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CPABC Tax Tips for 2015

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Filing Matters

Why File a Personal Income Return?

Why fill out a tax return if you have no taxable income for 2015?

You might be eligible for the Federal GST/HST Credit and the BC Sales Tax Credit. An individual is required to apply for the GST / HST Credit annually by filing a personal income tax return. Low-income seniors can also re-apply for the Guaranteed Income Supplement by filing an annual personal income tax return. In addition, you will be able to recover any money owing to you for the year, such as an overpayment of income taxes, Canada Pension Plan contributions (CPP), or Employment Insurance premiums.

Even if you have no taxable income, you might still be required to file a tax return and pay CPP if your net self-employed income is in excess of $3,500. You might also want to report your taxable income on a tax return in order to build your RRSP contribution room and become eligible for greater RRSP deductions in a future year.

If you are a student with excess tuition and education amounts in the year, you will want to file a tax return so that you can carry them forward to another year. Also, if you have a business loss, you must file a return in order to establish your right to claim the loss in other years.

Finally, if your tax return was filed more than three years after the end of a particular taxation year, the Canada Revenue Agency might not issue a tax refund related to that return.

Deadlines for Filing Your Personal Income Tax Returns

The general deadline for filing personal income tax returns and paying any taxes owing is April 30 of the following year.

However, if you are self-employed, the filing deadline for you (and your spouse or common-law partner) is extended to June15 of the following year.

If you are a non-resident filing a non-resident tax return in respect of rents received in Canada, the filing deadline is June 30 where a Form NR6 was filed, otherwise the return is due within two years from the end of the year in which the rental income is received.

Just remember, any taxes you owe are still due by April 30, so make sure you pay your taxes by that date to avoid arrears interest charges. If you owe taxes and your return is late, you will be assessed a penalty and interest on the unpaid balance of tax due.

If you find the deadline is fast approaching and you still haven't received receipts or information slips for some items, file your return anyway with a cheque for the estimated tax owing and an explanation. You are responsible for making any necessary adjustment to your tax return promptly when the documents become available. Failure to do so might result in additional penalties for filing your tax return with incomplete and incorrect information.

Your Assessment Notice

When you are sent an assessment notice showing additional taxes payable, review it carefully: your arithmetic might have been wrong or you might have claimed a deduction to which you weren't entitled. On the flipside, the Canada Revenue Agency (CRA) might have incorrectly denied a deduction to which you were entitled.

If your return was prepared for you, advise the preparer of any changes, upward or downward.

If you prepared your own return and don't understand the information on your notice, contact your local tax services office immediately for a full explanation.

If the assessment is not in your favour and you aren't satisfied with the CRA's explanation, you might want to consult a professional advisor and consider filing a Notice of Objection with the CRA to ensure that your rights are protected. Keep in mind individuals have until the later of (i) one year after the date of the filing deadline for the return, or (ii) 90 days after the date the CRA sent the Notice of Assessment, to file the objection.

Even if there is no additional taxes payable on your Notice of Assessment, you should still review it to ensure the information on it is correct such as RRSP deduction limits, unused RRSP contributions, Home Buyers' Plan, and Lifelong Learning Plan repayment requirements, taxable refund interest, or losses available for carry forward.

Carry-forward Amounts

If you are unable to use certain deductions or tax credits in a particular tax year, you might be able to use them in a future year. Common carry-forward items include:

- **Non-capital losses**: business losses arising in taxation years ending after 2005 may be carried forward 20 years (previously ten years for losses arising in taxation years ending from March 22, 2004 to December 31, 2005, and seven years for losses arising in earlier years);
- **Net-capital losses**: losses on the disposition of capital property may be carried forward indefinitely and applied against capital gains realized in the future;
- **Foreign business tax credits**: unused foreign business tax credits arising in taxation years ending after March 22, 2004, may be carried forward 10 years (previously seven years) and applied against Canadian income taxes arising on business income from the country in which the foreign income taxes arose;
- **Charitable donations**: unused charitable donations may be carried forward five years;
- **Tuition, Education, and Textbook credits**: unused tuition, education, and textbook amounts may be carried forward indefinitely;
- Interest on student loans: unused student loan interest expenses may be carried forward five years; and
- **Home office expenses**: excess un-deducted home office expenses of an employee or a self-employed individual may be carried forward indefinitely and applied against income from the same office or employment or from the same business.

Transferring Income Tax Credits to Your Spouse or Common-law Partner

You can transfer some income tax credits to your spouse or common-law partner.

The transferable credits are the age credit, disability credit, pension income credit, your own education and tuition fee credits, and the textbook tax credit.

If you are able to reduce your taxes payable to zero without using all of your available credits, you might consider transferring some of these unused credits to your spouse's return. Don't let your credits go to waste. Consult the advice of a Chartered Professional Accountant for more information.

Old Age Security Clawback

If your 2015 net income exceeds $72,809, all or a portion of your 2015 Old Age Security (OAS) will be repaid or clawed back. The clawback is $0.15 for each dollar of income in excess of $72,809 to a maximum of the total amount of OAS received.

If your net income in the 2014 taxation year exceeded $71,592, your monthly OAS payments for the current year may have been reduced by an estimated clawback based on your net income in 2014. Your final clawback will be determined when you file your 2015 personal income tax return, with any difference being payable or refundable.

This clawback is based on your individual net income, not on family income. Splitting income with other family members may help to reduce the OAS clawback.

Proper income splitting planning strategies may be implemented over several years to minimize the amount of a potential OAS clawback. If you have not planned ahead, you can still take advantage of pension income splitting with your spouse or common-law partner to reduce your individual net income. You can elect to split current eligible pension income with your spouse or common-law partner under Canada's pension income splitting rules. Call your Chartered Professional Accountant to find out more.

Non-Arm's Length Transfers and Gifts

If you gift an asset to someone, you are deemed to dispose of the asset at its fair market value thus triggering a gain in your hands to the extent the fair market value of the asset exceeds its tax cost or "adjusted cost base" (ACB). If the gifted asset is a capital property to you (i.e., an investment asset on which you expected to earn investment income), the resulting gain will be a capital gain (only 50% of the gain is taxed). The recipient of the gift is deemed to acquire the asset at its fair market value. There are some exceptions to this fair market value rule, most notably transfers of capital property to a spouse, a spousal trust, an alter ego trust, or a joint spousal trust where the disposition is deemed to be at the particular property's ACB unless the taxpayer elects otherwise.

If you gift an asset that has a fair market value less than its ACB, the resulting loss to you may be denied or suspended depending on the circumstances of the gift and your relationship to the recipient.

If you sell an asset to a non-arm’s length person, you are required to set the sale price equal to the asset's fair market value. If the sale price is less than its fair market value, you are deemed to have sold the asset at its fair market value without a compensating increase in the ACB of the asset to the purchaser. If you sell an asset to a non-arm's length person for a price greater than its fair market value, the purchaser is deemed to have paid fair market value, meaning the purchaser's ACB is reduced to the asset's fair market value without a compensating reduction in your proceeds of disposition. In both cases, the one-sided adjustment can be quite punitive because it results in a double tax so it pays to carefully consider and document the fair market value in all non-arm’s length sales.

If you sell an asset to a non-arm's length person at a loss (the fair market value is less than its ACB), the loss will be suspended until that asset is sold to an unaffiliated person.

If you make an RRSP contribution by transferring an investment asset to your RRSP, providing the asset is a "qualified investment" for an RRSP and does not offend the "prohibited investment" rules, you will be deemed to have disposed of the investment at its fair market value. If the fair market value of the investment exceeds its ACB, you will have a capital gain. If the fair market value of the investment is less than its ACB, the capital loss will be denied.

If you plan to gift, sell, or transfer an asset to a non-arm’s length person or to your RRSP, contact a Chartered Professional Accountant to help you assess the income tax implications and planning options.

T1 – ADJ: Making Changes to Your Return

If you realize you made a mistake on your income tax return after filing, it is easy to make a change to your income tax return without having to re-file another return for that year. You may file form T1 – ADJ to request a change to your income tax return for any of the 10 previous calendar years. For example, a request made in 2015 must relate to the 2005 or later taxation years. However before you file the adjustment request you will first need to wait to receive your Notice of Assessment from the Canada Revenue Agency.

The T1 adjustment request can be made online by logging on to “My Account” (an electronic service offered by the Canada Revenue Agency) or by mail. The Canada Revenue Agency typically processes adjustment requests made electronically quicker than adjustment requests made by mail.

In some situations, adjustment requests can be quite complex so you might wish to consult a Chartered Professional Accountant before submitting the adjustment request to the Canada Revenue Agency.

Penalties for Repeated Failures to Report Income

If you missed or forgot to report any income on your 2012, 2013, or 2014 returns, and you again miss or forget to report any income on your 2015 return, you may be subject to a penalty for the repeat offense.

The penalties for repeated failures to report income for 2015 and subsequent years apply where the unreported income exceeds $500. The penalty itself is equal to the lesser of 10% of the unreported income or 50% of the additional income taxes payable on the unreported income.

With the myriad of T-slips issued these days, it's easy to miss or forget one or two slips, especially when the slips are issued at different times during the year. The Canada Revenue Agency (CRA) receives copies of all T-slips, and through a matching system, endeavours to match each T-slip to a tax return to make sure all income is reported. This means your failure to report income will eventually be caught by the CRA. The best defence against the penalty for the failure to report income is to be vigilant about reporting your income, making sure to follow-up on any T-slips that you think might be outstanding. You can call the CRA or log in to their My Account service to verify certain of the T-slips you should be reporting on your income tax return.

There are other potential penalties for failing to report income that may apply, and there are also Voluntary Disclosure and Taxpayer Relief measures in place that can potentially avoid or reverse such penalties. For assistance, contact a Chartered Professional Accountant.

Foreign Source Income

If you are a Canadian resident and have received income from foreign sources, you must report this income in Canadian dollars on your tax return.

To convert the foreign source income, you must use the rate of exchange that was in effect at the time the income was received or the average exchange rate for the year as published by the Bank of Canada if the amount was received at various times throughout the year. You must report the amount of foreign income before deducting any tax that was withheld at the source. However, if you have paid tax on that same income in a foreign country, the amount of foreign tax paid might be eligible for a foreign tax credit or deduction on your Canadian income tax return.

Some foreign source income might also be exempt under international tax treaties.

There might be several tax planning opportunities, depending on the source and type of foreign income you received. To help you identify these opportunities, consult a Chartered Professional Accountant.

Taxpayer Relief

There are relief measures in place for taxpayers unable to comply with a particular income tax filing requirement. Under the Canada Revenue Agency's (CRA) guidelines for Taxpayer Relief, the CRA may grant relief from penalties and interest where the following types of situations exist and led to your inability to satisfy the tax obligations or requirements:

- Extraordinary circumstances such natural or man-made "disasters", civil "disturbances", or "disruptions" in services such as postal services. An example of this was the Quebec ice storm or the flooding of the Red River in Manitoba. There are also examples of smaller or more contained "disasters", "disturbances", and disruptions" for which the CRA granted relief.
- Extraordinary circumstances may also include personal situations such as serious illness, injury from an accident, a death in the immediate family member, etc.
- Sometimes actions of the CRA itself may cause the CRA to grant relief such as last year when it erroneously advised taxpayers the personal tax filing deadline had been extended.
- Civil disturbances or disruptions in services, such as a postal strike
- You many even get relief from interest or penalties because of your inability to pay or financial hardship.

