HIRJI, LUM & ORR

CHARTERED PROFESSIONAL ACCOUNTANTS*
Suite M3, 601 West Broadway
Vancouver, B.C.
V5Z 4C2
Tel: (604) 738-8299 Fax: (604) 738-8296

February 28, 2019

Dear Clients:

We enclose a copy of our 2018 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

Sadly, no significant new tax credits or deductions to report. As many of you are now aware, the overspending federal government is running a large deficit such that a number of benefits have been reduced or eliminated. These include the following (in no particular order):

1. Eliminated arts and fitness credits
2. Eliminated education and textbook credits
3. Eliminated the public transit fare credit after July 2017
4. Eliminated family income splitting credits
5. New rules to tax work in progress of professionals
6. Eliminated the ability of professionals to access multiple small business deductions
7. In the process of eliminating or restricting the ability of many smaller owner managed corporations to utilize private health services plans
8. Severely restrict the ability to income split using dividends from private corporations
9. Eliminated the ability to utilize principal residence trusts
10. Restricted the ability for private corporations to earn passive income
11. Introduced significant increases in CPP premiums beginning in 2019

There is one good thing, the contribution limit for the tax free savings account (“TFSA”) has been increased by $500 to $6,000 for 2019 and is now at a $63,500 cumulative total. But this assumes you have funds leftover after all the changes noted above. 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

**A partnership of incorporated professionals* free, while losses if any are non deductible. Given the increasing limits, everyone should review the merits of opening a TFSA. US citizens and green card holders need to be very careful as TFSA are not tax free for US income tax purposes and may include additional compliance requirements.

Beginning 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 during 2018 that you let us know so that it can be reported.

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.

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

One very disturbing trend we have noticed with CRA is that it seems they are assessing for trivial amounts without doing detail reviews or doing incorrect reviews. Some items we have noticed over the past year include:

1. Disallowance of foreign tax credits because insufficient information was submitted to support the payment of foreign taxes. In our view this is guilty until proven innocent. If they want to disallow the foreign tax credit claim they should also remove the foreign income which you have so honestly reported!
2. Disallowance of deductions because taxpayers cannot show proof of "payment"
3. Reassessment of returns to include amounts purportedly not reported on the return, in some cases the amounts are clearly reported on the tax returns. Usually its because the amounts have been combined with other tax slips and its not totally obvious.
4. Assessment of late filing penalties, when clearly the returns have been filed on time.
5. Disallowance of deductions due to clearly incorrect interpretations of the Income Tax Act.

In many cases the amounts payable can range from one hundred to a few thousand dollars, nothing outrageous and it almost seems that the government is hoping that taxpayers will pay the amounts instead of seeking professional advice. If its incorrect we can usually reverse the reassessments. But we have noticed that even that is taking a long time, generally several months to get adjustments made. We have noticed some clients have paid such reassessments without bothering to inform us. If you get notices from CRA and if the reassessment is not plainly obvious please let us review it. We hate to see the government using this type of technique to generate revenue. We tried having CRA pay our professional fees to reverse one of their errors but you can figure out what their answer was.

Something else that is happening much more frequently is for CRA to arbitrarily assess unfiled GST or income tax returns. They have become much faster at doing this over the past year or so. Once they have the arbitrary assessment in place the collections department can decide to issue garnishee orders against your income sources or assets. Funny how they can be so quick to arbitrarily assess but slow to make adjustments.

In the fall of 2017 CRA started an in depth review and disallowance of automobile expenses incurred by owner managers. While this initiative was terminated in February 2018, one important thing to remember is that you should keep a log of business kilometers versus total kilometers. Dates and purpose of the travel should be noted. CRA mentioned that a new policy on automobile and employment expenses was forthcoming prior to the end of 2018. We have yet to see the new proposals.

The CRA continues with its comprehensive 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. (discussion above)

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

Yours truly,

Hirji, Lum & Orr

Hirji, Lum & Orr
Chartered Professional Accountants

Z:\Standard notes&letters\Std letters\T1 2018 letter.doc