BNN MARKET CALL

***e*Research Corporation** is pleased to provide an excerpt from Friday's BNN Market Call Newsletter.

It features a Market Comment from a leading investment analyst with a commentary (see below) and two 6-minute video interviews (see link for Part 1 HERE and Part 8 HERE).

GET A HEAD START ON 2018 TAXES

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While April is traditionally tax season, what we are really doing is preparing last year's (2017) tax return for submission. As a result, there is really not a lot you can do to save taxes upon filing. But now is a great time to get a head start on 2018 tax savings.

Here are four ideas for 2018:

1. TAX-SMART PORTFOLIO REBALANCING

If you have got global equities in your non-registered portfolio, chances are you fared quite well in 2017 with some financial markets hitting all-time record levels. What a great opportunity to rebalance your non-registered portfolio and defer the capital gains tax hit for another year.

Let us say your target portfolio allocation is 70 per cent equities and 30 per cent bonds or fixed income. This weekend, you go online and see that your portfolio, due to the success of your U.S. equity position, is actually skewed 80 per cent equities and 20 per cent fixed income. To rebalance back to your target 70/30 mix, you may wish to sell some equities and replace them with fixed income. The good news is that the taxes owing on that capital gain will not be due until April 30, 2019.

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2. TAX-GAIN DONATING

In 2018, be strategic in your charitable giving by making a budget for your annual donations. Ideally, if you are holding significant appreciated securities in your non-registered portfolio (as discussed above), consider donating them "in-kind" to charity. Not only will you get a receipt equal to the fair market value of the securities donated, but you will not pay any capital gains tax on the accrued appreciation, saving you up to 27 per cent tax, depending on your province of residence.

To make things even easier, if you give to multiple charities but would rather not deal with the process involved in transferring securities in-kind to each one individually, consider establishing a "donor advised fund" at the beginning of 2018. This allows you to effectively create a mini-foundation for a fraction of the cost of setting up a private foundation. You get the tax receipt up-front at the time of donation and can then allocate the funds to any of Canada's over 86,400 registered charities. It is an easy way to make one in-kind gift, save the capital gains tax on the appreciation and then reallocate to the causes you care about.

3. MAXIMIZE ALL REGISTERED PLANS

For 2018, you can contribute 18 per cent of your 2017 earned income to your RRSP (less any pension adjustment) up to a maximum of $26,230. This maximum is reached if your 2017 income was $145,722 or higher.

The 2018 TFSA limit is stuck, once again, at $5,500. (Yup — inflation was not high enough to bring us up to the next $500 rounded increment.) If you have never opened up a TFSA, you can immediately contribute a cumulative $57,500 to your TFSA provided you were at least 18 in 2009 and resident in Canada throughout those years.

If you have kids, and there is any remote chance they will head off to pursue some post-secondary education, consider contributing at least $2,500 annually for each kid to their Registered Education Savings Plan (RESP) to get the maximum Canada Education Savings Grant of 20 per cent or $500. If you have missed a prior year, consider doubling up to get $1,000 of CESGs all at once.

If someone in your family has a severe disability and qualifies for the disability tax credit, don't forget the Registered Disability Savings Plan (RDSP), where just $1,500 of annual contributions can yield $3,500 of annual Canada Disability Savings Grants and $1,000 of annual Canada Disability Savings Bonds, depending on the age of the individual and their family income.

4. MAKE YOUR INTEREST TAX DEDUCTIBLE

Interest you pay on money borrowed to earn business or investment income is generally tax-deductible, whereas interest on consumer debt and your home mortgage is not. But there may be a way to do a debt-swap whereby you convert non-deductible interest into tax-deductible interest in a move I like to refer to as the “Singleton Shuffle.”

The shuffle was named after Vancouver lawyer John Singleton’s 2001 Supreme Court victory, which upheld the notion that you can rearrange your financial affairs in a tax-efficient manner so as to make your interest on investment loans tax-deductible.

It is often quite simple to do, provided you don’t have to pay a penalty to extinguish your mortgage early. For example, let us say you have some non-registered investments. You may wish to consider selling them to pay off your mortgage (non-deductible debt) and then borrowing back the funds, perhaps by getting a secured line of credit on your now fully-paid off home, for investment purposes (tax-deductible debt). This allows you to effectively write off what otherwise would have been non-deductible personal mortgage interest.

Students may also be entitled to a tax break on interest payments. Under the tax rules, student loan interest may qualify for a 15 per cent non-refundable federal tax credit provided the loan was taken out under the Canada Student Loans Act, the Canada Student Financial Assistance Act, the Apprentice Loans Act, or a similar provincial/territorial act.

A quick word of caution, however, for students looking to refinance those government-authorized student loans: the interest on a renegotiated loan from a financial institution does not qualify for the tax credit. So, before refinancing, be sure that the lower interest rate you are hopefully getting on your new loan more than compensates you for the loss of that tax credit.

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