5 Sneaky But Legal Ways to Save on Taxes in Canada

Description

People have a collective dislike of taxes. It affects both rich and poor, and the Canada Revenue Agency (CRA) will collect them from taxpayers every year. However, taxes won't be too much of a burden if you take advantage of available credits and deductions.

The CRA permits such deductions so Canadians can derive savings when tax season comes. If you're smart to know them all, you can sneak past these taxes the legal way.

Medical bills

Check the medical coverage of your insurance. Some of the medical expenses there are not tax-deductible. However, the CRA has a list of tax-deductible medical expenses. You can deduct costs even from hefty bills to lighten your tax burden. Be ready to present medical prescriptions for some of them.

Child care expense

The Canada Child Benefit (CCB) is tax-free already, but you can still deduct child care expenses from your tax bill. You can reimburse costs like daycare, nursery, caretaker, nanny, and boarding school. Ask your service providers for the receipts and get their SIN numbers.

Split pension income

Canadian seniors can reduce taxable income by splitting the pension with their spouse or common-law partner. The CRA allows a pensioner to split the Canada Pension Plan (CPP) pension up to 50% with a spouse. Many use this strategy at age 60, and one spouse has a higher income than the other.

Tax credit transfer

Some federal tax credits are transferable between spouses. You can transfer excess tax credits to a spouse or common-law partner. The scheme is helpful when high-income spouses want to offset their tax obligations. You gain tax leniency on expenses such as education costs, tuition fees, caregiver, and pension amounts, among others.

Keep contributing to your RRSP

If you're saving for the future or retirement, let your money grow tax-free by contributing to and maximizing your Registered Retirement Savings Plan (RRSP). You can lower your tax bill significantly because RRSP contributions are tax-deductible.

Investing in a blue-chip stock like **Manulife** (TSX:MFC)(NYSE:MFC) within your RRSP will enable your savings to compound and grow faster. This renowned life insurer is yielding 5.84%. The dividend earning is $584. If you reinvest the income, the amount becomes $618.10 in the following year.

Your savings will compound over time, such that after 15 years, the value of your investment in the RRSP is $23,528.87. The dividends should be safe given Manulife's rock-solid balance sheet despite the recent pandemic-induced market turbulence.

AM Best, the credit rating agency for the insurance industry, rates Manulife and its subsidiaries as stable. The rating stems from strong operating performance, favourable business profile and very strong enterprise risk management.

When you retire, you can transfer your RRSP savings tax-free into a Registered Retirement Income Fund (RRIF). If you're in a lower tax bracket by then, the tax from the regular payment you receive each year would be less.

Tolerable load

Remove the notion that only tax experts can save on taxes. You only need to find time to familiarize yourself with the tax benefits, credits, and deductions. Once you do, the annual financial obligation isn't a heavy load, after all.

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