You and Your Income Tax

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GENERAL

Why File a Tax Return?
- If you have an income, you are required by law to file a return.
- Take advantage of possible refundable tax credits (e.g. GST, PST, Realty Tax, Health Tax Refund Credit)

Rule of Thumb
Income tax is very specific in terms of what you can deduct. If something is not mentioned in the tax act, chances are it's not deductible. If you're not sure about it, get a written interpretation from Revenue Canada. Phone and ask someone for advice, make sure you get their name, and if possible, get it in writing.

Tax Evasion, Avoidance and Planning
Tax evasion occurs when you deliberately fail to report income that you should have, claim expenses you never incurred, or claim a credit you are not entitled to. Tax evaders must pay the actual amount of tax they owe, plus an extra 50% of those taxes, plus interest compounded daily from the time they were originally supposed to pay.

Tax avoidance occurs when you misuse the tax system. It is not as clearly defined as tax evasion. If charged, you must pay the taxes you owe plus interest.

Planning your taxes is perfectly legal. This occurs when you arrange your affairs to take advantage of the tax system (e.g. making RRSP contributions)

Claiming for Prior Years
If you ever find a substantial item that could be claimed after you've already filed your income tax, write to Revenue Canada, tell them you've found another deduction which you're entitled to, and ask for a reassessment. The rule is that you have three years from the date of your last assessment notice to go back and claim something (an assessment notice is the letter you receive from Revenue Canada a few months after you've filed your income tax). If you disagree with the assessment you've received, you have 90 days to file a Notice of Objection. Fill out form T400A.

Tax Credit vs. Deduction
A tax credit is a deduction in the amount of tax which you have to pay (e.g. a $1.00 tax credit has a tax worth of $1.00, regardless of your tax bracket).

A deduction is used to reduce the income that you pay tax on (e.g. a $1.00 tax deduction has a varying tax worth which depends on your tax bracket).

DISABILITY PAYMENTS RECEIVED

Generally, most of the income which you receive is going to be taxable. The area where it becomes a little different is in payments which you receive for disabilities.

Insurance Payment, Accident Benefits
Insurance payments for long-term disability are not taxable if you paid the premium yourself. If your employer paid the premium, the insurance payments are

taxable and you must include it as an income item. If your employer paid the premium, but you were taxed on the premium as a taxable allowance, then you don't have to pay tax on the insurance premiums.

CPP Disability Payment from Canada Pension
This payment is taxable, but can be claimed for your RRSP contribution. CPP and Revenue Canada can be very slow in processing your claim. Sometimes if you make a claim one year, you won't receive payment until a year or two later. You will automatically be taxed the year you receive your money, but if the amount is over $300, you can have it allocated to the year you made your claim, ask Revenue Canada to recalculate your income tax for those year(s).

WISB *(formerly Worker's Compensation),* **and Social Assistance Payments**
These benefits are not taxable. However, you have to include it as income, which means that if a spouse is expecting to use you for a deduction, your income may be too high for you to qualify as a dependent. Ask for form T5007, which tells you what benefits you've received, and the amount of tax which may have been withheld.

Damage Awards
Damage awards are generally not taxable.

For example:

- **compensations for personal injury**
- **crime compensation awards**
- **structured settlements:** If you were in an accident, instead of paying a lump sum, your insurance company may decide to pay you a certain amount each month. In order to do this, they put a lump sum of money (an annuity) aside for you, and pay you an annuity. This amount is taxable. In order to determine the exact taxable amount, your insurance company can talk to Revenue Canada and get a pre-ruling on the exact taxable amount for your case, then, pay you accordingly. Interest earned on a settlement is taxable, even though the awards themselves are not. Interest is usually calculated from the date the settlement has been declared. If you are under 21, however, all earned income, including interest, is not taxable. When you turn 21, it becomes taxable.

Disability Pension
Pension payments from the following Acts are not taxable:

- War services pension (The Pension Act, Merchant Navy Veteran and Civilian War-related Benefits Act, The War Veterans Allowance Act)
- Foreign service pension (from allied countries)
- RCMP Superannuation Act
- 1917 Halifax explosion
- Holocaust survivors pension

DEDUCTIONS

Disability Credit
In order to receive this you must file the Disability Tax Credit Form, #T2201, with Revenue Canada. Generally you only have to fill this form out once, and it becomes an ongoing part of your file. Sometimes Revenue Canada will ask you to fill it out again, especially if you have young children, because conditions often change. Make sure you fill out the form correctly or they will send it back. The disability credit is worth about $1,200, and the following conditions must be met:

- severe (open to interpretation) and prolonged (more than 12 months) mental or physical impairment
- ability to perform a basic activity of daily living (e.g. getting dressed, cooking) is markedly restricted (if you

are blind or deaf you qualify immediately)

- you are certified by a physician or qualified health professional
- if you claim this credit, you cannot claim a full time attendant or full time nursing home care. You can, however, claim childcare.

