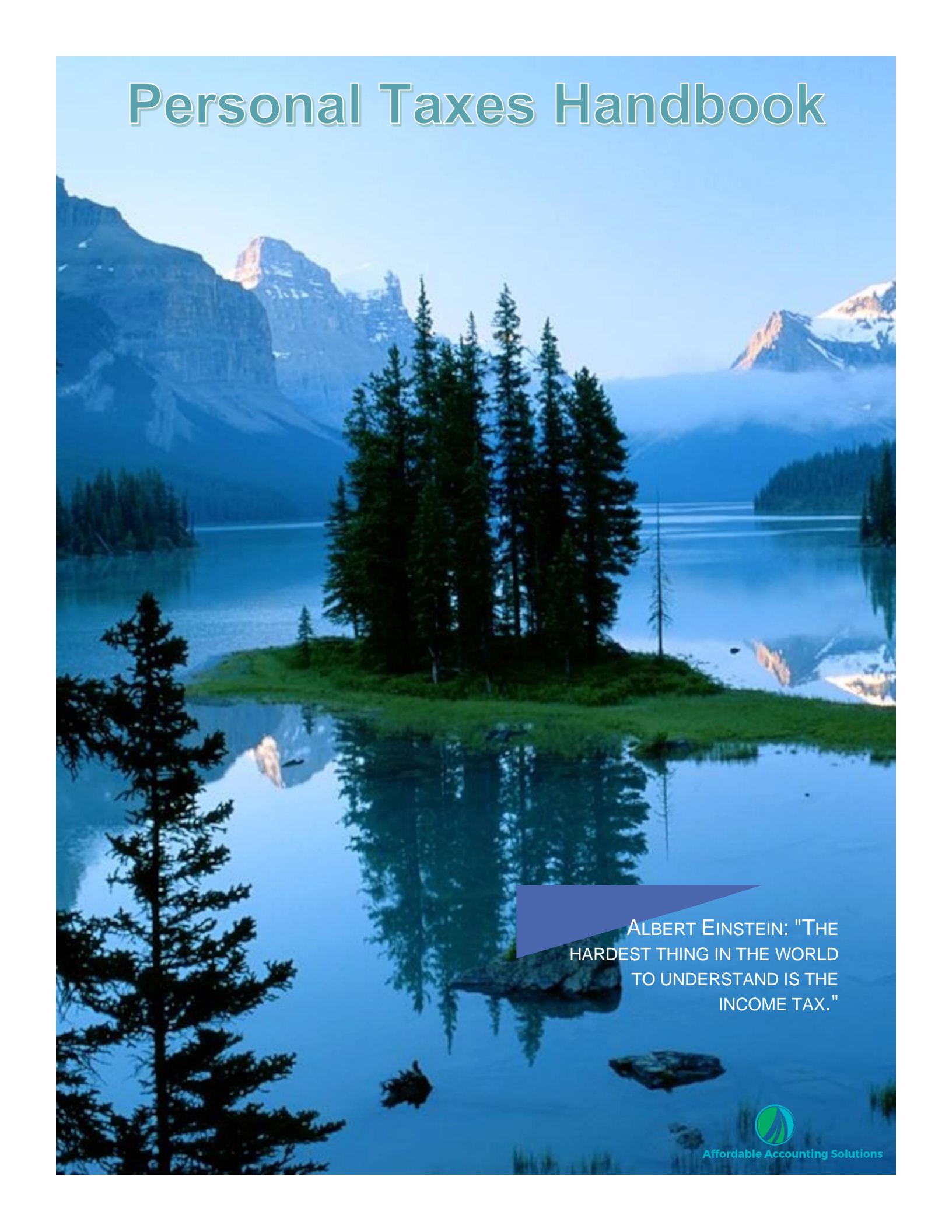


Personal Taxes Handbook



ALBERT EINSTEIN: "THE
HARDEST THING IN THE WORLD
TO UNDERSTAND IS THE
INCOME TAX."



Affordable Accounting Solutions

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INTRODUCTION

Foreword

It's no secret that tax can be pretty pervasive and complicated — personal taxes perhaps the most of all. And in the wake of the economic damage wrought by the COVID-19 pandemic, personal taxes have taken on an extra layer of complexity this year.

But despite these challenges, Canada's tax system offers a range of opportunities for you to realize savings. The key is to know where to find them and which are available to you. That's where we can help. Our tax professionals advise many of our clients, and now we want to share that insight with you to better manage your personal taxes.

Of course, it depends on your personal situation — your age, stage in life, province, or territory of residence, whether you're a business owner or an employee, if you have investments, how often you travel for business and many more factors.

Achieving your tax-saving goals requires you to step back and ask yourself some important questions. How can I sort through the myriad tax credits to find the ones that are right for my situation? What tax deductions can I make for my kids? What do I need to know before buying a house or making any other major investment? Is an RRSP or a TFSA the better plan for retirement?

In the following pages, you'll find tips, strategies, suggestions, and important updates to help you generate these questions. Finding the answers can help you understand your unique tax situation, plan for the future, benefit from government incentives and — perhaps most important — save you time and money, and hopefully stress.



TAX BRACKETS

Combined Personal Alberta and Federal Tax rates:

2022	Income	Capital Gains	Eligible Dividends	Non-Eligible Dividends
\$0 – \$50,197	25	12.5	2.57	15.86
\$50,198 - \$100,392	30.5	15.25	10.16	22.18
\$100,392 - \$134,238	36	18	17.75	28.51
\$134,238 - \$155,625	38	19	20.51	30.81
\$155,625 - \$161,086	41.38	20.69	25.17	34.70
\$161,086 - \$214,781	42.38	21.19	26.55	35.85
\$214,781 - \$221,708	43.38	21.69	27.93	37.00
\$221,708 - \$322,171	47	23.5	32.93	41.16
> \$322,171	48	24	34.31	42.31

Federal tax rates:

- 15% on the first \$50,197 of taxable income, plus
- 20.5% on the next \$50,195 of taxable income (on the portion of taxable income over \$50,197 up to \$100,392), plus
- 26% on the next \$55,233 of taxable income (on the portion of taxable income over \$100,392 up to \$155,625), plus
- 29% on the next \$66,083 of taxable income (on the portion of taxable income over 155,625 up to \$221,708), plus
- 33% of taxable income over \$221,708

Alberta Tax rates:

- 10% on the first \$134,238 of taxable income, +
- 12% on the next \$26,848, +
- 13% on the next \$53,695, +
- 14% on the next \$107,390, +
- 15% on the amount over \$322,171

When you hear the term “tax bracket”, your eyes might glaze over. That’s okay. We’ll break it down in simple terms.

Tax brackets determine how much tax we should pay based on our annual income. A tax bracket is simply the percentage of tax that you pay on the next dollar of income that you earn. The tax bracket you fall into is based on your taxable income. This is your gross (before tax) income that you receive from all sources (employment, self-employment, investments, etc.), minus any tax deductions you’re entitled to claim (basic personal tax credits, RRSP contributions, etc.).

It’s pretty easy to calculate your taxes if you know your taxable income. Simply apply the relevant federal and provincial tax rates to your taxable income.

You might be wondering whether you should apply the federal or provincial tax rates first. It's important to know that the federal tax rate is applied first, and after that, you can calculate your provincial tax. Finally, add the two figures together and voila!

There are currently five federal tax rate brackets. The number of provincial or territorial tax brackets depends on where you live. Different tax rates apply to each tax bracket, but the tax rate gets progressively higher the more income you earn.

What's a Marginal Tax Rate?

You may have heard of the term "marginal tax rate." Your marginal tax rate is simply the federal and provincial income tax combined. Your marginal tax rate depends on where in Canada you live, where you file your tax return, and how much taxable income you declare on your return.

How Does Canada's Progressive Tax System Work?

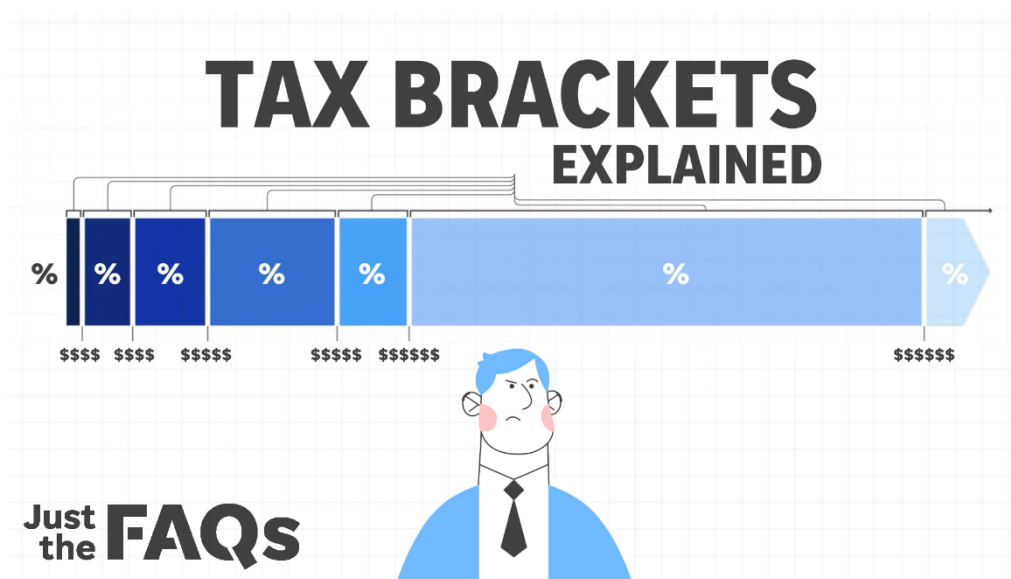
You may have also heard of the "progressive tax system." Progressive tax systems refer to the fact that the higher your income, the more tax you're expected to pay. Instead of all Canadians paying the same tax rate, those who earn more pay a higher percentage of their income to taxes.