The Canada Revenue Agency will consider factors such as:

- Whether you have a history of compliance with tax obligations (i.e., whether you have filed tax returns on time in the past);
- Whether you have exercised a reasonable amount of care and have not been negligent or careless; and
- Whether you acted quickly to remedy the delay or omission.

Your request for taxpayer relief has to be made within 10 years. For example, a request for taxpayer relief filed during the 2016 year can only deal with an issue related to 2006 or later years.

While powerful, the Taxpayer Relief measures are inherently subjective, requiring the CRA to exercise judgement. Policies and guidelines followed by the CRA may change from time to time. If you believe you have a basis for making a claim under Taxpayer Relief, contact a Chartered Professional Accountant for assistance.

Tax Free Savings Accounts

Since 2009, individuals 18 or older who were residents of Canada for income tax purposes could contribute amounts to a Tax Free Savings Account. The amounts that could be contributed each year have varied, starting at $5,000 per year in 2009, rising to $5,500 for 2014, rising again to $10,000 for 2015, and then dropping back to $5,500 for 2016.

Contributions to a TFSA are not tax deductible and the contribution room can be carried forward indefinitely. Investment income and capital gains earned in the TFSA will be tax-free and you can make tax-free withdrawals from a TFSA at any time. When you make a withdrawal, the amount withdrawn will be added to your contribution room for **the following year** and can be re-contributed in the future.

TFSAs will generally be allowed to hold the same investments as RRSPs. This includes cash, mutual funds, publicly traded securities, GICs, bonds and certain shares of small business corporations. There are substantial penalties if a TSFA holds an investment that is a “prohibited investment”.

Unlike RRSPs, TFSA contribution room is not lost when you make a withdrawal and you do not have to wind it up when you reach age 71. Your TFSA can be maintained for your entire lifetime.

The Canada Revenue Agency only tracks TFSA contribution room for eligible individuals who file personal tax returns, which means you should file a return if you are 18 or older even if you do not have any taxable income.

Employment Income, Deductions, and Credits

Reducing Payroll Deductions

If you are making RRSP contributions, you might be able to reduce the income tax deducted from your paycheque. Consider asking your employer to make your RRSP contribution(s) directly to your RRSP administrator and deduct the payments from your salary. Your employer can then reduce your tax withholdings because the payments made directly to your RRSP are not subject to income tax withholdings.

If you have an employer willing to make direct RRSP contributions without tax withholdings, be prepared to provide proof to your employer of your RRSP deduction room for the year. This will generally require you to provide to your employer a copy of your Notice of Assessment for the prior year showing your RRSP deduction limit for the year. You do not need to apply to the CRA for the reduced withholdings.

If you pay amounts for spousal support, childcare expenses, charitable donations from your paycheque, employment expenses, rental losses, as well as interest and carrying charges on investments, consider completing Form T1213, Request to Reduce Tax Deductions at Source, and filing it with the Client Services Division of your Tax Services Office along with documentary support of the various expenses. If accepted by the CRA, your employer will be authorized to reduce your payroll withholdings.

Payroll withholdings will generally not be reduced for amounts related to child support because these payments are not deductible for income tax purposes and for tax shelter investments.

Reduced tax withholdings generally means a smaller tax refund when you file your income tax return because a tax refund is inevitably the return of the overpayment of withholdings.

If you think you might be able to reduce your payroll withholdings, you should consult a Chartered Professional Accountant to see if you qualify and to understand the implications of reducing your withholdings.

Regular Income from Tips and Gratuities

Income received by an individual in the form of tips and gratuities related to employment is considered taxable income for the year and must be reported on the personal income tax return. Individuals who receive such income should keep a record of the amount they receive in each form. These records do not have to be submitted with the income tax return, but they should be available if the Canada Revenue Agency (CRA) requests to see them.

Failure to report tips and gratuities as income can result in potentially significant income and penalties if the CRA reassesses an income tax return to include additional income. The CRA generally expects a person working at a restaurant to have earned tips and gratuities so a failure to report such income on a tax return might result in a query from the CRA when the return is being assessed.

If you have questions about including tips and gratuities in income or if you failed to report tips and gratuities as income in prior years and you want to fix this mistake before the CRA reassesses you, consult a Chartered Professional Accountant.

Union Dues are Deductible

If you were required to pay trade union or professional organization dues as part of your terms and conditions of employment, those costs may be tax deductible to you. Keep your receipts or proof of payment should the Canada Revenue Agency (CRA) request support for the deduction. You do not have to submit these receipts with your personal income tax return; however, you should keep them for six years in case the CRA asks to see them.

If you think you may be able to claim a deduction for union or professional dues or if you want to amend prior years' tax returns to claim a deduction you missed in those years, consult a Chartered Professional Accountant.

Deductions When You Move for Employment, Self Employment Work or School

If you moved in 2015 for employment, self employment, or to attend a university or other post-secondary educational institution, you may claim a tax deduction for certain moving expenses if:

1) Your new residence is at least 40 kilometres closer to your new employment, work place or educational institution than your former residence.
2) You ceased your employment or self employment at your former worksite.
3) Your move was within Canada, although there are certain exceptions to this rule.

You may claim mover's transportation costs, storage charges, insurance, personal transportation costs for you and your family, the costs of cancelling a lease at your former living location, and lodging and meals for up to 15 days near your former or new living location. If you sold your former residence, you can claim the costs of selling that residence including advertising costs, legal fees, real estate sales commissions, mortgage prepayment penalties and various other costs. If you sold a property at your former living location and acquired a property at your new living location you can deduct certain costs of the purchase such as property transfer taxes in connection with the purchase of your new residence. (This does not include GST or HST.)

The costs of automobile and meals incurred in the move may be the actual costs (within reason and subject to certain limits) or the Canada Revenue Agency flat rate costs. For an automobile, it can be the actual operating costs for the year prorated over the total mileage for the year relative to the mileage for the move. Alternatively, it can be based on the 2015 flat rate in British Columbia of $0.485 per km. For meals it can be the actual costs or the 2015 flat rate of $17 per person per meal up to a maximum of $51 per person per day.

You must claim the deduction for eligible moving expenses in the year of the move up to the amount of your income from your new living location. If your deductible moving expenses exceed your income in the new living location, the surplus can be deducted in the following years. Deductible moving expenses to study as a full-time student at a university or other post-secondary educational institution can only be deducted against income earned in the year from scholarships, fellowships, bursaries, certain prizes, and research grants that are included in income for tax purposes.

If you move for employment purposes, you may not claim a deduction for any expenses paid by your employer on your behalf that were not included as a taxable benefit to you. Expenses you incurred that your employer reimbursed or expenses for which you have received an allowance are also not deductible unless the reimbursement or the allowance is included in calculating your income.

You should consult a Chartered Professional Accountant when considering a move to determine what costs are deductible.

Working Income Tax Benefit

Low income individuals will be eligible for a refundable Working Income Tax Benefit (WITB) tax credit in 2015. You must be a Canadian resident for income tax purposes throughout 2015 and be at least 19 years of age or living with a spouse or common law partner at the end of 2015 to qualify.

The refundable tax credit is available on earned income exceeding $4,750 to a maximum tax credit for British Columbia residents of $1,227 (with net income of $12,622) for individuals, and $1,947 for families (with net income of $17,013).

The credit is reduced where the income of the BC resident is in excess of $12,622 for individuals ($17,013 for families), and declines to zero at an income level of $20,059 for individuals ($28,813 for families).

The credit is not available to individuals who are enrolled as a full-time student for more than 13 weeks in the year and do not have an eligible dependent.

You may also be eligible to apply for an advance of up to 50 per cent of the WITB you expect to receive for 2016. You should apply for the advance using Form RC201 between January 2 and August 31, 2016. The calculated advance amount must be at least $100 in order to be paid as an advance. Amounts less than $100 can be claimed only with your income tax return. Please refer to the CRA website listed below for the scheduled advanced payment dates.

See CRA’s website for more information.

Employment Medical Benefits

In general, when employers provide employees with benefits in addition to their regular salary, the value of such benefits must be included in the employee's income as a taxable benefit unless there is a specific exception provided in the Income Tax Act or the Canada Revenue Agency (CRA) has an administrative position not to tax a particular benefit in the hands of an employee.

With respect to employer provided medical benefits, the rules can be quite complex. For example, if the employer pays an employee's Medical Services Plan (MSP) premiums, it is a taxable benefit to the employee. On the other hand, premiums for group medical plans including private extended health plans, vision care plans, prescription coverage and dental plans paid by the employer are not a taxable benefit to the employee, provided the plans only pay the costs of medical expenses that are deductible under the Income Tax Act. The employee participating in such plans cannot claim a tax deduction for the medical costs incurred except to the extent the costs are not covered or reimbursed by the employer paid plan.

The benefits or payments from certain kinds of insurance plans such as disability insurance and sickness income maintenance plans will be tax-free to the employee even if the plan is organized and sponsored by the employer, provided the employee pays the premiums. If the employer pays the premiums as a taxable benefit, a portion of the payment to the employee from such plans may be taxable to the employee. Typically the premiums are withheld by the employer from the employee's net pay, which means the employee is paying the premium with his or her after-tax income. As a result, benefits or payments to the employee from such an insurance plan are tax-free to the employee.

If an employer pays the premiums for the employee under a group term life insurance plan (generally an insurance plan that is in place only as long as the individual is an employee where the employee's spouse or family is the beneficiary), the premium will be a taxable benefit to the employee but a payment out of the plan on the death of an employee will not be taxable.

The employee will not receive a taxable benefit for accessing counselling services provided for or paid for by the employer. These tax-free counselling services are limited to the physical or mental health of the employee as well as retirement or re-employment counselling.

Contact a Chartered Professional Accountant if you have any questions about taxable benefits from employment.

Employee Stock Option Benefits

It is increasingly common for employers, both private companies and public companies, to grant to their employees an option to acquire shares of the employer. Benefits realized by employees from being granted an option to acquire shares of their employer are not taxable on grant, even if the exercise price is less than the fair market value of the shares, provided the option is granted to the individual by virtue of his or her employment.

Employees who are granted an option to acquire shares of a public corporation have a taxable benefit from employment in the year they exercise their employee stock option. The taxable benefit is the difference between the option price (sometimes called the "strike price") and the fair market value of the shares on the date the option is exercised. (If the employee has paid to acquire the option, the taxable benefit is reduced by the purchase price of the option.) If the employer simply grants the employee shares, that is essentially granting the employee an option to acquire shares for $nil so the employee stock option rules discussed herein still apply. If the employee is granted an option to acquire shares of a "Canadian controlled private corporation" (CCPC) and the employee was dealing at arm's length with the employer immediately after the agreement was made, the employee stock option benefit, although calculated at the time the option is exercised, is taxable in the year the shares are sold. It does not matter if the employer is no longer a CCPC at the time the shares are sold.

