2 Investing Moves to Make Before New Year's

Description

A new year is fast approaching, and we know what that means: it's time to start planning out your finances for the year to come!

According to Statista, "saving more money" is the third most popular New Year's resolution (after exercise and weight loss). If "saving money" can be expanded to include related activities like investing and tax planning, then it seems financial planning is a popular New Year's goal.

As it should be. The start of a new year comes with many important financial deadlines, which makes it a perfect time to do some much-needed financial planning. In this article, I will explore two financial moves you should make before the start of a new year, if you want to hit all of your financial goals — particularly if you're an investor.

Tax-loss harvesting

One of the first things you'll want to do before the new year is sell losing stocks. Taxes are assessed on the calendar year, so if you want to lower your taxes by reporting capital losses, you'll have to sell your losers before January 1.

This is a well-known practice called "tax-loss harvesting." Basically, by selling losing stocks, you can lower your tax rate for the year in which they were sold.

Let's imagine that you held $10,000 worth of **Canopy Growth** (TSX:WEED)(NYSE:CGC) stock at the beginning of this year. Canopy Growth stock has fallen about 67.45% this year. So, if you still held the stock today, you'd be down to $3,255. If you cashed out of that losing position, you'd have a $6,745 capital loss that you could use to lower your taxes.

This is particularly valuable if you also have some winners in your portfolio like, say, **Shopify** (TSX:SHOP)(NYSE:SHOP). If you held $10,000 worth of SHOP at the beginning of the year and sold today, you'd have a $2,961 capital gain you'd normally have to pay taxes on. But if you held both WEED and SHOP at the start of the year, the WEED losses would erase all your SHOP gains, so your total investment taxes would be reduced to zero!

RRSP and TFSA planning

As we saw in the previous section, the tax planning involving stocks can get quite complex. You have gains on some stocks, losses on others, and they offset each other. If you're holding stocks like WEED and SHOP that are moving in opposite directions, you may need an accountant to sort it out for you. This is why you might want to just hold your stocks in RRSPs and TFSAs. These accounts spare you from having to pay capital gains as long as the stocks remain in the account. In the case of TFSAs, the stocks are tax-free when you cash them out as well.

With the new year comes a number of different milestones pertaining to RRSPs and TFSAs:

- New TFSA space
- The March 1st RRSP contribution deadline
- And more

All of this has some bearing on both your investments and your taxes, so make sure you plan how much you will invest in your RRSP and TFSA *before* the start of the new year. The last thing you want to do is miss the RRSP deadline and then end up paying more tax than you had hoped to.

Foolish takeaway

A new year is a new opportunity — particularly if you're an investor. As I showed in this article, there are many tax deadlines near the new year that make this time of year perfect for financial planning. So, make some time between all the Christmas festivities for managing your finances. It's well worth it, as it can save you money come tax time.

CATEGORY

1. Investing

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3. TSX:SHOP (Shopify Inc.)
4. TSX:WEED (Canopy Growth)

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