To better understand how a progressive tax system works, it helps to think of tax brackets like rungs on a ladder. The higher you climb on the ladder; the higher tax rate you pay on the next dollar of income that you earn. This last part is key.

This is a common misunderstanding with marginal tax rates. Canadians often think that if they earn an extra dollar of income, their marginal tax rate will apply to all of their taxable income, but that isn't the case.

Your marginal tax rate is the tax rate you pay on your next dollar of income. Unless you're already in the lowest tax bracket, lower tax brackets will still apply to the rest of your income.

Your marginal tax rate is different from an average tax rate. The average tax rate is calculated as the total amount of taxes payable by your total income. Your average tax rate will almost always be lower than your marginal tax rate (unless, as mentioned earlier, you're already at the lowest tax bracket).



WHAT YOU CAN DEDUCT

With upcoming tax filing season, many Canadians are preparing to file their income tax returns. This year the deadline to file is April 30.

Canadians love tax refunds but hate rounding up the paperwork to do the return. That's where common tax filing errors really begin.

Deductions vs Tax Credits

There are few things more taxing than trying to figure out the tax laws in Canada. For example, a tax deduction and a tax credit may sound like the same thing, but they're slightly different. A tax deduction reduces the amount of income that is subject to income tax, but a tax credit reduces the amount of tax owing.

Non-refundable vs. refundable tax credit: tax credits may be refundable or non-refundable. A non-refundable tax credit can only reduce any taxes owing. So, if you had a \$1,500 actual tax credit, but only owed \$1,000 in taxes, it would reduce your tax bill to \$0. If that actual tax credit was refundable, you would additionally receive a \$500 tax refund.



Deductions

Contribute to your RRSP before March 1

The RRSP deadline is March 1— so hurry up fill yours! You can find how much you're allowed to contribute on your Notice of Assessment (you know that form that sent with that cheque?) You'll be able to receive a tax refund equal to your marginal rate, that you can later then contribute to your TFSA! It is important to remember though, that if you make about \$36,000 or less, then you should contribute to a TFSA instead, because you're not getting taxed to the nines. When you get taxed to the nines, then contribute to an RRSP because then you can receive a larger tax refund. Having said that, if you have enough dough to contribute to both a TFSA and your RRSP, you can contribute to your RRSP BUT hold off on using it as a tax deduction until future, more income-generating years (use Schedule 7 for this).



Charitable Donations

The CRA allows a federal tax credit on charitable donations of 15% for the 1st \$200 and 29% on amounts over \$200 up to a maximum of 75% of net income. The provincial tax credit for Alberta residents is 10 % of the first \$200 and 50 % of any amount over \$200. Spouses can pool their contributions to maximize the tax break. Furthermore, contributions need not be claimed in the tax year they were made but can be carried forward for up to five years. Donations under the \$200 limit can be accumulated and claimed in later years to qualify for the higher credit allowance.

Childcare Expenses

Childcare expenses are deductible from income where both spouses, or spouse, in the case of single parent families, are working or where one spouse is attending school for all or part of the tax year.

Childcare expenses can include:

- caregivers providing childcare services
- day nursery schools and daycare centers
- educational institutions, for the part of the fees that relate to childcare services
- day camps and day sports schools where the primary goal of the camp is to care for children (an institution offering a sports study program is not a sports school)
- boarding schools, overnight sports schools, or camps where lodging is involved

You **cannot claim** payments for any of the following:

- medical or hospital care, clothing, or transportation costs
- fees that relate to education costs at an educational institution, such as tuition fees of a regular program or a sports study program
- fees for leisure or recreational activities, such as tennis lessons or the annual registration for Scouts

If both spouses are working, the lower-income earner must claim the deductions. If the lower income earner is a full-time student, the deduction is available to the higher earner for the number of weeks the spouse attends school. The maximum you're allowed to claim under the childcare deduction is \$8,000 for each child under seven years at the end of the year, and \$5,000 for each child over seven and under 16 years old. For children with disabilities, you can deduct up to \$11,000. The deductions cannot exceed two-thirds of your earned income.

Medical expenses

You can claim your medical expenses for 2022 that were paid during this year. You can claim all amounts were paid, even if you paid outside Canada. Please have all your receipts, prescriptions ready, if CRA will ask you later to show. What can you include here? Below is a list:

- Medical practitioners, dentists, nurses, and certain other medical professionals.
- Public or licensed private hospitals.
- Physiotherapy or homemaker services rendered in your home.
- Eyeglass frames and lenses and contact lenses prescribed by a medical practitioner.
- Premiums paid to a private health services plan, such as travel medical insurance.
- Premiums paid for medical coverage during trips out of the country.
- Premiums paid under a provincial or territorial prescription drug plan.
- Transportation service costs, where the taxpayer has to travel at least 40 km to the location where the required medical services are provided.
- Travel at least 80 km one way for medical services: reasonable travel expenses (meals, lodging, vehicle expenses including parking) may also be claimed. The travel costs can be calculated by keeping all receipts, or by using the CRA meal expense allowance and vehicle cost per kilometer amounts. See the CRA web page on travel expenses for medical expense, which links to information on meal and vehicle rates used to calculate travel expenses for medical travel for each province. Note that the simplified method meal rate is increased to \$23 per meal from \$17, effective Jan 1, 2020.



- Costs of the following devices: artificial limbs, iron lungs, rocking beds for polio victims, wheel chairs, crutches, spinal braces or limb braces, ileostomy or colostomy pads, hernia trusses, artificial eyes, laryngeal speaking aids, hearing aids, artificial kidney machines, phototherapy equipment for treatment of psoriasis or other skin disorders, oxygen concentrator - this includes CPAP (continuous positive airway pressure) machine for sleep apnea, diapers, disposable briefs, catheters, catheter trays, tubing or other products required by the patient by reason of incontinence caused by injury, illness, or affliction, costs of oxygen.
- Costs of diapers, disposable briefs, catheters, catheter trays, tubing or other products required by the patient by reason of incontinence caused by injury, illness, or affliction
- Costs of oxygen tent or other equipment for administering oxygen or for insulin, oxygen, liver extract injectable for pernicious anemia or vitamin B12 for pernicious anemia, for use by the patient as prescribed by a medical practitioner
- For blind or profoundly deaf patients, or those that have a severe and prolonged impairment that markedly restricts the use of the patient's arms or legs, the costs of an animal specially trained to assist the patient with the impairment, including the costs of food and veterinary care, reasonable travel expenses for the patient to travel to a facility that trains such animals and individuals so impaired, and reasonable board and lodging expenses of the patient while in full-time attendance at such a facility
- Reasonable expenses incurred in respect of bone marrow or organ transplants, including legal fees and insurance premiums to locate a compatible donor and to arrange for the transplant, and reasonable travel, board and lodging expenses of the donor (and one other person who accompanies the donor) and the patient (and one other person who accompanies the patient)
- Reasonable expenses relating to renovations or alterations to a dwelling to enable a disabled patient to gain access to, or to be mobile or functional within the dwelling. Note that a hot tub is not an eligible medical expense, even if it is prescribed by a medical practitioner.
- Reasonable incremental costs related to the construction of the patient's principal place of residence, to enable the disabled patient to gain access to, or to be mobile or functional within the dwelling
- Costs of rehabilitative therapy, including training in lip reading and sign language, incurred to adjust for the patient's hearing or speech loss, as well as sign language interpretation services
- Reasonable moving expenses incurred for the purpose of a disabled patient's move to a dwelling that is more accessible by the patient, or in which the patient is more mobile or functional, to a maximum of \$2,000
- reasonable costs for driveway alterations for the principal place of residence of a patient with severe and prolonged mobility impairment, to facilitate the patient's access to a bus.
- A portion (20%) of the cost of a van for a wheelchair, up to \$5,000 which has been adapted for the transportation of a patient who requires the use of a wheelchair. See Van on the CRA website.
- Costs of tutoring services for a person with a learning disability or mental impairment. A medical practitioner must certify that the services are required
- Prescription drugs that have been prescribed by a medical practitioner and recorded by a pharmacist
- Costs of diagnostic procedures and services prescribed by a medical practitioner or dentist
- Costs of dentures, dental services, and orthodontia services
- Costs of devices or equipment for use by the patient that are prescribed by a medical practitioner and are of a "prescribed" kind as listed in the Income Tax Act Regulation 5700, Medical Devices and Equipment. Medical Expense Tax Credit. Some of the prescribed equipment includes wigs, needles and syringes, orthopedic shoes and inserts, hospital beds, breast prostheses, and talking textbooks.
- The cost of real-time captioning and similar services used by persons with an impairment.

