, it's a smart move for the higher-income spouse to pay all or most of the family expenses while the lower-income spouse invests all or most of his or her savings.

TIP: You'll significantly improve your investment returns since the income generated will be taxed at a lower rate. "I've found in my experience that most families do exactly the opposite," says Evans.

original: www.canadianliving.com...adians.php