Articles Program

2010 Tax Tips

Tax Tip 1 of 10
Medical-dental – what's deductible?

The Canada Revenue Agency offers some tax relief for many health-related expenses that OHIP doesn't cover. There are rules and limitations, but also ways to maximize the benefit.

"You can claim a tax credit for many healthcare expenses, providing the care or product qualifies and is prescribed by a licensed physician, dentist or other recognized medical practitioner," explains Chartered Accountant Clyde Catton, Tax Partner with BDO Canada in Oshawa. "Only those expenses that exceed either three per cent of your net income or $2,024 — whichever is less — are eligible."

You must have receipts to back up your claims, and while many health practitioners now offer monthly payment plans, Catton recommends you try to pay as much as you can within one year.

"You can claim your own or your spouse's and dependent family members' expenses for any 12-month period, providing the end-date falls during the tax year in question," he says. "So the more you pay, the greater the amount you'll have above that three per cent or $2,024 threshold, and the greater your tax credit will be."

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Tax Tip 2 of 10
Overstayed your U.S. welcome?

Before you stock up on suntan lotion and head south, you might want to check the United States tax rules.

"Escaping winter for too long could cause you some U.S. tax problems," cautions Chartered Accountant Karyn Lipman, Tax Partner, Soberman LLP, Toronto.

"The U.S. taxes its citizens and residents on their worldwide income," she explains. "If you spend 183 days or more in the States, you could be deemed a resident for tax purposes."

Canadians who spend significant time in the U.S. should consider that they may be obligated to file U.S. taxes, Lipman says. "For example, under U.S. domestic rules, snowbirds spending more than 121 days in the country each year over a three-year period might also be considered U.S. tax residents. This is based on a formula that calculates the total days spent in the U.S., even if the taxpayer is not there for six consecutive months (183 days or more) in any given year."

Lipman emphasizes that this is just one illustration. Many other scenarios or circumstances can effectively cause the same result.

“In some circumstances, the individual may be able to avoid being deemed a U.S. resident by filing a special form with the U.S. government on a timely basis,” she continues.

If you believe that you might have U.S. tax-filing obligations, Lipman suggests you consult a U.S. tax specialist.

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Tax Tip 3 of 10
“Up” your payroll deductions to avoid owing taxes?

Are you savings-challenged? If so, you might think that asking your company’s payroll department to increase your regular income tax deductions is a good strategy to avoid the possibility of extra taxes at year-end.

“Not necessarily,” says James Kraft, a Chartered Accountant, Certified Financial Planner and Taxation Specialist with PlanningWise Inc. in Toronto. “I first recommend that people seriously assess their own abilities to manage money as well as their goals with respect to savings.”

On the “pro” side, Kraft says that increasing payroll deductions can be a forced savings plan. Some may prefer it, because the money never comes into the house and they can’t get their hands on it.

But there are significant “cons”. “You’re lending the government money, interest-free,” he explains. “And, you sacrifice flexibility, because you can’t get at your ‘savings’ if you need them.

“It’s a matter of will power,” he continues. “Can you set aside funds and save? Can you make a budget and work within it?”

If you can answer yes to either of these questions, even to a very limited extent, then there are other – and often better – alternatives.

“Why not ask your employer to increase contributions to the group pension or the group RRSP?” Kraft suggests. ”Other good options would be to set up a monthly savings plan into a Tax Free Savings Account or increase your mortgage payment. Both of these can be done automatically, pulling the money out of your bank account on the day your pay is deposited. You won’t have a chance to spend it.”

As time goes by, you – and not the Canada Revenue Agency – will have the benefit of that money and the interest it makes for you…in your home, your children’s education or your own income at retirement time.

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Tax Tip 4 of 10
Monthly public transit passes are tax deductible

Riding the rails each day may be a little easier to take knowing that you can deduct the costs.