Family/Dependent
Revenue Canada's definition of family includes:

- self or spouse
- dependent
- child or grandchild (and their spouse)
- child or grandchild (and their spouse) of your spouse
- dependent and are resident in Canada at any time of the year
- your parent and spouse
- your brother or sister (and their spouses)
- your uncle and aunt (and their spouses)
- your niece or nephew (and their spouses)
- in-laws of all the above

Keep in mind that if a dependent's net income is $7,044 or greater, the ultimate credit will need to be adjusted. Every additional dollar is reduced by about 68%.

Medical Expenses
Credit is available on expenses in excess of the lower of 3% of your net income or $1,728.

A medical expense is a non-refundable tax credit, worth 17% of every dollar, which you are going to put down as a claim. You can claim for expenses which you have not been reimbursed for, but, if an insurance company pays an expense for you, you can not claim it. Expenses can be pooled for family members and claimed under one individual. Use the lowest income to make your claims.

Expenses can be claimed for any 12-month period ending in the taxation year. It does not have to be the same 12 months the tax return is in, but afterward you have to stick to that period for at least another year.

Expenses can include:

private health insurance premiums (e.g. if you buy dental care on your own, your premiums are deductible).

prescription eyeglasses and contact lenses

health care services — paying a doctor, dentist, chiropractor, physiotherapist, occupational therapist, psychoanalyst or dietician. The rule of thumb is that if an individual is licensed, his or her fees become deductible

drugs — prescription drugs (e.g. insulin, oxygen). Some non-prescription drugs are allowed (e.g. liver extract and vitamin B12 required for a particular ailment). Specialized foods required for severe allergies do not qualify

institutional and school care (you can claim this either here or under child care, but only claim it once. The person with the lowest income should claim this.)
full time care in a nursing home
care and/or training at a school, institution with specialty equipment, facilities or personnel (any health service which is regulated and licensed will probably qualify, for example, an integrated daycare, or a group home)

travelling expenses

- ambulance fee to or from a hospital
- paid transportation (taxi, airline, rail)
- expenses to and from place where medical services are provided, at least 40 km, one way, from home. There can be no other facility closer to you

- when there's no other mode of transportation available, your vehicle or that of your family may be used. You can charge 31 cents per kilometre. Keep a log.
- you can charge reasonable meal and accommodation expenses if you travel 80 kilometres or less. Again, you have to show that there was not a facility closer to you.
- you can claim the sales tax on a vehicle, bought for the transportation of a disabled individual. Contact the PST division of Revenue Canada, fill out a form, and three months later you should get your money back. If you claim for two vehicles, you will only get the difference between the cost of the first and second car. (e.g. If your first car cost $20,000 and you claim PST, you will receive a full refund. If you claim PST on your second car, which cost $30,000, you will only get a PST refund based on the $10,000 difference.) If your second car has replaced the first, you can claim a full refund.

excise tax gas refund – worth 1 1/2 cents per litre ($30). You have 2 years to claim it; keep all receipts; use for XE8

aids for the hearing impaired, speech impaired and visually impaired usually do not require a prescription (e.g. extra loud audible signals, volume adjustment for telephone, bone conduction telephone, batteries or repair for your hearing aid, artificial eye).

Some devices do require a prescription:

- visual or vibratory signaling device
- electronic speech synthesizer
- teletypewriter (for telephone use)
- optical scanner
- Braille printer
- large print on-screen device
- hearing ear/guide dog
    - you must be able to show you need the dog
    - the dog must be specially trained
    - the dog must be purchased from specified individual/organization
    - you can claim:
        - the dog's purchase cost or rental
        - care and maintenance of the dog
        - travelling expense (patient) for a course in handling the dog
- computers – it's very difficult to claim the cost of a computer or specialized software, but any adaptations to a computer are acceptable

Keep in mind that if the Assistive Devices Programme (A.D.P.) covers an item, then you can not claim it again. However, any portion of the item not covered by A.D.P. can be claimed.

medical devices
items which do not require a prescription:

- artificial limb
- wheelchair
- crutches
- spinal brace
- braces for a limb

items that require a prescription:

- oxygen tent
- needle or syringe
- insulin infusion pump
- blood sugar measuring devices
- device for severe chronic respiratory ailment
- device for driving
- wig made to order
- orthopedic shoes or boots
- hospital bed
- assistive device for walking
- incontinence supplies
- most devices must be designed exclusively or specifically for an individual or the purpose/condition

home renovations and/or installed devices
- certain conditions have to exist before Revenue Canada will consider your renovation or installation a medical expense:
- must be a reasonable expense
- must be in the home of the patient, who has a "severe or prolonged mobility impairment"
- must enable the patient to gain access to the home or to be mobile or functioning within the home

