

COMMENT

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Tax Return Filing Tips

Every year over 25 million Canadians file a personal income tax return. In the not-so-distant past, the majority of tax returns were filed manually, which required taxpayers to complete the paper forms, assemble the package, attach receipts and mail the return to the Canada Revenue Agency (CRA). Today taxpayers have several electronic filing options and their popularity is growing annually. A taxpayer can file using a telephone (only about one per cent), directly on the CRA website (about 21 per cent), or by using a computer software tax program and filing electronically (almost 44 per cent).

It is the taxpayer's responsibility to properly identify qualifying tax deductions, tax credits and relevant elections. The following is a list of some of the more common items that a taxpayer should review to determine their applicability. If eligible, checking the appropriate box on the electronic form (if filing electronically) and incorporating relevant information is essential in order to access the targeted benefit.

1. **Charitable Donations.** While donation receipts do not have to be included when income tax returns are filed electronically, the taxpayer should ensure that all the receipts have been located and claimed. Retaining the receipts in a safe, accessible location is important as the CRA has the right to request them to substantiate amounts claimed. The CRA's administrative policy allows a couple to group any charitable donations and claim the combined amount on one tax return.
2. **First-time Donor's Super Credit.** An individual and the individual's spouse are considered eligible for the first-time donor's super credit when neither has claimed the charitable donation tax credit in any of the past five years. To claim the credit in 2013, the five-year window means no donation credit claimed can have been claimed since 2007. The super credit adds an additional 25 per cent tax credit on the first \$1,000 of qualifying donations. Taxpayers need to identify themselves as a first-time donor. This credit is available for a limited period of time.
3. **Political Donations.** Donations to political parties can generate significant tax credits. The maximum federal credit is \$650 for donations to a federal political party or candidate of \$1,275 or more. The provinces offer similar credits for provincial political donations.
4. **Investment Expenses.** Interest expense related to investment loans, fees for investment counsel and other investment expenses (such as certain brokerage fees) may be eligible for deduction. The deduction for safety deposit box fees will no longer be available after 2013.
5. **Capital Gains Deduction.** While the taxpayer may be entitled to the capital gains exemption, he or she needs to recognize eligibility and enter the deduction on his or her income tax return.
6. **RRSP deduction.** An individual can make contributions to his or her RRSP (up to the available RRSP room), but the deduction of any contributions is at the option of the taxpayer. RRSP contributions made in the first 60 days of 2014 may be deducted on either the taxpayer's 2013 or 2014 income tax return, at the taxpayer's option.
7. **Family Caregiver Amount.** The caregiver amount is available to taxpayers who maintain a dwelling where they support a related individual who was dependent because of mental or physical infirmity. The CRA does not know whether an individual qualifies for the family caregiver amount, so the taxpayer must complete the appropriate paperwork to demonstrate eligibility for the claim.
8. **Adoption Expenses.** Certain expenses related to an adoption can be used to claim a tax credit by either parent.
9. **Tuition, Education and Textbook Amounts.** While the university or college issues the appropriate tax slips to the student, it is up to the student to make the claim. An amount not claimed by the student may be eligible for transfer to a parent or spouse; however, to do so, the person to whom the amount is transferred must include the appropriate election form when completing his or her income tax return.

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10. **Pension Splitting Election.** Seniors may elect to split qualifying pension income if they file the appropriate forms with their tax returns.
11. **First-Time Home Buyer's Tax Credit.** A tax credit is available to first-time home buyers to assist in purchasing a first home.
12. **Persons with Disabilities.** Persons with a disability may be eligible for a tax credit but must first file appropriate forms and be approved in order to claim the credit. Retroactive claims for limited periods are possible.

The CRA receives copies of the tax slips issued to a taxpayer and undertakes a matching process to ensure individuals report appropriate income. However, claiming credits and tax deductions is at the taxpayer's discretion, and it is up to the taxpayer to make the appropriate claims.

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Charitable Gift Planning in a Will

Acts of charitable kindness provide fulfilment for a donor and are highly valued by recipient charities. While regular donations may occur throughout an individual's lifetime, an increasing number of individuals want to provide for a large legacy through charitable gift planning. This may involve the individual (known as the "testator") making provisions in his or her will to address personal charitable objectives. In doing so, it is important to maximize any tax benefits without changing the testator's objectives.

