

Investor strategies

RRSP strategies

Retiree strategies

Employee strategies

Family strategies

Business strategies

Tax reporting

Year-end tax strategies

Key strategies to reduce tax liabilities and optimize returns



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Investor strategies

RRSP strategies

Retiree strategies

Employee strategies

Family strategies

Business strategies

Tax reporting

Strategy 1

Investor strategies

There are actions your clients can take before the end of the year that can mitigate the tax implications they face.

Make trades before the investment deadline

If your clients are planning on selling an investment at a loss to offset it against capital gains they have realized this year or in the last three years, they need to do it in 2025.

Investors will typically need two business days for the transaction to settle, so they need to be sure they trade their stocks/ETFs/mutual funds by December 30, 2025.

Trigger accrued losses before the year-end

If your clients have securities or funds held in non-registered accounts that have lost value, you should speak to them about whether it is a good idea to sell them to trigger a capital loss.

Clients can use capital losses to offset capital gains in the current year; they can also carry them back three years and carry them forward indefinitely.

They might consider triggering capital losses before year-end if they have capital gains to offset this year. It is preferable to carry back losses to the earliest year possible since the oldest years will expire first.

Investors should be aware of the superficial loss rules, which deny a capital loss if they have bought the same or similar investment 30 days before or after the sale of the investment. These rules also apply if the investment was purchased by an affiliated person (for example, their spouse or common law partner). Any denied capital loss may be available in the future.

DEADLINE

December 30 is the investment trade deadline for 2025

Investors can trigger capital losses to offset capital gains.



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Investor strategies

RRSP strategies

Retiree strategies

Employee strategies

Family strategies

Business strategies

Tax reporting

Strategy 1: Investor strategies

Treat capital gains appropriately

Capital gains are taxed more favourably than fully taxable income. Here are six ways to further minimize capital gains tax:

1. Use unused capital losses to offset capital gains.
2. Clients may consider an in-trust for (ITF) account for a family member with little or no income. Claiming the basic personal amount of up to \$16,129 for 2025 (amounts vary by province) this strategy allows investors to trigger up to \$32,258 in capital gains without any tax.
3. If clients delay selling assets until early 2026, they will delay paying tax on it until 2027.
4. If selling an asset results in a significant capital gain, the sale could be structured so the client receives proceeds over several tax years. The capital gains reserve allows for one-fifth of the capital gain to be taxable when proceeds are received over a maximum five-year period. A tax professional can help with this.
5. Clients can claim the \$1.25 million lifetime capital gains exemption (LCGE) when they sell qualifying small business corporation (QSBC) shares or a qualified farm or fishing property. This is a highly complex tax strategy, so it is prudent to involve a tax professional.
6. If clients have a non-registered mutual fund portfolio that has been affected by a fund merger, they may be exposed to capital gains tax. Our Mutual Fund Mergers white paper contains tax strategies for fund mergers.

Capital gains are realized when selling an asset for more than its original cost.

Transfer investments to a minor child

Transferring investments that have lost value to a minor child will trigger a capital loss that can then be used to offset any realized capital gains. Any future investment growth is taxable to the minor child, since attribution rules don't apply to capital gains.

Donate investments to charity

By donating publicly traded securities, mutual funds or segregated funds that have grown in value, clients receive a tax receipt for their fair market value and will also be exempt of tax on any resulting capital gains.

For donations of securities to the Mackenzie Charitable Giving Program, we recommend that trades take place by November 30 to allow for enough time to transfer them before year-end.

By donating investments directly to a charity, investors receive tax credits and a tax exemption on capital gains.

Contribute to a tax-free savings account (TFSA)

A TFSA allows for tax-free growth of investments and the freedom to withdraw at any time, with no tax or penalty.

The contribution limit for 2025 is \$7,000, but if a client has never invested in a TFSA, their limit could be as much as \$102,000.

TFSA withdrawals made this year will be added to the account holder's TFSA contribution room in 2026.

If your client withdraws money from their TFSA, they can re-contribute, but only in the following year. If they expect to withdraw money in 2026, withdrawing it in 2025 will mean they won't have to wait until 2027 to re-contribute.



Be
Invested.