- The incremental cost of purchasing gluten-free food products for individuals with Celiac disease who require a gluten-free diet. Those with Celiac disease should ensure they retain itemized receipts for all gluten-free products.
- Oocyte preservation - thawing of eggs and embryos and sperm freezing, when medically indicated, under certain circumstances.
- Medical costs related to the use of reproductive technologies. Budget 2017 proposes to clarify the application of the medical expense tax credit so that individuals who require medical intervention in order to conceive a child are eligible to claim the same expenses that would generally be eligible for individuals on account of medical infertility. This applies to 2017 and subsequent taxation years, but a taxpayer will be entitled to elect in a year for this measure to apply for any of the immediately preceding ten taxation years in their return of income in respect of that year.

Cannabis as an Eligible Medical Expense

Previously, the cost of cannabis products could be eligible for the medical expense tax credit (METC) when they were purchased for a patient for medical purposes as per the Access to Cannabis for Medical Purposes Regulations, under the Controlled Drugs and Substances Act.

With the legalization of cannabis, as of October 17, 2018, eligible medical expenses include, for a patient who is the holder of an appropriate medical document, the cost of cannabis, cannabis oil, cannabis plant seeds or cannabis products purchased for medical purposes from a holder of a license for sale for medical purposes of cannabis products. The individual purchasing the cannabis product must be registered as a client of the holder of a license for sale. This measure was included in Bill C-97 which received Royal Assent in June 2019. See Licensed cultivators, processors, and sellers of cannabis under the Cannabis Act.

Cannabis-related Definitions under the Cannabis Regulations s. 264(1):

Medical document: means a document provided by a health care practitioner to support the use of cannabis for medical purposes.

License for sale: means a license for sale for medical purposes.

Cosmetic Procedures

The wording of the Income Tax Act was changed in order to make it clear that medical or dental services or related expenses which are provided for purely cosmetic purposes are not eligible medical expenses for purposes of the medical expense tax credit unless the services are necessary for medical or reconstructive purposes. This is effective for expenses incurred after March 4, 2010.

What amount of medical expenses can you claim?

You can claim the total of the eligible expenses minus the lesser of the following amounts:

- \$2,421 in 2021 or \$2,479 in 2022
- 3% of your net income (line 23600 of your tax return)

For which period can you claim these expenses?

You can claim eligible medical expenses paid in any 12-month period ending in 2022 and not claimed by you or anyone else in 2021. For a person who died in 2022, a claim can be made for expenses paid in any 24-month period that includes the date of death if the expenses were not claimed for any other year.

Moving Expenses

If you moved at least 40km to be closer to a new job, to run a business, or to attend a post-secondary educational institute full time, then you may deduct the cost of moving expenses incurred, up to the

amount you earn at the new location, or up to the amount of award or scholarship income received in the year.

Normally, for the relocation to be an "eligible relocation", both the old and the new residence must be located in Canada, except in the case of a full-time student. However, a move between two locations outside of Canada can also be an "eligible relocation" if:

- you are a Canadian resident (either factual or deemed) living out of the country, and
- you moved from the place where you ordinarily resided, to live in another place where you ordinarily reside.

You may carry excess expenses forward to be offset from income earned at the new location in the next year. When both spouses have moved and subsequently earn income in the new location, the moving costs can be split between the spouses.



Some expenses such as meals and vehicle expenses can be claimed using the simplified method, which does not require receipts to be submitted. However, Canada Revenue Agency (CRA) says "Although you do not need to keep detailed receipts for actual expenses if you choose to use this method, we may still ask you to provide some documentation to support your claim." The wording of the Income Tax Act indicates that amounts may be deducted for moving expenses "paid by the taxpayer as or on account of moving expenses incurred in respect of an eligible relocation". This would imply that if no expenses were incurred for meal expenses, for instance, that there could not be a deduction for them.

Many costs are deductible as moving expenses, including:

- transportation and storage costs for household effects
- travel, including vehicle costs and reasonable costs for meals and accommodations in the course of moving the taxpayer and members of the taxpayer's household from the old residence to the new residence
- costs of cancelling a lease for the old residence
- real estate commission, advertising, legal and other costs re selling the old residence
- legal fees re the purchase of a new home, and any tax, fee, or duty (other than GST or value-added tax) imposed on the transfer or registration of title to the new residence
- costs re maintaining the old residence, up to a maximum of \$5,000, while the old residence is either vacant, or not occupied by any person who ordinarily resided with the taxpayer at the old residence immediately before the move, and while the old residence is not rented by the taxpayer to any other person. These costs are deductible as long as reasonable efforts are made to sell the old residence
- change of address costs, such as replacement of drivers' licenses, non-commercial vehicle permits, and costs of connecting or disconnecting utilities

Note that if any moving costs have been reimbursed by your employer, then the moving costs must be reduced by the amount received, unless the reimbursed amount is included as income elsewhere on your tax return.

Employer-Paid Moving Expenses and Taxable Benefits

If an employer reimburses an employee for moving expenses to transfer to a new work location, certain of these expense reimbursements will not be considered a taxable benefit to the employee,

while some reimbursements will be considered a taxable benefit. When the employee has an eligible housing loss, only half of the amount exceeding \$15,000 is taxable.

If the benefit to the employee is taxable, then CPP contributions and income tax must be deducted. If the taxable benefit is paid in cash, employment insurance (EI) premiums must be deducted. Non-cash benefits are not subject to EI.

Memberships (Annual union, professional, or like dues)

Claim the total of the following amounts related to your employment that you paid (or that were paid for you and reported as income) in the year:

- annual dues for membership in a trade union or an association of public servants
- professional board dues required under provincial or territorial law
- professional or malpractice liability insurance premiums or professional membership dues required to keep a professional status recognized by law
- parity or advisory committee (or similar body) dues required under provincial or territorial law

Annual membership dues do not include initiation fees, licenses, special assessments, or charges for anything other than the organization's ordinary operating costs. You cannot claim charges for pension plans as membership dues, even if your receipts show them as dues.

By the end of February, each employer must issue employees T4 slips for employment income earned during the previous tax year. The amount of union dues eligible to be claimed as a tax deduction is on your T4 slip in box 44. You may claim a tax deduction on line 21200 of your tax return and if your employer is a GST/HST registrant, you may be able to claim a refund for a portion of your union dues.

It's important that you do not claim your tax deduction for union dues more than once. Your employer may show a tax deduction for union dues on your T4 slip and you may also receive a tax receipt from the professional association or organization the dues are related to. Make sure the amounts match and only claim them once. Claiming union dues twice can result in a notice of reassessment and a possible penalty tax and interest owing.

Self-employment Expenses

If you are using your house as part of your business - a home office for example - you can claim a deduction for that part of the home that is used to conduct business activities. If you are a homeowner, you can claim a portion of your mortgage interest, property taxes and capital cost allowance. If you are a renter, you can claim a portion of your monthly rent. You can include in



your deduction a share of the utilities, insurance or home maintenance allotted to the area of the house set aside for business use. For each of these expenses you can claim a percentage equal to the percentage of your home that is reserved for business. You can't use these items to create a loss that could be deducted against other sources of income, however. Of course, any expenses solely related to the business, such as supplies, travel and client entertainment, are fully deductible. CRA forms T2124 and T2032 contain a guide entitled "Calculation of Business-Use-of-Home Expenses" that will help you calculate your allowable claim.

Student Loan Interest

A non-refundable tax credit for student loan interest can only be claimed by the student, even if it was paid by a related person. Unused interest amounts can be carried forward for 5 years.

You may be eligible to claim an amount for the interest paid on your loan in 2022 or the preceding five years for post-secondary education if you received it under:

- the Canada Student Loans Act.
- the Canada Student Financial Assistance Act.
- the Apprentice Loans Act; or
- similar provincial or territorial government laws.

In order for the interest to be deductible, it must have been paid by the student or a person related to the student. However, it is only the student who can claim the interest. If the interest is paid by a person not related to the student, then the interest is not deductible by the student.

If an eligible loan is refinanced, it will lose its eligibility for the tax credit, unless the refinancing is done under the above-mentioned legislation.

There are both federal and provincial non-refundable tax credits for student loan interest. The tax credit is calculated by multiplying the lowest federal/provincial/territorial tax rate by the amount of the loan interest, except in Quebec, where the rate of 20% is used.

Carrying Charges

These include a variety of expenses associated with financing charges and investment expenses, such as:

- Interest on loans for investment purposes.
- Interest charged on the purchase of Canada Savings Bonds through your employer's payroll deduction plans.
- Fees paid to financial plans and investment advisors.

Employment Expenses

Expenses that are paid to earn employment income are sometimes deductible, including any GST/HST that was paid on them. This can only be done if your employer requires you to pay the expenses, and either you didn't receive reimbursement for the expenses, or the amount you did receive is included in your income. Form T2200 must be completed by your employer in order to claim employment expenses - see below.

