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Navigating Canada's tax regime

Recent changes bring benefits and a few pitfalls

Don't go it alone

Find taxes complicated? There's no need to go it alone.

"It is very difficult for retirees to navigate all of the tax changes each year," says financial advisor Donald Page of Richmond Hill, Ontario. "By having a relationship with a trusted advisor, someone who understands your values, dreams and aspirations, retirees have someone who is knowledgeable about all of the aspects of planning to co-ordinate the flow of information."

During market downturns, an advisor can help clients know what to expect going forward, says Rick Page, Donald's brother, partner and fellow financial advisor. "A financial advisor can provide peace of mind."

"I have someone who prepares my taxes; they know about all these tax rule changes, but they may not know enough about the rest of my situation and what I'm trying to accomplish to be able to guide me into the next year," says Frank Miemiec, vice president operations, Page and Associates. "We need to set the stage for the future ... a financial planner will ensure the next steps are aligned."

PHOTO: DEBORAH BAIC

Frank Miemiec and Donald and Rick Page of Page and Associates in Toronto say that working with a financial advisor can help retirees navigate ongoing tax changes and benefit from tax-efficient financial planning.

Each year, Canada's federal budget offers up a profusion of new benefits, while behind the scenes, Canada Revenue Agency also introduces less-publicized revisions. The result is a number of opportunities to pay less tax – and some troublesome pitfalls for retirees.

An example in the latter category is a recent change to the penalty section in the Income Tax Act that is presenting significant challenges for taxpayers, particularly for Canada's seniors, says Colleen Gibb, FCA, tax partner at Gibb Widdis. "When a taxpayer does not report income twice in a three-year period, the new penalty, 10 per cent of the income not reported, is applied on the second occurrence."

While that sounds reasonable in theory, the effects are startling.

"A couple of years ago, many of the mutual fund companies issuing T3 slips were late getting them out, and some were still arriving in June. As they didn't arrive for the April 30 deadline, many seniors put them aside thinking they'd file them on next year's return. Unfortunately, you can't do that, and Canada Revenue reassessed them," she says.

The following year, mutual fund companies were anxious to ensure that didn't happen again, so they issued T3 slips in time for the April 30 deadline, but before receiving information from all of the companies they owned. As a result, instead of receiving one T3 slip for one fund, investors were receiving four or even five, says Ms. Gibb. "That confused a lot of the taxpayers as well. Once they'd filed the first T3, they assumed that was it, so many didn't report all their income that year either."

One of her clients was penalized $600 for not reporting $6,000 in interest. But the T3 slip also reported $7,000 in deductible investment counsellor fees. "He'd paid tax on $1,000 too much, so he was entitled to a refund, but because the penalty was applied to the amount not reported (rather than the tax owing), he owes $600. We tried to appeal it, but had no luck," says Ms. Gibb.

Ironically, she says, under another section of the Penalty Act, had the senior been 'grossly negligent,' by not reporting income he knew should be reported or by demonstrating an inappropriate level of care, no penalty would have been applied. "In that case, the penalty would have been assessed on the tax owning. We tried to appeal on that basis, but we were told he did not demonstrate gross negligence – he just didn't know he was supposed to file an amended T1 as soon as the T3 slip arrived."

It's essential that people who are still receiving T3 and other income slips in be aware of this new penalty, and the necessity of filing an amendment immediately, she says. "Don't wait. You can't file the slips next year."

The recent budgets haven't been all bad news. A number of changes now provide opportunities to significantly reduce taxes too.

"The increase to the basic personal amount, from $9,600 to $10,320, provides an opportunity to earn a little bit more income before we start getting taxed; on top of that, the income threshold on the first tax bracket (taxed at only 15 per cent federally) has increased from $37,800 to $40,700," says Donald Page, financial advisor and principal of Page Associates in Richmond Hill, Ontario.

For employed Canadians who pay tax through payroll deductions, that change translates into immediate savings, and retirees will see the benefit when they file next year.

An increase of $1,000 to the Age Amount will translate into a further tax savings of $150 for low- and middle-income seniors. For retirees who don't require all of their RRIF minimum withdrawal for living expenses, there was an opportunity to re-contribute 25 per cent of the 2008 minimum withdrawal to avoid tax.

Perhaps the most beneficial change in recent years is the opportunity to split pension income between spouses.

"We have always advised taxpayers to plan to have the same amount of income coming in for both spouses in retirement, so that both are in the same tax bracket in order to minimize taxes," says Ms. Gibb. "For people who didn't plan advantageously, this change allows any senior to split up to 50 per cent of their pension income with their spouse. Last year, we saw tax savings from $100 to $7,000 as a result." ■

Tax savings in renovations

The home renovation tax credit was a welcome boon to both the building trades and the many Canadians who wish to upgrade their homes. But for people caring for elderly parents or for seniors wishing to create a safer home environment, certain renovations may also be deductible as medical expenses, says Colleen Gibb, FCA, senior tax partner at Gibb Widdis.

"This is a generous credit, and as a side benefit it may have the effect of ending activity in a part of the economy where it has been difficult to ensure tax compliance, because now everyone is going to want a receipt," she says, noting she hopes this will encourage the government to continue the credit.

For seniors or caregivers who make changes to their home to make it wheelchair or walker accessible, she says, renovations may be considered a medical expense as well. "It's definitely worth bringing all receipts in when they get their tax returns prepared to see if they qualify," says Ms. Gibb.

For more information, contact Canada Revenue Agency or your accountant.

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