Investor strategies

RRSP strategies

Retiree strategies

Employee strategies

Family strategies

Business strategies

Tax reporting

Strategy 1: Investor strategies

Contribute to a Registered Disability Savings Plan (RDSP)

If your client or a family member under 60 qualifies for the disability tax credit (DTC) they may be able to set up a Registered Disability Savings Plan (RDSP).

An RDSP has several advantages:

1. The beneficiary may qualify for matching government contributions in the form of a Canada Disability Savings Grant (CDSG), worth as much as \$3,500 on the first \$1,500 of contributions.
2. In addition, the government provides an annual Canada Disability Savings Bond (CDSB) of up to \$1,000, based solely on family net income, not contributions.
3. There are no annual maximum contribution limits, only a lifetime limit of \$200,000.
4. Contributions can be made at any time up to the end of the year in which the RDSP beneficiary reaches the age of 59.

Take advantage of RDSP carry forward rules

RDSP carry forward rules allows clients to carry forward unused CDSG and CDSB entitlements for a period of 10 years.

These can be up to an annual maximum of \$10,500 for CDSGs and \$11,000 for CDSBs.

If an RDSP holder has unused CDSG and/or CDSB entitlements from previous years, a contribution of \$3,500 to the plan before year-end may entitle them to up to \$10,500 of CDSGs and possibly \$11,000 of CDSBs (if it is a newly established RDSP).

This is particularly important if the beneficiary turns 49 by the end of this year, as this will be the last opportunity to access any unclaimed grant or bond entitlements from previous years.

A \$1,500 contribution to an RDSP may qualify for a government grant of up to \$3,500. The last year to obtain CDSGs or CDSBs is age 49.

Open a First Home Savings Account (FHSA)

The FHSA is a tax-sheltered savings/investment account that allows individuals to contribute up to \$40,000 toward the purchase of a qualifying home. Contributions are tax-deductible and the maximum annual contribution limit is \$8,000 per individual. Unused contribution room can be carried forward up to a maximum of \$8,000, but only if the FHSA is open.

If a client is eligible, they may consider opening a FHSA in 2025 to ensure the unused contribution room can be used in 2026 or a future year. If they are not able to purchase a qualifying home, the balance in their FHSA can be transferred to their RRSP or RRIF on a tax-deferred basis without requiring any RRSP contribution room.



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Be
Invested.



Investor strategies

RRSP strategies

Retiree strategies

Employee strategies

Family strategies

Business strategies

Tax reporting

Strategy 2

RRSP strategies

An RRSP offers several tax mitigation strategies beyond its tax-deferred contributions and growth. The RRSP contribution deadline is March 2, 2026.

Make the most of unused RRSP contribution room

If a client has ever contributed less than the maximum amount to their RRSP, they should have unused contribution room. Topping up their RRSP to the maximum level possible will maximize its benefits.

If they are short on money, consider borrowing or withdrawing from their TFSA to make an RRSP contribution.

Interest would not be deductible if they borrow capital to contribute, however TFSA contribution room will be restored next year.

Contribute to a spousal RRSP

If an investor makes a spousal RRSP contribution before year-end, they could minimize the impact of the attribution rules on future withdrawals.

For example, if they make a spousal RRSP contribution this year, their spouse can safely withdraw funds from the plan and pay tax on the income as early as January 1, 2028. However, if they contribute in January 2026, their spouse will have to wait until January 2029 before safely withdrawing funds without the attribution rules applying.

Withdrawals from a spousal RRSP may be taxed to the contributing spouse if contributions are made in the year of withdrawal or preceding two years.

DEADLINE

The RRSP contribution deadline is March 2, 2026

RRSP contributions must be made no later than 60 days after the calendar year-end qualify as a deduction against 2025 earnings.

The maximum RRSP contribution limit for 2025 is \$32,490.

An individual's 2024 notice of assessment/reassessment will show their available RRSP contribution limit.

Any excess contributions above \$2,000 are subject to a 1% per month penalty tax.



Be
Invested.



Investor strategies

RRSP strategies

Retiree strategies

Employee strategies

Family strategies

Business strategies

Tax reporting

Strategy 2: RRSP strategies

Base withdrawals on the younger spouse's age

If a client turns 71 this year, they must convert their RRSP to a RRIF or annuity and begin drawing income.