In the case of a public company, an employee may be entailed to claim a tax deduction equal to 50% of the employee stock option taxable benefit provided all of the following conditions are met:

- The employee dealt at arm's length with his or her employer immediately after the agreement was made;
- The stock option agreement with the employee permits the employee to acquire shares that meet the definition of "prescribed shares" as found in the Income Tax Act Regulations (basically common shares without special rights and restrictions); and
- The option was not less than the fair market value of the shares on the date the agreement was made.

The 50% deduction means an employee stock option is taxed at the same rate as a capital gain, but **it is not a capital gain**. The employee stock option benefit cannot be offset by the individual's "capital gains deduction" or capital losses.

For eligible securities of public companies acquired by employees under a stock option agreement entered into between February 27, 2000 and March 4, 2010, the employee's taxable benefits was determined when the option was exercised (when the shares were acquired) but the benefit was taxed only when the shares were sold. This income deferral was subject to an annual limit based on the fair market value of the eligible shares. For the year in which the employee stock option was exercised and the shares acquired and in each subsequent year the shares are held, the employee must file a Form T1212 Statement of Deferred Security Options Benefits with his or her personal income tax return to have the tax deferral in effect. This form is part of the e-filed tax return.

If an employee is granted an option to acquire shares of his or her employer at the time the employer was a CCPC, the employee stock option benefit is taxed in the year the shares are sold. The employee can claim a deduction in that year equal to 50% of the taxable benefit if:

- The employee held the shares for at least two years prior to sale, or
- The option price was not less than the fair market value of the shares on the date the option was granted and the four conditions for the 50% deduction on non-CCPC stock options benefits are satisfied (outlined above).

The "adjusted cost base" (ACB) of the shares acquired under an employee stock option plan is the fair market value of the shares on the date the option is exercised. The ACB is not reduced for the 50% deduction.

The rules related to stock options are complex, have changed considerably over the years, and are currently under review by the Department of Finance. You should consult a Chartered Professional Accountant to see how these rules may apply to you.

Employment Expenses

Where you earn income from employment and are required by the terms of your employment to incur certain expenses, you might be able to claim a deduction in respect of these expenses on your tax return. Such expenses might include sales expenses for commission employees, travel expenses, motor vehicle expenses, professional or union dues, office rent (including home office expenses if certain conditions are met), assistant's salary, and consumable supplies. In general, with the exception of depreciation (capital cost allowance) in respect of an automobile or aircraft, employees are not permitted to claim any deductions in respect of capital expenditures.

Your employer must certify the conditions of your employment on Form T2200 *Declaration of Conditions of Employment* to verify your eligibility to claim employment expenses. The Canada Revenue Agency does not require you to file the form with your tax return; however, you must retain it in case they wish to see it.

In addition to the restriction on capital expenditures, there are other specific restrictions and limits on the expenses you may deduct. Consult a Chartered Professional Accountant to determine what employment expenses you might be able to claim.

Automobile Expenses

If you are required to use your passenger vehicle for business or employment purposes, you are permitted to deduct reasonable expenses for operation and ownership of the vehicle. Such expenses include fuel, licence fees, insurance, repairs and maintenance, depreciation (called "capital cost allowance" for income tax purposes), finance charges, and lease payments. (There are specific limits placed on the amount of depreciation, finance charges and lease payments you are permitted to deduct. These limits vary from year to year.) The deductible portion of automobile expenses is based on the proportion of your total kilometres driven in the year for business or employment purposes relative to the total kilometres driven in the year.

Driving between your home and your normal place of business or employment is generally considered a personal activity, therefore, the automobile expenses in respect of this portion of your driving is not deductible unless you make a stop for business or employment purposes while travel to or from your home. The travel between your home and your employment is considered a personal activity even if you drive a vehicle with your employer's logo on it or your employer requires you to have the vehicle to be "on call".

To support your automobile expense deduction you should maintain a careful record of your business and employment kilometres driven for the year, including the date, destination, the distance driven, and purpose for each business trip. If you are audited by the Canada Revenue Agency (CRA) and you do not have a mileage log, the CRA will almost certainly assert your business or employment mileage is a fraction of what you otherwise claimed. There is now mileage tracking software and apps to make recording your mileage easier.

If you receive a reasonable per-kilometre allowance from your employer for the use of a motor vehicle, that allowance is not included in your income and you are not permitted to deduct your actual motor vehicle expenses. The CRA's reasonable per-kilometre allowance rates for 2015 are $0.55 per kilometre for the first 5,000 kilometres driven and $0.49 per kilometre driven after that. Where you receive both a reasonable per-kilometre allowance and a flat allowance, the entire amount must be included in your income but you may deduct your actual expenses. On December 24, 2015, the Federal Government announced the reasonable per kilometre allowance rate for 2016 will be reduced to $0.54 per kilometre for the first 5,000 kilometres driven and increased to $0.48 per kilometre driven after that.

Your employer must sign the form T2200 Declaration of Conditions of Employment to certify the conditions of your employment require you to use your passenger vehicle. Administratively, the CRA does not require you to file the T2200 with your tax return; however, you must retain it in case they wish to see it.

If you believe you might be eligible to claim automobile expenses on your personal income tax return, consult a Chartered Professional Accountant to help you calculate your allowable deduction.

Home Office Expenses

The income tax rules related to home office expenses (technically called "work-space-in-the-home expenses") are similar for self-employed individuals and non-commissioned employees as well as commissioned salespersons, however, there are certain important differences.

For Self-Employed Persons

In order for you to deduce your home office expenses from self-employment income (business income), the your home office must be your principal place of business or it must be used on a continuous basis exclusively by you to earn business income including meeting clients, customers, or patients as part of your normal business activity.

Deductible home office expenses for a self-employed person includes rent, repairs and maintenance, insurance, property taxes, mortgage interest (no the mortgage principal), heat, light, and other expenses. The deductible portion of these costs is a "reasonable amount" which is typically calculated based on the square footage of the home office as a percentage of the total square footage of the home.

You may claim a deduction for depreciation on the building (called "capital cost allowance" for income tax purposes), but doing so could affect the status of your home as your "principal residence" for purposes of claiming the "principal residence exemption" to offset the capital gain on the property when it is sold.

Your home office expense deduction in a year cannot exceed your net business income for the year before the deduction. Excess home office expenses are carried forward to be claimed as a deducted against business income of the following year.

For Non-Commissioned Employees and Employees who are Commissioned Salespersons

For non-commission employees and employees who are commission salespersons, the home office must be the place where the employee principally (more than 50%) performs his or her duties of employment or the home office is used exclusively by the employee on a regular and continuous basis for meeting customers and other persons in the ordinary course of employment.

Deductible home offices expenses for a non-commission employee includes rent, heat, light, water, and maintenance costs (i.e., light bulbs, cleaning, minor repairs, etc.). You will note that interest, property taxes and "capital cost allowance" are not included in this list. The deductible portion of home office expenses for an employee is the same as for a self-employed person, being a "reasonable amount" typically calculated based on the square footage of the home office as a percentage of the total square footage of the home.

Employees who are commissioned salespersons may claim the same home office costs and in the same proportion as a non-commission employee plus a proportionate amount of insurance and property taxes but they cannot deduct mortgage interest or "capital cost allowance".

For both the commission and non-commission employees, the home office expenses deducted in the year cannot exceed the income from that particular source of taxable employment income for the year. Unused expenses may be carried forward and deducted against that particular income following year.

Your employer must certify that the conditions of your employment require you to have a home office by signing the form T2200 Declaration of Conditions of Employment. Administratively, the CRA does not require you to file the T2200 with your tax return; however, you must retain the form in case the CRA wishes to see it.

Contact a Chartered Professional Accountant if you have any questions regarding your ability to claim home office expenses as a deduction against employment income or against income from self-employment.

Tradesperson's Tools Deduction

Many employed trades people must provide their own tools as a condition of employment. In recognition of this, an employed tradesperson is entitled to deduct the cost of eligible new tools acquired in a taxation year with a cost in excess of $1,146, including GST/HST. The maximum deduction for eligible tools is $500 for the year.

An eligible tool is a tool that is acquired by the taxpayer for use in connection with the taxpayer's employment as a tradesperson that has not been used for any purpose before it is acquired by the taxpayer. Electronic communication devices and electronic data processing equipment will not qualify as eligible tools (unless the device or equipment can be used only for the purpose of measuring, locating or calculating).

Your employer must certify the conditions of your employment on Form T2200 *Declaration of Conditions of Employment* to verify your eligibility to claim the cost of tools. The Canada Revenue Agency does not require you to file the form with your tax return; however, you must retain it in case they wish to see it.

The tradesperson will also be eligible for a rebate of the goods and services tax/harmonized sales tax paid on the portion of the purchase price of the new tools that is deducted in computing employment income.

Consult a Chartered Professional Accountant for more information.

Canada Employment Tax Credit

The Canada Employment Credit was introduced in recognition of work-related expenses incurred by employees and is indexed for inflation. For 2015, the tax credit provides tax relief on the lesser of $1,146 and the individual's employment income for the year.

The tax credit for a particular taxation year is calculated at the lowest personal tax rate for the year. For 2015 this rate is 15 per cent, yielding a maximum tax savings of $172.

Remember to take advantage of this and all other tax credits available to you.

Consult a Chartered Professional Accountant for more information.

BC Education Coaching Tax Credit

For the 2015, 2016, and 2017 tax years, teachers and teaching assistants in BC could qualify for a new non-refundable tax credit. If you perform at least ten hours of unpaid extracurricular activities, you may claim a tax credit of $500, which can provide a tax savings of up to $25.30.

To be eligible, you must be:

- a BC resident on December 31 of the tax year; and
- a paid teacher, teaching assistant, vice principal, or principal working in a public, francophone, independent, or First Nations school offering K to 12 education programs.

The unpaid extracurricular activities can include coaching or supervising sports, arts, or other activities, but must be performed after school hours or on weekends.

Consult a Chartered Professional Accountant for more information.

Volunteer Firefighters Tax Credit

The Volunteer Firefighters Tax Credit is available to volunteer firefighters who perform at least 200 hours of volunteer firefighting services for their communities during the year. Volunteer firefighting services may consist primarily of responding to and being on call for, firefighting and related emergency calls, attending meetings held by the fire department, and participating in required training for the prevention or suppression of fires. Volunteer service hours performed by a firefighter for a fire department will be ineligible if the firefighter also provides firefighting services, other than as a volunteer, to that fire department. The credit is calculated by multiplying the lowest personal income tax rate for the year (15% in 2015) by $3,000. For 2015, the non-refundable credit is $450.

