

# Understanding The Income Tax Return Process

Backstage with Canada Revenue Service (CRA)



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# AGENDA

- History of taxation
- What's new for 2009 - TFSA
- What's new for 2008 and tax tips
- Gains or losses within mutual funds
- The importance of tracking Adjusted Cost Base (ACB)
- Common adjustments to tax returns
- What happens to your return after it is filed
- Who has to pay tax by installments
- Penalties and arrears and how CRA applies your refund
- Tax reminders for 2009
- Q & A

# When did people first start paying taxes?

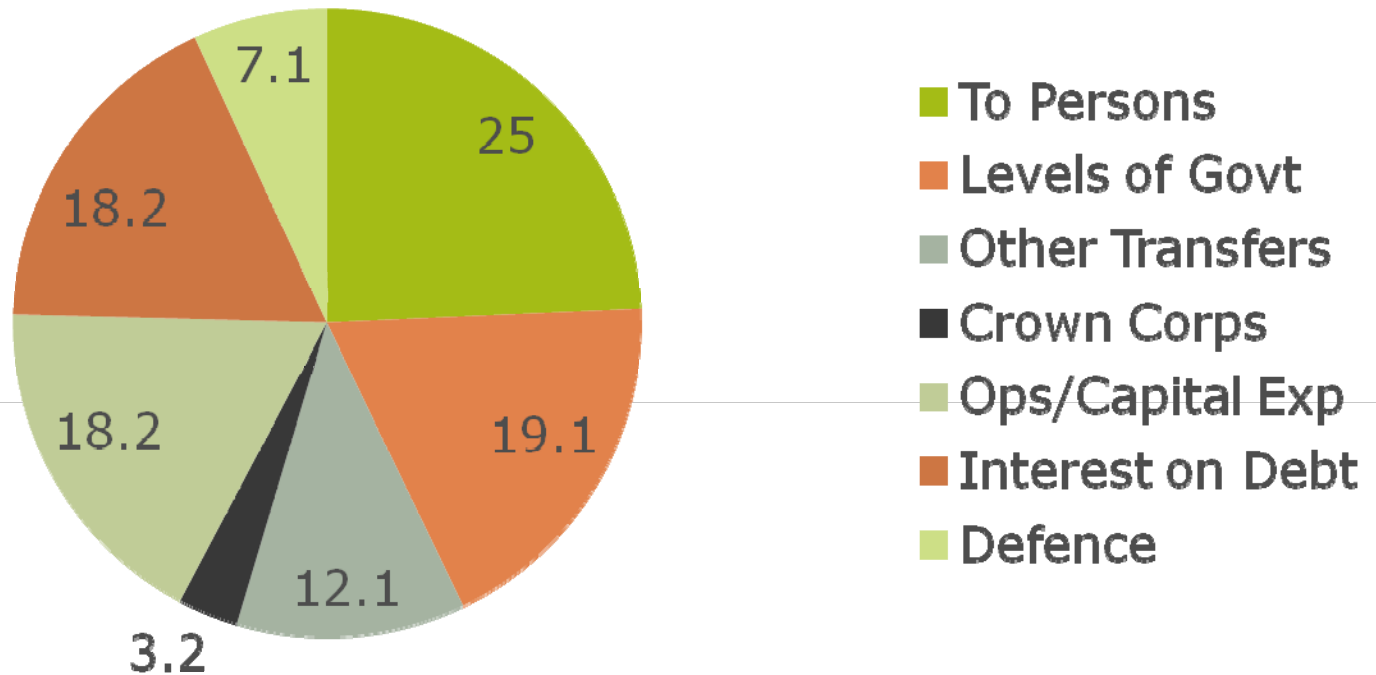
- Over 3,500 years ago!
- The ancient Egyptians collected taxes
- The Roman Empire had a highly evolved tax system

## Canadian Tax History

1917	Collected personal income taxes
1927	CRA was founded
1966	CPP contributions began
1972	Unemployment Insurance (now EI)
1991	GST

# How are our tax dollars spent?

## Allocation



# What's new in 2009?

## Tax Free Savings Account

\$5,000 per year per adult; Canadian Citizen over 18 years of age

- Contributions are **not** tax deductible
- Interest, dividends, gains and withdrawals are tax free
- Withdrawals may be re-contributed the following year

