

Smart Money: Year-end planning tips

Brad Brain / Smart Money

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Brad Brain: "Did this year go by fast, or what? Maybe it's all the pandemic disruptions that make it seem like there should be more to 2021, but the calendar doesn't lie. You only have a few business days left to do some financial and tax planning for 2021. Here are some last-minute tips." | Getty Images



Did this year go by fast, or what? Maybe it's all the pandemic disruptions that make it seem like there should be more to 2021, but the calendar doesn't lie. You only have a few business days left to do some financial and tax planning for 2021. Here are some last-minute tips.

If you are looking to take money out of your Tax Free Savings Account, and you are close to your contribution limit, consider doing it in 2021. One of the cool features of the TFSA is that you get your contribution room back in the year following the withdrawal. So if you take your money out in 2021 you get the contribution room back in 2022, which is now only a few days away. If you wait until January to take out the money, you won't get the contribution room back until 2023.

Note: acting before the end of the year applies to withdrawals. If you are contributing you can do that anytime, as long as you are within your TFSA contribution limit. Any unused TFSA contribution room gets carried forward, so you don't have to worry about using it before you lose it.

Make Registered Education Savings Plan contributions before the end of the year, especially if your kids are 15 or older. There are a few variables in play here, including the ages of the kids, any unused Canada Education Savings Grant including CESG carry forward, how long the RESP has been established, and how much has been contributed, so I will leave the details for you to discuss with your professional financial planner and just sum it up this way: unless you have completely maxed out the RESP already, you probably should consider making a RESP contribution before the end of the year.

If you turned 71 in 2021, you have until the end of the year to convert your Registered Retirement Savings Plan to a source of income. The most common option is to convert your RRSP to a Registered Retirement Income Fund, but you can also convert your RRSP to an annuity or withdraw it in cash. If you turned 71 this year, and you still have a RRSP, it is urgent that you speak with your financial planner right away. If you are 71 and you don't convert your RRSP before the end of the year then the Canada Revenue Agency will deregister your RRSP and the whole thing will be taxable.

If you are doing any planned giving, make the donation before the end of the year if you want the tax deduction to be applied to the 2021 tax year. The government has some nice tax incentives for charitable giving. Given the choice between writing one big cheque to CRA or writing a cheque to charity so I can write a smaller cheque to CRA, I know which one I prefer.

You have until March 1, 2022 to make a Registered Retirement Savings Plan contribution for the 2021 tax year. Any contributions result in a tax deduction that you can apply to 2021, or you can carry it forward and use it in a future year. If you don't have a tax problem, then RRSPs might not be the best planning tool. Meanwhile, most people have tax problems, so consider making a RRSP contribution before the deadline.

Unfortunately, there is a limit to how much you can contribute to your RRSP. You can find your RRSP contribution limit on the Notice of Assessment from last year's tax return, or on the MyCRA website.

Remember, you don't have to leave things to the last minute in 2022. These ideas are good in December, but they work just as well during the other months too. Talk to your professional financial planner about proactive steps for next year.

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