Eligible volunteer firefighters who currently receive honoraria from a government, municipal, or another public authority in respect of their duties as an emergency volunteer will be able to choose between the tax credit and continuing to be entitled to the existing tax exemption of up to $1,000 for honoraria.

An individual claiming the credit may be required to provide written certification from the chief, or a delegated official, of the fire department, confirming the number of eligible volunteer firefighting hours performed.

Consult a Chartered Professional Accountant for more information.

Family Matters

Child Tax Benefits

The Canada Child Tax Benefit (CCTB) is a non-taxable amount paid monthly to help eligible families with the cost of raising children under 18 years of age. The CCTB may also include the Child Disability Benefit (CDB) and the National Child Benefit Supplement (NCBS).

To qualify for the CCTB, you must meet all of the following conditions:

- You must live with the child and the child must be under the age of 18;
- You must be the person who is primarily responsible for the care and upbringing of the child;
- You must be a resident of Canada; and
- You or your spouse or common-law partner must be a Canadian citizen, a permanent resident, a protected person, or a temporary resident who has lived in Canada for the previous 18 months and who has a valid permit in the 19th month.

In addition, you might be eligible even if your child lives with you on a shared basis. Shared eligibility exists where a child lives more or less equally with two separate individuals and each individual is primarily responsible for the child's care and upbringing when the child resides with them.

Once the CCTB has been applied for, both you and your spouse or common-law partner must file an income tax return each year even if you have no income to report in order to continue receiving the CCTB.

Child Care Expenses

You might be able to deduct your child care expenses if they were incurred to enable you or a supporting person to earn employment or business income, attend a designated educational institution or a secondary school, or engage in grant research. Attendance at a designated educational institution or secondary school means attendance of at least one course that is at least three weeks long, for at least 10 hours per week (full-time program) or 12 hours per month (part-time program).

A supporting person includes your spouse, the parent of the child, or the person who claimed the child as a dependent. The supporting person must have lived with you at any time in the taxation year as well as at any time in the first 60 days of the following taxation year. An eligible child is defined as a child of the taxpayer or the taxpayer's spouse, or a child dependent on the taxpayer or the taxpayer's spouse and whose income for the year does not exceed the basic personal amount for the year. The child has to be under 16 years of age at some time in the year. However, the age limit does not apply if, during the year, the child is dependent on the taxpayer or the taxpayer's spouse and has a mental or physical infirmity.

The maximum deduction is $11,000 for each child qualifying for the disability tax credit, $8,000 for each other child aged six or under at the end of the year, and $5,000 for each other child aged seven to fifteen at any time in the year and for a child with a mental or physical impairment born in

1998 or earlier for whom the disability amount cannot be claimed. The maximum total deduction may not exceed two-thirds of your earned income and the actual amount paid in the year for child care. The deduction can be claimed only by the lower income person unless the lower income spouse attends secondary or post-secondary school, is mentally or physically infirm, or for a period of at least two weeks was in a prison, hospital, asylum or other similar institution.

Child care expenses can include day care, nursery school, day sports camp, lodging at a boarding school or camp, and certain payments to babysitters.

Complete Form T778, Calculation of Child Care Expenses Deduction, and file it with your income tax return.

If you would like more information about claiming child care expenses, seek the advice of a Chartered Professional Accountant.

Individuals with Disabilities

In addition to the disability tax credit, parents and others will be able to establish Registered Disability Savings Plans (RDSP) to provide for the long-term security of a child who is eligible for the disability tax credit.

RDSP contributions will not be tax deductible, but investment income can be earned within the plan on a tax-free basis. Upon withdrawal only the accumulated investment income will be taxable to the beneficiary. The contributions to the RDSP will be paid to the beneficiary tax-free.

Anyone can contribute to the RDSP and there is no annual limit on the contributions; however, contributions on behalf of any one beneficiary are capped at a lifetime maximum of $200,000. Contributions can continue until the end of the year in which the beneficiary reaches age 59.

The beneficiary must begin receiving “lifetime disability assistance payments” (LDAP) from the plan by the end of the year he or she reaches age 60, subject to maximum annual limits based upon life expectancy and the value of the RDSPs assets.

A Canada Disability Savings Grant (CDSG) is an amount that is contributed by the federal government to the RDSP. Contributions to the RDSP will earn CDSGs at matching rates of 100 per cent, 200 per cent, and 300 per cent depending on family income and the amount contributed. The annual maximum CDSG is $3,500 where family income is less than $89,401 and $1,000 otherwise. An RDSP beneficiary can accrue up to $70,000 of CDSGs in their RDSP over their lifetime. No CDSGs will be paid to an RDSP after the year in which the beneficiary reaches the age of 49.

Lower income families might also be entitled to receive Canada Disability Savings Bonds (CDSBs) of up to $1,000 per year (to a maximum of $20,000 over the beneficiary’s lifetime). Eligibility for CDSBs will be linked to family net income, rather than amounts contributed.

Consult a Chartered Professional Accountant for more information.

Family Tax Cut Credit

The Family Tax Cut credit is a non-refundable tax credit that can result in tax savings of up to $2,000 for couples with children under 18 years of age.

To be eligible for the Family Tax Cut credit, an individual must satisfy these conditions:

- Be a Canadian resident at the end of the year;
- Have an eligible spouse or common-law partner who is a resident at the end of the year;
- The spouses cannot have been living separate and apart from each other as a result of a breakdown of the marriage or common-law relationship at the end of the year and for a period of 90 days or more in the year;
- Have an eligible child under 18 years of age at the end of the year who ordinarily lives throughout the year with the individual or his/her spouse; and
- Both spouses must file an income tax return and must not elect to split any pension income they may have.

To calculate the Family Tax Cut credit:

- First, calculate the couple's combined tax they would normally otherwise pay;
- Second, calculate the couple's combined tax they would pay if the higher income spouse had *notionally* transferred half of the difference in their taxable incomes (a maximum transfer of $50,000) to the lower income spouse; and
- Third, calculate the difference in tax under the first and second calculations – this amount will be the Family Tax Cut credit that one of the two spouses can claim. However, if the difference in tax is more than $2,000, the Family Tax Cut credit is limited to $2,000.

Note that because this is a "notional" income split, the higher spouse's income is not actually reduced, and thus there are no provincial tax savings.

The Family Tax Cut credit is available for 2015, but is expected to be repealed by the government for subsequent years.

Consult a Chartered Professional Accountant for more information.

Children's Arts Tax Credit

The Children's Arts Credit allows parents with children under 16 years of age who participate in paid artistic, cultural, recreational, and developmental programs to claim a non-refundable tax credit based on eligible expenses of up to $500 per year per eligible child.

Some examples of eligible programs or activities include those in the fields that contribute to the development of creative skills or expertise in an artistic or cultural activity, or where a child acquires and applies knowledge in the pursuit of artistic and cultural activities. Artistic and cultural activities include the literary arts, visual arts, performing arts, music, media, languages, customs, and heritage.

An eligible program must be either a weekly program that is a minimum of eight consecutive weeks or a children's specialty camp that lasts a minimum of five consecutive days. The full cost of a child's membership in an organization will be eligible for this new credit if more than 50% of the activities offered by the organization include a significant amount of eligible activities.

An additional $500 disability supplement amount may be claimed for a child who is under 18 years of age at the beginning of the year and is eligible for the Disability Tax Credit if a minimum of at least $100 is paid for registration or membership fees for a prescribed artistic program.

Either parent may claim the credit or the credit can be shared. To prevent duplication, expenses already claimed under other credits (e.g. the Medical Expense Tax Credit) will not qualify.

To substantiate your claim come tax time, request a receipt from the organization that provides the arts program. As with many other credits, you are not required to actually submit the receipts with your return but you should retain any supporting documentation in case the CRA asks for copies at a later date to verify your claim.

Consult a Chartered Professional Accountant for more information.

Children's Fitness Tax Credit

If you have a child who was under 16 years of age (or under 18 years of age and eligible for the disability tax credit) at the beginning of the year in which an eligible fitness expense was claimed, you may be eligible to claim the Children's Fitness Tax Credit. Effective 2015, the tax credit is refundable.

This credit allows parents to claim up to $1,000 of eligible fitness expenses paid per year for each qualifying child if a child qualifies for the disability tax credit and at least $100 in eligible fitness expenses have been paid for the child, an additional bonus amount of $500 can be added to the eligible fitness expenses actually incurred.

To qualify for the tax credit, the activities must not be part of a school's curriculum and must be either a minimum of eight consecutive weeks long, or in the case of camps, five consecutive days in duration. In addition, the activity must be supervised, suitable for children and require a significant amount of physical activity. For further information on what activities are eligible please refer to the Canada Revenue Agency (CRA) website.

To claim the Children's Fitness Tax Credit, you should request a receipt when registering your children for qualifying activities. The receipts do not need to be submitted with your tax return but should be retained for six years in case the CRA asks to see them. The tax credit is claimed in the year the qualifying expenses are incurred, regardless of when the activity takes place.

If your child has attended an activity that qualifies as both a childcare expense and a fitness activity you must first claim the amount as a child care expense. Any portion that cannot be used as a childcare expense can be then claimed as a children's fitness amount.

Consult a Chartered Professional Accountant to see how the Child Fitness Tax Credit rules may apply to you.

Child Fitness Equipment Tax Credit

The Child Fitness Equipment Tax Credit is available in British Columbia only, and it applies to 2015 and all subsequent years. It provides a non-refundable credit equal to 50% of the BC Children's Fitness Tax Credit. You are not required to retain or file any additional receipts for the Child Fitness Equipment Tax Credit, beyond what is required to be retained for the Children's Fitness Tax Credit.

Consult a Chartered Professional Accountant to see how the Child Fitness Equipment Tax Credit rules may apply to you.

Caregiver Credit

You might be eligible for the Caregiver Credit if you provide in-home care for a relative who resides with you, and the relative is yours or your spouse's:

- parent or grandparent age 65 or older; or
- dependent aged 18 or older who is dependent on you because of mental or physical impairment.

Generally, if you claim the caregiver credit for your relative, no individual will be allowed to claim the 'equivalent-to-spouse' credit or the 'infirm dependent' credit for the same relative. You can claim the caregiver credit for more than one eligible dependent. For example, if both parents qualify, you can claim the credit for both of them.

The combined Federal and British Columbia caregiver credit will reduce your taxes payable by up to $911 (for each relative claimed). However, the tax credit will be reduced where the relative's income for 2015 exceeds $15,735 for federal tax purposes and $14,717 for BC tax purposes. The credit is completely eliminated when the relative's income reaches $20,343 for federal tax purposes and $19,066 for BC tax purposes.

Check to see if you qualify for the Caregiver Credit. Consult with a Chartered Professional Accountant for more information.

Family Caregiver Tax Credit

The Family Caregiver Tax Credit will allow people taking care of infirm, dependent relatives to claim a non-refundable tax credit based on an amount of up to $2,093 in 2015, resulting in tax savings of up to $314 a year for qualifying individuals. Only one family caregiver tax credit may be claimed per eligible dependant.

