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TAXSTRATEGY

Yes, it's RRSP season. But it's also tax-filing time. To help, here are some handy ...

Tax filing tips

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Most of you are probably so busy combing your couch for funds to contribute to your Registered Retirement Savings Plans, or RRSPs, by the March 2 deadline that you have barely had time to take in the fact that your 2014 tax return will soon be due. So before you take time to relax on that now-empty couch of yours, you might want to consider how else to reduce your tax bill for 2014 by way of these handy dandy little tax tips in preparing your tax return.

Make the most of your losses

Take a close look at your investment balance sheet to see if there are any capital losses that might have been triggered in 2014. If there are, you are allowed to file a "loss carry back" and claim the losses against previous years' capital gains. But before you file a "carry back," you must use your losses against 2014 capital gains (if you have any), until they are nilled-out, before you can go back to prior years.

In addition to losses on the market, there are other loss candidates. These could include, for example, bad loans such as junk bonds that won't be repaid, or a "no-good" advance you made to your company or a business associate—money you won't get back. Another example would be investments in companies that have gone bankrupt or are now worthless and out of business.

Canada Savings Bond payroll deduction

If you purchased Canada Savings Bonds on the payroll deduction plan, you probably paid some interest. Your controller or personnel department can tell you how much is involved. That interest is deductible.

It may be best not to claim an RRSP contribution

Despite all instincts to the contrary, making a claim may not be the right choice for 2014. It's possible to make an RRSP contribution, but actually defer a deduction claim until a later year. This may be a good strategy if you expect to go into a higher tax bracket in the next couple of years.

Along the same lines, if you're thinking of making a large catch-up contribution, be careful if the deduction you claim is so large that it throws you into a low tax bracket. It may be better to make the catch-up contribution, but defer claiming the actual write-off.

File returns for your kids

Even if a return is not required, children with employment income should still file. Salary income builds RRSP contribution room. So, by filing returns when the kids are young, a catch-up contribution can be made later, based on 18 per cent of the accumulated salaries. Also, tuition and education credits that are unneeded to "nil-out" tax can be transferred or carried forward for use in future years.

Filing a tax return may also entitle the student to a refund of tax withheld on a summer or part-time job. Older students may be entitled to receive cash

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from the government. Although the student may not owe any tax, a number of credits are linked to income, such as GST and provincial tax credits.

A student may also claim a tax credit for interest on student loans under the Canada Student Loans Act or similar provincial laws. Unlike the tuition, textbook and education credits, this credit is not transferable. The interest itself may be paid by the student or a person related to the student.

If investment income earned by the child has been funded by parents, the “attribution rules” generally apply, meaning the investment income (other than capital gains) will be taxed in the hands of the parents. However, if the child turned 18 years old in 2014 or earlier, the attribution rules no longer apply. In that case, the child can report the investment income on his or her return, based on his or her tax rates.

Reserves

If you sold an investment for a capital gain, but you’re not entitled to receive cash proceeds until after the end of the year, you’re allowed to defer a portion of your capital gain by claiming a reserve. Reserves on capital gains may enable you to defer your tax over a five-year period.

Claim interest on disappearing investments

If you have borrowed money for an investment or business that has been sold at a loss or gone belly-up, but are still stuck with making interest payments, that interest may continue to be deductible. (*Note:* In the event you have managed to salvage some proceeds and the money is put to personal use rather than re-invested, a portion of your continuing interest charges won’t be deductible.)

One unhappy exception to these rules is real estate. However, this exception applies only if the real estate is “directly held,” so the interest charges should continue to be deductible if, for example, the real estate was held in a partnership or a company. Also, a Supreme Court case (Tennant v. The Queen, handed down in 1996) validates continuing interest deductions for real estate if you have managed to salvage some proceeds from the investment that are re-invested.

Employees

Contrary to what many people believe, there are some lucrative deductions available to employees. Here are some of the most important:

• *Home office expenses*

The deduction will apply to situations where the office is either the principal place where the employment duties are performed (which may not always be the case) or is used exclusively for employment purposes and on a regular and continuous basis for meeting customers or others in the course of performing employment-related duties.

If you rent your home, you can take a prorated portion of rent expenses. If you own your home, the Canada Revenue Agency’s position is that only certain expenses can be claimed. Generally, these are maintenance expenses such as fuel, electricity, cleaning, minor repairs, and the like. Expenses such as depreciation, taxes, insurance, and mortgage interest will not be allowed (special rules apply to commission sales employees).

By the way, home office write-offs can also be claimed against business and professional income. Canada Revenue Agency technicals released in the early 2000s have indicated that the writeoff might be claimed against rental income and possibly other types of investment income, if justifiable.

• *Auto expenses*

Employees who receive mileage allowances will have the option of adding these amounts to their taxable income and claiming actual motor vehicle expenses (in some cases, the add-back will be mandatory). To be eligible to claim motor vehicle travelling expenses, an employee must ordinarily be required to carry on employment duties away from the employer’s place of business or in different places.

• *Supplies/Salaries to an ‘assistant’*

A deduction is allowed for supplies that are required to be furnished under your employment agreement. These must be items that are “used up” or “consumed.” Potentially, this could include stationery, pens, pencils, tape, computer paper supplies, ink cartridges, or disks tapes that can’t be reused. Canada Revenue Agency also allows long-distance telephone calls and cellular telephone airtime that relates to the earning of employment income, but not monthly basic telephone charges or hook-up costs, or special clothing or books. Also deductible are salaries to an assistant, which may include the cost of stenographic and secretarial assistance.

To claim these write-offs, you must complete Form T2200 and have your employer sign it. This form certifies that, as part of your employment agreement, you are required to maintain a home office and/or pay part or all of these expenses. Form T2200 does not actually have to be filed with your return, but you must keep a signed copy in your files as it is possible that Canada Revenue Agency might call you up to verify that you have a signed copy in our possession.

• *Legal fees*

The Tax Act allows employees to deduct legal expenses for collecting salary or wages from an employer or former employer. This includes legal fees for collecting amounts owing and establishing your legal right to the salary or wages to begin with.

A related rule allows a deduction for legal expenses for most pension benefits and most job severance payments ("retiring allowances"). However, in this case, the deduction available in any year is limited to the amounts on which you pay tax; that is, the original sum minus amounts "rolled over" into an RRSP or registered pension plan. (This tax break is available for employment prior to 1996.) Any excess legal expenses can be deducted against taxable retiring allowances and pension benefits received in subsequent years, for up to seven years in the future. ❐