# A Year-End Tax To-Do List

For most Canadians, December means holiday celebrations and school vacations. In the tax world, however, December 31 marks the deadline by which most tax-planning and saving strategies must be put in place in order to have an impact on one's tax liability for the 2009 tax year. What follows is a list of tax "to-do's" that must be accomplished by the end of the calendar year – and a few more that can wait until early in 2010.

**Things to be dealt with by December 31, 2009**

*Medical expense credit calculation*

When preparing their tax returns, many taxpayers find the computation of medical expenses eligible for the medical expense tax credit somewhat confusing, and that confusion is understandable. First of all, medical expenses, in order to be claimed, must total more than 3% of the taxpayer's net income for the year, or a specified threshold amount ($2,011 for 2009), whichever is less. As a rule of thumb, therefore, for 2009, taxpayers who have an income from all sources of less than $67,033 can claim all qualifying medical expenses in excess of 3% of their net income for the year. For example, a taxpayer earning $45,000 could claim qualifying medical expenses over $1350 (3% of $45,000). Where the taxpayer's income is over $67,033, only those medical expenses over the $2,011 threshold may be claimed for credit.

Adding to the confusion, it is possible to claim on the 2009 return medical expenses that were paid in 2008. The actual rule is that a taxpayer can claim medical expenses (in excess of the threshold percentage, as outlined above) incurred in any 12-month period ending during the taxation year, assuming, of course, that such expenses were not claimed on a previous tax return. Here there is no easy rule of thumb, except perhaps to say that for tax purposes, the best result is obtained where significant medical expenses can be grouped together and paid within a 12-month period, rather than spreading them out, in order to maximize the claim. So, as December 31 approaches, it's a good idea to add up the medical expenses incurred during 2009, as well as those paid during 2008 and not claimed on the 2008 return. Once those totals are known, it will be easier to determine whether to make a claim for 2009 or to wait and claim 2009 expenses on the 2010 return. And if the decision is to make a claim for calendar year 2009, knowing what medical expenses were paid when will enable the taxpayer to determine the optimal 12-month period for the claim. Finally, it's a good idea to look into the timing of medical expenses that will have to be paid early in 2010. It may make sense to accelerate the payment of those expenses to December 2009 where that means that they can be included in 2009 totals and claimed on the 2009 return.

*Make charitable donations for 2009*

The federal and all provincial governments provide a two-level tax credit for donations made to registered charities during the year. To earn a credit for the tax year, donations must be made by the end of the calendar year. There is, however, another reason to ensure that donations are made by December 31: For federal purposes, the first $200 in donations is eligible for a non-refundable tax credit equal to 15% of the donation. The credit for donations made during the year that exceed the $200 threshold is, however, calculated as 29% of the excess.

As a result of the two-level credit structure, it makes sense to aggregate donations in a single calendar year where possible. A qualifying charitable donation of $400 made in December 2009 will receive a federal credit of $88 ($200 times 15% plus $200 times 29%). If the same amount is donated, but the donation is split equally between December 2009 and January 2010, the total credit claimed is only $60 ($200 times 15% plus $200 times 15%), and the 2010 donation can't be claimed until the 2010 return is filed in April 2011. And, of course, the larger the donation in any one calendar year, the greater the proportion of that donation that will receive credit at the 29%, rather than the 15% level.

It's also possible to carry forward, for up to five years, donations that were made in a particular tax year. So if donations made in 2009 don't reach the $200 level, it's usually worth holding off on claiming the donation and carrying forward to the next year in which total donations, including carryforwards, are over that threshold. Of course, this also means that donations made but not claimed in any of the 2004, 2005, 2006, 2007, or 2008 tax years can be carried forward and added to the total donations made in 2009 and, then, the aggregate amount claimed on the 2009 tax return.

Finally, when claiming charitable donations, it's possible to combine donations made by oneself and one's spouse and claim them on a single return. Generally, and especially in provinces and territories that impose a high income surtax – Ontario, Nova Scotia, Prince Edward Island, and the Yukon – it makes sense for the higher-income spouse to make the claim for the total of charitable contributions made by both spouses.