# What's new for 2008?

## Registered Disability Savings Plan (DPSP)

A registered savings plan that permits individuals to save up to \$200,000, on a tax-deferred basis for someone with a disability

Comes with generous government incentives which provide up to \$90,000 on \$30,000 of contributions

## Unlocking Federal Life Income Funds (LIFs)

One Time Unlocking Privilege

- 50% for federal plans (25% for provincial plans)
- Must be at least 55 years of age
- Balance of account must be \$22,450 or less

# What's new for 2008... continued

## RESP Changes

- Annual contribution limit eliminated
- Lifetime limit increased from \$42,000 to \$50,000
- Contributions can now be made for 31 years (up from 21 years)
- RESPs can now remain open for 35 years

# Tax Tips

Apply for GST credit (let CRA determine if you qualify)

Interest on student loans is tax deductible and can be carried forward up to five years

Carry forward unused amounts from your tuition, education and textbook amounts **or** transfer the unused portion to:

- Your spouse or common law partner
- Parent or grandparent who is supporting you

Open a tax-free savings account

## More Tax Tips

Deduct qualified moving expenses if you move 40 km closer to work or school

Apply for public transit tax credit if you purchase monthly passes

Utilize spousal RRSPs to split income in retirement

Higher income spouse can loan money to lower income spouse

Investment income taxed in hands of lower taxed spouse (loan rules apply)

## Tax Tips Continued

If you own a small business, lower your taxes by paying spouse and children a salary

Exchange bad interest for good interest (leverage loans will be presented at a future seminar)

Flow Through Limited Partnerships

Split CPP benefits and where applicable, split pension income

**RRSP.....Have one.....Contribute to it!!!!**

# Gains or Losses within Mutual Funds

Advisor recommends changes to your non-registered investments

- To capture gains
- To rebalance the portfolio
- To implement tax loss selling strategy
- To transfer to an RRSP or TFSA

You are aware of the transactions and the office can provide you or your tax preparer with a Gains/Loss report for tracking purposes

# Gains or Losses at Mutual Fund Co.

Behind the scenes, money managers are also buying, selling and rebalancing thus creating gains or losses

Losses do not flow through to unit-holder\* as they do when an advisor sells a fund. Losses are used to offset gains created by the money manager

Gains do flow through to unit-holders. Many advisors will suggest deferring purchases until January. A full year's worth of gains are attributable to the investor holding the funds in December

\* Segregated funds do pass losses onto unit holders and prorate gains.

# Tracking Adjusted Cost Base-ACB

Date	Activity	Amount	Price	Units	ACB
03/12/99	Purchase	\$20,000	\$14.75	1,355.93	\$14.75
12/21/99	DVR	\$1,427	\$16.40	87.0122	\$14.85
12/22/00	DVR	\$1,625	\$17.29	93.9850	\$15.00
12/21/02	DVR	\$3,728	\$20.63	180.7077	\$15.59
12/21/02	Sell	\$15,000	\$20.63	727.10	\$15.59
12/21/02	New ACB	\$11,780	\$20.63	996.8227	\$11.82

## ACB-Continued

Without tracking ACB an investor may have declared gains of \$4,275.35 ( $\$20.63 - \$14.75 \times 727.10$  units)

Actual gain is \$610.76 ( $\$15.59 - \$14.75 \times 727.10$ )

Investor would have already paid taxes on distributions in previous years and pay again when he/she sells

- At 46% MTR total taxes paid = \$5,085.46
- Should be a total of \$3,399.75
- Taxpayer overpaid by 49.8%

New ACB is now \$11.82

# Common adjustments made by CRA

## No Reply Received

CRA requests the submission of certain documents within a specified time period – usually 30 days

If request is ignored, CRA processes return based in information on hand:

1. Can reduce your refund
2. Can generate a reassessment and request for payment
3. This happens often with Net, Tele and E-Filers

# Common adjustments-continued

## Residential Address Changes Not Reported to CRA

Changes must be initiated by the taxpayer and cannot be handled by accountant or tax preparer

Address changes can be made by phone or visiting CRA's website

Students represent the largest group of people who do not keep CRA apprised on address changes

# Common adjustments-continued

## Amounts For An Eligible Dependant

Proof of custody must be submitted. You cannot make a claim if you have visitation rights only.

Only one parent can claim the child as an eligible dependant.

You **cannot** claim as an eligible dependant if you are making child support payments.