Their minimum annual RRIF income could be lowered using the younger spouse's age, allowing them to keep more of their capital in the account longer and benefit from greater tax deferral.

The Home Buyers' Plan allows investors to withdraw up to \$60,000 tax free to buy or build a home.

Delay Home Buyers' Plan withdrawals until the new year

The Home Buyers' Plan (HBP) allows investors to use RRSP savings to pay for the down payment on a new home. Repayments begin two years following the year of withdrawal.

Budget 2024 extended the repayment grace period by three years for Canadians who withdrew, or withdraw under the plan between January 1, 2022, and December 31, 2025.

Delaying a withdrawal until after year-end allows the client more time before they must begin repaying funds into their RRSP.

Make required HBP repayment

Canadians must make HBP repayments in 2024 if they participated in the program prior to 2022.

To avoid any unnecessary income inclusion, they can make required repayment and designate it on Schedule 7 of their personal tax return.

Their most recent Notice of Assessment includes details of the required repayment amount.

DEADLINE

Final contribution to a spousal RRSP by March 2, 2026

If your spouse or common law partner passed away with unused RRSP contribution room this year, you should consider making a final contribution to a spousal RRSP by March 2, 2026.

This will provide tax savings, as the RRSP contribution can be deducted against income on the deceased's final tax return.

If a client is a first-time homebuyer, they can claim the 15% federal non-refundable tax credit available for up to \$10,000 of the purchase cost. The maximum credit is \$1,500.

Consider missing HBP repayment

In some cases, it can be advantageous to intentionally miss their HBP repayment.

This strategy may be helpful for a client who had unusually low income in the year, or if funds were borrowed from a spousal RRSP and the spouse is in a lower tax bracket.

HBP withdrawals are not subject to the spousal RRSP attribution rules and therefore the income inclusion will fall in the hands of the annuitant spouse.

This is another great way to income split.

Canadians have 15 years to repay the funds they withdrew from their RRSP under the HBP. Tax may be payable if an HBP repayment is missed.



Be
Invested.



Investor strategies

RRSP strategies

Retiree strategies

Employee strategies

Family strategies

Business strategies

Tax reporting

Strategy 3

Retiree strategies

Retired clients may not be aware of all the tax mitigation strategies that are available to them, including the timing of government benefits.

Make an advanced RRSP contribution

If a client turns 71 this year, they could make an RRSP over-contribution in December.

If they earned income in 2025, there will be RRSP contribution room for 2026. However, they will not be allowed to contribute to their RRSP next year, because they must convert it to a RRIF before the end of the year they turn 71. This strategy means they will be subject to a 1% penalty tax for overcontribution, but just for one month.

They will then be entitled to an RRSP deduction in 2026 (or a future tax year) that will generally provide tax savings that far outweigh the penalty tax cost.

They should be sure to file a T1-OVP form to calculate the penalty tax cost.

Canadians must convert their RRSP to a RRIF before the end of the year they turn age 71.

Apply for government benefits (OAS & CPP/QPP)

Canadians can apply for CPP/QPP as early as age 60.

When a client applies for CPP before the age of 65, their pension will be adjusted to reflect the longer period of receiving benefits.

New rules apply to people collecting CPP benefits early, including changes to how their pension is adjusted and also the continuation of paying premiums if they continue to work prior to age 65.

If a client turned 65 this year, they should also apply for Old Age Security (OAS) benefits as soon as possible,

because retroactive payments are only available for up to 12 months.

They can choose to delay their OAS and CPP/QPP for up to five years and receive increased benefits.

CPP/QPP retirement benefits can begin as early as age 60 and deferred as late as age 70.

Create eligible pension income

Clients can split up to 50% of eligible pension income with their spouse for tax purposes.

If they are 65 or older this year and have no other eligible pension income, they could draw from their RRIF to take advantage of income splitting rules.

If their spouse /common-law partner is also older than 65, they both qualify for the pension income tax credit.

In addition to the tax savings from income splitting, they will also receive tax savings from the pension income tax credit — a double benefit.

RRIF income is eligible for pension splitting at age 65.

Opt out of CPP premium payments

If a client turns 65 this year and is still working while collecting CPP, they might consider applying for an election to cease CPP premium payments.

