Wealth Management

the Navigator

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC FAMILY OFFICE SERVICES

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Early 2025 tax tips

When the end of the year approaches, many individuals place a greater focus on tax planning to minimize their income tax liability. Beyond the end of the year, however, there are some areas of tax planning that often get overlooked. For example, there are tax planning strategies that may only be available early in the new year. With that in mind, this article summarizes some of the strategies that have deadlines in early 2025.

2024 RRSP contribution deadline

The deadline for you to make a contribution to a registered retirement savings plan (RRSP) that can be claimed as a 2024 tax deduction is March 3, 2025.

If you don't have sufficient cash on hand to make an RRSP contribution, you can consider making an in-kind contribution of eligible securities from your non-registered account to your RRSP or to a spousal RRSP. If the securities are in a gain position, you will realize a capital gain when you make the contribution. If the securities are in a loss position, you may not want to contribute the securities in-kind, as your ability to claim that loss will be denied.

Alternatively, depending on your specific circumstances, you may want to consider borrowing funds to make an RRSP contribution. It's important to note that using borrowed money to finance a purchase of securities involves greater risk than a purchase using your existing resources. Your responsibility to repay the loan and pay interest as required by the terms of the loan remains the same even if the value of the securities you purchased declines. Further, the interest paid on money borrowed to make an RRSP contribution is not deductible for tax purposes.

2025 RRSP contribution room

It's generally a good idea to contribute to your RRSP as soon as possible to maximize the tax-deferred growth in your plan and to avoid the stress of trying to meet a last-minute deadline. Keep in mind that January 1 is the earliest day you can make a 2025 RRSP contribution using the new room that's created from your prior year's earned income without triggering an over-contribution penalty.

If you want to make an RRSP contribution early in the 2025 calendar year, you may need to estimate your 2025 RRSP deduction limit. This is because you may not have received your 2024 notice of assessment (NOA), which provides a statement of your 2025 RRSP deduction limit. To estimate your 2025 RRSP deduction limit, take 18% of your previous year's (2024) earned income up to the RRSP dollar limit of $32,490 for 2025, and subtract any 2024 pension adjustment.

If you're unsure of your earned income for 2024 or the results of your calculation, consider waiting until you receive your 2024 NOA from the Canada Revenue Agency (CRA) before making an RRSP contribution for 2025.

Tax-free savings account (TFSA)

Consider making a contribution to your TFSA early in the 2025 calendar year to maximize the potential for tax-free growth in your plan. The TFSA contribution limit (per year) is as follows:

- $5,000 for the years 2009 to 2012;
- $5,500 for 2013 and 2014;
- $10,000 for 2015;
- $5,500 for 2016, 2017 and 2018;
- $6,000 for 2019, 2020, 2021 and 2022;
- $6,500 for 2023;
- $7,000 for 2024 and 2025.

If you've been eligible to open a TFSA since 2009 and have not yet contributed to one, your contribution limit would be $102,000 as of January 1, 2025.

If you didn't use your contribution room in a previous year, the unused room is carried forward indefinitely. In addition, if you withdrew an amount from your TFSA (that's not a withdrawal of excess TFSA contributions) in 2024, you can re-contribute this amount to your TFSA as of January 1, 2025. Any prior-year withdrawal (that's not a withdrawal of excess TFSA contributions) is added back to your TFSA contribution room for the following year. Be extra careful when calculating your room when re-contributing to your TFSA, as the CRA can charge penalties for over-contributions.

If you don't have sufficient cash on hand to make a TFSA contribution, consider making an in-kind contribution of eligible securities from your non-registered account to your TFSA. As with RRSPs, if you contribute securities that are in a loss position, you won't be able to use the loss to offset your capital gains. If the securities are in a gain position, you will realize the gain for tax purposes in the year of contribution.

Family income-splitting loans

A potential way to split income with family members involves setting up a prescribed rate loan with your spouse, adult family members or minor children through a family trust. With the current high prescribed rate, setting up a new loan may be less attractive. If you've previously set up a prescribed rate loan, it's critical that the annual interest on the loan be paid on or before January 30, 2025. The borrower, whether they are your spouse, your other family members or a family trust, should issue a payment from their account to yours. A cashed cheque may provide evidence that the interest was paid and received by you.

If you've been eligible to open a TFSA since 2009 and have not yet contributed to one, your contribution limit would be $102,000 as of January 1, 2025.

If you miss the January 30 deadline, attribution may apply to the income earned on the borrowed funds for the 2024 taxation year and all future years that the loan is in place. This would defeat the purpose of setting up this type of income-splitting strategy, since the income and/or capital gains may be attributed to you and taxed in your hands.