Personal Protective Equipment re COVID-19

Where an employer requires an employee to pay for and use personal protective equipment while carrying out their employment duties, the cost of these items may be deductible

Employee Work-Space-in-Home Expenses

Working From Home re COVID-19

The 2020 Fall Economic Statement announced that the Home Office Expense Deduction would be simplified due to millions of Canadians unexpectedly working from home because of COVID-19.

On December 15, 2020, CRA announced a simplified process:

- Employees with larger claims for home office expenses can still choose to use the existing detailed method to calculate their home office expenses deduction.
- Employees who worked for home more than 50% of the time over a period of at least 4 consecutive weeks in 2022 due to COVID-19 will now be eligible to claim the home office expenses deduction for 2022.

- New temporary flat rate method will allow eligible employees to claim a deduction of \$2 for each day they worked at home in that period, plus any other days they worked from home in 2022 due to COVID-19 up to a maximum of \$500. Neither Form T2200 or Form T2200S will have to be completed for this.
- For employees choosing the detailed method, simplified forms T2200S and Form T777S can be used.

Employee Motor Vehicle Travel Expenses

In order to deduct vehicle expenses on Form T777, the employee must

- track their vehicle expenses for the entire year, and
- track their kilometers related to use of the vehicle for earning employment income, by use of a trip log.

This is the only method allowed for an employee to claim vehicle expenses - they cannot simply use a rate per kilometer x kilometers driven for work.

Travel to and from the place of work is not considered use for employment. When the form is completed, the kilometers used for earning employment income is entered, as well as the total kilometers driven in the year.

The motor vehicle expenses will include any GST/HST, or provincial sales taxes incurred. You may be eligible for a refund of the GST/HST included in the costs.

Working From Home Travel Expenses

If an employee normally works in their home office, does not have an office at the employer's place of business but occasionally must travel there, the travel to and from the employer's place of business may qualify for a vehicle expense deduction, or may receive a tax-free reasonable travel allowance from their employer for this travel.

Employees Meals and Lodging Expenses

Transport Employee's Expenses

You can claim meals and lodging expenses, including showers, if all four of the following conditions are met:

- work for an airline, railway, bus, or trucking company, or for any other employer whose main business is transporting goods, passengers, or both.
- travel in vehicles that the employer uses to transport goods or passengers
- regularly have to travel away from the municipality and the metropolitan area (if there is one) where your employer's home terminal is located.
- regularly incur meal and lodging expenses while travelling away from the municipality where the employer's home terminal is located. That is, must generally be away from home overnight to do the job.
- Travel Expenses
- If all of the above four conditions for transport employees are not met, it still may be possible to claim travelling expenses (meals and lodging, but not motor vehicle expenses) incurred, if you meet all of these conditions:
 - You were normally required to work away from your employer's place of business or in different places.
 - You were required by your contract of employment to pay your own travelling expenses.
 - You did not receive a non-taxable allowance for travelling expenses.

- CRA form T2200, Declaration of Conditions of Employment, must be completed by the employee and employer.

Meal expenses can be deducted if your employer requires you to be away for at least 12 consecutive hours from the municipality/metropolitan area of your employer's location where you normally report for work.

How to Claim the Meals and Lodging Expenses

These expenses are claimed on the Canada Revenue Agency (CRA) form TL2 Claim for Meals and Lodging Expenses.

- meals can be claimed using the simplified method (see CRA information on meals and lodging expenses for employees), under which receipts are not required, but a log of travel is required. Under this method, the allowable amount for meals is
- \$23 per meal (\$17 per meal prior for 2009 to 2019)
- one meal after every 4 hours from the departure time to a maximum of 3 meals per day
- meals are 50% deductible, except for meal costs during eligible travel periods of long-haul truck drivers, which are deductible (under ITA s. 67.1(1.1)), by the trucker or by an employer who may have paid the expenses, at the following rates:
- 65% for 2008
- 70% for 2009
- 75% for 2010, and
- 80% for 2011 or later.

Employee Clothing and Footwear

The cost of special clothing or footwear required for your job is not deductible. However, special clothing or footwear provided by or reimbursed by the employer will not be considered a taxable benefit to the employee under certain circumstances:

- When the employer provides a distinctive uniform, or protective clothing or footwear that is designed to protect them from workplace hazards, this is not a taxable benefit.
- If the employer pays an allowance to the employee for purchasing these items, and the employee is required to provide receipts, this is not a taxable benefit.
- If an allowance is paid to the employee for the purchase of protective clothing, and the employee is not required to provide receipts, the amount paid will be a taxable benefit to the employee unless all of the following conditions are met:
- the law requires the employee to wear the protective clothing on the work site,
- the employee purchased the protective clothing, and
- the amount paid is reasonable.

Tools Deductions for Employees

Employed Tradesperson's Tools Deduction

A deduction may be available for tools purchased in the taxation year, in order to earn employment income as a tradesperson (e.g., hairdresser, cook, plumber, electrician, mechanic, apprentice tradesperson, etc.).

Employed Apprentice Mechanic's Tools Deduction

If you are an eligible apprentice mechanic, you must first calculate the tradesperson's tools deduction, if any, for which you qualify. Then, calculate the employed apprentice mechanic's tools deduction to determine if this claim can also be made.

Gain on Disposal of Employee Tools

When tools for which a deduction was previously claimed are disposed of, any gain from the disposal must be included in income on the tax return.

Other Employment Expenses

- legal expenses incurred to collect or establish a right to amounts owed to the taxpayer that would be included in the taxpayer's employment income when received.
- certain clergy residence rent (or fair rental value for a residence owned by the taxpayer, the taxpayer's spouse, or common-law partner) and utility costs.
- teachers exchange fund contribution not exceeding \$250 in a year
- dues and other expenses of performing duties, as long as these are not reimbursed to the taxpayer, including
- annual union dues. Union dues in box 44 of your T4 slips will include any GST/HST paid, if applicable. If you have a receipt for union dues from your union, it will indicate if GST/HST was charged.
- annual professional membership dues paid to maintain a professional status recognized by statute.
- office rent, or salary paid to an assistant or substitute, if the payment is required by the contract of employment
- employer's CPP, EI or QPIP premiums paid on the salary of an assistant or substitute
- cost of supplies consumed directly in employment duties, if the payment of these costs is required by the contract of employment
- employee's registered pension plan contributions.
- employee's contributions to a retirement compensation arrangement
- salary reimbursement, or disability payment reimbursement
- forfeited amounts under a salary deferral arrangement
- excess employees profit sharing plan (EPSP) amounts
- forfeited amounts under an employee's profit-sharing plan.

Cell phone bill

You can deduct a reasonable amount of your phone bill (e.g., 50) % if your employer regularly uses it to call you to obtain work (this works for example, if you are a 'casual' employee and they usually call you to see if you can come in to work). The percentage used should be traced back to your airtime.

Climate action incentive

The climate action incentive (CAI) payment consists of a basic amount and a 10% supplement for residents of small and rural communities. This payment may reduce your amount payable or increase your refund when you file your income tax and benefit return.

Only one person per family (you or your spouse or common-law partner) can claim the CAI payment. You can claim the CAI payment if on December 31, 2022, you were a resident of:

- Alberta
- Saskatchewan
- Manitoba
- Ontario

and 18 years of age or older, or If younger than 18, so long as you:

had a spouse or a common-law partner, or were a parent who lived with their child



Canada.ca/Climate-Action

Canada

You cannot claim the CAI payment if at any time in 2022 you were any of the following:

- a non-resident of Canada
- confined to a prison or a similar institution for a period of at least 90 days during the year
- an officer or servant of the government of another country, such as a diplomat, or you were a family member who lived with such a person or an employee of such a person
- a person for whom a children's special allowance was payable

Tax Credits

Equivalent-To-Spouse Credit

The equivalent-to-spouse credit can be claimed if you are single, divorced or separated. It is calculated the same way as the spousal credit with some restrictions.

If the dependent is not a child, he or she must be a Canadian resident. If a child is claimed as a dependent, he or she must have been under 18 years of age at least in part of the tax year, unless the child is mentally or physically infirm.

Only one dependent can be claimed under the equivalent-to-spouse credit.

Only one claimant is entitled to credit with respect to any particular dependent.

The credit cannot be claimed in cases where the taxpayer is subject to court-ordered support obligation. To be eligible, it is not necessary that the dependent have lived with or been supported by the taxpayer for the entire year.

Disability tax credit

The disability tax credit extends to individuals for whom a medical doctor has prescribed therapy at least three times a week or an average of at least 14 hours, as treatment for a disability of a basic activity of their daily living. An individual may claim the disability amount once they are eligible for the DTC. This amount includes a supplement for persons under 18 years of age at the end of the year. You are eligible for the DTC only if we approve Form T2201. A medical practitioner has to fill out and certify that you have a severe and prolonged impairment and must describe its effects.

Maximum disability amount for 2022 is \$8,870.

For persons under 18 maximum supplement amount is \$5,174.

Canada Revenue Agency / Agence du revenu du Canada

Disability Tax Credit Certificate

Use this form to apply for the disability tax credit (DTC). The Canada Revenue Agency (CRA) will use this information to make a decision on eligibility for the DTC. See the "General information" on page 6 for more information.