The election is CRA Form CPT30 and must be filed with their employer and the CRA.

Contributions to CPP after age 65 are optional, if the recipient is still working.



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Investor strategies

RRSP strategies

Retiree strategies

Employee strategies

Family strategies

Business strategies

Tax reporting

Strategy 4

Employee strategies

As an employee, taxation may seem to be a foregone conclusion, but there are some planning strategies that can reduce the burden.

Pay interest on loans

If a client has received an employee loan, it may be a taxable benefit if they pay anything less than the prescribed interest rate set by the CRA.

To avoid having to pay the taxable benefit, they must ensure any interest owing on the loan is paid by January 30, 2026.

Reduce the standby charge and operating benefit

Having a company vehicle can lead to a standby charge and operating benefit. To reduce the possible standby charge, the taxpayer should reduce the number of days between today and the year-end that the car is available to them.

Also, the operating benefit could be reduced to half of the standby charge if the vehicle was used 50% or more of the time for business purposes.

Finally, the employee should consider reimbursing their employer for any operating costs by February 16, 2026.

A company vehicle is a great perk, but it comes with tax implications.

Reduce tax deductions at source

Discuss reducing source deductions from your pay with your employer.

You can do this if you expect a refund when you file your tax return due to RRSP contributions, interest deductions on investment loans, charitable donations, alimony or maintenance payments.

Alternatively, consider filing form T1213 with the CRA so that you can reduce your tax bill now, rather than waiting until April 2025 to get your refund.

Employees can ask their employer to reduce source deductions in certain situations.



Be
Invested.



Investor strategies

RRSP strategies

Retiree strategies

Employee strategies

Family strategies

Business strategies

Tax reporting

Strategy 5

Family strategies

There are many tax planning strategies available for families, ranging from income splitting to timing of deductions, as well as who will claim which credits.

Identify income-splitting opportunities

Families can creatively split income to reduce their tax bill.

Here are some popular ways to use income-splitting for 2025 and beyond:

- Set up a prescribed rate loan with their spouse/common-law partner (see more on this below).
- Create second-generation income.
- Swap assets with family members.
- Transfer assets to adult or minor children.
- Contribute to a spousal RRSP.
- Apply for CPP retirement pension sharing.
- Consider RESPs for children's education.
- Consider splitting up to 50% of other eligible pension income.

Please see Mackenzie's Income Splitting Brochure for more information on these and other valuable income-splitting strategies.

Income splitting may be beneficial when your client can shift income to a lower taxed family member.

Contribute to an RESP

RESPs offer important benefits that clients should take advantage of before year-end.

Contributions entitle the plan to a Canada Education Savings Grant (CESG) of up to \$500 per year — or \$1,000 if there is unused grant room — to a maximum of \$7,200 per beneficiary.

Clients may consider contributing at least \$2,500 by year-end to receive the maximum CESG for this year, or possibly more if they have unused grant room from previous years. If they haven't started an RESP for their children, it may not be too late to maximize the CESG.

If their child is 10 years old or younger, they still have the opportunity to maximize the CESG.

If their child is 15 and they have not started an RESP for them, they may consider contributing at least \$2,000 by year-end, otherwise, they won't receive any CESG at age 16 or 17.

RESP incentive programs are also provided by different provinces: the Québec Education Savings Incentive (QESI) and the British Columbia Training and Education Savings Grant (BCTESG).

An RESP is a great savings plan for a child's education.



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**Be
Invested.**



Investor strategies

RRSP strategies

Retiree strategies

Employee strategies

Family strategies

Business strategies

Tax reporting

Strategy 5: Family strategies

Consider prescribed rate spousal loans

Prescribed rate loans can provide tax savings if a client is in a higher marginal tax bracket than their spouse/ common-law partner. The lower income spouse can use the loan to purchase investments and pay the tax on any investment income earned.

The interest paid on the loan must be included in the higher taxed spouse's income and is deductible to the lower income spouse, allowing a deduction against investment income earned.

Ensure that the interest is paid by January 30 of the next calendar year to avoid income attribution.

This strategy generally makes sense if the rate of return exceeds the CRA's prescribed interest rate.

The CRA prescribed rate for Q4 2025 is 3%.

Does your client have non-deductible debt?