Eligible retiring allowance

If you received a retiring allowance in 2024, you have until March 3, 2025, to transfer the eligible portion to your own RRSP without affecting your RRSP contribution room. This transfer will allow you to defer taxation on the eligible retiring allowance received until it's withdrawn from your RRSP in the future. Keep in mind that your eligible retiring allowance can't be transferred to a spousal RRSP.

Unlike regular unused RRSP deduction room that you can carry forward each year, if you don't transfer your eligible retiring allowance by March 3, 2025, you will lose the opportunity to do so forever. That said, if your eligible retiring allowance is paid to you over two years, for example in 2024 and 2025, you will still be able to transfer the portion received in 2025 to your RRSP any time in 2025 or early in 2026.

Locked-in plan conversion

If you have a locked-in plan such as a locked-in retirement account (LIRA) or a locked-in RRSP and are planning to convert it to a life income fund (LIF) or restricted life income fund (RLIF) in 2025, you may want to consider doing so in January 2025, rather than later in the year. This is because, unless you live in British Columbia, Manitoba, New Brunswick, Quebec or Alberta, the maximum payment available in the first year of the plan will be prorated based on the months (a part month counts as one month) remaining in the current year. Converting to a LIF or an RLIF in the first month of the year will allow you to withdraw the full maximum payment of funds for that first year.

Note that in the calendar year when the locked-in plan is converted to a LIF or an RLIF, there's no minimum payment that must be withdrawn.

Fixed income securities

When you're thinking about purchasing compound interest securities, such as a GIC, in a non-registered account, consider ones with a January maturity date to maximize the tax deferral on interest accruals. Even though you only receive the proceeds when you sell the security or the security matures, the Canadian tax rules require you to report the accrued interest annually based on the anniversary date of the security. The anniversary date is every calendar year on the day before the issue date.

For example, you purchase a two-year GIC on January 16, 2025, with a January 15, 2027, maturity date. The first anniversary date is January 15, 2026. You're required to report the accrued interest from January 16, 2025, to January 15, 2026, on your 2026 income tax return. Since the anniversary date is after year-end (December 31, 2025), you have no interest to report in 2025, the year of purchase.

Ensure that the tax advantages of timing your non-registered account fixed income purchases do not override the investment merits of the fixed income instrument.

Mutual fund purchases

When you purchase a mutual fund partway through the year, the purchase price includes any accumulated income and gains that have not yet been distributed. When the fund makes a distribution, the distribution includes these accumulated earnings and is fully taxable even though you purchased the accumulated earnings with your after-tax dollars. One way to avoid receiving this distribution is to purchase the fund after the distribution date. If you delayed purchasing mutual funds last year to avoid the year-end distributions, consider purchasing mutual funds early in the new year. Review your portfolio with your RBC advisor to determine if the mutual fund purchase makes sense for you.

Business owners

Paying a bonus

If your corporation declared a bonus in 2024, remember to pay that bonus before 180 days after the corporation's year-end. Canadian tax rules allow a corporation to deduct a bonus declared to an employee on the corporation's previous year's tax return, as long as the bonus is paid before 180 days after the corporation's year-end.

T4 filing deadlines for employers

If you have employees in your business or you employ a nanny or babysitter, you must file the appropriate T4 forms with the CRA by February 28, 2025. A copy of the T4 slip must also be delivered or mailed to your employee(s) by this date. If you, as an employer, fail to file the appropriate T4 forms to the CRA by this deadline, you may be subject to penalties.

Ensure that the tax advantages of timing your non-registered account fixed income purchases do not override the investment merits of the fixed income instrument.

Sale of private company shares

You may have disposed of "qualified small business corporation" shares in 2024 and realized capital gains that cannot be fully exempted by the lifetime capital gains exemption. If this is the case, you may be able to defer all or a portion of the taxable capital gains if you reinvest the proceeds in a new eligible small business corporation any time in the year of disposition or within 120 days after the end of that year. As these deferral rules are complex, it's crucial to consult with a qualified tax advisor if you intend to explore this option.

Deadline for corporate taxes

Generally, corporate taxes are due within two months after the corporation's year-end. If your corporation's year-end is December 31, 2024, you'll need to pay the remainder of the tax your corporation owes by February 28, 2025. The corporate taxes can be due within three months after the corporation's year-end (e.g. March 31, 2025, for those with a December 31, 2024, year-end) in certain circumstances.

Conclusion

This article covers some common tax planning strategies and reminders that you may want to consider early in the new year. Speak with your qualified tax advisor to determine if implementing any of the strategies is right for you.

This article may contain strategies, not all of which will apply to your particular financial circumstances. The information in this article is not intended to provide legal, tax or insurance advice. To ensure that your own circumstances have been properly considered and that action is taken based on the latest information available, you should obtain professional advice from a qualified tax, legal and/or insurance advisor before acting on any of the information in this article.

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