FINANCIAL WISDOM

December 2017

A Little Knowledge Can Make Life Less Taxing

It doesn't take long after receiving your first paycheck to realize that all of your money is not your own. The Canadian government is an active partner in your earnings, and the more money you make, the larger its take.

A better understanding of taxes and how they apply to you can result in hundreds of dollars of savings back into your pocket each year.

Tax planning is not just for the rich. The Canadian Tax code is full of ways that the average taxpayer can use to make life less taxing. Here are just a few important steps anyone can take to get in control of their taxes:

Not all Income is Taxed the Same

The first dollar you earn each year is taxed at the lowest rate[1] which is 21% and the last dollar is taxed at a higher rate (up to 53%) depending on your total net earnings. It may be important to know your tax bracket so that you know how much you will pay in taxes. If an earnings increase will bump you into a higher tax bracket consider making a larger contribution to your RRSP, or making a larger contribution to charity.

Know What Income Gets Taxed

Generally, you are not taxed on your earned income. Rather, you are taxed on your Net Income which is your earned income less certain adjustments and deductions. Just because your earnings may increase, doesn't mean your taxes will necessarily increase. Adjustments include contributions to your retirement plan, so, if your earnings increase you can increase your contributions thereby keeping your Net Income lower.

Pay Yourself First

One of the biggest tax breaks available to you can also help ensure your retirement security. Contributions made to your RRSP are deducted from your income resulting in a lower tax bill. In effect, the Canadian government is helping you fund your retirement plan, so every effort should be made to make the highest possible contribution each year. The contribution limit for RRSPs is 18% of your earned income up to the maximum limit which is $26,010 for the tax year 2017.

More Tax Breaks

Charitable donation: If it's time to clean house, you can also qualify for a tax credit of up to 40% for money or items donated to a certified (by CRA) charitable organization. Getting rid of $1000 worth of old furniture could put as much as $290 in your pocket. Donation receipts from as far back as five years ago are good for current deductions.

Start a Business: This may be the year to start your own business, or begin an enterprise from your home. Many start-up costs are deductible as well as the expenses for operating and growing your business.

Review Your Tax Plan Each Year: Child care expenses, union and professional dues, investment expenses, are among the many that can be tax deductible. The key with all tax deductible expenses is to keep very good records with copies of receipts and an expense log to support your deductions.

[1] *Income Tax Rates used are the combined Federal and Ontario tax rates.*

Questions about your tax strategy? We can help.

Randy Padlesky

Padlesky Financial Services - Portfolio Strategies Corporation

Ph: 780.826.7669 - www.rpfinancial.ca - info@rpfinancial.ca