Interest incurred to earn income from a business or property is generally deductible against that income.

Interest on personal debt is not deductible, so consider paying off personal debts first before debts incurred for investment purchases.

Does your client have deductions that will be worth more if made next year?

Some deductions can be worth more next year, provided your client falls into a higher tax bracket. This can be useful for RRSP planning.

Installment payments

Based on your client's 2024 taxes payable, they may have been required to make 2025 installment payments. However, if they expect a much lower tax bill, they don't need to follow the schedule. Therefore, their December 15 installment payment may not be required.

Take advantage of various tax credits

Various tax credits exist that could save your client thousands of dollars.

The tax credit for teachers and early childhood educators provides a 15% federal refundable tax credit of up to \$1,000 on the cost of supplies.

The federal tuition non-refundable tax credit can reduce a student's tax bill first, and up to \$5,000 can be transferred to certain individuals. If your client is in a trade or taking a language course, they may also qualify.

The Home Accessibility Tax Credit (HATC) is a federal non-refundable tax credit (with a maximum of \$3,000) that can be claimed by an eligible individual for expenses (maximum \$20,000) intended to improve accessibility to a home for people who are 65+ or eligible for the disability amount.

Home accessibility expenses can also be eligible for the medical expense tax credit, allowing your client to double dip on eligible expenses. Starting in the 2026 taxation year, clients will no longer be able to double dip on eligible expenses.

In addition, the Canada Caregiver Credit is a 15% non-refundable tax credit and is also available if your client supports a family member with a mental or physical disability.

They will need to provide original copies of receipts to claim any of these tax credits.

Tax credits provide a dollar for dollar reduction in income taxes.



**Be
Invested.**



Investor strategies

RRSP strategies

Retiree strategies

Employee strategies

Family strategies

Business strategies

Tax reporting

Strategy 5: Family strategies

Pay child care expenses to adult children

Clients can pay tax deductible child care expenses to their adult children (18+) for any qualifying child care services they provided for their sibling aged 16 and under.

The services must be incurred to allow the parent to earn employment or business income. Qualifying child care expenses are tax deductible in the year they are paid. The income is taxable for the adult child, who is likely taxed at a very low/zero tax rate.

The maximum that can be claimed is \$8,000 per child under seven years of age, \$5,000 for children between seven and 16, and \$11,000 for children eligible for the disability tax credit. Usually child care expenses must be claimed by the lower-income spouse.

Paying adult children for child care is another way to income split.

Has your client changed residences to start a new job?

Some of the costs may be tax deductible. If the move takes them at least 40 km closer to the new work location, they could be eligible to deduct real estate fees on the sale of the old residence. The land transfer taxes for the new residence, and other expenses may also be eligible. The matter can get complicated, so it is best to consult a tax professional.

Accelerate medical expenses

Medical expenses can be claimed for any 12-month period up to the end of the year. However, they only provide tax savings when they exceed the lesser of 3% of your net income or \$2,833.

Therefore, your clients may accelerate medical expenses for themselves, their spouse and children before year-end to maximize tax savings.

Spouses/partners can combine their medical expenses, and it is usually best to have the lower income spouse claim all medical expenses.

Review trust income

Trusts can be established for a variety of purposes. Clients may consider working with a tax professional to determine how much income was earned in the trust and how much income, if any, should flow out to beneficiaries.

Special care should be taken where Henson Trusts are established to ensure distributions from the trust do not affect any government disability benefits for the beneficiary with a disability.

Most, but not all trusts are taxable at the highest marginal tax rates.



Be
Invested.



Investor strategies

RRSP strategies

Retiree strategies

Employee strategies

Family strategies

Business strategies

Tax reporting

Strategy 6

Business strategies

Business owners have several tax-mitigation strategies available to them. Many require specialized understanding of the tax code, and consulting with a specialist may be crucial.

Rules targeting active businesses that invest passively

When a private corporation earns too much passive income (that is, from investments), the owner may not be able to access lower tax rates on active business income up to the \$500,000 annual small business limit (SBL).

When passive income, (specifically the adjusted aggregate investment income [AAIL] of a corporation) exceeds \$50,000 in a tax year, each dollar of AAIL over the threshold will reduce the SBL by \$5. Therefore, the SBL may be fully eliminated when AAIL reaches \$150,000.