A dependant who is a minor child will be considered to be infirm only if the dependant is likely to be, for a long, continuous and indefinite time period, dependent on others for significantly more assistance in attending to the dependant's personal needs and care than is generally the case for a person of the same age.

Caregivers will be able to claim the Family Caregiver Tax Credit for an infirm dependant as a supplement to their existing dependency-related credit (such as the Spousal or Common-Law Partner Credit, the Child Tax Credit, the Eligible Dependant Credit, the Caregiver Credit, and the Infirm Dependant Credit). The dependant's income level at which the credit amounts are phased out will be increased to reflect the amount of the Family Caregiver Tax Credit.

Consult a Chartered Professional Accountant if you currently support and provide care for dependent relatives and would like more information.

Adoption Expense Tax Credit

The Adoption Expense Credit is a non-refundable credit in respect of an eligible adoption expense incurred in the adoption of a child under 18 years of age. The maximum credit claimable is $15,255 for 2015. The credit is reduced to the extent that the adoptive parent has been otherwise reimbursed, or is entitled to reimbursement, in respect of eligible adoption expenses.

Individuals may include eligible adoption expenses incurred during the adoption period, generally defined as the period that begins at the earlier of the time the child's adoption file is opened with the provincial or territorial ministry responsible for adoption or a licensed adoption agency, and the time, if any, that an application related to an adoption is made to a Canadian court, and that ends at the later of the time the adoption is finalized and the time the adopted child begins to live with the adoptive parent.

To be eligible for the credit, a parent must have proof of an adoption in the form of a Canadian or foreign adoption order, or otherwise demonstrate that all of the legal requirements of the jurisdiction in which the parent resides have been met in completing the adoption. Individuals must claim the credit in the taxation year in which the adoption period ends.

Eligible adoption expenses include fees paid to licensed adoption agencies, court and legal expenses, reasonable and necessary travel and living expenses, document translation expenses, and mandatory fees paid to a foreign institution.

Consult a Chartered Professional Accountant for more information.

Investment Income, Gains, and Losses

Attribution of Investment Income

Complex attribution rules prevent spouses from simply splitting joint investment income between them to equalize their tax brackets. Joint investment income includes interest on joint bank accounts, investment income from joint brokerage accounts, rental income from jointly owned real estate, and capital gains from the disposition of jointly owned investments.

The attribution rules require that joint investment income be allocated between spouses based on each individual's contribution of funds to acquire the investment. Spouses with joint investments should be prepared to support their allocation of investment income by keeping track of the source of the funds used to acquire the joint investments.

There are opportunities to split investment income between spouses while not being subject to the attribution rules discussed above. Contact a Chartered Professional Accountant to help you review your tax planning strategies to potentially take advantage of income splitting with your spouse.

Taxation of Capital Gains

The phrase “capital gains” is one that should be understood thoroughly. In broad terms, “capital gains” are profits realized from the sale of assets that are “capital property”–the difference between the proceeds of sale and the cost of the property. (For income tax purposes, the cost of the property is called the "adjusted cost base," or ACB.)

What constitutes capital property can be quite complex. For example, if you acquire a property for the purpose of reselling it, the property will generally be considered inventory, not capital property. If, however, you acquire property for the purpose of earning income from it, like a building on which you intend to earn rental, that asset will generally be considered a capital property. For most individuals, investments in bonds, shares, mortgages, and similar investments are capital property, the sale of which will result in a capital gain to the extent proceeds exceed ACB or capital loss to the extent proceed are less than ACB. (There are rules that suspend or deny losses under various circumstances.)

Only 50% of capital gains are taxable (taxable capital gains), and the other 50% is tax exempt.

Generally, if you gift an asset, you will have a deemed disposition of the asset at its fair market value and a capital gain, to the extent its fair market value exceed ACB. Alternatively, you will have a capital loss on the asset to the extent its fair market value is less than ACB. (Again, there are rules that suspend or deny capital losses under various circumstances.) In certain circumstances where a capital gain is realized on property donated to a Canadian registered charity, the entire capital gain can be tax exempt.

Capital gains realized by individuals on a disposition of shares of a "Canadian-controlled private corporation" engaged in an active business that meets the definition of a "qualified small business corporation" can be offset with the individual's "lifetime capital gains exemption". The lifetime capital gains exemption limit is currently set at $813,600 (indexed for inflation). For the capital gains on the sale of qualified farming or fishing properties the lifetime capital gains exemption limit is now $1 million.

Given the favourable treatment of capital gains, it might be more tax effective to hold investments that will yield capital gains outside of a RRSP / RRIF and TFSA, and hold other assets (such as interest-bearing securities) inside a RRSP / RRIF and TFSA. Contact a Chartered Professional Accountant to help create tax strategies to take advantage of the lower tax rates for capital gains.

Lifetime Capital Gains Exemption

Individuals resident in Canada throughout the year have available to them a "lifetime capital gains exemption" of $813,600 (indexed for inflation) to offset the capital gains realized on the sale of shares of "Canadian controlled private corporations" (CCPC) that are "qualified small businesses corporations" (QSBC) (The $813,600 "lifetime capital gains exemption" equates to a $416,800 lifetime capital gains deduction, remembering that only 50% of a capital gain is taxable, so only 50% of the capital gains exemption is applied to the taxable capital gain). For the gains on the sale of qualified farming or fishing properties the lifetime capital gains exemption limit is now $1 million.

The claim for the lifetime capital gains exemption will be reduced by any previous claim of the capital gains exemption, by the individual's existing "cumulative net investment loss" (CNIL) balance and by any previous claims of "allowable business investment losses" (ABIL).

If you have a disposition of shares of a QSBC you should consult a Chartered Professional Accountant to see if you have any unused "capital gains exemption limit" and whether your capital gains exemption is limited by a CNIL balance or an ABIL claimed in the past. If you are contemplating the sale of shares of a QSBC you should consult a Chartered Professional Accountant before the sale to ensure the company is a QSBC, to determine your remaining capital gains exemption limit and whether your capital gains exemption is limited by a CNIL balance or an ABIL claimed in the past.

Capital Dividend

The non-taxable portion of a capital gain realized by a private corporation can be distributed by means of a special dividend referred to as a "capital dividend". Capital dividends received by a Canadian resident shareholder are fully exempt from tax.

The amount of tax-free capital dividend available for distribution is accumulated in a notional corporate tax account referred to as the "capital dividend account". The capital dividend account is a running balance that includes the non-taxable portion of capital gains and is reduced by the non-allowable portion of capital losses and prior payments of capital dividends. To ensure that the amount paid out is maximized, pay out capital dividends when capital gains are realized and before any capital losses are realized.

The corporation paying the capital dividend must file an election with the Canada Revenue Agency on or before the earlier of the day the dividend becomes payable, or the day any part of the dividend is paid. This election needs to be accompanied by a certified true copy of the corporate resolution to pay the capital dividend.

Other receipts can also add to a corporation's capital dividend account such as certain life insurance proceeds and capital dividends received from other corporations. The net non-taxable portion of income inclusions arising from the dispositions of eligible capital property can also be added to a corporation's capital dividend account but only at the beginning of the year following the year of disposition. If you would like more information about paying a capital dividend, seek the advice of a Chartered Professional Accountant.

Capital Losses

There are four types of capital losses:

- Listed personal property losses;
- Personal use property losses;
- Losses on shares or debt of a small business corporation; and
- Losses on other capital properties.

Capital losses from listed personal property (such as artwork, jewellery, stamps, and coins) are only deductible against capital gains on listed personal property.

Losses from the sale of personal use properties (such as a car, boat or home) are generally not deductible.

Losses from the sale of certain small business corporation shares or debt may be considered "allowable business investment losses" (ABIL). An ABIL is a capital loss. Normally a capital loss is only deductible against a capital gain but an ABIL is deductible against other sources of income (albeit at a 50% inclusion rate). The ability to claim an ABIL may be limited by previous years' capital gains exemption claims. The CRA will audit the claim of an ABIL; you must be able to prove the amount of the investment, the type of investment and provide evidence of the investment loss.

Losses on the sale of other capital properties must first be netted against capital gains realized in the year but may then be carried back three years (use Form T1-A) or forward indefinitely to offset capital gains realized in other years.

Generally, a "superficial loss" can occur when you dispose of capital property for a loss and you, or a person affiliated with you, buys the same or identical property (called "substituted property") during the period starting 30 calendar days before the sale and ending 30 calendar days after the sale, and you or such affiliated person still owns the substituted property 30 calendar days after the sale. If you have a superficial loss, you cannot deduct it when you calculate your income for the year. However, if you are the person who acquires the substituted property, you can usually add the amount of the superficial loss to the adjusted cost base of the substituted property. This will either decrease your capital gain or increase your capital loss when you sell the substituted property.

Losses triggered on the transfer of assets to an RRSP, RRIF, or TFSA are deemed to be nil.

If you have capital gains in the year or prior three years and unrealized losses on your investments, as you approach year-end you might consider triggering those losses before the year-end to save income taxes on your capital gains or to carry your capital losses back. Be aware that there are “stop-loss” rules designed to negate losses triggered on “superficial” transactions, so contact a Chartered Professional Accountant to help you devise a loss-selling strategy.

Claiming a Capital Loss on Shares of a Bankrupt or Insolvent Corporation

If at the end of a year, you own shares of a company that went bankrupt in the year or became an insolvent corporation (as defined in the *Bankruptcy Act* or the *Winding-up Act*), you might be able to claim a capital loss on those shares on your income tax return for the year. The capital loss is calculated as a notional disposition of your shares for zero proceeds if you elect to do so in your tax return for the year. To qualify for this election, the corporation must generally be bankrupt or otherwise insolvent and expected to be wound up or dissolved with the fair market value of your shares determined to be nil.

The election to claim the capital loss for shares of a bankrupt company is simply a letter to the CRA filed with your tax return. The letter will advise of the disposition (for zero proceeds) of the shares of a company that filed for bankruptcy in the year and provide details of the investment. If your tax return is e-filed, the election must be mailed to the CRA on or before the filing due date for your tax return (generally April 30 of the following year). Because the failure to file the election could result in the CRA denying the capital loss, you should consider filing the election using registered mail.

Where the loss is on shares of a "Canadian-controlled private corporation" (CCPC) engaged in an active business, under certain circumstances the loss may be an "allowable business investment loss" (ABIL). An ABIL is a capital loss, meaning only 50% of the loss is allowable. Unlike a capital loss that can be deducted only against capital gains, an ABIL can be deducted against other sources of income. The CRA will review all ABIL claims so you need to have evidence of the original investment, proof the company in which you invested was a CCPC engaged in active business, and support there was a loss triggering event in the year.

Contact a Chartered Professional Accountant to see whether you might be able to write off an investment in shares and whether the resulting loss might qualify as an ABIL.

Writing off Loans Made to a Business

If at the end of a year you are owed a loan amount that is no longer collectible, you might be able to realize a capital loss on that loan. Only 50% of a capital loss is allowable and is subject to certain limitations that can result in the loss being suspended (available later) or deemed to be zero. A capital loss can only be used to offset capital gains realized in the year, in the prior three years or at any point in the future.