# More CRA adjustments

## Tuition Fees, Education & Textbook Amounts

Many parents try to claim the fees since they are paying for their child's education

**However**, the student must first apply the amount required to bring his or her federal tax payable to zero before transferring the unused portion to the supporting parent, grandparent or spouse

**Transfer amount is limited to \$5,000!** Student must sign reverse side of tax receipts for transfer to be eligible

# CRA likes adjustments!

## Medical Expenses

Deductible only if prescribed by a medical practitioner & recorded by a pharmacist

Deductions must be reduced by amounts reimbursed through employer/health plan

CRA encourages taxpayers to provide a summary list of expenses

To claim attendant care expense-must be claiming the Disability Tax Credit

# What to include with your return

## Paper based

One copy of each information slip

Schedule 1

Provincial Form

Schedule supporting docs such as:

- Certificates
- Forms
- Official receipts as per tax guide

Refund in approximately four weeks if filed <April 15<sup>th</sup>

In approximately six weeks if filed >April 15<sup>th</sup>

Do not call before four weeks (longer if filed <Feb 14<sup>th</sup>)

# Documents for your tax preparer

In addition to the tax slips a tax preparer requires:

- The label sheet CRA sends you each year
- 2007 Notice of Assessment and Notice of Reassessment (if applicable)
  - **NOAs Provides info regarding**
    - RRSP deduction limit for 2009
    - Unused RRSP contribution room
    - Capital and non-capital loss balances
    - Tuition, education & textbook amounts carry forward balance
- Installment payment summary (I/A)

# After you file - CRA backstage

For Net, Tele and E-filers:

- CRA initially reviews returns based on information provided by the taxpayer
- Sends a Notice Of Assessment (NOA); and
  - A refund if applicable
  - Usually within two weeks
- May select your return for a more detailed review **before** sending a NOA/refund
  - Will request supporting documents to verify the deductions or claims made
  - Assessment may be delayed

## CRA-backstage...continued

CRA may also carry out a more detailed review after your initial return is processed and refund is cashed, spent, invested, etc.

Types of review include:

- Pre-Assessment Review Program (Feb – July)

- Processing Review Program (June - Nov)

- Matching Program (Sept – March)

- Beneficial Client Adjustments (no dates mentioned)

# Who has to pay tax by installments?

Individuals who received income that did not have any (or enough) tax withheld

1. Rental income
2. Investment income
3. Income from more than one job

If your net tax owing is more than \$3,000 in 2009 and **either** 2008 or 2007

When are payments due?

March 15

June 15

Sept 15

Dec 15

# Penalties & Interest Charged By CRA

If you owe taxes and do not file by April 30<sup>th</sup> (for individuals)

Penalty = 5% of balance owing

PLUS – 1% of balance owing (including penalty) for each month that your return is late

PLUS- interest compounds daily on balance owing and penalties. CRA is currently charging 6% per year.

# CRA collection process

Initially an NOA or Notice of Re-Assessment is sent

A second request is mailed or a phone call is made

If no response from taxpayer, a final letter is sent demanding payment & warning of legal actions

- Garnish your wages
- Freeze your bank account
- Seize and sell your assets

If you can't pay your balance owing-file on time!

# CRA collection process

Keep lines of communications open

CRA will accept a payment arrangement only after:

You have reasonably tried to obtain the necessary funds by borrowing or re-arranging your financial affairs

CRA charges daily compound interest, commencing May 1<sup>st</sup> 2009, at applicable prescribed rates:

Currently 6% per year

# How CRA applies your refund

Refunds cannot be transferred to pay another person's balance owing

Although you may be entitled to a refund, CRA may keep some or all of it to:

- Apply against taxes outstanding
- Satisfy a garnishment order
- Apply against other outstanding debts such as:
  - Student loans
  - Social assistance benefits overpayments
  - Training allowance overpayments
  - Immigration loans

# Disclaimers

There are a number of risks associated with an investment. Investors should refer to each Partnership's offering documents for details. Important information about this offering is contained in the prospectus relating to this offering, a copy of which should be obtained from the agents or the offices of designated subagents. You should review the prospectus carefully, and consult your Advisors, including tax Advisors, before making an investment decision. This material does not constitute an offer to sell or a solicitation to buy any security. Such an offer can only be made by prospectus.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

# Tax reminders for 2009

## Q & A

**Refer to CRA Handouts**