EXPERT **CONTRIBUTOR**

LOOKING TO 2023: PLAN WELL, SPEND SMART, SAVE RIGHT!

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Happy New Year! You may have new resolutions in place, but the key to success is to develop measurable goals and habits that are long-lasting to help us follow through with our intentions in the time-frame we set out; especially when it comes to our financial future! How can we work smarter and not harder with our money, so that we can plan for, and enjoy a life of financial freedom?

HERE ARE SOME TIPS FOR 2023:

1. Review Cash Flow:

Obtain a clear snapshot of your financial situation today, such as your cash flow and your assets vs. liabilities.

Carefully review your bank and credit card statements to get a clear picture of your spending over time. Which expense is a need vs. want? Can you shave off some of the wants and/or reduce overall costs on the needs, such as getting interest rates reduced, lowering your cell phone/ TV plans and canceling subscriptions that you no longer use?

2. Retirement Planning:

In the first 60 days of 2023, you have the ability to contribute to an RRSP and choose whether you designate the tax deduction towards 2022, 2023 or a combination of both years — depending on your marginal tax rate. The contribution room for 2022 is 18% of earned income reported on your tax return in the previous year, up to a maximum of $29,210. You may have room built up from previous years that can be applied to reduce future taxes. The tax savings can be used to pay down debt or used towards investments and take advantage of compound growth over time with money that would have otherwise been paid in taxes.

A tax-free savings account (TFSA) is another great way to save for the future, whether it's for a major expense in the future or for retirement. The growth that builds within the account is tax free at time of withdrawal. The TFSA annual limit for 2023 has increased to $6,500, making the lifetime limit a total of $88,000 if you have not previously contributed.

Whether to contribute to an RRSP, TFSA or both is dependent on your tax and financial situation that can be determined with the help of a financial professional.

3. Debt Reduction

Do not spend more than what you earn and do not add to bad debt such as non-deductible loans and credit cards. If you have accumulated debt from items that are depreciating in value, begin by paying down the debt with the highest interest rate.

Is it better to pay down your mortgage or contribute to your RRSP or TFSA? Considerations are the interest rate on your mortgage vs. your investments, whether you qualify for tax deductions on your mortgage interest, and your marginal tax rate. Balance is also key. Focusing only on paying down the mortgage may create liquidity issues.

4. Renewing Your Mortgage

Before you sign your mortgage renewal slip and send it back in addition to shopping the rate, you should first review your financial goals. For example, if your current mortgage term is a five-year fixed rate, the renewal slip will likely be for another five-years at a fixed rate. If you think you'll stay in your home for that amount of time, great. But if you anticipate there's a chance you will move in the next few years, you may want to consider a shorter term and/or a variable product vs. the five-year fixed term.

5. Are you over 18 and thinking about purchasing your first home or not owned in 4 years?

The Canadian government is launching the Tax-free First Home Savings Account (FHSA), allowing for $40,000 in contributions over 15 years (maximum contribution of $8,000/year). A great way to save for a home and obtain a tax deduction in addition to RRSPs and the First Time Home Buyer Plan (HBP). The growth is tax-free when funds are withdrawn for a home purchase, and there is no repayment as you would in the HBP.

6. Funding Kids' Education:

A Registered Education Savings Plan (RESP) allows you to save for your child's or grandchild's post-secondary education and receive a 20% government grant for each contribution up to $2500/year since the year of birth, until the end of the year the child turns 17. Both the contribution and grant grow tax-deferred.

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