Canada Revenue Agency: 3 Little-Known Tax Write-Offs Could Save You Thousands

Description

Canadian taxpayers could save thousands in 2020 and beyond through tax write-offs. The Canada Revenue (CRA) has several methods a taxpayer can take advantage to lessen your tax burden. Some of the most common are childcare costs and medical expenses. However, you might be missing out on three little-known write-offs.

1. Transfer of tax credit between spouses

The CRA allows the transfer of some federal tax credits between spouses. Your spouse or common-law partner could have certain tax credits, but their tax obligation isn't sufficient to cancel the tax due to zero when you apply the credits. They can transfer the excess to you.

Among the transferable expenses include tuition, education, textbook costs, and other amounts, such as pensions, disability, age, and caregiver. The benefit here is that a high-income spouse can offset the tax obligation, which should result in a lighter tax burden on the couple.

2. Contribute to an RESP

Canadians can save for their children's post-secondary education through the Registered Education Savings Plan (RESP). Aside from being an investment vehicle, it's also a useful financial tool for taxation purposes. Make contributions to an RESP account to save for your child's education tax-free.

Your tax obligation will not lessen instantly, although your post-tax money in the RESP will grow tax-free. The maximum RESP contribution is $50,000, which should be equivalent to $2,500 per year for 20 years. The CRA will tax the money upon withdrawal, but the taxes should be lower, if not close to zero, since your child is likely to belong in a lower tax bracket.

3. Make donations

Some generous Canadians reduce or offset their tax bills by making donations. The CRA treat donations as non-refundable tax credits, provincial and federal. You can claim tax credits on donations in the current year and the previous five years. You must show proof the gifts went to eligible entities.

Others use the deduction for years where taxes due are higher. Your tax charitable credit is higher if the donation is in the form of securities. You won't pay any taxes on the accumulated capital gains.

Defensive TFSA

Consider using your Tax-Free Savings Account (TFSA) to the hilt for tax-free money growth and income. Since the country is in recession, it's a smart move to set aside at least an amount equivalent to the TFSA's annual contribution limit. If you haven't done so, the limit in 2020 is $6,000.

Among the safest assets to own in the face of uncertainties is **Northland Power** (TSX:NPI). This utility stock is displaying resiliency and outperforming the broader market with its +69.22 year-to-date gain. At the current share price of $44.58, the dividend yield is 2.69%. Likewise, the payout ratio is a low of 63.49%.

The $9 billion company is due to report its Q3 2020 financial results on November 10, 2020. In Q2 2020 (quarter ended June 30, 2020), sales increased by 25% to $429 million compared with the same period in 2019. Net income, however, fell slightly by 3% to $74 million. You're always in a defensive position with Northland Power.

Fewer tax payables

The lesser-known tax write-offs in focus are just three of the hundred ways Canadian taxpayers can save on taxes or reduce tax liabilities. You might be missing the opportunity to claim them.

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