Step 1 – Fill out and sign the sections of Part A that apply to you.

Step 2 – Ask a medical practitioner to fill out and certify Part B.

Step 3 – Send the form to the CRA.

Part A – To be filled out by the taxpayer

Section 1 – Information about the person with the disability

First name and initial: _____ Last name: _____ Social insurance number: _____

Mailing address (Apt No. – Street No. Street name, PO Box, RR): _____

City: _____ Province or territory: _____ Postal code: _____ Date of birth: _____ Year: _____ Month: _____ Day: _____

Section 2 – Information about the person claiming the disability amount (if different from above)

First name and initial: _____ Last name: _____ Social insurance number: _____

The person with the disability is: ☐ my spouse/common-law partner ☐ my dependant (specify): _____

Answer the following questions for all of the years that you are claiming the disability amount for the person with the disability.

1. Does the person with the disability live with you? Yes ☐ No ☐

If yes, for which year(s)? _____

2. If you answered **no** to Question 1, does the person with the disability regularly and consistently depend on you for one or more of the basic necessities of life such as food, shelter, or clothing? Yes ☐ No ☐

If yes, for which year(s)? _____

Give details about the **regular** and **consistent** support you provide for food, shelter or clothing to the person with the disability (if you need more space, attach a separate sheet of paper). We may ask you to provide receipts or other documents to support your request.

Pension Income Credit

The first \$2,000 of eligible pension income qualifies for a non-refundable tax credit. The type of pension income that qualifies for this credit differs depending on whether you were 65 or older in the year. If you were under 65 as of December 31, 2022, "qualifying pension income" includes life annuity payments out of a superannuation or pension plan and certain payments received as a result of the death of a spouse or common-law partner.

If you were 65 or older, other defined payments such as lifetime annuity payments out of your RRSP, deferred profit-sharing plan (DPSP) or RRIF also qualify for the pension credit. Qualifying pension income doesn't include Canada Pension Plan (CPP), Old Age Security (OAS) or Guaranteed Income Supplement (GIS) payments.

Education and Textbook Tax Credits

This is non-refundable tax credit. Its federal tax credit was eliminated after 2016. Alberta's 2019 Budget eliminates the education and tuition tax credits for 2020 and later taxation years.

Tuition Tax Credit for Courses Outside Canada

In some cases, a tuition tax credit may be claimed for courses taken outside Canada. The following criteria must be satisfied in order to claim the credit:

- Full-time attendance at a university outside Canada in a course leading to a degree (not just a diploma).
- The university must be recognized by a nationally accepted accrediting body of its country. The institutions in Schedule VIII of the Income Tax Act Regulations are qualifying institutions. To obtain a current list, contact a Canada Revenue Agency (CRA) Tax Services Office.
- The course must not be less than 3 consecutive weeks in duration (13 weeks prior to 2011).
- Fees paid by the student's employer, or by the employer of a parent of the student, may not be claimed unless those fees have been included in the income of the student or the student's parent.

When the courses taken outside Canada have been completed online, the tuition tax credit may still be claimed if the courses have a duration of at least 13 weeks.

Consider not giving an interest free loan to the government

Yeah, you heard me...that lovely tax refund you get in the summer? It's basically YOUR money that the government was keeping warm for you. If you fill out a T1213 form and hand it over to your employer, they can deduct less of your income on your paycheck. You'll get more money on your paycheck (BONUS) but if you're like me, you might have a psychological crutch that makes you WANT to see that big tax refund cheque from the government... I'm not sure what it is, the cheque seems so symbolic. HINT: Don't do what I do! Get your T1213 forms. I'll try and tell myself to do that for next year too.

0%
INTEREST

Child fitness tax credit: For 2016 it was reduced to \$500 (was \$1000 before) and eliminated for 2017.

Children's art tax credit: For 2016 it was reduced to \$250 (was \$500 before) and eliminated for 2017.

Dividend Tax Credits: The dividend tax credit is a non-refundable tax credit which applies when Canadian dividends are included in income. Foreign dividends do not qualify for the dividend tax credit. You can find this amount on your T5, T4PS, T3 and T5013. If you did not receive an information slip, your calculation for the dividend tax credit will depend on the type of dividend. For eligible dividends, the federal dividend tax credit for 2022 will be 15.0198% of your taxable amount of eligible dividends reported on line 12000 of your return. For "other than eligible dividends", the federal dividend tax credit for 2022 is 9% of your taxable amount of dividends reported on line 18000 of your return.



WHAT IF I CAN'T AFFORD TO PAY THE TAX I OWE?

Even if you can't afford to pay the income tax that you owe, you should file your tax return by the annual deadline in order to avoid any late-filing penalties. Then, contact Canada Revenue Agency (CRA) regarding payment (see link below).

<https://www.canada.ca/en/revenue-agency/services/payments-cra/payment-arrangements.html>

Late-Filing Penalty

Income Tax Act s. 162(1)

The late filing penalty is 5% of the balance owing, plus 1% of the balance owing for each full month that your return is late, to a maximum of 12 months (that would be a total penalty of 17% of the balance owing). If you have incurred late-filing penalties in any of the three preceding taxation years, your late filing penalties are doubled.

Interest on Overdue Balance Owing

Income Tax Act s. 161(1)

After you file your tax return, you will be sent an assessment notice from CRA which shows the balance of tax owing. After the payment deadline of April 30th, interest will accrue on this balance at the CRA prescribed rate of interest, compounded daily. The current interest rates can change quarterly and can be found on the CRA prescribed interest rates page. The rate is 6%, at least until June 30, 2020.

ARRANGE TO PAY YOUR PERSONAL DEBT OVER TIME

If you cannot pay your debt in full, the CRA can help you set up a payment arrangement. A payment arrangement is an agreement with the CRA to pay your balance in several regular payments over a period of time.

Set up a payment arrangement

If you owe an amount to the CRA, we will work with you to find the best way to pay your debt through a payment arrangement.

Steps to help you set up an arrangement

1. Calculate your monthly income and expenses

Use the personal income and expense worksheet to determine what you can afford to pay on a regular basis.

2. Determine how much you can afford to pay

Enter the following in the payment arrangement calculator:

<https://www.canada.ca/en/revenue-agency/services/about-canada-revenue-agency-cra/when-you-money-collections-cra/calculator-disclaimer.html>

- your debt amounts
- frequency of your payments
- amount per payment or the number of payments

This will calculate the date when you finish paying your debt and your estimated interest charged.

3. Call the CRA to set up your payment arrangement

You must call to set up a payment arrangement:

Automated Tele Arrangement Service Telephone number: 1-866-256-1147

Monday to Friday 7 am to 10 pm (ET)

Speak to a CRA agent

Telephone number: 1-888-863-8657

Monday to Friday 7 am to 8 pm (ET)

4. Start your payment arrangement

To start your payment arrangement, you need to make your first payment towards your debt.

You must continue to make payments on the agreed upon dates in your payment arrangement and file all future tax returns on time. Your payment arrangement may be reviewed periodically.

Adjust your payment arrangement

If anything changes and you need to adjust your payment arrangement or you are unable to pay, you must contact the CRA.

Failure to do this may cause the CRA to proceed with legal actions to collect the balance you owe.

MAKING PAYMENTS TO CANADA REVENUE AGENCY

My Payment

Canada Revenue Agency (CRA) has an online payment service called My Payment, for individuals and businesses, through which payments can be made directly from their bank accounts to CRA.

The service is available for many financial institutions. Payments which can be made include:

Individuals

Individual income tax

- Balances owing
- Instalments
- Payments on filing, to pay the amount owing when filing a T1 personal tax return
- Tax-free savings account (TFSA) excess contributions

Child and family benefits payment - make repayments for the following types of amounts owing:

- Canada child tax benefits and related provincial/territorial programs
- GST / HST credit, including integrated provincial programs
- Universal childcare benefit
- Alberta family employment tax credit

Businesses

Remittances can be made for payments on filing of returns, instalment payments, and other amounts owing for:

- Goods and services tax / harmonized sales tax (GST/HST)
- Payroll source deductions (includes reporting of gross payroll, etc. when making regular remittances)
- Corporate income tax
- Excise duty and tax
- Air traveler's security charge (ATSC)
- Tax on insurance premiums
- Softwood lumber products export charge
- Nova Scotia Workers' Compensation Board payroll remittance
- Information returns penalty

Non-Residents

- Non-resident withholding tax - Part XIII
- Regular remittance
- Assessed arrears / penalty / interest / law cost remittance

Your payment information, including your CRA account number (SIN, BN, etc.), is entered in the CRA My Payment website, without having to log into "My Account" or "My Business Account". Once you have completed the information, you are transferred to the INTERAC® Online service, which then goes to the website of your banking institution. There, you log in and confirm payment, and are then taken back to CRA's My Payment website, which provides a printable record of the transaction.

My Payment website:

<https://www.canada.ca/en/revenue-agency/services/e-services/payment-save-time-pay-online.html>

The only fee for using this service will be a transaction fee, if any, charged by your financial institution.

