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Dear Clients:

We enclose a copy of our 2016 personal income tax checklist. It is designed for use by the majority of individuals and especially by either employees who incur automobile and other expenses in the course of their employment, self employed individuals or those with rental properties. It will assist with identifying the various types of deductions that are available.

This checklist outlines most of the major categories of expenses incurred and records most of the information, such as percentage use of automobile, to ensure an accurate income tax return is prepared. In order to assist us in preparing your return, please complete the relevant sections of the checklist to the best of your ability and bring it with you when you drop off your information slips for preparation of your income tax return. If you already prepare your financial information in another similar format, there is no requirement to use this checklist.

If you are unsure about whether an expense is deductible, just note the item down for discussion. We do not require original receipts or automobile log books but you should save them for seven years in case CRA wants to view them.

What's new

The family tax cut was introduced in 2014 to allow families with children under the age of eighteen to split up to $50,000 per year of income. This benefit is capped at $2,000 per family. Last year (2015) was the final year for the family tax cut as the government has eliminated this benefit. For most incorporated clients with family trusts this provision provides little to no additional benefit.

The contribution limit for the tax free savings account ("TFSA") is now $52,000. Unused contribution room can be carried forward year to year, and all Canadian residents age 18 and over are eligible to contribute to a TFSA. All earnings inside a TFSA are tax free, while losses if any are non deductible. Given the increasing limits, everyone (except US citizens and U.S. green card holders) should review the merits of opening a TFSA. There are also some excellent articles exploring the advantages and differences of contributing to an RRSP versus a TFSA. We have noticed that CRA is vigilant in assessing individuals who withdraw and recontribute the TFSA funds in the same year. If you withdraw funds from a TFSA you cannot put those funds back into the TFSA until the year after the withdrawal. They have also been very quick to reassess individuals who have overcontributed to their TFSA.

All of the major tax credits introduced in the past several years remain in effect including the children's fitness credit, children's arts credit, transit pass credit, employment credit, and the new homebuyer credit. Eligible fees for the fitness credit have been reduced to $500 per child for 2016. The eligible amounts for the arts credit has been reduced to $250 for the 2016 year. Both the fitness credit and the arts credit have been eliminated beginning with the 2017 year.

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Beginning in 2016, teachers (eligible educators) can claim up to $1,000 for eligible teaching supplies expenses.

Pursuant to legislation introduced in October 2016, the sale of your principal residence must now be reported on schedule 3. In the past, it was always the CRA's administrative position that you did not have to report a sale of a principal residence if it was all tax free. A late reporting can be made but it may be subject to penalties. It is imperative if you have sold your principal residence home that you let us know so that it can be reported.

The October 2016 legislation also severely limits the use of principal residence trusts. Gains accrued in a principal residence trust after December 31, 2016 no longer qualify for the principal residence exemption. If you do have your principal residence held in a principal residence trust, it maybe a good idea to review the possibility of transferring it back out to the beneficiaries at cost as soon as possible.

IRS has finally coordinated the FBAR filing deadline with the US tax return filing deadline. Commencing with the 2016 FBAR, the filing deadline is April 15, with extensions available until October 15th.

The new first-time donor's super credit that increases the charitable donations tax credit (CDTC) by 25% on donations made after March 20, 2013, by a first-time donor is still in effect. You will be considered a first-time donor if neither you nor your spouse or common-law partner have claimed and been allowed a charitable donations tax credit for any year after 2007. The super credit applies to a gift of money made after March 20, 2013, up to a maximum of $1,000, in respect of only one taxation year. Aggregating several years deductions together to claim a higher credit does not work. Spouses or common-law partners can share the claim for the credit but the total combined donations claimed cannot be more than $1,000.

The 10% B.C. refundable seniors' home renovation tax credit applicable on up to $10,000 of annual eligible expenditures incurred after March 31, 2012 remains in effect. The credit is available to seniors aged 65 and over who own or rent their home, or to individuals who live with a senior relative.

The overseas employment tax credit ("OETC") was phased out in 2015. There is no longer any claim for 2016.

Other items

If you have a lot of prescription receipts, it will be beneficial for you to ask your pharmacist to print out a listing of all your prescription costs for the year. That way you ensure that all of the prescriptions are accounted for and you do not have to deal with those tiny receipts.

Our firm is registered with Canada Revenue Agency to review clients tax information online. Over the last few years we have registered the majority of our clients for this service. For those who are still not registered we will continue to try and get everyone registered for this service by filling out an authorization form with your personal tax return. This service should be of benefit in the future whenever we need to get online access to review your tax accounts, or determine whether carryforward amounts are correct.

As you are aware the CRA requires that all professional firms preparing more than ten tax returns must electronic file all eligible personal and corporate tax returns with no exceptions. Therefore we must electronic file your personal tax return unless it meets one of the very few stringent exceptions.

Canada Revenue Agency ("CRA") Activities

The CRA is continuing with their letter writing campaign to inform taxpayers about their obligations when deducting various types of expenses. They are warning taxpayers that there may be audits of their returns. These letters have been sent to individuals claiming employment expenses, rental income and expenses, or certain types of business expenses. Receiving this letter certainly does not mean that you are being audited, it only reinforces the fact that CRA is entitled to audit your income tax return and that you should have sufficient receipts (including for example name, description and business purpose) to support your expenses. CRA appears to be giving those who may have been too aggressive in their deductions an opportunity to voluntarily come forward to adjust their returns. If you have been too aggressive with deductions and wish to make an adjustment please discuss that option with us. The rationale for continuing with the letter writing campaign is that it has been a very cost effective manner to collect additional tax.

For those of you with real estate investments or self employed businesses, the CRA started a liaison officer initiative in 2013. This program is continuing. It appears that they are randomly selecting clients and will offer to send a liaison officer to your home or business to educate clients on correctly reporting income and claiming expenses. These officers are CRA auditors and supposedly are there to educate only. It is not an enforcement program and if CRA finds errors, clients can make a voluntary disclosure to correct the tax returns without penalty. If you should have a call or letter from a liaison officer please contact us to discuss whether to participate. Participation is voluntary however encouraged.

The CRA has also stepped up its review of efiled returns, looking at the validity of medical receipts and charitable donations in particular. In many cases the onus required for these reviews is quite stringent, for example, they have been asking for proof of payment of medical expenses or in the cases of foreign taxes paid, they are asking for notices of assessments from the foreign governments.

If you have any further questions, please do not hesitate to contact us.

Yours truly,

Hirji, Lum & Orr
Chartered Professional Accountants

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