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# Looking for ways to pay less tax?



Each year, as tax time rolls around, you may find yourself asking, “What can I be doing better?”. There are certainly many tax-smart ideas that can help you and your family to reduce your tax burden and reach your financial goals more quickly. Here are just six that you and your MD advisor should discuss in the year ahead.

## **MAXIMIZE YOUR RRSP CONTRIBUTIONS**

If there’s one bit of universal tax planning wisdom, it’s the importance of contributing to a registered retirement savings plan (RRSP). Not only do the amounts you contribute reduce your taxable income for the year (to the extent that you have available contribution room), the money inside your plan can grow and compound on a tax-sheltered basis until you make a withdrawal, at which time it is fully taxable as regular income—generally, in retirement, when you are in a lower tax bracket. In short, you get tax relief every year that you contribute, and tax-sheltered compounding can dramatically increase the value of your retirement savings over the long term.

If you’re not currently contributing the maximum allowable to your RRSP, ask your MD advisor about ways to gain greater benefit from this unique tax-deferral vehicle. For example, you may wish to set up automatic monthly contributions, or even consider an RRSP loan to capitalize on unused contribution room from previous years.

## **ACCELERATE EDUCATION SAVINGS WITH AN RESP**

If you’re saving for a child’s post-secondary education, consider opening a registered education savings plan (RESP). Unlike an RRSP, contributions to your RESP are not tax deductible. Your investments are allowed to grow and compound on a tax-deferred basis, however, which can significantly enhance your savings.

An RESP also offers a unique bonus: the Canada Education Savings Grant (CESG). As a general rule, this federal government grant is equal to up to 20% of the first \$2,500 of contributions you make each year (i.e., \$500). All told, you can contribute up to \$50,000 for each child, and receive grants of up to \$7,200. In addition, there is tax-deferred investment growth on both contributions and grants that accumulate in the RESP.

## **TAKE ADVANTAGE OF A TFSA**

The tax-free savings account (TFSA) is the newest type of registered savings plan, and it’s a great way to protect shorter-term investments from tax. Your allowable contribution limit generally accumulates at a rate of

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\$5,000 per year, and none of the interest, dividends or capital gains you earn is subject to tax, ever. You can withdraw funds whenever you wish without tax consequences. What's more, if you withdraw some or all of your original contributions, you are permitted to re-contribute it as of the following year. Ask your MD advisor how this extremely flexible savings tool can fit within your overall tax and financial plan.

### **TURN A CAPITAL LOSS INTO A GAIN**

Nobody wants to see an investment decline in value, but, if the investment is held within a non-registered account, there may be an opportunity to turn accrued capital losses into something more positive. The strategy is called tax loss selling, and it involves selling an investment that has declined in value in order to realize a capital loss, then using that loss to offset the capital gains you've realized on other investments.

Capital losses can be claimed only to the extent that you have capital gains; however, any losses that cannot be used in the current year can be carried back three years, or carried forward indefinitely, and applied against capital gains in those years. So, sooner or later, your capital losses can come in handy to help reduce your tax bill.

One caveat: The *Income Tax Act* has strict rules around tax loss selling. For example, if you sell and then re-purchase the same investment within 30 days (either before or after the sale that generates the loss) and still own the security 30 days after the sale, your claim may be denied.

Your MD advisor can help you determine the impact of tax loss selling on your overall portfolio. It's also recommended that you speak with your tax advisor before implementing this type of strategy.

## TAX FACTS FOR 2010

Your MD advisor can help you keep track of the important tax rules, dates and amounts that will impact your financial plan.

### **Maximum annual RRSP contribution:**

For the 2009 tax year, the lesser of \$21,000 or 18% of prior year earned income, less any pension adjustments, plus any unused contribution room from previous years. For the 2010 tax year, this amount is increased to \$22,000.

### **RRSP contribution deadline:**

2009 tax year: March 1, 2010  
2010 tax year: February 28, 2011

### **Maximum lifetime RESP contribution per beneficiary:**

\$50,000

### **Annual RESP contribution deadline:**

December 31

### **Maximum lifetime CESG per beneficiary:**

\$7,200

### **Maximum annual TFSA contribution:**

\$5,000, plus any unused or reclaimed room from previous years

### **Maximum qualifying donations eligible for non-refundable tax credit:**

75% of your net income (unused amounts can be carried forward up to five years)

### **Maximum eligible pension income split allowed to spouse or common-law partner:**

50%

**For personalized tax and financial planning advice, please speak with your MD advisor.**

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## **GIVE TO CHARITY—BUT GIVE WISELY**

When you give to charity, you can claim a federal non-refundable tax credit equal to 15% of the first \$200 of qualifying charitable donations, and 29% of donations in excess of \$200 (provincial credits also apply). Therefore, if you're planning to give more than \$200 to charity, you're better off doing it all in one year rather than spreading it out over two years or more.

Don't think of charitable giving only in terms of writing a cheque. In fact, it may be more advantageous to give units of a mutual fund trust or stock instead of cash. Why? Because, as long as certain conditions are met, any accrued capital gains on the securities you donate may be exempt from taxation. So, not only could you receive a non-refundable tax credit based on the value of the securities, you could also avoid a future tax liability in the process.

Your MD advisor can help you determine your best options for giving securities as a gift. If you don't already have a charity in mind, you might want to consider the Canadian Medical Foundation.

## **SPLIT YOUR PENSION INCOME**

Since 2007, taxpayers have had the opportunity to allocate (for tax purposes only) up to 50% of their eligible pension income to their spouse or common-law partner.

The definition of "eligible pension income" varies, depending on your age. For example, RRIF payments and RRSP annuity payments made to an annuitant aged 65 or over will qualify as eligible pension income for pension income-splitting. Income from lifetime annuity payments under a registered pension plan qualifies, regardless of age. Your MD advisor can help you determine if you are optimizing all of your options for splitting pension income, although this is another area where you'll also want input from your professional tax advisor.

Tax planning is a complex area, and it's important to pay close attention to the many rules and nuances that may enhance—or limit—your personal opportunity to reduce taxes.

Fortunately, your MD advisor is a knowledgeable member of your tax planning team, someone who can recommend strategies and tactics to help reduce your tax bill, year after year.

## **QUESTIONS?**

**CONTACT YOUR MD ADVISOR.**

[md.cma.ca](http://md.cma.ca) ▲ 1 800 267-2332



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