The testator has many options with respect to completing a charitable gift plan. The amount of the gift could be a specific asset, a fixed amount, or a percentage of the residue of the estate. The recipient of the gift could be designated through a provision that specifically names charitable organization(s), or the executor may be instructed to fund specifically named causes.

A charitable gift made pursuant to an instruction in a testator's will can generally be claimed on the testator's final tax return for the year of death (the "terminal return") because of a specific provision within the Income Tax Act. Charitable donations may be claimed up to 100 per cent of net income in the year of death. Any unused charitable donations may be carried back and claimed in the year prior to death up to 100 per cent of net income.

Being able to claim a charitable donation on the terminal tax return is important because the terminal tax return will also contain income recognized pursuant to the deemed disposition rules triggered by death. For example, a shareholder of a private business is deemed to have disposed of his or her corporate shares at the time of death, causing any inherent capital gain to be realized (unless the shares pass to a spouse or qualifying spouse trust on a rollover basis).

For the estate to claim the testamentary donation on the terminal tax return, certain criteria must be met.

- The amount of the gift must be clear and without any discretion on the part of the executors. The gift could be a specifically identified piece of property or investment account. The gift could be a specific dollar amount, or could be a specified percentage of the residue of the estate. It should be noted that a gift of a specific property requires that the testator actually own the property at the time of death, otherwise the gift will fail. In addition, a gift of a specific percentage of the residue of the estate may take several years to determine. If the testator indicates a dollar range for a charitable bequest, the executors may claim the bottom of the range on the terminal tax return, and any amount above the minimum would be considered a charitable gift by the estate.
- It is clear that the executors must complete the gift, and there is no discretion as to whether the gift has to be made.
- The identity of a specific charitable organization is not required; rather, the executors could be instructed to complete a specified gift to those charities that support clearly identified causes. Where a charitable organization is specifically named, it is important to ensure it still exists at the time of death, otherwise the gift will fail. To avoid this situation, the testator could provide that if the charitable organization is no longer in existence, the charitable gift(s) should be made to those organizations that provide similar functions.
- The charitable gift needs to be fulfilled before it can be claimed. This is an important consideration when an estate lacks sufficient assets to fund its final expenses, outstanding debts of the testator and any income tax liabilities. The gift is subject to priority of payment with final expenses, repayment of debts, and income tax taking precedence over a bequest.

Any gifts that cannot be claimed on the testator's terminal tax return because of the restrictions noted above can generally be claimed by the estate on its tax return.

The executors can leverage the ability to carry back excess charitable donations from the testator's terminal tax return to his or her prior year's returns, which may be advantageous in generating an income tax refund. The claim on the terminal tax return will often offset any income tax liability owing, while a carryback claim will generate a cash refund when the prior year's return has already been completed.

The following table depicts the charitable donation tax credits rates for 2013:

	Tax credit on the first \$200	Tax credit on amounts in excess of \$200	Combined tax credit on amounts in excess of \$200
Federal	15.0%	29.0%	
British Columbia	5.06%	14.7%	43.7%
Alberta	10.0%	21.0%	50.0%
Saskatchewan	11.0%	15.0%	44.0%
Manitoba	10.8%	17.4%	46.4%
Ontario	5.05%	11.16%*	40.16%*
Quebec	20.0%	24.0%	53.0%
New Brunswick	9.39%	17.95%	46.95%
Prince Edward Island	9.8%	16.7%	45.7%
Nova Scotia	8.79%	21.0%	50.0%
Newfoundland and Labrador	7.7%	13.3%	42.3%
Yukon	7.04%	12.76%	41.76%
Northwest Territories	5.9%	14.05%	43.05%
Nunavut	4.0%	11.5%	40.5%

Ontario's tax credit on amounts in excess of \$200 will increase to the extent the taxpayer is subject to Ontario's surtax calculation. The top marginal tax credit would be 49.53% for individuals with taxable income in excess of \$509,000.

With charitable gift planning, it is important that there is clarity with respect to the testator's wishes, enabling the executors to complete the intended gift. Consideration of the tax implications is essential in order to maximize the benefit while achieving the intended objectives.