Once eligibility is determined, you can claim the following costs:
- purchase and renovation of ramps
- enlarging of hallways and doorways
- lowering of kitchen or bathroom cabinets
- architect and contractor fees
- specifically prescribed devices (e.g. air or water filter/purifier, electric or CO combustion furnace, power operated chair installation, power operated lift, electronic or computerized environmental control system, device to get in or out of a bath tub/shower
- you do not need a prescription for an air conditioner, maintenance and supplies for a wheelchair

The federal government has a grant programme for home renovations, but funding is extremely limited

You can download more detailed information about expenses from the Canada Customs and Revenue Agency's web site at www.ccra-adrc.gc.ca. Look for the IT interpretation bulletin called "Medical Expense and Disability Tax Credits and Attendant Care Expense Deduction," #IT-519R2.

ATTENDANTS

Attendant care is not clearly defined, but is used in the sense of home care (e.g. maid cleaning functions, transportation, meal preparation, companionship).

There are four possible claims you can make:

Full time attendant
- patient qualifies for the disability credit
- attendant is 18 or older, not your spouse (but may be the spouse of the person being cared for) and is paid in money
- the attendant is employed full time
- keep in mind you can claim for a disability credit or for a full time attendant deduction, but not for both

Full time attendant in your residence
- patient is self-contained in a domestic establishment
- patient does not qualify for the disability credit
- a medical practitioner must certify that the patient has had a mental or physical infirmity for a long and continued period of indefinite time and is dependent on others for his/her personal needs
- attendant is 18 or older, not your spouse (but may be the spouse of the person being cared for), is paid in money, and is able to provide a receipt with an SIN#

$5,000 or less for a part time attendant in charge of a patient who qualifies for the disability credit
- patient qualifies for the disability credit
- can also claim disability credit
- no child care expense, attendant care, nursing home or institutional care is claimed for the patient
- attendant is 18 or older, not your spouse (but may be the spouse of the person being cared for), is paid in money, and is able to provide a receipt with an SIN#

$5,000 or less as a deduction from business or employment income
- lesser of 2/3 of related income or $5,000

- attendant care for person claiming the expense provided in Canada
- expense must be incurred in the year of the claim
- patient must qualify for the disability credit
- attendant is 18 or older and not your spouse
- care is provided to enable you to work, do business, take training under the National Training Act, or do research under a grant
- must file form T929

CREDITS FOR DISABLED DEPENDANT

There are certain credits which an individual may not be able to use all together, but which may be transferred to a spouse. The following information can be found in Schedule 5 of your tax form:

dependant over 18

- depends on you for support
- dependent condition (relationship)
- transferable credit amount: $7,131 less net income = $6,482 max.

equivalent to spouse

- you do not have a spouse
- must be related
- dependent lives with you
- must be wholly dependent on you

disability credit transfers to spouse

- must have a spouse (not separated)
- transferable credit amount: $6,180 less spouse's taxable income minus non-refundable tax credits.

disability credit transferred from a dependant

- must be Canadian resident
- must be eligible for credit
- transferable from the following:
    - child, grandchild (their spouse) (both sets)
    - equivalent to spouse
    - must live with you
    - parent or grandparent (and their spouse) (either set)

Maximum amount possible: $6,180. For a dependant under 18 years of age, an additional supplement up to $3,605 may be available.

CAREGIVER AMOUNT

A caregiver is someone who is not paid. This credit is available to taxpayers who provide home care for a parent, grandparent or a disabled dependant over age 18. The dependant must live with you. Maximum claimable is $3,605.

HEALTH TAX CREDIT

Information about this credit can be found in Schedule 10 of your tax form. The maximum you can get is $500, based on net income.

WRITTEN INTERPRETATIONS

If you are in doubt about an item, ask for a written interpretation from Revenue Canada. Make sure your request is written, and be prepared to wait up to six months, depending on the complexity of your question. Keep in mind that if a questionable item passes, Revenue Canada has up to five years to renege on their original decision. Therefore it's very important to get everything in writing.

BOOKS TO READ

You can use the following books as loose references, but keep in mind that tax book are already out-of-date by the time they are printed.

The Master Tax Guide, CCH Canada Ltd. (416) 224-2248
Taxes, Health and Disabilities, David M. Sherman

Note: These notes are only suggested tips for consideration in the preparation of your income tax return. To obtain assistance for your specific questions, it is advisable to consult your personal accountant