

2009 PERSONAL INCOME TAX RETURN CHECKLIST

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Appendix A provides a **checklist** of information that will be needed to complete your **2009 Personal Income Tax Return**.



YEAR-END TAX PLANNING

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Some **2009 year-end tax planning tips** include:



1. Certain **expenditures** made by **individuals** by **December 31, 2009** will be eligible for **2009 tax deductions** or **credits** including: moving expenses, child care expenses, safety deposit box fees, charitable donations, political contributions, medical expenses, alimony, eligible employment expenses, union, professional, or like dues, carrying charges and interest expenses, certain public transit amounts, and children's fitness amounts.

2. The 2009 Federal Budget proposes to introduce a temporary **Home Renovation Tax Credit** for expenditures made after January 27, 2009 and before February 1, 2010 in excess of \$1,000, to a maximum of \$10,000, resulting in a maximum Federal credit of \$1,350 (\$9,000 x 15%).

Please **provide details** of **renovation costs** (example - carpets, landscaping, additions, fences, painting, etcetera, etcetera).

For details, see www.cra.gc.ca and click on **Home Renovation Tax Credit**.

3. You have until **March 1, 2010** to make tax deductible Registered Retirement Savings Plan (**RRSP**) contributions for the 2009 year.

Consider contributing to a **spousal RRSP** to achieve income splitting in the future.

4. If you own a business, consider paying a **reasonable salary** to family members for services rendered to the business.

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5. An individual whose **2009 net income** exceeds **\$66,335** will lose all, or part, of their **old age security**.

Senior citizens will begin to lose their income tax **age credit** if net income exceeds **\$32,312**.

Contact your professional advisors for assistance in **managing** 2009 personal income.

6. Consider purchasing assets eligible for **capital cost allowance** before the year-end.

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7. Consider selling capital properties with an **underlying capital loss** prior to the year-end if you had **taxable capital gains** in the year, or any of the **preceding three years**. This capital loss may be offset against the capital gains.

8. **Registered Education Savings Plan (RESP)**

A **Canada Education Savings Grant (CESG)** for RESP contributions will be permitted equal to 20% of annual contributions for children (maximum \$500 per child per year).

9. **Health and dental premiums for the self-employed**

Individuals will be allowed to **deduct** amounts payable for **Private Health Service Plan** coverage in computing **business income** provided they meet certain criteria.

10. A **refund** of **Employment Insurance** paid for non-arm's length employees **may** be available upon application to CRA.

11. Taxpayers that receive "**eligible**" dividends from private and public corporations will have a significantly lower tax rate on the dividends. **Notification** from the corporation to the shareholder is required.

12. Eligible **public transit passes** will be entitled to a tax credit.

13. A **fitness tax credit** for children under 16 enrolled in certain or-

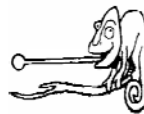
ganized sports is available.

14. A **Registered Disability Savings Plan** may be established for a person who is eligible for the **Disability Tax Credit**. Non-deductible contributions to a **lifetime maximum of \$200,000** are permitted which are eligible for grants and bonds. Please contact your professional advisors for details.

2009 REMUNERATION

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Some **general guidelines** to follow in **remunerating the owner** of a **Canadian-controlled private corporation** earning "**active business income**" include:



1. **Bonusing down** active business earnings in excess of the **annual business limit** may reduce the **overall tax**. However, leaving corporate **active business income** over this amount presents a **tax deferral**.

Professional advice is needed in this area.

2. **Notification** must be made to the shareholders when an "**eligible**" **dividend** is paid - usually in the form of a **letter dated** on the date of the **dividend declaration**. If all **shareholders** are **directors**, the **notification** may be made in the **Directors' Minutes**.

Please contact your profes-

sional advisor for advice before paying an **eligible** or **ineligible** dividend.

3. Elect to pay out tax-free "**capital dividend account**" dividends.

4. Consider paying dividends to obtain a refund of "**refundable dividend tax on hand**".

5. Corporate earnings in excess of personal requirements could be left in the company to obtain a **tax deferral**. The effect on the "**Qualified Small Business Corporation**" status should be reviewed before selling the shares.

6. **Dividend income**, as opposed to salaries, will reduce an individual's **cumulative net investment loss** balance thereby providing greater access to the **capital gain exemption**.