The capital loss on a loan determined to be a bad debt is calculated as a disposition of the loan for zero proceeds. For the capital loss to be permitted for income tax purposes, the loan must have been made for the purpose of earning income from a business or property, or received as consideration for the disposition of capital property to a person with whom you were dealing at arm's length. The loan must have been established by you to have become a bad debt (uncollectable) in the year. As well, an election needs to be filed with your tax return for that year advising the Canada Revenue Agency (CRA) of the capital loss.

The election to report a loan as a bad debt and a capital loss on a tax return is simply a letter to the CRA providing details of the loan determined to have become a bad debt in the year. The letter should include information about the loan, the amount, date advanced, the borrower, the purpose of the loan, and how you determined the loan is a bad debt. If you e-file your tax return you need to mail the letter to the CRA before the filing due date of your tax return. Because the failure to file the election with the CRA can result in the CRA denying the capital loss, you might consider sending the letter by registered mail.

If the loan determined to be a bad debt in the year was to an arm's length Canadian-controlled private corporation (CCPC) engaged in an "active business" at some point in the twelve months prior to becoming a bad debt, the loss may qualify as an "allowable business investment loss" (ABIL). An ABIL is a capital loss, half of which is deductible against income from other sources of taxable income. The CRA will review all ABIL claims so you need to have evidence of the amount of the loan, proof the company to which you lent the funds was a CCPC engaged in "active business" in the twelve months prior to becoming a bad debt, support the loan was made to earn income from business or property and the nature of the loss triggering event in the year.

Contact a Chartered Professional Accountant to see whether you might be able to write off a loan, and whether the resulting loss might qualify as an allowable business investment loss.

Non-deductible RRSP Fees

Generally investment administration fees or investment management fees are tax deductible if the costs are incurred to earn investment income. These fees are not tax deductible if they relate to your registered retirement savings plan ("RRSP"), registered retirement income fund ("RRIF"), or tax-free savings account ("TFSA") because the investment earnings on these plans are not taxable (or they are tax-deferred). You should consider talking to your investment advisor or RRSP administrator to see if any portion of the administration fee or investment management fee you are paying on your RRSP, RRIF, or TFSA relates to your non-registered accounts, therefore, tax deductible.

If you pay administration fees or investment management fee for your RRSP, RRIF, or TFSA as charges against these particular investment accounts, consider asking your investment advisor whether you can personally pay this fee - do not have the money paid from the registered account. This will not make the fee tax deductible but it will allow your RRSP, RRIF, and TFSA to grow slightly faster. Your direct payment of the RRSP, RRIF, or TFSA administration fee or investment management fee will not be considered a contribution to either your RRSP or TFSA.

If you have a question about the deductibility of administration fees or investment management fees for your RRSP, RRIF, or TFSA, you should consult a Chartered Professional Accountant.

Donation of Publicly Traded Securities

Looking to sell some marketable securities *and* make a donation? You can kill two birds with one stone by donating the marketable securities directly to your charity of choice instead, and save some tax while you're at it.

The capital gains tax on the eligible amount of publically traded securities donated to registered securities has been eliminated. Meanwhile, the charitable donation credit is still based on the full fair market value of the gifted securities. Note, however, that limitations exist for donations of shares issued pursuant to a flow-through share agreement entered into after March 21, 2011.

Publically traded securities include shares, debt obligations, or rights listed on a designated stock exchange, or units of mutual fund trusts, or the capital stock of a mutual fund corporation.

Thinking of donating marketable securities? Consult a Chartered Professional Accountant to determine whether your securities qualify for the reduced capital gains inclusion rate.

Medical, Donation, and Other Tax Credits

Medical Expenses

Don’t forget to claim your medical expenses on your tax return.

You can claim a tax credit for medical expenses for any 12-month period ending in 2015. Just look for the consecutive 12-month period for which the sum of your medical expenses is the highest. Keep in mind, however, that you cannot claim medical expenses already claimed in the previous year.

You can add the medical expenses of your spouse and minor children to your own medical expenses. In addition, you can also add the medical expenses of certain other dependents subject to certain restrictions. In particular, caregivers are able to claim eligible medical expenses incurred in respect of a “dependent” relative if the caregiver pays medical or disability-related expenses of the dependent relative. For this purpose, a “dependent” relative is defined as a child who is 18 years of age or older, or a grandchild, parent, grandparent, brother, sister, uncle, aunt, niece, or nephew, who is dependent on the taxpayer for support.

In general, medical expenses include payments to private health insurance plans, fees to optometrists, opticians, dentists, medical doctors, and chiropractors, and the cost of prescription eyeglasses, contact lenses, medical lab tests, hospital services and treatments, prescription medicines, and medical devices such as artificial limbs and dentures. The above is not an exhaustive list of acceptable expenses. As well, medical expenses include reasonable renovation costs to an existing residence and incremental construction costs to make a new principal residence suitable for a disabled person, provided such costs would not normally be incurred by persons who are not disabled, and would not be expected to increase the value of the property. They also may include reasonable travel costs to obtain medical services not available where you live. You may not claim the specific portion of any medical expenses that have been reimbursed by a medical plan. Cosmetic procedures which are purely aimed at enhancing one’s appearance, including related expenses such as travel, which were incurred after March 4, 2010, are no longer eligible medical expenses.

For 2015, the tax credit is available only on the portion of the medical expenses that exceeds the lesser of 3% of your net income and $2,208 for federal tax purposes, and $2,066 for BC tax purposes.

As either spouse can claim the medical expense credit, it would generally be more beneficial for the lower income spouse to claim the medical expense and maximize the tax credit.

If you would like more information about claiming medical expenses, seek the advice of a Chartered Professional Accountant.

Refundable Medical Expense Supplement

Where your net family income is less than $49,379 and you have claimed medical expenses on your tax return, you might be entitled to a refundable medical expense supplement of up to

$1,172. You must be a resident of Canada throughout the year and 18 years of age or older at the end of the year to qualify.

The supplement is calculated as 25 per cent of your net medical expenses eligible for a non-refundable tax credit on Schedule 1 of your return. The amount of the supplement is reduced by 5 per cent of net family income in excess of $25,939.

No supplement is available where your income from employment and/or self-employment is less than $3,421.

The supplement is considered an amount paid on account of your taxes payable for the year. To the extent the deemed payment is not needed to reduce your taxes otherwise payable for the year to zero, it will be refunded to you.

Consult a Chartered Professional Accountant for more information.

Charitable Donations

You can claim all of your 2015 donations plus any donations made in any of the previous five years that have not been claimed already to an annual limit of 75% of your net income. The first $200 of donations are eligible for a tax credit calculated at 20.06% (federal and BC combined), and donations in excess of $200 are eligible for a tax credit calculated at 43.7% combined.

If you are married, consider claiming all of your donations on one spouse's tax return. By claiming donations on only one spouse's tax return, you avoid having the first $200 of donations subject to the reduced tax credit twice, saving you up to $47 of income tax.

If you are a first-time donor, the federal portion of the tax credit is enhanced by a further 25% for up to the first $1,000 of donations in the year. This "super credit" is only available in the year you make your first donation, so you may wish to consider accelerating next year's donations into that first year to make sure you maximize the potential super credit. This super credit is also only available until 2017.

You don't have to claim your donations made in 2015 in 2015. If, for example, you have other deductions sufficient to eliminate your taxes, then there is no benefit to claiming the donations in this year. Instead, carry forward your donations; they can still be claimed in any of the next five years.

You are required to attach the official charitable donation tax receipts to your tax return if you file a paper tax return. If you file your tax return electronically, retain your donation receipts because the Canada Revenue Agency (CRA) may ask for them later. Pledge slips, cancelled cheques, credit card slips, and other proofs of payment are not acceptable proxies for an official donation receipt. However, these documents may be requested by the CRA if your tax return is selected for review. If you have lost your official donation receipt, contact the charity for an official duplicate. Donations to foreign charities generally do not qualify for the charitable donations credit, but there are special rules to allow credits for donations to some US charities and certain other prescribed foreign charities.

Every receipt from a Canadian charity or athletic association must contain a statement that it is an "official receipt" for income tax purposes. The receipt must also conform to the prescribed format, and include the name of the organization, its address, the registration number assigned to it by the Minister of National Revenue, the date, and the amount of the donation.

Note that the Canada Revenue Agency administratively allows a taxpayer to initially choose which spouse or common-law partner will report a donation or gift and allows for the subsequent transfer of any carry forward balances from one spouse to the other spouse.

Consult a Chartered Professional Accountant to maximize your donation tax credit.

Tax Credit for Public Transit Passes

Do you or your family members regularly use public transit? If so, then you might be eligible to claim a special tax credit for transit passes purchased in 2015 on your 2015 personal income tax return.

This tax credit is available for transit passes used in 2015. There is no limit to the amount you may claim. Claims may be made in respect of passes that provide unlimited use of public transit for at least 20 days in any 28-day period.

A claim is also available for weekly passes provided they are for at least four consecutive weeks and each pass provides at least five consecutive days of unlimited public transit use.

Eligible cost-per-trip electronic payment cards may also qualify in 2015 provided they are used for at least 32 one-way trips during an uninterrupted period of no more than 31 days. Check with your public transit authority to ensure the card they issue is eligible.

You may claim the eligible cost for yourself, your spouse or common-law partner, and your children under the age of 19 at the end of the year.

Save those old transit passes. They could be worth 15 cents on the dollar when you file your tax return.

Home Accessibility Tax Credit

Qualifying taxpayers have an opportunity to plan for a new non-refundable tax credit that will be available in 2016 and subsequent tax years when they make certain expenditures to their dwelling.

The Home Accessibility Tax Credit (HATC) is available to individuals 65 years or older at the end of the tax year and individuals who are eligible to claim the disability tax credit when they incur qualifying renovation expenditures. These expenditures must relate to gaining access to, improving mobility within, or reducing risk of harm within the dwelling.

Qualified taxpayers may claim up to $10,000 in qualifying expenditures per year, which could result in a maximum non-refundable tax credit of $1,500. As well, if those expenditures happen to also qualify for the medical expense tax credit, both credits can be claimed in respect of the expenditures.

The HATC credit determination can be complex. Consult a Chartered Professional Accountant for more information.

Real Estate Matters

First-Time Home Buyers' Tax Credit

If you acquire a qualifying home, you might qualify for a home buyers' tax credit (HBTC), which is a non-refundable tax credit worth up to about $750. Generally, to be eligible for the HBTC, the following conditions must be met:

1. You, (or your spouse or common-law partner) must acquire a qualifying home; and
2. Neither you nor your spouse or common-law partner owned and lived in another home in the year of purchase or in any of the four preceding calendar years.

If you are a person with a disability or are buying a qualifying home for a related person with a disability, you may not need to be a first-time home buyer. However, the home must be acquired to enable the person with a disability to live in a more accessible dwelling or in an environment better suited to the personal needs and care of that person.