The AAIL earned in the 2024 tax year will be used to calculate the SBL for the 2025 tax year.

A reduction in the SBL means that your client's corporation may lose some or all of the ability to pay tax at the lower tax rate.

Instead, it may be subject to tax at the higher general corporate tax rate on the active income that exceeds the available SBL.

Tax-efficient investment strategies will be critical in helping to reduce the annual AAIL for purposes of lowering the overall corporate tax liability, as well as protecting the SBL.

Earning too much passive income can bring higher taxes.

Business owners donating in-kind securities

If an appreciated security is donated in-kind to a charity, the capital gain is not taxable.

Therefore, 100% of the capital gain (as opposed to 50%) will be added to the corporation's capital dividend account (CDA), which can be paid tax-free to shareholders.

The corporation will also receive a charitable donation receipt equal to the value of the security donated, which can be used to reduce income for taxation purposes from all sources.

Donors can save on taxes with in-kind donations.

Consider the Mackenzie Charitable Giving Program if your client is seeking to create a legacy.

Defer income

Clients may consider delaying income they expect to receive this year until 2026. For example, bonuses are deductible by the corporation provided they are paid within 180 days after the business year-end.

This means a bonus payable in 2025 could be paid in 2026, which would result in a tax deferral.



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Investor strategies

RRSP strategies

Retiree strategies

Employee strategies

Family strategies

Business strategies

Tax reporting

Strategy 6: Business strategies

Pay salaries and/or dividends to family members

Income splitting among family members is a strategy available to many incorporated business owners and professionals.

Clients may consider paying family members (that is, their spouse or children) a reasonable salary or wage for services provided to the corporation this year. This can shift income into the hands of family members who pay lower tax rates. This provides an opportunity for children to start building RRSP contribution room.

If your client's spouse, common-law partner or adult children are in a lower tax bracket, the payment of dividends can result in tax savings for the family.

Clients should be aware, however, that taxable dividends paid to adult family members may also be subject to top rate taxation, unless the adult family members meet certain tests or exclusions set out in the Income Tax Act. For example, if your client turned 65 this year, dividends may be paid to their spouse or common-law partner under a specific exclusion to benefit from income splitting.

Paying dividends to adult family members is still available, however clients should obtain appropriate tax advice to ensure they are onside with the rules.

Dividends paid to adult children involved in the business, who meet certain criteria can be a great income splitting strategy.

Determine compensation mix

Your client's compensation mix can affect their taxes. As a shareholder, they could be compensated by their corporation either in the form of a salary, eligible, non-eligible or capital dividends.

The optimal compensation mix can only be determined after considering their financial and tax position and that of their corporation.

Clients should speak with their corporate accountant about determining what compensation mix is most appropriate in their situation for this year.



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Investor strategies

RRSP strategies

Retiree strategies

Employee strategies

Family strategies

Business strategies

Tax reporting

Strategy 6: Business strategies

Purchase a vehicle from company

Clients may consider purchasing the vehicle that the company has provided to them, if it has depreciated in value. Otherwise, the taxable standby charge will continue to be calculated using the original cost rather than the depreciated value.

Purchasing the vehicle will potentially allow them to avoid the annual taxable benefits and begin receiving a tax-free car allowance from the corporation for business use of their vehicle.

Buying the company vehicle can bring a tax break.

Claim an ABIL

An allowable business investment loss (ABIL) may be available if your client lent money to, or invested in shares of, a small business corporation that has become insolvent or bankrupt.

The ABIL is equal to 50% of the loss, offsets capital gains and can be applied against any other type of income.

Business investment losses can be tax deductible.

Transfer business to child's corporation before year end

Under Bill C-208, shareholders of private corporations can transfer shares of a qualified small business, family farm or fishing corporation to a corporation controlled by their child or grandchild and benefit from the same capital gains tax treatment as would be available in the case of a third-party sale. Prior to these rules, the income from the sale was taxed as a dividend resulting in higher tax liability.

SHAREHOLDER LOANS

To the client's company

Clients may consider reclassifying payments they made to their corporation as a repayment of a shareholder loan owing to them.

Shareholder loan payments are a very tax-efficient way of drawing money out of the corporation with excess cash.