7. Excessive **personal income** affects receipts subject to **clawbacks**, such as **old age security**, the **age credit**, **child tax benefits**, **GST credits** and certain **provincial** incentives.

8. Salary payments require **source deductions** to be remitted to the Canada Revenue Agency on a timely basis.

9. Individuals that wish to contribute to the Canada Pension Plan or a Registered Retirement Savings Plan may require a **salary** to create "**earned income**".

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10. **Salaries** paid to family members must be **reasonable**.

PERSONAL TAX RETURNS

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MEDICAL EXPENSE – AIR CONDITIONER



In an April 27, 2009 **External Technical Interpretation**, CRA notes that a taxpayer may claim the cost of installing a central **air conditioner** as a **medical expense** providing that certain tests are met.

In particular, the taxpayer needs a **prescription** from his/her **doctor** which **indicates** that he/she needs an air conditioner to help cope with an ailment which is both **severe and chronic**. Also, the medical expense claim for an air conditioner is limited to the lesser of **\$1,000** and 50% of its cost.

EMPLOYMENT INCOME

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CRA ADMINISTRATIVE CHANGES



On June 11, 2009, CRA introduced **policy changes** for employment benefits. For example,

Overtime Meals and Allowances Provided to Employees

For **2009**, CRA will consider **no taxable benefit** to arise if:

- the value of the meal or meal allowances is **reasonable**; a value

of up to \$17 will generally be considered reasonable,

- the employee works **two or more hours** of overtime right before or right after his/her scheduled hours of work, and
- the overtime is **infrequent and occasional** in nature. Less than three times a week will generally be considered infrequent or occasional. However, this condition may also be met where the meal or allowance is provided three or more times per week on an occasional basis to meet **workload demands** such as major repairs or periodic financial reporting.

Loyalty Programs

For **2009**, CRA will **no longer** require **loyalty points** (e.g., frequent flyer points) that are **controlled** by the **employee** to be added as employment income by the employee as long as:

- the points are **not** converted to **cash**,
- the plan or arrangement is **not** indicative of an **alternate form** of remuneration, or
- the plan or arrangement is **not** for **tax avoidance** purposes.

Non-Cash Gifts and Non-Cash Awards

For **2010**, the following changes are being made to CRA's **gift and award policy**. The **current rules** are that up to **two gifts** and **two awards** costing **\$500 or less** are **non-taxable** to the employee but **deductible** to the employer.

- Non-cash gifts and non-cash awards to an arm's length employee, **regardless of the number**, will **not** be **taxable** to the extent that the total aggregate value of **all non-cash gifts and awards** to that employee is less than or equal to \$500 annually. The total value in excess of **\$500 annually** will be taxable.
- In **addition** to the above, every 5 years a separate non-cash **long-service award** may also qualify for **non-taxable status** to the extent its total value is **\$500 or less**.

Editor's Comment

See your **professional advisor** for information on these and other **CRA administrative changes**.

ESTATE PLANNING

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EXCESS CONTRIBUTION TO RRSP - TAX AND INTEREST



In a June 18, 2009 **Tax Court** of Canada case, the taxpayer made **excessive contributions** to an **RRSP** and was assessed a **1% per month tax plus interest**.

The taxpayer's **waiver request** was **refused**.

DIRECTOR LIABILITY - UNPAID GST/HST

In a May 4, 2009 **Tax Court** of Canada case, the taxpayer/**director** was assessed for **personal liability** for **unpaid GST/HST** of \$236,344 plus **interest** of \$7,372 plus **penalties** of

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\$9,651 for a total of \$253,367.

Taxpayer Wins!

The Court noted that where the director has **little understanding** of **financial documents**, he **may rely** on others to handle the financial aspects without incurring personal liability for unpaid GST/HST.

Also, in a May 12, 2009 **Technical Interpretation**, CRA notes that **directors cannot** be assessed **more than two years** after they cease to hold office.

Editor's Comment

Legal advice is needed in this area.

SUPERFICIAL LOSSES

In a January 22, 2008 **Technical Interpretation**, CRA notes that a **taxpayer's loss** from the disposition of

property is deemed **nil** to the extent that it is a "**superficial loss**".

For example, this applies if the taxpayer sells a security which is then purchased, or repurchased, by a **Trust** governed by the taxpayer's **RRSP, RRIF or TFSA** within the period of **thirty days** before, or thirty days after, the disposition.