"If either you, your spouse/common-law partner, or your child who was under age 19 on December 31, 2010, commutes on buses, streetcars, subways, commuter trains or ferries, you can claim a non-refundable federal tax credit for eligible public transit costs," advises Chartered Accountant Gary Kopstick, Senior Tax Partner, Soberman LLP, Toronto.

"This credit applies to monthly passes and weekly passes, as long as four consecutive weekly passes are purchased. Certain electronic payment cards also qualify for the credit. The passes or cards must be purchased for use by you, your spouse/common-law partner or any of your children under the age of 19. If you are entitled to this credit, keep your receipts and passes."

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Tax Tip 5 of 10
When can I expect my refund?

"How long it takes to get your tax refund depends largely on the way in which you filed your return, when, and the types of income and expenses you had," says Chartered Accountant Bryan Allendorf, Tax Strategist with Meyers Norris Penny LLP in Markham.

Today, he says the Canada Revenue Agency (CRA) is processing slightly more than half of all tax returns electronically, and the automation has cut down on turnaround time dramatically.

"With fewer errors and less time needed to key-in information, processing can be done much more quickly," he explains. "Systems like Netfile will alert you to things you may not be aware of and check your calculations. People who file this way and do so early — before the system gets really busy — often see a refund in a couple of weeks."

Allendorf also recommends everyone visit the CRA website (www.cra-arc.gc.ca) to set up the *My Account* option. "This will give you access to your own information, allow you to set up a third-party authorization, let you access your current account and your installment account, so you can see your balances and keep track of your tax information."

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Tax Tip 6 of 10
How much should you save for taxes?

When you withdraw savings from a Registered Retirement Savings Plan (RRSP) or Registered Retirement Income Fund (RRIF), the amount becomes part of your taxable income that year. So is it wise to put a certain amount aside to pay the taxes?

“Many things can affect the amount of income tax you’ll have to pay when you withdraw RRSPs or RRIFs,” says Gordon Jessup, a Chartered Accountant and Partner with Fuller Landau LLP in Toronto.

“With RRSPs, there is a withholding tax on withdrawals. But it may not be enough to offset the taxes you’ll have to pay,” he explains. “On a lump sum of less than $5,000, it’s 10 per cent; from $5,000 to $15,000 it’s 20 per cent; and over that it’s 30 per cent.

“You may have to pay quarterly tax instalments, and people can be surprised at the amounts the first time,” he continues. “Especially when you add in other sources of income, like CPP and Old Age Security, which can even be clawed-back if your total income exceeds a certain level.”

But there can be ways to cut the amount of taxes you owe.

“If you’re retired and taking the minimum amount from an RRIF, there may be little or no withholdings,” Jessup explains. “And, under the right circumstances, as much as half your pension income can be split with your spouse. Depending on how much he or she earned during the year, doing so can significantly reduce the taxes you’d otherwise have to pay.”

Each individual situation is unique, Jessup cautions. To be sure you’re aware of all your options and opportunities, it’s wise to consult a Chartered Accountant who will help evaluate your personal circumstances and come up with a plan that’s right for you.

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Tax Tip 7 of 10
Tax benefits for the self-employed

“‘If you are self-employed, make sure you know about limitations to available tax benefits,” says Chartered Accountant Gary Kopstick, Senior Tax Partner, Soberman LLP, Toronto.

“For example, if you operate out of two offices, including one in the home, the costs related to the home office may not be deductible. In addition, generally only 50 per cent of meals and entertainment expenses you incur for the business are deductible (although there are exceptions to allow for a larger deduction in some cases).

“You may also deduct a portion of Canada Pension Plan (CPP) contributions that represent the employer’s share to a maximum of $2,163.15 for 2010.”

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Tax Tip 8 of 10
Work vehicle can save money at tax time

The Canada Revenue Agency often finds that people owe additional taxes in the area of vehicle expenses. But you likely won’t have to pay more than you expected if you

understand the rules and keep good records, says Chartered Accountant Kevin Dunn in Peterborough.