When payments are made through this service, there is no provision for paying at a future date. The payment will be credited to your CRA account when it is made. If the payment is made on a weekend or statutory holiday, it will be credited to your account on the next business day. It may take one or two business days for the payment to be updated on your CRA account.

Other Payment Options

You can also use online, or telephone banking provided by your financial institution to pay your taxes, the same way you can pay other bills. With this method, it is usually possible to schedule your payment for a future date. CRA has other options for you to pay amounts online, including pre-authorized debit. See Make a Payment to the CRA below for the list of options.

Taxes can also be paid in person at your financial institution in Canada, or by mail to CRA.

Payments to the CRA:

<https://www.canada.ca/en/revenue-agency/services/payments-cra.html>

REQUIRED TAX INSTALMENTS FOR INDIVIDUALS

Tax instalments are payments you make throughout the year to cover the taxes you normally pay in one lump sum on April 30 of the following year. You pay these instalments during the year while you are earning the income, similar to how an employer deducts tax directly from each pay period.

You may have to pay tax instalments for next year's taxes, if your net tax owing is more than \$3,000 (for Quebec \$1,800) for 2022 and in either 2021 or 2020.

Tax instalment payments are due by the following dates (except farmers and fishers who have one due date on December 31):

	One	Two	Three	Four
Installment	March 15	June 15	September 15	December 15

TAX FILING DEADLINES AND PAYMENT DATES

Personal income tax returns, except for those of individuals with self-employment income, are normally due by April 30th, as is any amount owing. Penalties and interest may be charged for late returns or late payments.

Filing dates for 2022 [taxes](#):

Feb 21, 2023: Earliest date for filing taxes.

Mar 1, 2023: Deadline to contribute to a RRSP, PRPP, or SPP.

Apr 30, 2023: Deadline to file your taxes.

Apr 30, 2023: Deadline to pay your taxes (applies to self-employed too).

Jun 15, 2023: Deadline to file your taxes if you or your spouse or common-law partner are self-employed.



SUPPORT PAYMENTS

There are two types of support payments:

- spousal support
- child support

The tax rules are different depending on the type.

Spousal support is to support a current or former spouse or common-law partner as stated in a court order or written agreement. The support payments are made only to support the recipient.

Child support is to support a child, or a child and a current or former spouse or common-law partner, as stated in a court order or written agreement. The support payments are not only made to support the recipient.

What amount can you claim or report?

Child support payments made under a court order or written agreement made before May 1997, are taxable to the recipient and deductible by the payer. Child support payments made under a court order or written agreement made after April 1997 (or before May 1997 if one of the situations mentioned above apply) are not deductible by the payer and do not have to be included in the recipient's income. Spousal support payments continue to be deductible to the payer and must be included in the recipient's income. The following explanations give more information about these rules.

RRSP

A Registered Retirement Savings Plan (RRSP) is a savings vehicle for Canadians to save for their retirement. Inside RRSP you have many options for investing.

All contributions are tax deductible. For example, if you are in a 40% tax bracket, you would save \$4,000 in taxes on a \$10,000 contribution. Your net cost of the \$10,000 is only \$6,000. Besides that \$10,000 will be available to you when you retire, or any time before (after paying income taxes). All the growth inside the RRSP grows tax deferred until withdrawal. This can have a good effect on the value of the RRSP since no tax paid on any growth along the way. However, tax will be paid later when you withdraw the money (usually at lower tax rates, depending on tax bracket).

Anyone who has earned income and has SIN number can contribute to an RRSP up till the year they turn 71. At this age, the RRSP holder has 3 options:

1. take the accumulated money and pay all of the tax
2. convert the RRSP into an annuity
3. convert the RRSP into RRIF (Registered Retirement Income Fund)

The deadline for RRSP contributions for the 2022 tax year is March 1, 2023.

If you received CRB in 2022, which did not have tax withheld, or if you received other COVID-19 benefits with only 10% tax withheld, you would likely have tax owing when you file your return. An RRSP contribution may help counteract this.

Contribution Limits

RRSP contribution room is based on "earned income". Generally, earned income includes a taxpayer's income (earned while the taxpayer was resident in Canada) from the following: income from T4 (employment income), foreign employment income, income from sole proprietorship, partnership, income from rental property, taxable support payments, royalty income, CPP or provincial disability pension income, other income.

The maximum amount you can contribute could be found on previous year Notice of Assessment. The deduction limit is calculated as:

- 18% of "earned income" for the preceding year, to an annual maximum (see following table)
- less the "pension adjustment" amount, for participants in a Registered Pension Plan (RPP) or Deferred Profit-Sharing Plan (DPSP)
- less any "past service pension adjustment", for participants in a RPP or DPSP
- plus, any "past service pension adjustment" reversals
- plus, unused deduction room carried forward from the previous year

Note that RRSP withdrawals do not affect the deduction limit (contribution room) - that only happens with TFSAs.

RPP – is registered employee pension plan usually funded by employer (sometimes employee as well)

DPSP - Deferred Profit-Sharing Plan. A Deferred Profit-Sharing Plan (DPSP) is a combination of a pension and retirement plan sponsored by employers to help workers save for retirement. A DPSP is created when a company distributes part of their profit into their employees' DPSP account.

The annual limits for RRSPs, money purchase (defined contribution) RPPs, deferred profit-sharing plans (DPSPs), and defined benefit RPPs are:

Year	Annual Contribution Limits			Defined Benefit RPP – Max Pension Benefit per Year of Service
	RRPS	RPP	DPSP	
2022	\$29,210		½ the MP Limit	1/9 the MP limit
2021	\$27,830	\$29,210	\$14,605	\$3,246.56
2020	\$27,230	\$27,830	\$13,915	\$3,092.22

RRSP Deduction Room Carried Forward

If the RRSP contribution is less than the deduction limit, then the "deduction room" or "contribution room" is carried forward to future years. Assume Taxpayer contributed of only \$10,000 for 2021. He had a room of \$26,500. The unused deduction "room" of \$16,500 can be carried forward and added to the calculation of the 2022 deduction limit.

RRSP Excess Contributions

A taxpayer can contribute up to the amount of their deduction limit, plus an excess contribution as long as the total excess contribution never exceeds \$2,000. However, the allowed excess will be less than \$2,000 when the deduction limit is negative due to a PSPA amount. Also, only taxpayers who are 19 or older in the taxation year qualify to have an excess amount. Any excess contribution over \$2,000 may be subject to a 1% per month tax.

Each individual taxpayer is ultimately responsible to ensure that they do not overcontribute to their RRSP - not their accountant or financial planner.

Before you make a contribution, check your latest notice of assessment, or go online to My Account to see the amount of available contribution room at the end of the prior tax year. Consider any contributions made since then, including any contributions by your employer. If you're planning your current year contributions, make sure you include matching contributions that will be made during the rest of the year by your employer.

When an excess contribution greater than \$2,000 has been made, contact your financial institution or brokerage as soon as possible to determine the best remedy. If the contribution has already been reported to CRA, application can be made to CRA using form T3012A Tax Deduction Waiver on the Refund of your Unused RRSP Contributions, in order to withdraw the amounts without having income tax deducted. CRA will return the form, indicating the amount that is authorized to be withdrawn without deducting withholding tax. However, a tax on the excess may still be payable.

See Tax on Excess Contributions in the CRA publication T4040 - RRSPs and Other Registered Plans for Retirement.

If you are required to pay the tax on excess contributions, CRA's form T1-OVP Individual Tax Return for Excess Contributions must be completed.

If you are not sure if you are required to pay the tax, follow the steps in CRA's Determine if you have to complete a T1-OVP. You can also view the T1-OVP, to see which amounts that were contributed to your RRSP during the first 60 days of the year are not considered overcontributions (they will be deducted or designated (used) in the current taxation year), such as:

- eligible part of retiring allowance
- eligible part of a lump-sum pension payment

See the T1-OVP for more.

Home Buyer's Plan and Lifelong Learning Plan

Your RRSP contributions must remain in the RRSP for at least 90 days before you can withdraw them under the Home Buyer's Plan (HBP) or Lifelong Learning Plan (LLP), or the contributions may not be deductible for any year. In other words, if RRSP contributions are made in the 89-day period just prior to an HBP or LLP withdrawal from the RRSP, the value of the RRSP after the HBP or LLP withdrawal must be at least equal to those contributions.

RRSP HOME BUYERS' PLAN (HBP)

Use Your RRSP to Help Buy or Build a Home

The Home Buyers' Plan (HBP) allows you to borrow up to \$35,000 from your RRSP to buy or build a qualifying home, if:

- you or your spouse or common-law partner have not owned a home which you occupied as your principal residence during the four years preceding the withdrawal for the Home Buyers' Plan, or
- you are buying or building a home for a related disabled person.

The maximum amount that can be borrowed was increased to \$25,000 by the Federal 2009 Budget, which also announced a new First-Time Home Buyers' Tax Credit. The maximum amount was increased to \$35,000 by the Federal 2019 Budget, for withdrawals after March 19, 2019. This measure was included in Bill C-97 which received Royal Assent on June 21, 2019.