*TFSA withdrawals*

2009 is the first year in which taxpayers can make contributions to a Tax-Free Savings Account (TFSA), and every taxpayer is subject to a $5,000 annual limit for contributions. One of the benefits of TFSAs is that, where amounts are withdrawn from a plan, the withdrawn amount is added to the taxpayer's TFSA contribution limit for the following year. So, for example, a taxpayer who contributes $5,000 to a TFSA during 2009 but withdraws $2,000 of that contribution during the year will have a $7,000 TFSA contribution limit for 2010 (made up of the usual $5,000 limit for 2010 plus the $2,000 withdrawn the previous year). Consequently, taxpayers who currently have funds in a TFSA but are planning to make a withdrawal in early 2010 – perhaps to pay for a winter vacation – should think about making that withdrawal before the end of 2009, so as to preserve the option of replacing the funds in the plan during 2010. If the same taxpayer waits until January 2010 to make the withdrawal, he or she wouldn't be eligible to replace the funds until 2011.

*Spousal RRSP contributions*

Under Canadian tax rules, a taxpayer can make a contribution to a registered retirement savings plan in his or her spouse's name and claim the deduction for the contribution on his or her own return. When the funds are withdrawn by the spouse, the amounts are taxed as the spouse's income, at a presumably lower tax rate. However, the benefit of having withdrawals from a spousal RRSP taxed in the hands of the spouse is available only where the withdrawal takes place no sooner than the end of the second calendar year following the year the contribution is made. Therefore, where a contribution to a spousal RRSP is made in December 2009, the spouse can withdraw that amount as of January 1, 2012 and have it taxed in his or her hands. If the contribution isn't made until January or February of 2010, the contributor can still claim a deduction for it on the 2009 tax return, but the amount won't be eligible to be taxed in the spouse's hands on withdrawal until January 2013. It's an especially important consideration for couples approaching retirement, who may plan on withdrawing funds in the relatively near future.

*Take a look at tax instalment amounts*

Millions of Canadian taxpayers (particularly self-employed and retired Canadians) pay income taxes by quarterly instalments, with the amount of those instalments representing an estimate of the taxpayer's total tax liability for the year.

The final quarterly instalment will be due on December 15, 2009. By that date, almost everyone will have a reasonably good idea of what his or her income will be for 2009 and, therefore, will be in a position to estimate what the tax bill will be for the year. While the tax return forms to be used for the 2009 tax year haven't yet been released by the Canada Revenue Agency, it's possible to arrive at an estimate by using the 2008 form. Increases in tax credit amounts and tax brackets from 2008 to 2009 mean that using the 2008 form will result, if anything, in a slight overestimate of tax liability for 2009.

Once one's tax bill for 2009 has been estimated, it's possible to compare that figure with the total of tax instalments already made in 2009 and determine whether the tax instalment to be paid on December 15 can be adjusted downward

**Things that can wait (for a bit)**

*Home renovation tax credit*

In the 2009 Budget, the federal government introduced what proved to be an enormously popular program – the federal home renovation tax credit. Essentially, taxpayers who incur costs of between $1,000 and $10,000 for eligible renovations and improvements to their homes can claim a 15% federal credit on their 2009 tax return, to a maximum credit of $1,350. The program is, however, a temporary one, and only eligible expenses incurred between the budget date of January 27, 2009 and February 1, 2010 may be claimed for the credit. Unusually, the rules provide that even where the eligible expense is incurred after the end of the calendar year, it can still be claimed on the 2009 tax return.

The existence of a cut-off date inevitably raises questions as to how otherwise eligible projects that straddle that date will be treated. The Canada Revenue Agency has indicated on its Web site, at http://www.cra-arc.gc.ca/tx/ndvdls/sgmnts/hmwnr/hrtc/menu-eng.html, that the following rules will apply: Eligible expenses for goods acquired between January 27, 2009 and February 1, 2010, even if they are installed after January 2010, will still qualify. If an eligible expense involves work performed by a contractor or a third party, and the work is not completed by the end of the eligible period, only the portion that is completed before February 1, 2010 will qualify, even if a payment is made. Expenses incurred pursuant to an agreement that was entered into before January 28, 2009 will not be eligible for the credit.

*RRSP contribution deadline*

Most taxpayers are aware that the deadline for making an RRSP contribution to be claimed on the 2009 tax return falls at the end of February 2010. More precisely, the deadline is 60 days after the end of the calendar year, which, in 2010, will be March 1.

Where the March 1 deadline happens to fall on a Sunday, the federal government has typically made an administrative concession by allowing contributions to be made on the next business day of March 2. However, in 2010, March 1 is a Monday, so taxpayers should not anticipate receiving any kind of extension with respect to the deadline. To be eligible for deduction on the 2009 return, RRSP contributions will have to be made by midnight on Monday March 1, 2010.

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