FARMING

88(7)

EASEMENT OR RIGHT OF WAY

In a June 4, 2009 **External Technical Interpretation**, CRA notes that if the property to which the **easement or right of way** pertains meets the definition of "**qualified farm property**" the landowner may be entitled to the **capital gains exemption**.

GST

88(8)

INPUT TAX CREDITS (ITCs) – CAUTION

In **corporate structures**, it is **important** to ensure that it is the **recipient** of the **supply** that pays the expense and **claims** the **ITC**. CRA has made **reassessments** where the **wrong person** in a **corporate group** has claimed the **ITCs**.



Editor's Comment

See your **professional advisor** for more information.

The preceding information is for educational purposes only. As it is impossible to include all situations, circumstances and exceptions in a commentary such as this, a further review should be done. Every effort has been made to ensure the accuracy of the information contained in this commentary. However, because of the nature of the subject, no person or firm involved in the distribution or preparation of this commentary accepts any liability for its contents or use.



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APPENDIX A

2009 PERSONAL INCOME TAX RETURN CHECKLIST

INFORMATION REQUIRED INCLUDES:

1. All *information slips* such as T3, T4, T4A, T4A(OAS), T4A(P), T4E, T4PS, T4RIF, T4RSP, T5, T10, T2200, T2202, T101, T1163, T1164, TL11A, B, C and D; T5003, T5007, T5008, T5013, T5018 (Subcontractors), RC62 and corresponding provincial slips.
2. The 2009 Federal Budget proposes to introduce a temporary **Home Renovation Tax Credit** for expenditures made after January 27, 2009 and before February 1, 2010 in excess of \$1,000, to a maximum of \$10,000, resulting in a maximum Federal credit of \$1,350 (\$9,000 x 15%).

Please **provide details** of **renovation costs** (example - carpets, landscaping, additions, fences, painting, etcetera, etcetera).

For details, see www.cra.gc.ca and click on **Home Renovation Tax Credit**.

3. Details of *other income* for which no T slips have been received such as:
 - other employment income (including stock option plans and Election Form T1212),
 - business income,
 - partnership income,
 - rental income,
 - alimony, separation allowances, child maintenance,
 - pensions (certain pension income may now be *split* between spouses - see #36)
 - interest income earned but not yet received - example Canada Savings Bonds, Deferred Annuities, Term Deposits, Treasury Bills, Mutual Funds, Strip Bonds, Compound Interest Bonds
 - professional fees,
 - director fees,
 - scholarships, fellowships, bursaries,
 - replacement properties acquired.
4. Details of *other expenses* such as:
 - employment related expenses - Provide Form T2200 - Declaration of Conditions of Employment,
 - tools acquired by apprentice vehicle mechanics,
 - business and employment purchases like vehicles, supplies, etc.,
 - interest on money borrowed to purchase investments,
 - investment counsel fees,
 - moving expenses - including costs of maintaining a vacant former residence,

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- child care expenses,
- alimony, separation allowances, child maintenance,
- safety deposit box fees,
- accounting fees,
- pension plan contributions,
- film and video production eligible for tax credit,
- mining tax credit expenses,
- business research and development,
- adoption related expenses,
- clergy residence deduction information, including Form T1223,
- disability supports expenses (speech, sight, hearing, learning aids for impaired individuals and attendant care expenses),
- tradeperson's tools acquired by an employee,
- public transit passes acquired,
- amounts paid for *programs of physical activity* for children *under age 16* at any time during the year (*under 18* for children with *disabilities*).

5. Details of *other investments* such as:

- real estate or oil and gas investments - including financial statements,
- labour-sponsored funds.

6. Details and *receipts* for:

- Registered Retirement Savings Plan (RRSP) contributions,
- professional dues,
- tuition fees - including mandatory ancillary fees, and Forms T2202, TL11A, B, C and D,
- charitable donations (including publicly traded securities),
- medical expenses (including certain medical related modifications to new or existing home and travel expenses),
- political contributions.

7. Details of *capital gains and losses* realized in 2009.

Also, new rules now permit *rollovers* for *foreign share spin-offs* and various *foreign share reorganizations*.

8. Details of previous *capital gain exemptions* claimed, *business investment losses* and *cumulative net investment loss accounts*.