Shareholder loan payments are tax free.

From the client's company

If clients have borrowed money from their corporation in the prior taxation year, they should consider repaying the loan in full before the corporate year-end.

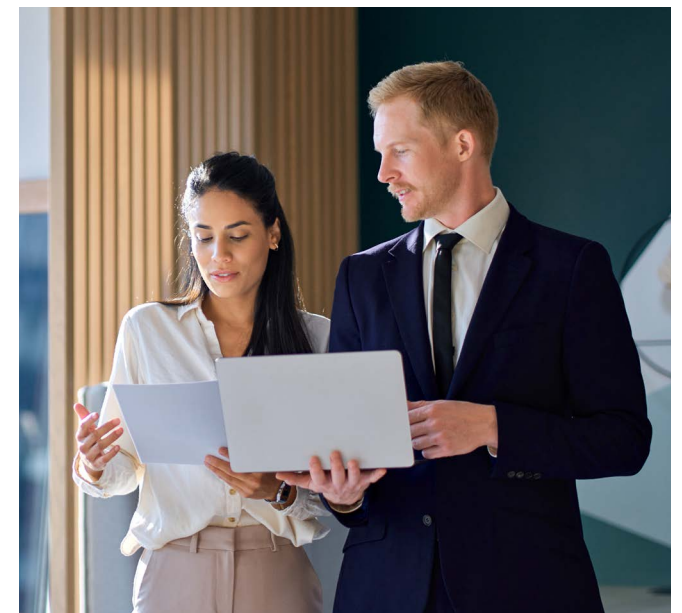
Otherwise, they will face an income inclusion on their personal tax return for the value of the outstanding loan.

Paying off a loan from the company can save tax.

Make a gift or award to an employee

Large gifts to employees are taxable. As an employer, your client is entitled to provide unlimited non-cash gifts or awards annually to employees.

However, the aggregate cost of the gifts, including HST/GST cannot exceed \$500.



Be
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Investor strategies

RRSP strategies

Retiree strategies

Employee strategies

Family strategies

Business strategies

Tax reporting

| Strategy 7

Tax reporting

It is important to file taxes properly, reporting income fully and completely. This includes transactions that may not be taxable. Special attention must be paid to clients who may have US tax obligations.

Sale of principal residence

Clients must report the sale of any real estate, including their principal residence, even if the gain is exempt. If a property is not reported, fines amounting to \$100 per month, up to a maximum of \$8,000, may be imposed.

The “one plus” rule no longer applies for principal residences acquired in a taxation year in which the purchasing individual was not resident in Canada.

The sale of their principal residence may be entirely tax free.

Do clients hold foreign property in excess of \$100,000?

If clients own foreign property with a total cost between \$100,000 and \$250,000, they can use the T1135 simplified reporting method.

Simplified reporting requires:

- The taxpayer to only declare what types of property they hold (for example, funds, shares, real property, etc.).
- The three countries holding the most specified foreign property by cost.
- The income from the specified foreign property.
- The total gains or losses from selling all foreign property in the current year.

If your client owns foreign property costing less than \$100,000 throughout the year, they are exempt from

T1135 reporting. If they own foreign property with a total cost exceeding \$250,000 at any time during the year, they are not eligible for simplified reporting.

A T1135 form is required if the client owned foreign property with a total cost exceeding \$100,000.

Know US filing requirements

US persons living in Canada throughout the year have various US reporting requirements in addition to their US income tax filings.

Some examples include:

- The FinCEN Report 114 (also known as FBAR), if they owned financial accounts (registered and non-registered portfolios) in excess of \$10,000 USD at any time during 2025.
- Form 8938 – Statement of Specified Foreign Financial Assets, if they own certain assets that exceed either \$200,000 USD at the end of 2025, or \$300,000 USD at any time during the year if they live in Canada.
- In addition, if they are a beneficiary of a TFSA, they may need to file Form 3520/ 3520-A in the US, with some exceptions.
- These forms have various deadlines and penalties for non-compliance and are dependent on assets clients own throughout the year.

These are complex issues and you should get help from a qualified cross-border tax advisor.

A US person includes a US citizen, US resident or green card holder.



