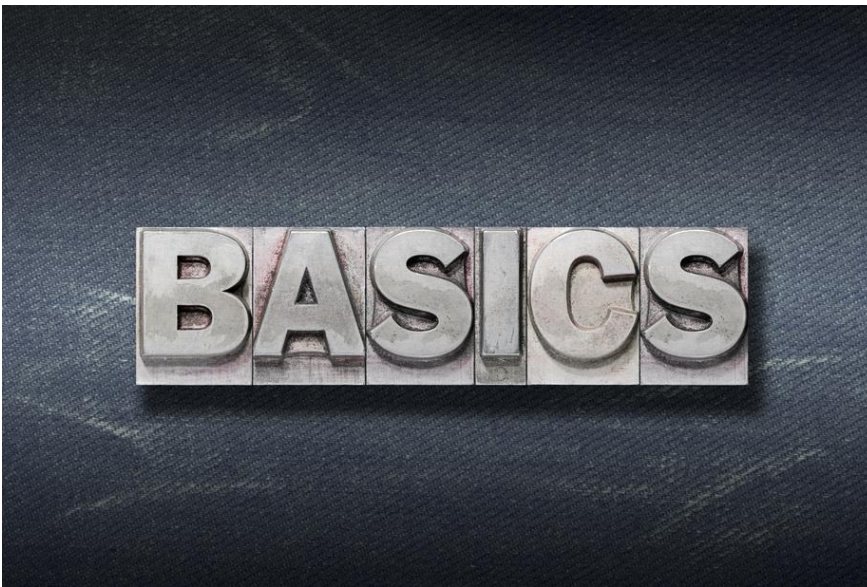


The five pillars of tax planning that can save you big money



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My grandfather once told me that nearly half the population make New Year's resolutions in about half of all years, and about one-third of those people will keep approximately two-thirds of their resolutions every other year. Confused yet? I was. He was kidding, of course.



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There was, however, an actual study undertaken in 2009 by professors J.C. Norcross and M.S. Mrykalo from the University of Scranton, in Pennsylvania, which found that 46 per cent of participants who made common New Year's resolutions were likely to succeed – a figure nearly 10 times as high as those deciding to make life changes at other times of the year. So, now is the time to add one more resolution to your list: Pay less tax in 2018.

The approach

So, how does one go about paying less tax? Let me suggest that you do the following: First, commit to making just one change to your circumstances that will result in tax savings. This doesn't have to be a life-altering experience. I'm not talking about moving to Greenland (although a deduction for foreign workers of up to 35 per cent of income exists there), or selling all your possessions and taking a vow of perpetual poverty (yes, you can claim a deduction for the full amount of your earned income if you're a member of a religious order, pay your earnings to the order and take a vow of perpetual poverty). I suggested to my wife that we take a vow of perpetual poverty. She preferred moving to Greenland, but we'd miss our teenage kids. No, these changes aren't for everyone.

Still, you can make small changes to your circumstances that could result in tax savings. I'm going to shed some light on a few ideas over the next couple of weeks. But let me start by saying that any tax-saving idea you implement



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will fall under one or more of five "pillars of tax planning."

The pillars

The Five Pillars of Tax Planning are these: Deducting, deferring, dividing, disguising and dodging to save tax. A couple of these sound illegal – but they're not. Let me explain.

Deducting: This is the idea of claiming tax deductions or credits that you might not have fully or even partially claimed in the past. By making a few changes, you could create the opportunity to claim some of these deductions or credits.

Deferring: It may be possible for you to take a tax bill that might otherwise be owing this year, and push it off to a future year. While you might not eliminate the tax, paying it in the future is better than paying it today thanks to the time value of money. For example, if you can defer a \$100 tax bill for 10 years, the true cost of that tax bill is just \$68 (in today's dollars), assuming you can earn 4 per cent annually, after taxes, on your money over those 10 years.

Dividing: You'll save tax if you can move income from the hands of one family member who will pay tax at a higher rate to another who will pay tax at a lower rate. By dividing up the income differently – often called "income splitting" – you'll be keeping more of your hard-earned income. In a perfect world, you and your spouse or other family member would structure your affairs so that you have equal incomes. This isn't always possible, but you can move in that direction.

Disguising: I'm not talking about putting on some costume or getting plastic surgery so that the taxman won't recognize you walking down the street. No, I'm talking about converting one type of income into another type that is subject to lower tax rates. Not all income is taxed equally.

Dodging: Don't worry. I'm not talking about tax evasion here. "Dodging" to save tax is the idea of structuring your affairs so that some of the taxable amounts currently showing up on your tax return might not have to be reported on your tax return going forward. Moving from amounts that are taxable to non-taxable benefits or tax-free cash flow can leave you much better off.

I'm going to get into specific strategies next time. But keep this in mind: There are likely several strategies you could be using to pay less tax. Don't worry about identifying all of them this year. By making even one change to your affairs, each year, the cumulative effect over time will be a significant improvement to your net worth.

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