“The overriding consideration when it comes to deductions related to vehicle use is 'reasonableness',” Dunn explains. “The expenses in question must be related to using the car or truck for business or employment purposes. Then, you can claim gas, repairs and maintenance costs, licence, insurance, parking and interest on loan or lease payments. You should keep a vehicle log to support your claim that the vehicle is used for business or employment.”

But there are limits, Dunn cautions. “If you're buying a car, the maximum value you can depreciate is $30,000; $800 a month if it's leased. So if you spend $50,000, you can only count on deducting $30,000 in total. But if you work in construction and put that same money into a truck, it may not be subject to the $30,000-cap.”

Of course, tax deductions for car expenses would not apply to situations in which your employer reimburses you for these same costs. Dunn says larger corporations usually compensate employees with a non-taxable car allowance. In 2010, that was limited to $.52 per kilometre for the first 5,000 and $.46 per kilometre thereafter.

But the self-employed, especially people considered self-employed within a corporation, may have exceptional circumstances with respect to vehicles, expenses and taxes that call for careful evaluation. For an assessment of your own situation, contact a Chartered Accountant in your community.

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Tax Tip 9 of 10
Split pension income to save taxes

Even in a difficult economy, retirees may be able to save on their taxes by splitting eligible pension income with their spouses.

“Income-splitting is a way for families to reduce their total tax liability by shifting income to the lower-income earner from the higher earner,” explains Chartered Accountant Don Knechtel, Partner, Taxation, at Durward Jones Barkwell & Company LLP in Grimsby. “A pensioner can transfer up to 50 per cent of eligible pension income to his or her resident spouse or common-law partner.”

However, there are some specific eligibility rules. “Income from a registered pension plan can be split, regardless of the recipient's age. Income from a Registered Retirement Savings Plan (RRSP) annuity, Registered Retirement Income Fund (RRIF) or deferred profit-sharing plan annuity is also eligible if the recipient is 65 years of age or older,” Knechtel continues.

The RRIF and RRSP annuity payments are also eligible for splitting before the age of 65 if they are received due to the death of a spouse.

Pension-splitting is an important part of the retirement-planning process. It lowers the taxable income of the spouse with the higher marginal tax rate and raises the taxable income for the lower-income spouse – a transfer that produces a combined tax saving.

“Just be careful in determining the amount of pension to be split. If too much income is transferred to the lower-earning spouse, it could trigger a clawback of some Old Age Security (OAS) benefits and also affect the couple’s ability to claim certain personal tax credits,” advises Knechtel.

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Tax Tip 10 of 10
Claim tuition fees and more

Are you thinking of returning to school now that you’ve retired? Or do you have a student pursuing post-secondary studies in your family?

Chartered Accountant Gary Katz, Partner, Logan Katz LLP Chartered Accountants in Ottawa, advises you to take advantage of tax savings while you burn the midnight oil.

“You can claim a tax credit for tuition and related expenses, including library, lab and computer fees paid during the school year. Full-time students can also claim an education amount of $400 federally ($481 for Ontario taxes) per month, and part-time students can claim $120 ($144 for Ontario taxes) per month for each full- or part-month in attendance.”

Is a family member helping you financially? Up to $5,000 of education, tuition and textbook amounts for federal tax purposes, or up to $6,184 for Ontario tax purposes can be transferred to a supporting spouse, parent or grandparent. Any remaining unused amounts can be carried forward and claimed by the student in a subsequent year.

“While books, student fees, parking and equipment can’t be deducted,” says Katz, “A federal textbook credit of $65 per month can be claimed by full-time students, and $20 can be claimed by part-time students who are eligible for the Education Tax Credit.”

Other potential tax-saving opportunities also exist, including a tax credit or a deduction for interest on student loans, child-care expenses, transit passes, rent/accommodations and moving expenses.

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