9. Name, address, date of birth, S.I.N., and province of *residence* on December 31, 2009.

10. *Marital/common-law status* and spouse/partner's income, S.I.N. and birth date.

11. List of *dependants/children* - including their incomes and birth dates.

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12. If you or one of your dependants was in full time attendance at a *college or university*, details concerning name of institution, number of months in attendance, tuition fees, income of dependant, Form T2202.
13. Are you *disabled or are any of your dependants* disabled? Provide Form T2201 - disability tax credit certificate. This also includes extensive therapy such as kidney dialysis and certain cystic fibrosis therapy. Also, the *transfer rules* include relatives such as parents, grandparents, child, grandchild, brothers, sisters, aunts, uncles, nephews or nieces.
Persons with *disabilities* also may receive tax relief for the cost of *disability supports* (eg. sign language services, talking textbooks, etc.) incurred for the purpose of *employment* or *education*.
Also, see #34 for **Registered Disability Savings Plan** information.
14. Details regarding residence in a prescribed area which qualifies for the *Isolated Area Deduction*.
15. Information regarding *child tax benefit* receipts.
16. Details regarding contributions and withdrawals from *Registered Education Savings Plans*.
17. Details regarding *RRSP - Home Buyers' Plan* withdrawals and repayments; *RRSP - Lifelong Learning Plan* repayment.
18. Receipts for 2009 income tax *installments* or, payments of tax.
19. Copy of 2008 personal tax *returns*, 2008 Assessment *Notices* and any correspondence from Canada Revenue Agency (CRA).
20. 2009 *Personalized Tax information* which CRA may have sent you.
21. Do you want your *tax refund or credit* deposited directly to your account in a financial institution? Yes/No.
To start direct deposit, or to change banking information, attach a void personalized cheque or your branch, institution and account number.
22. Details of *carry forwards* from previous years including losses, donations, forward averaging amounts, registered retirement savings plans.
23. Details of *foreign property* owned at any time in 2009 including cash, stocks, trusts, partnerships, real estate, tangible and intangible property, contingent interests, convertible property, etc..
24. Details of *income* from, or *distributions* to, *foreign entities* such as foreign affiliates and trusts.
25. Details of your *Pension Adjustment Reversal* if you ceased employment and were in a Registered Pension Plan or a Deferred Profit Sharing Plan. (T10 Slip)

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26. If you provided *in-home care* for a *parent or grandparent* (including in-laws) 65 years of age or over, or an infirm *dependent relative*, a federal tax credit may be available.

Also, the caregiver may claim related *training costs* as a medical expense credit.

27. Interest paid on qualifying *student loans* is eligible for a tax credit.

28. ***Retroactive lump-sum payments***

Individuals receiving qualifying retroactive *lump-sum payments* over \$3,000 may be allowed to use a special mechanism to compute the tax.

29. Changes in *family circumstance* that could affect the *Goods and Services Tax Credit*, such as births, deaths, marriages, reaching the age of 19 years, and becoming or ceasing to be a resident in Canada.

30. *Children* of low or middle income parents may be entitled to a *Canada Learning Bond* of \$500 in the initial year and \$100 per year until age 15. Please ask us for details.

31. Do you have any *personal interest expense* - such as on a house mortgage or vehicle?

If so, it may be possible to take steps to convert this into deductible interest. Please ask us for details.

32. An *investment tax credit* is available in respect of each *eligible apprentice* employed in one of the 45 Red Seal Trades. Also, grants are available for apprentices.

33. Have you received the *Universal Child Care Benefit* of \$100 per month for each child under 6 years of age?

34. Commencing in 2008, any person eligible for the *disability tax credit*, or their parent or legal representative, may establish a **Registered Disability Savings Plan** which also receives *government grants*. Please ask us for details.

See #13 for information on **disabilities**.

35. The age limit for *maturing* Registered Pension Plans, Registered Retirement Savings Plans, and Deferred Profit Sharing Plans is *71 years* of age.

36. Spouses may *jointly elect* to have up to 50% of *certain pension income* reported by the *other spouse*. Please ask us for details.

37. Individuals 18 years of age and older may deposit **up to \$5000** into a **Tax-Free Savings Account**. Please ask us for details.

38. Are you a first-time **home buyer** in 2009?

A tax credit based on \$5,000 (@15% = \$750) is proposed for qualifying homes acquired after January 27, 2009.

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