MACKENZIE
Investments

**Be
Invested.**



Investor strategies

RRSP strategies

Retiree strategies

Employee strategies

Family strategies

Business strategies

Tax reporting

Strategy 7: Tax reporting

Beware of PFIC reporting obligations

US persons holding a portfolio consisting of Canadian mutual funds and/or ETFs, in non-registered and certain registered plans, are considered to be shareholders of a Passive Foreign Investment Corporation (PFIC).

For US tax purposes, they are required to file IRS Form 8621 along with their US tax return.

PFIC shareholders are subject to negative US tax implications.

One method for clients to reduce the tax impact and eliminate interest and penalty charges is to file a Qualified Electing Fund (QEF) election along with their US tax return. QEF elections are only available where mutual fund companies are able to provide clients with an annual information statement (AIS) with respect to their investment holdings.

Mackenzie offers AIS reporting for all mutual funds and ETFs, thus providing investors with the potential opportunity to minimize US tax implications.

Mackenzie Investments provides AIS reporting for all mutual funds and ETFs.

Claiming a “Closer Connection Exception”

If your client spent on average approximately four months of the year in the US, they may be considered a US resident for US tax purposes.

This can happen if they meet a specific test in the US, known as the “substantial presence test”.

As a result, they may be subject to US tax and filing requirements, even though they are a Canadian resident and pay Canadian taxes.

However, if they meet this test, they can avoid being considered a US resident by claiming that they actually have a closer connection to Canada.

To claim the closer connection exception, they must file Form 8840 with the IRS and meet other conditions.

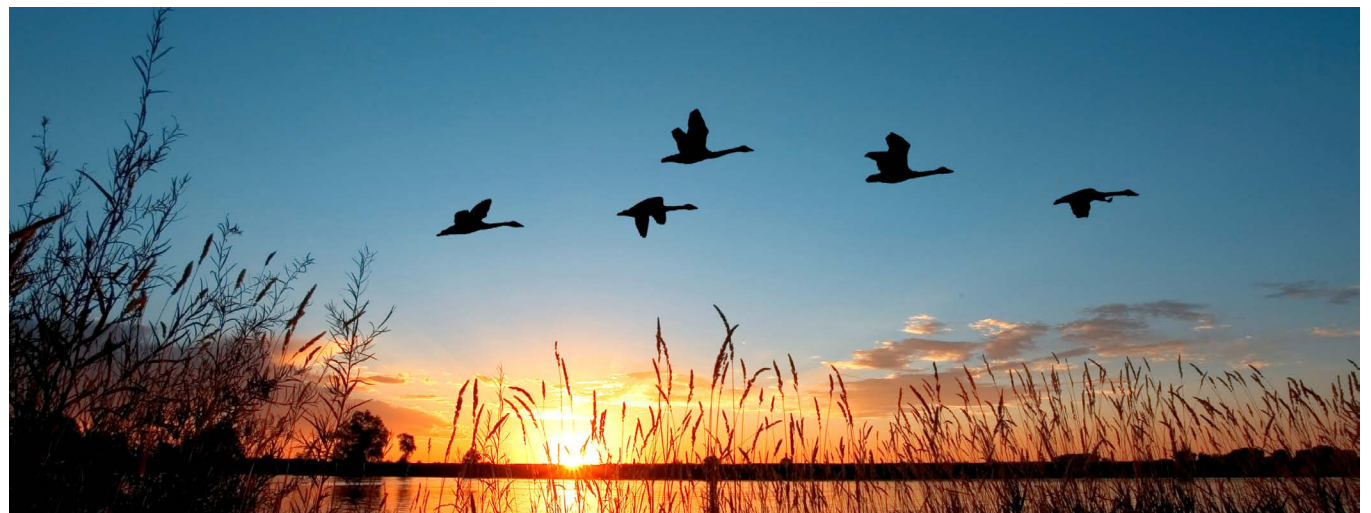
Clients in this position should speak to a tax professional if, during 2025 and in the previous two years, they have spent time in the US and may benefit from this exception.

Snowbirds who spend on average four-plus months in the US on a regular basis may be considered US residents for tax purposes.

2025 is quickly coming to an end, so contact your clients to discuss implementing any of these strategies that may benefit them.



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General inquiries

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TTY: 1-855-325-7030

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