Note that your RRSP contributions must remain in the RRSP for at least 90 days before you can withdraw them under the Home Buyers' Plan, or the contributions may not be deductible for any year. In other words, if RRSP contributions are made in the 89-day period just prior to an HBP withdrawal from the RRSP, the value of the RRSP after the HBP withdrawal must be at least equal to those contributions.

Income tax will not be deducted from the amount withdrawn, and the withdrawal amount will not be included in your income. The funds must be repaid over a maximum of 15 years, starting no later than the second year following the year in which they are withdrawn. Each year that a repayment is due but not paid, the amount due (1/15th of the amount borrowed) will be included in taxable income. An RRSP contribution made in the year of the HBP withdrawal, even prior to the HBP withdrawal, can be designated as a repayment of the HBP.

If you buy the home with your spouse, common-law partner, or other individuals, each of you can withdraw up to \$35,000.

A qualifying home means

- a housing unit located in Canada, or
- a share of the capital stock of a cooperative housing corporation, the holder of which is entitled to possession of a housing unit located in Canada

You must buy or build the qualifying home by October 1 of the year after the year of withdrawal. There are other conditions which must be met in order to qualify for the Home Buyers' Plan, including your intent to occupy the home as your principal residence no later than one year after building or purchasing it. Some conditions must be met before applying to withdraw funds and other conditions must be met when a withdrawal is made. One of the conditions that must be met before applying to withdraw funds is that you have to enter into a written agreement to buy or build a qualifying home. For more information, see the Canada Revenue Agency (CRA) information on the Home Buyers' Plan, including conditions for participating in the HBP.

TAX-FREE SAVINGS ACCOUNTS (TFSA)

A Tax-Free Savings Account is a savings vehicle for Canadians to save inside their own tax shelter. You have different investment choices. The beauty of TFSA is that regardless of how much growth you have inside your account, you will never have to pay taxes.

It is by far most advantageous vehicle available to Canadians. This plan is very similar to Roth IRA in the U.S. Tax-free savings accounts are available for Canadian residents who are 18 years of age or older. The first tax year that they were available was 2009. However, a brokerage account for a TFSA cannot necessarily be opened by an 18-year-old - a brokerage account can only be opened by someone who has reached the age of majority in their province or territory.

There is no deadline for contributions to a TFSA, as the unused contribution room is carried forward into the next year. However, a withdrawal in any year increases the TFSA room in the following calendar year. Thus, if you are thinking of making a withdrawal close to year end, make sure it is done by December 31st, in order to have the withdrawal amount added back to the TFSA room sooner.

In a tax-free savings account:

- all investment income (interest, dividends, trust distributions and capital gains) will accumulate tax-free
- contributions are not tax-deductible
- withdrawals are not taxable
- capital losses are not tax-deductible
- dividends will not be eligible for the dividend tax credit

Borrowing to Invest in a TFSA:

- Interest on money borrowed to invest in a TFSA is not tax deductible.
- A TFSA can be used as security for a loan.
- According to bank representatives, a TFSA cannot be used to provide margin for linked margin brokerage accounts, although this is not disallowed by the Income Tax Act.
- If you wish to use your TFSA to increase your margin, you can borrow against the TFSA and put the money into your margin account. The interest on the debt would be tax deductible.

REGISTERED EDUCATION SAVINGS PLAN (RESP)

In Canada, RESP is a way for parents and grandparents to help save for a child's education.

How Much Can be Contributed to a RESP?

There is no longer an annual limit for contributions to a registered education savings plan (RESP), and the lifetime limit is \$50,000. Prior to 2007, there was an annual contribution limit of \$4,000 per beneficiary (Income Tax Act s.146.1), and the lifetime limit was \$42,000.

Contributions can be made for 31 years (previously 21 years) following the year in which the plan is started. For specified plans, the limit is 35 years.

Contributions to a RESP are **not tax deductible**.

If excess contributions are made, there is a penalty of 1% per month. Excess contributions can cause a plan's registration to be revoked.

Although there is no longer an annual limit on contributions, there is still an annual limit on the amount of Canada Education Savings Grant (CESG). The minimum investment required to receive the maximum lifetime CESG of \$7,200 at the rate of 20% of contributions would be 14 annual contributions of \$2,500, plus one contribution of \$1,000.

A RESP consists of the following:

- contributions made by the subscriber
- contributions of government grants, including
 - Canada Education Savings Grants (CESG)
 - Canada Learning Bond (CLB) grants
- accumulated earnings on all contributions

Canada Education Savings Grant - How Much Will the Government Contribute?

The federal government will contribute a Canada Education Savings Grant (CESG) of 20% of contributions to the RESP by the subscriber, to an annual limit of \$500 (grant room), and to a lifetime limit of \$7,200. The annual limit was increased to \$500 from \$400 effective 2007, but the lifetime limit was not increased.

To be a recipient of the CESG, the RESP beneficiary must be:

- a resident of Canada at the time the RESP contribution is made, and
- must have a valid social insurance number.

Low- and middle-income families are eligible for an increased CESG percentage on the first \$500 of contributions in a year to a child's RESP. This started in January 2005. The percentage is increased from 20% (CESG = \$100 on first \$500 of contributions) to

- 40% for families with incomes of \$49,020 or less for 2021 (CESG = \$200 on first \$500 of contributions)
- 30% for families with incomes over \$49,020 but less than \$98,040 for 2021 (CESG = \$150 on first \$500 of contributions)

These income levels are indexed, and correspond to the federal tax brackets, which can be found on the Canadian federal tax rates page.

Starting January 1, 1998, even if no RESP had been started for a child, every child who is a Canadian citizen started to accumulate CESG available of

- \$400 per year for the years 1998 to 2006, and
- \$500 per year for years after 2006.

The grant will not be received by the child until RESP contributions are made. This means that if an RESP is started in 2021 when a child is 4 years old, CESG "grant room" available of \$2,000 has already accumulated (4 years x \$500) by the time the RESP is opened. If the subscriber contributes \$5,000 to the RESP in 2021, then the government will contribute \$1,000 (20% x \$5,000). The actual maximum CESG contribution per year is the lesser of 20% of the RESP contribution, or

- \$1,000 for years after 2006
- \$800 for years before 2007.

CESG will not be paid in any year after the beneficiary turns 17 years of age. CESG will be paid in the years in which the beneficiary turns 16 or 17 only if:

- a minimum of \$2,000 in contributions has been made to, and not withdrawn from, RESPs for the beneficiary before the year in which the beneficiary turns 16 years of age, OR
- a minimum of \$100 in contributions has been made to, and not withdrawn from, RESPs for the beneficiary in at least any 4 years before the year in which the beneficiary turns 16 years of age.

Canada Learning Bond (CLB)

The Canada Learning Bond is a Government of Canada grant which is paid directly into a child's RESP. It is available to families who are receiving the National Child Benefit (NCB) as a supplement to their Canada Child Benefit (CCB).

The initial CLB payment is \$500. The child can receive annual \$100 CLB payments up to age 15, for each year in which the family is entitled to the NCB supplement. The maximum CLB that can be received by a child is \$2,000.

Your RESP provider will apply for the CLB on your behalf.

If the beneficiary uses the funds for qualifying educational programs, the tax consequences are as follows:

- The subscriber contribution portion of payments to the beneficiary or subscriber is not taxable, and there is no restriction on how these funds are used.
- The CESG and accumulated earnings on all contributions are paid out to the beneficiary as Educational Assistance Payments (EAP), and the amount of the payments are included in the taxable income of the beneficiary, regardless of whether the RESP was holding investments in stocks. However, the beneficiary may claim tuition tax credits and education tax credits to offset the income.

RENTAL INCOME

If you rent out one or more rooms in your home, or if you own a rental property, there are many expenses that can be deducted in calculating your net rental income. These expenses include mortgage interest (but not principal), property taxes, utility costs, house insurance, maintenance costs, advertising, and property management fees. Rental income and expenses can be recorded using the cash basis of accounting, unless the property rental is considered business income, in which case the accrual basis of accounting must be used.

Rental Losses

Rental losses can generally be used to reduce income from other sources. If the rental loss exceeds income from other sources and cannot be deducted on the current year tax return, it becomes a non-capital loss, which can be carried back or forward to reduce taxable income in other years.

Renting Only a Portion of Your Home

If you rent out only a portion of your home, you would only be able to deduct a portion of the costs. If you rent a room to a friend or relative at less than fair market value and this results in a rental loss, you would not be able to deduct the rental loss. Any costs which are directly related to the rental portion of your home will be 100% deductible, and costs which relate to the whole building, such as property taxes and insurance, would only be partially deductible. The expenses can be split using floor area or the number of rooms that you are renting, as long as the split is reasonable.

Capital Cost Allowance

Capital cost allowance (CCA) may be claimed based on the purchase price of the building, furniture, and fixtures, etc., but not the land, and may not be used to create or increase a rental loss. If you only rent a portion of your home, then you would only be able to claim a portion of the CCA, and this may result in the loss of the principal residence exemption when you eventually sell your home. The claiming of capital cost allowance will probably result in a recapture of the CCA when the property is sold. This will happen if the selling price of the building is greater than the remaining undepreciated capital cost (UCC) at the time of sale. The difference between the original cost and the UCC will be added back to income. If the selling price is greater than the original cost of the building, then the difference between the selling price and the original cost will be a capital gain. When purchasing or selling a rental property, it is important to break down the purchase or sale price between buildings and land.