A qualifying home is a housing unit located in Canada acquired after January 27, 2009 which can be an existing home or one that is being constructed. Single-family homes, semi-detached homes, townhouses, mobile homes, condominium units, and apartments in duplexes, triplexes, fourplexes, or apartment buildings all qualify. A share in a co-operative housing corporation that entitles you to possess and gives you an equity interest in a housing unit located in Canada can also qualify. However, a share that only provides you with a right to tenancy in the housing unit will not qualify. The home must be intended to be used as your principal place of residence, or the principal place of residence of the person with the disability, within one year after acquisition to qualify.

This credit may be claimed in the year the qualifying home is acquired. Either you or your spouse or common-law partner can claim this non-refundable tax credit or you can share the credit. However, the total of both claims cannot exceed $750.

Note that even though the eligibility conditions for the HBTC are similar to the Home Buyer's Plan, they are not connected. Being eligible for the HBTC will not affect your participation in the Home Buyer's Plan.

Principal Residence Exemption

Most of us know that Canada provides an exemption from taxation for capital gains realized on the sale of a "principal residence". As simple as this may sound, the rules can be complex.

- The gain on the sale of your "principal residence" is not tax-free. The gain is taxable to you in the year of sale except to the extent the gain is offset with your "principal residence exemption".
- A principal residence is a housing unit ordinarily inhabited in the year for which it is being designated by you as a principal residence. This does not require the housing unit be lived in by you on a full-time basis throughout the year but generally it means you must have lived in it at some point in the year.
- The principal residence includes the land around the housing unit subject to certain limitations. Generally a maximum of half a hectare of land will be considered to be part of the principal residence but there are exceptions to this rule.
- Since 1981, only one property may be designated as a principal residence in any particular year for you, your spouse and your minor children.
- Where the gain from the sale of your personal residence results in business income or "capital cost allowance recapture" as opposed to a capital gain, that income cannot be offset by your principal residence exemption.
- You can designate a rental property as your principal residence, subject to certain limitations, if you resided in the property before or after the rental period and filed the appropriate tax elections.

Contact a Chartered Professional Accountant if you have questions about how best to utilize your principal residence exemption or if you are considering selling a property and you are not sure you can claim your principal residence exemption.

Change in Use Rules

If, during the year, you begin to use your residence or former residence as a rental property, you have what is called a "change in use" which results in a deemed disposition of the property at its fair market value at the time. Similar rules apply when you have a change in use of a rental property or a former rental property to a residence. The change in use could lead to a significant and unexpected income tax liability. Special elections are available to avoid or defer the deemed disposition in certain circumstances.

If you have a change in use of a property you should consult a Chartered Professional Accountant to understand the income tax implications and make sure the required elections are filed.

Rental Income

If you rent out all or a portion of your house you may deduct certain expenses connected with earning that rental income. These expenses include the proportion of your property taxes, mortgage interest, repairs and maintenance, insurance, light, heat, other utilities, and various other expenses that relate to the rental space on your house. You may not deduct the principal portion of your mortgage payments or any costs of construction, renovation, or alteration that are capital in nature.

You may claim depreciation (called "capital cost allowance" for income tax purposes) on any depreciable assets in your rental property (i.e., building, furniture and fixtures, etc.). If, however, you sell your house and the proceeds allocated to the depreciable assets are in excess of their depreciated cost (the original cost plus additional cost less the "capital cost allowance" deductions), you have to report as income in the year the recapture of the previously deducted capital cost allowance. This capital cost allowance recapture is taxed in the year of disposition in the same way as rental income; it is not a capital gain and it is not offset by the "principal residence exemption".

Care should be taken before claiming a deduction for capital cost allowance on a rental property as the deduction cannot increase or create a rental loss. The capital cost allowance deduction could be merely deferring tax to a higher income year when the property is sold. Be aware that, claiming a deduction for capital cost allowance on your house might jeopardize your ability to claim the "principal residence exemption" to offset a future sale of the property.

Seek the advice of a Chartered Professional Accountant when considering investing in a rental property or turning a portion of your home into a rental property so that you know the income tax implications, the deductions available to you, and the implications of claiming a deduction for capital cost allowance.

Foreign Property Reporting Requirements

Canadian residents are required to report their income on a worldwide basis. In addition, every individual must indicate on their personal income tax return whether they own “Specified Foreign Properties” with an aggregate cost of $100,000 or more. To determine the cost of foreign properties acquired in a currency other than Canadian dollars, use the exchange rate in effect at the time the property was purchased. If you own Specified Foreign Properties with an aggregate cost more than $100,000 you must complete and file Form T1135 by your tax return due date (April 30 of the following year for many individuals, otherwise June 15 for self-employed individuals). Individuals do not need to complete this statement for the year in which they first became a resident of Canada, but they still need to report on their Canadian income tax return for that year the foreign property income earned after becoming a resident of Canada.

The Canada Revenue Agency has implemented changes to Form T1135 for the 2015 and later tax years. The changes allow taxpayers who held specified foreign property with a total cost amount more than $100,000 but less than $250,000 throughout the year to report under a new simplified reporting method. This reporting method allows taxpayers to simply check a box for each type of property they held. For taxpayers who held specified foreign property with a total cost of $250,000 or more throughout the year, the current detailed reporting method will apply. However, under the current detailed reporting method, taxpayers are allowed to report the aggregate amounts for specified foreign property held in accounts with registered securities dealers and Canadian trust companies rather than providing the detail of each such property. This reporting method requires taxpayers to provide the aggregate fair market value of the property in each account on a country by country basis.

Specified Foreign Property **does not** include property that is purely for personal use and generates no income. If the foreign property (for example, a vacation home) is not used to generate income, then it does not have to be reported as foreign property. Foreign property used exclusively in an active business, foreign property held through a Canadian mutual fund, and foreign property held through an RRSP are **also exempt** from this reporting requirement.

Other foreign property reporting may be required where you own foreign corporations, have transferred or loaned funds to a non-resident trust, or received distributions from or borrowed funds from a non-resident trust.

The foreign property reporting requirements are complex, and failure to comply with the reporting requirements can result in significant penalties. Contact a Chartered Professional Accountant to help you understand the reporting requirements and identify tax-planning opportunities for foreign tax credits.

Retirement

Tax Credits for Those Over 65

If you were 65 years of age or older on December 31, 2015, then you might be eligible for some tax breaks.

You might be eligible to claim a tax credit for being 65 years of age or older, depending on your income level. The maximum age credit is reduced once net income for the 2015 tax year exceeds $35,466 for federal tax purposes and $33,174 for BC tax purposes, and declines to zero when net income exceeds $82,353 for federal tax purposes and $62,887 for BC tax purposes. In 2015, the maximum combined Federal and British Columbia age tax credit can reduce your taxes payable by as much as $1,280.

You might also be eligible to claim the pension income tax credit, calculated on the lesser of $2,000 and the eligible pension income you included in income for the year. The combined Federal and British Columbia tax credit can reduce your taxes payable by as much as $351.

Eligible pension income includes annuities (not a lump sum) you receive from superannuation or registered pension plans, RRSP annuities, or payments from a registered retirement income fund (RRIF) and annuity payments out of a deferred profit sharing plan (DPS). Old Age Security and Canada Pension Plan income do not qualify for the pension credit, although US Social Security will qualify to the extent that it is taxed in Canada. The pension credit is also available to individuals under 65 years of age on life annuity payments from superannuation or pension plans and on certain annuity payments arising by virtue of the death of a spouse.

If you are 65 or older and your only source of pension income is from Old Age Security and Canada Pension Plan payments, but you have an RRSP, you may qualify for the Pension Income Credit by transferring a sufficient amount of RRSP funds into a RRIF or annuity to create qualifying pension income.

If you are under 65 years of age and receiving income from a pension plan, or income from RRSP annuities, RRIFs, and certain other annuities as a result of the death of your spouse, you may also qualify for the credit.

You might also be able to file an election to split up to 50 per cent of your eligible pension income with a spouse or common-law partner. If you were 65 or older during 2015, consult a Chartered Professional Accountant to see what tax breaks you might be eligible for.

Foreign Pension Income

Canadian residents are required to report worldwide income on their Canadian income tax return. This would include pension income from foreign pension plans and US social security benefits. Under the Canada–US Income Tax Convention, only 85% of US social security benefits are taxable in Canada. However, effective for the 2010 and subsequent taxation years, Canadians will be able to claim an additional deduction of 35% of US social security benefits if they have been resident in Canada and have continuously, since before 1996, received US social security benefits in each taxation year. The additional deduction can also be claimed if the benefits are paid to a taxpayer in respect of a deceased spouse or common-law partner who received benefits prior to 1996.

Some foreign pension income is eligible for pension income splitting. Generally, Canadian residents who are 65 years of age or older at the end of year can transfer up to 50% of their pension income to their spouse or common-law partner if they jointly sign and file Form T1032. Where the Canadian resident is not 65 years of age at the end of the year, only "qualified pension income" that is eligible for the $2,000 pension income amount is eligible for pension income splitting.

A Canadian resident may transfer certain payments from a foreign pension plan to an RRSP provided the amount is included in income and attributable to services rendered by the individual, or his/her spouse or common-law partner, in a period throughout which the individual, or his/her spouse or common-law partner, were not resident in Canada. The transfer should be made within 60 days following the end of the year in which the income is received, and it may be made over and above the individual's regular RRSP contribution room.

A foreign tax credit can be claimed on the Canadian income tax return where the foreign pension income is taxable in the foreign country to reduce the person's overall Canadian tax liability. Taxation of a foreign pension received by a resident in Canada may vary depending on the tax treaty Canada has with the payer country. If you earn foreign pension income, contact a Chartered Professional Accountant to determine whether the foreign pension income is taxable in Canada.

Students and Education

Post-Secondary Education Expenses

Don’t forget your education expenses on your tax return.

Students enrolled at eligible Canadian post-secondary institutions, such as universities or certified trade schools, might be entitled to a tax credit for tuition fees and ancillary fees (e.g., library fees, lab fees, and computer service fees) paid for each calendar year. Full-time student fees at foreign universities might also qualify for a credit.

Certain examination and other related fees paid to an educational institution, professional association, provincial ministry, or similar institution to take an examination that is required to obtain professional status recognized by federal or provincial statute, or to be licensed or certified to practice a profession or trade in Canada may also be claimed.

Canadian students may claim tuition tax credits for tuition fees paid to foreign universities outside of Canada as long as the student is in full-time attendance, the course duration is a minimum of three consecutive weeks, and the course leads to a degree. This will recognize the shorter course lengths at some foreign educational institutions and allow Canadian students to claim the related tuition tax credits.

In addition to the tuition credit, students might be entitled to an education tax credit calculated on an education amount of $400 per month for each full or part month of full-time attendance, or $120 per month for each full or part month of part-time attendance. Education amounts for provincial tax credit purposes vary depending on the province. In B.C., the education amounts are $200 per month for full-time attendance and $60 per month for part-time attendance.