Role of the Prescribed Interest Rate

The prescribed interest rate has been one per cent since the second quarter of 2009, with the exception of the fourth quarter of 2013. The prescribed rate is used to establish the interest rates assessed when taxpayers owe overdue taxes, and is the rate paid by the government on tax overpayments/refunds. In addition, the prescribed interest rate is used as the minimum interest rate taxpayers must apply to avoid certain taxable benefits.

The prescribed interest rate is calculated as the average rate of treasury bills sold with a three-month duration during the first month of the previous quarter (i.e., October 2013 for the first quarter of 2014), and rounded to the next highest whole percentage point. This means that the information for the prescribed rate is known two months in advance.

The prescribed interest rate for each of the past three years is as follows:

Calendar Year	First Quarter Jan-Mar	Second Quarter Apr-June	Third Quarter July-Sept	Fourth Quarter Oct-Dec
2014	1%			
2013	1%	1%	1%	2%
2012	1%	1%	1%	1%
2011	1%	1%	1%	1%

- The interest rate charged on underpayments of taxes by any taxpayer is four percentage points above the prescribed interest rate.
- The interest rate paid on overpayments of taxes by individuals and trusts is two percentage points above the prescribed interest rate.
- The interest rate paid on overpayments of taxes by corporate taxpayers is the prescribed interest rate.

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For the first quarter of 2014:

- The interest rate used to calculate taxable benefits for employees and shareholders from interest-free and low-interest loans will be one per cent.
- The minimum interest rate used for loans between couples to avoid the attribution rules will be one per cent.
- The interest rate charged on overdue taxes, Canada Pension Plan contributions, and employment insurance premiums will be five per cent (four per cent above the prescribed interest rate).
- The interest rate to be paid on corporate taxpayer overpayments will be one per cent.
- The interest rate to be paid on non-corporate taxpayer overpayments will be three per cent (two per cent above the prescribed interest rate).

The prescribed interest rate affects many interest calculations. Understanding the impact will help optimize planning opportunities and minimize negative outcomes.

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Government Pension Plans: Benefits and Contributions for 2014

Contributions and benefits under government pension plans are adjusted periodically to reflect increases in the Consumer Price Index or the average Canadian wage. The new amounts, commencing January 1, 2014, are shown in the table below. Each benefit is subject to income tax when received, with the exception of the Guaranteed Income Supplement and the Allowance. All benefits shown are paid monthly unless otherwise indicated, and are the maximum amounts.

	CPP	QPP	OAS
CPP / QPP benefits (for new beneficiaries)			
Retirement pension (at age 65)	\$1,038.33	\$1,038.33	
Post-Retirement benefit (at age 65)	\$25.96	n/a	
Disability pension	\$1,236.35	\$1,236.32	
Disabled contributor's child benefit (each child)	* \$230.72	* \$73.25	
Survivor's*** pension			
under age 65	** \$567.91	** \$846.94	
age 65 or over	\$623.00	\$623.00	
Surviving child's benefit (each child)	* \$230.72	* \$230.72	
Death benefit (lump sum)	\$2,500.00	\$2,500.00	
Combined Benefits			
survivor's*** pension and disability (under age 65)	\$1,236.35	n/a	
survivor's*** pension and retirement (age 65 or over)	\$1,038.33	\$1,038.33	
Annual CPP contribution			
Self-employed (9.9%)	\$4,851.00		
Employee (matched by employer) (4.95%)	\$2,425.50		
Annual QPP contribution			
Self-employed (10.35%)		\$5,071.50	
Employee (matched by employer) (5.175%)		\$2,535.75	
Old Age Security (OAS)			
January to March 2014			\$551.54
Guaranteed Income Supplement (GIS) January to March 2014			
spouse/common-law partner receives OAS or Allowance			\$495.89
single person (or spouse/common-law partner receives neither OAS nor Allowance)			\$747.86
Allowance January to March 2014			
age 60 to 64, and spouse/common-law partner receives OAS and GIS			\$1,047.43
age 60 to 64, survivor's*** Allowance			\$1,172.65
Notes:			
* Flat benefit amounts			
** Amounts may vary depending on whether the survivor is under age 45, disabled, or with or without children			
*** A survivor is the spouse or common-law partner of a deceased individual			

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