Change in Use of Your Home

A change in use of your home from personal residence to rental property, or from rental property to personal residence, can result in a deemed disposition for tax purposes. This means that you will be considered to have sold your home and repurchased it immediately thereafter for fair market value. There are many factors which affect this, and professional advice is recommended.

Net rental income or loss is reported on line 12600 (line 126 prior to 2019) of your personal tax return, when the rental income is not considered business income. When it is considered business income, it is reported on lines 13500 to 14300 (lines 135 to 143 prior to 2019). Both of these types of net rental income are included in "earned income" for purposes of calculating your allowable RRSP deduction limit for the following year. For property income rentals, the net income is calculated by completing form T776 Statement of Real Estate Rentals. This form is used whether the property is in Canada or in another country. See Rentals - Property or Business Income for more information on how to report each type of rental income.

Motor Vehicle Expenses

The following guidelines are provided by Canada Revenue Agency:

If you own one rental property, you can deduct reasonable motor vehicle expenses if ALL of the following conditions are met:

- you receive income from only one rental property that is in the general area where you live;
- you personally do part, or all, of the necessary repairs and maintenance on the property; and
- you have motor vehicle expenses to transport tools and materials to the rental property.

Motor vehicle expenses incurred to collect rents are not deductible but are considered personal expenses.

If you own more than one rental property, then the above motor vehicle expenses are deductible as well as motor vehicle expenses incurred to do any of the following:

- collect rents.
- supervise repairs; and
- generally, manage the properties.

When you own more than one rental property, the above expenses are deductible even if your rental properties are located outside the general area where you live. However, the rental properties must be located in at least 2 different sites away from your principal residence.

For all motor vehicle expenses, you must keep receipts, and you must keep a log of your total mileage driven, and the mileage driven re your rental properties.

Foreign Rental Property

If your rental property is in another country and the cost exceeds \$100,000 Canadian, including the cost of any capital improvements made after the original purchase, then you must complete form T1135, Foreign Income Verification Statement. There are penalties for not completing this form.

CAPITAL GAINS AND LOSSES

A capital gain or loss is the gain or loss resulting from the sale of property, such as stocks, bonds, art, stamp collections, real estate, and promissory notes. Gains or losses from bad debts, foreign

exchange and call and put options are also normally considered capital gains or losses. Some assets are considered personal-use property, such as cottages, cars, boats, and furniture (unless these are business assets). Some personal-use property is considered listed personal property (LPP), such as works of art, and stamp collections. The gains and losses for personal-use property and LPP are calculated separately from gains and losses on other capital assets.

Taxable Capital Gain

A taxable capital gain is 50% of a capital gain. The capital gain or loss is calculated by deducting the original cost of the asset from the proceeds received on the sale of the asset. Because only 50% of the gain is taxable, less tax is paid on capital gains than on income such as interest.

Allowable Capital Loss

An allowable capital loss is 50% of a capital loss. It can only be used to reduce or eliminate taxable capital gains, except in the year of a taxpayer's death or the immediately preceding year, when it can be used to reduce other income.

When allowable capital losses exceed taxable capital gains in a year, the difference is the net capital loss for the year.

DECLARING FOREIGN PROPERTY OR ASSETS OVER \$100,000 ON YOUR TAX RETURN

As a Canadian, it's important to be aware of the rules for declaring foreign property on your tax return. Whether you're born and raised in Canada or a newcomer to this country, you'll need to declare any foreign property you own when it comes time to file your tax return. The rules only apply to certain categories of foreign property with a value in excess of \$100,000 and assets (bank, accounts, stocks, etc.).

When You Need to Report Foreign Property

If you own foreign property with a cost in excess of \$100,000 at any period during the year, you must make an annual disclosure with the Canada Revenue Agency.

This property includes bank accounts, stocks, bonds, and real estate. Even if you have stocks and bonds held in Canadian brokerage accounts, you need to report them. You make the declaration on Form T1135, Foreign Income Verification Statement.

"Form T1135 requires detailed information about your foreign property, including income generated, location and maximum cost during the year," says Jason Heath, a certified financial planner at Objective Financial Partners, Inc. in Toronto. "Penalties of \$25 per day, up to \$2,500 per taxpayer, are payable for non-disclosure or late filing."

Here are some examples of foreign investment property you must include on Form T1135:

- A life insurance policy you own from a foreign issuer
- Interest you own in any offshore mutual funds
- Any real estate you own held outside Canada
- Money in a foreign bank account
- Shares you own of a foreign company
- Interest you hold in a non-resident trust

- Bonds or debentures owned from foreign countries
- Any other income you earn from foreign property.

BARTER AND CRYPTOCURRENCY TRANSACTIONS

Do you trade goods or services which you would normally sell in the course of your business? Have you started using Bitcoin or other cryptocurrencies for transactions? Bitcoin and other virtual currencies are treated as a financial instrument for GST/HST purposes, so no GST/HST is collected on a supply of the currencies. However, there can still be sales tax implications.



If a transaction will have tax implications if money changes hands, it will have the same tax implications if it is a barter or Bitcoin transaction. These transactions may result in taxable income or tax-deductible expenses. They may be considered dispositions of capital property, eligible capital property, personal-use property, listed personal property, or inventory, each of which has a different tax treatment.

A barter transaction occurs when two people or entities agree to trade goods or services without any money changing hands. When this occurs between people dealing with each other at arm's length, the value of the goods or services is deemed to be the value that would have been obtained for those goods or services in a regular cash transaction.

When a person provides bartered goods or services which would normally be sold by him in the course of his business or profession, the value of those services must be included in income. If the person is a GST registrant, then GST would have to be remitted on the income. The value of the bartered services is included in income when determining if the person has reached the threshold of income where he must become a GST registrant. Provincial sales taxes may also apply.

When a person receives bartered goods or services which would normally be purchased in the course of his business or profession, the value of those services can be claimed as costs to the business. If the person is a GST registrant, then an input tax credit could be claimed, if the provider of the goods or services is a GST registrant.

Example:

- Mr. X is in the construction/renovation business and is a GST registrant.
- His friend, Mr. A is a physiotherapist and is not a GST registrant.
- Mr. X does some renovation work for Mr. A. He would normally charge \$500 plus GST of \$25 for this work.
- Mr. A provides physiotherapy services valued at \$525 for Mr. X.
- Mr. X must include \$500 in his business income.
- Mr. X must remit GST of \$25.
- Mr. X can include the cost of physiotherapy, \$525, as a medical expense for purposes of the medical expense tax credit.
- Mr. A must include \$525 in his physiotherapy income.

- If the renovation work was to Mr. A's business office, Mr. A can claim the \$525 as either capital costs or expenses of his physiotherapy business.
- If the renovation work was to Mr. A's home and not related to business, he cannot claim the costs.

When a person receives or provides bartered goods which are capital property, personal-use property, eligible capital property, listed personal property or inventory, the value of the goods is deemed to be the value that would have been obtained for those goods or services in a regular cash transaction. The person receiving the goods would use this value as the adjusted cost base of the goods for tax purposes. The person providing the goods would use this value as the proceeds of disposition, in order to calculate the income or capital gain.

When a person buys and sells Bitcoins for the purpose of making a profit, this also has tax implications, resulting in either income or capital gains. Bitcoin is considered a commodity which can be bought and sold, and profit or loss would be either an income gain or a capital gain.

General Taxation of Bitcoin ETFs

Bitcoin ETFs are treated as mutual funds under the Income Tax Act. This means Canadian Bitcoin ETF holders will be taxed on any income and capital gains generated through holding the ETFs as well as capital gains or capital losses when they dispose of their ETFs. Canadian taxpayers can also carry forward or backward their capital losses from disposition of their ETFs to lower their tax liabilities in other years. Under the Income Tax Act, taxpayers are allowed to carry forward their capital losses indefinitely and carry back their capital losses for three years.

The income tax treatment for cryptocurrency miners is different depending on whether their mining activities are a personal activity (a hobby) or a business activity. This is decided case by case. A hobby is generally undertaken for pleasure, entertainment, or enjoyment, rather than for business reasons. But if a hobby is pursued in a sufficiently commercial and businesslike way, it can be considered a business activity and will be taxed as such.

Reporting Cryptocurrency on tax return:

- If you are trading a Bitcoin for the purpose of investment, you are treating that as a capital gain under stocks, just like buying gold. Capital Gain schedule 3 – Part 3 – Publicly traded shares entry. Taxed at half rates. The amount of tax paid will depend on your tax rate and level of income.
- If you are mining Bitcoin, you are creating a token or coin to be sold on a specific platform using complex math equations, if you crack that code, you get paid. The CRA considers this as revenue. You are working to make a Bitcoin and you gain a payment for mining it. The CRA expects their cut. T2125 Statement of Business or Professional Activity form using – Business Services Industry Code – Data processing, hosting, and related services – 518210

This image shows a blank sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.



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