Students may also be able to take advantage of the federal textbook tax credit. The textbook tax credit is calculated on a prescribed amount of $65 per month for each month the student qualifies for the full-time education tax credit, and $20 per month for each month the student qualifies for the part-time education tax credit.

The education and textbook tax credits are available for 2015, but are expected to be repealed by the government for subsequent years.

You may be able to transfer a portion of your unused tuition, education, and textbook tax credits to a supporting spouse, parent, or grandparent up to maximum of $5,000 per person per year subject to certain restrictions. Tuition, education, and textbook amounts that cannot be used in the current year, and that are not transferred, can be carried forward and claimed by the student in a subsequent year.

If your employer or your parent's employer paid your tuition, it is not creditable to you unless it is included in yours, or your parent's income.

Students might also be eligible for tax credits or deductions for other expenses, such as interest on student loans or moving expenses.

If you would like more information about claiming tuition tax credits, seek the advice of a Chartered Professional Accountant.

The Canada Education Savings Grant

The government of Canada adds to your savings in a Registered Education Savings Plan (RESP) with the Canadian Education Savings Grant (CESG). The CESG is a financial incentive for parents, family, and friends to save for a child's education after high school. The grant is paid directly into the child's RESP and will not be included in the annual and lifetime contribution limits for the beneficiary. The lifetime limit for any one beneficiary is $7,200.

Lifetime RESP contributions are limited to $50,000 per beneficiary. When more than the $50,000 RESP lifetime limit is contributed with respect to a beneficiary, a 1% per month penalty will be payable on the excess contribution that is not withdrawn by the end of the month.

The government of Canada will contribute the Basic CESG grant equal to 20 per cent of the first $2,500 of annual contributions to an RESP (up to a maximum of $500 per year per beneficiary) for the benefit of children under 18 years of age. For missed years, there are carry-forward provisions that allow you to catch up on missed CESGs by up to $500 per year.

In 2015, for lower and middle income families, the additional CESG rate on the first $500 of annual contributions is 20 per cent for families with income of $44,701 or less (CESG equals $100 on the $500 of contributions), and 10 per cent for families with income between $44,702 and $89,401 (CESG equals $50 on the $500 of contributions).

If the beneficiary does not use the CESG for education, the principal amount of the CESG grants must be repaid to the government. You will not have to repay income earned on the CESG grants but the income will be taxed when the amounts are withdrawn.

The CESG will only be available for a 16 or 17 year old if the RESP contributions (net of any withdrawals) made *before* the year the child turned 16 either totaled $2,000 or were at least $100 per year in any four previous years.

Subscribers of separate RESP plans for their children are allowed to transfer amounts between individual RESPs for siblings, without incurring penalties and without triggering the repayment of CESGs, provided that the beneficiary of the plan receiving the transfer of assets had not attained 21 years of age when the plan was opened. Set up and make contributions to an RESP for your children to qualify for the CESG.

If you would like more information about the Canada Education Savings Grants, seek the advice of a Chartered Professional Accountant.

Student Bursary and Scholarship Income

Scholarship, fellowship, or bursary income received by a student is considered fully tax-exempt, provided the income is connected with a program that entitles the student to claim the education tax credit. The education tax credit is available to students who are enrolled in qualifying post-secondary educational programs at designated educational institutions. Generally, to be considered at the post-secondary school level, a course should provide credit towards a degree, diploma or certificate.

Where the scholarship exemption applies to a student in a part-time program, the exemption applies only to the extent the award covers tuition fees and costs incurred for program-related materials. This limit does not apply to students entitled to the disability tax credit or students who cannot enrol full-time due to a mental or physical impairment.

Since 2007, the exemption has been extended to scholarships, fellowships, and bursaries received in connection with an elementary or secondary school educational program.

Scholarships from foreign universities may be considered taxable income to the student in that country even though the student may be considered a resident of Canada while attending the foreign university.

If you have questions about the taxation of scholarships or bursaries, contact a Chartered Professional Accountant.

Tax Matters for the Incorporated and Self-employed

Self-Employed Status

People who are self-employed can generally take advantage of a wider range of available deductions in computing their taxable income than employees. One of the benefits of being considered an independent contractor is that you are not required to have “payroll taxes” withheld from your income. You are also not required to pay Employment Insurance (EI) premiums if you carry on business for yourself. This could have saved you up to $931 in EI premiums in 2015 ($955 in 2016). However, this means that if your consulting contracts terminate and you are left without work, you cannot benefit from EI.

Canada Pension Plan (CPP) contributions, on the other hand, are still required. As well, if you are self-employed, you will need to pay the "employer’s share" as well as your own share. The total was as high as $4,960 for 2015 ($5,089 for 2016). You will, however, be able to claim a deduction for the “employer's share” of CPP up to the maximum of $2,480 for 2015 ($2,544 for 2016), and a tax credit for your own share of the CPP.

The distinction between an employee and an independent contractor is not always clear and is a question of fact. The issue of control (who controls what is done and how it is done) must be considered in making this distinction. Accordingly, you will more likely be considered an independent contractor carrying on your own business as a proprietor if you:

- Agree to get the job done, but you don’t always make a commitment for any particular number of hours on any particular day;
- Work on your own with no supervision and simply report back to the company periodically on progress;
- Issue invoices and receive payments with no source deductions for income tax, EI, or CPP/QPP, and receive no employee benefits;
- Use your own equipment and work at home, going to the company for planning meetings only;
- Provide services to more than one client or customer.

If your worldwide taxable supplies of goods and services exceed $30,000 in a single calendar quarter or in four consecutive calendar quarters, you will be required to register for the Goods & Services Tax (GST) and charge GST on your supplies. In addition, if in the ordinary course of business you sell or lease taxable goods, or provide software or taxable services, you may need to register for and collect Provincial Sales Tax.

Each case will depend on its facts. Keep in mind that there are other pros and cons of being employed versus self-employed. Consult the advice of a Chartered Professional Accountant.

Buying Capital Assets

In computing income from a business, capital cost allowance (CCA), or tax depreciation, is allowed as a deduction. When capital assets are purchased and available for use, they are grouped into classes based on the type of capital asset purchased. CCA is claimed annually against each class. The "declining balance" method is used for most classes. Under that method, the maximum CCA you can claim against each class is a fixed percentage of the undepreciated capital cost (UCC), which is the running balance of the capital cost of capital assets in a class that has not yet been deducted in previous years. What you claim then reduces the UCC balance for the next year's claim.

For most assets, only one-half of the CCA you could otherwise claim for the assets is allowed in the year of acquisition. As a result, acquiring an asset just before your year-end will accelerate the timing of your tax write-off, while acquiring the asset at the beginning of the year will delay your CCA claim.

If you would like more information about the timing of your capital asset purchases, seek the advice of a Chartered Professional Accountant.

Work in Progress for Professionals

Self-employed professionals who are accountants, dentists, lawyers (including a Quebec notary), medical doctors, veterinarians, or chiropractors have the ability to defer a portion of their professional income for tax purposes. Where, in the normal course of operations, the professional tracks hours expended on a project that have not yet been billed, this unbilled time, or “work in progress” (WIP), would normally be included in the professional's income for accounting purposes. However, the *Income Tax Act* provides that where the professional elects in his or her return of income, this WIP can be excluded from the determination of income for income tax purposes.

The election is made by either attaching a letter to the taxpayer's return stating that the election has been made, or by clearly indicating this information in the financial statements or in an income reconciliation submitted with the return. Once made, the election is valid for all subsequent taxation years and can only be revoked with the consent of the Minister of National Revenue through your local Tax Services Office.

If you are a professional and believe you could qualify for this election, contact a Chartered Professional Accountant to help you determine if it is available to you.

When Your Children Work for Your Business

If your children help you run your business, you can pay them a reasonable salary and deduct it from your business income when preparing your tax return. The salary must be reasonable for the type of work performed.

Putting your kids on the payroll could mean deductions on your tax return, and might allow them to start accumulating RRSP contribution room which can be used to reduce their taxes in future years. The other advantage is that your kids might be taxed at a lower rate than you.

Don’t forget to make appropriate payroll withholdings. Note that CPP premiums are not required until your child turns 18 and that EI premiums are generally not required where the employee and the employer do not deal at arm’s length.

Consult the advice of a Chartered Professional Accountant for more information.

Record Keeping for the Self-Employed

The *Income Tax Act* requires every taxpayer carrying on a business to keep records and books of account so that the Minister may verify the validity of the expenses claimed and thus establish the amount of tax payable. Therefore, to the extent you are claiming automobile expenses, meals and entertainment costs, or any other business expenses, you should retain the documents or invoices that support your expense claims. To the extent automobile expenses are incurred in part for personal purposes, a record documenting total distance travelled and distance travelled in the year to earn income needs to be maintained.

Without these documents, you might not be able to support claims that would otherwise be valid business expenses against your source of income. In addition, if you are ever subject to an audit, good accounting records will save you time and money in dealing with Canada Revenue Agency (CRA).

The failure to keep adequate records is also an offence that can result, on conviction, in a fine or imprisonment, or both.

You are generally required to retain the records supporting your business expense claims for at least six years after the end of the year to which the records relate. Some records must be kept for at least two years after the day a corporation is dissolved or six years after the year in which a business ceased. In addition, the CRA may specifically require you to keep records for an additional period of time. As well, you may wish to retain your records for a longer period, for example to support a net loss that is carried forward and claimed in a much later year.

You may destroy your books of account and records at an earlier time than outlined above if you receive written permission from the CRA. To get such permission, you (or an authorized representative) can complete Form T137, *Request for Destruction of Books and Records*, or apply in writing to your Tax Services Office.

If you would like more information regarding the maintenance of adequate accounting records for the purposes of complying with income tax legislation, seek the advice of a Chartered Professional Accountant.

Records Retention

If you run your own business, you are required to retain books and records that relate to a specific taxation year for a minimum of six years after the end of that year. If a particular year is under appeal, books and records for that year should be kept until the appeal is resolved and the time for any further appeal has expired. If a return has been filed late, the records must be kept for six years from the actual filing date.

Records include minutes of meetings, accounting records, and source documents such as invoices, receipts, cheques, bank statements, etc. The books and records must be sufficient for the Canada Revenue Agency (CRA) to confirm revenue, expenses and taxes paid. They must also be stored at a Canadian location available for audit.

If you use a computerized record-keeping system, there is a requirement to maintain an electronic backup and there are penalties for failure to do so. In addition, any paper records that you retain must be legible in the future. This means that you may need to copy certain receipts and invoices on paper that will not fade. Also, it is important to keep the detailed original invoices, not just the credit card slip and the monthly credit card statement, to document the nature and amount of the expenses.

As records over six years old might contain information that is still relevant for tax purposes, you might wish to consult a Chartered Professional Accountant or the CRA prior to destroying your records. As well, you might need permission from other government departments before you may destroy records related to those departments' activities.

For more information, refer to the CRA Information Circular 78-10R5, which you can find on the CRA website.