

Canada's Tax System

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Outline

- Canada's tax system
- Rights and responsibilities
- General information about personal income tax return
- How to fill personal income tax return(T1)

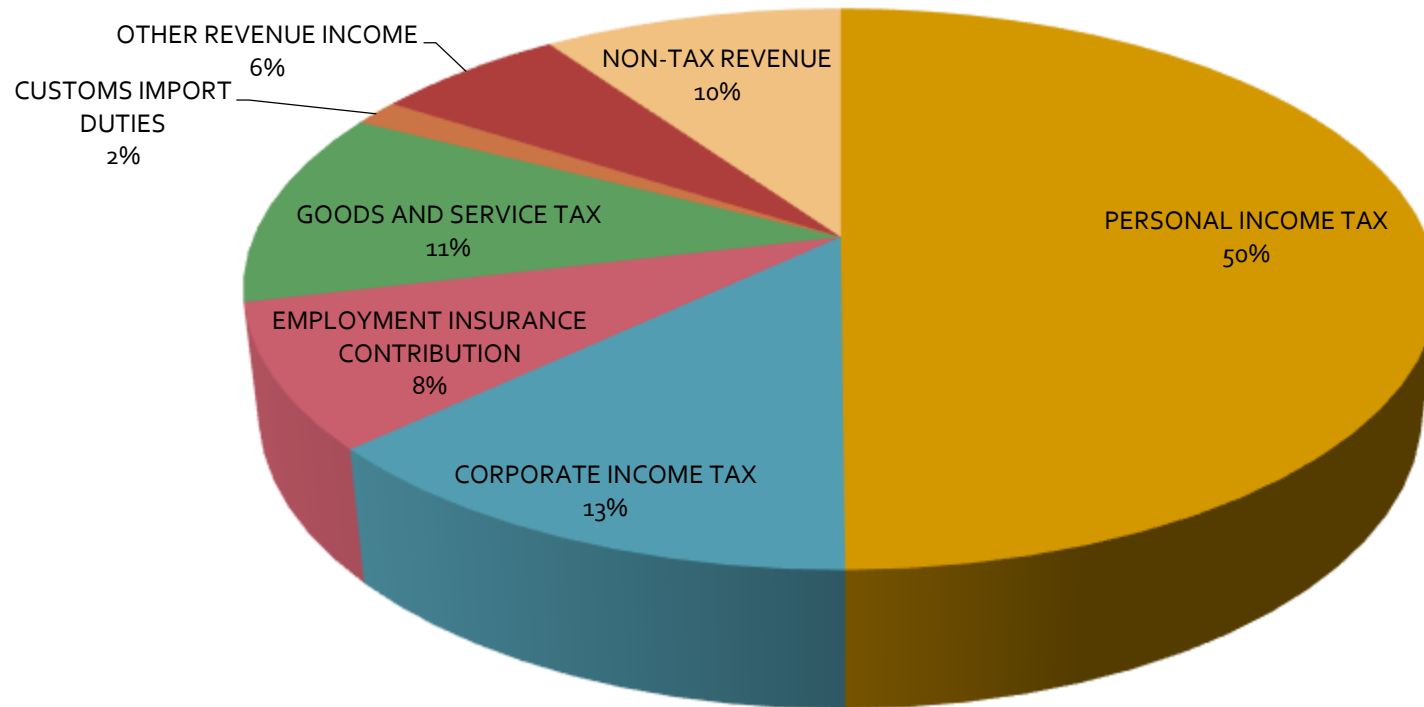
CANADA GOVERNMENT SOURCES

- Federal Revenues
\$263.80 Billion – 2013
 - Personal Income (49.9%)
 - Corporate Income (13.1%)
 - EI Contributions (8.3%)
 - GST (11.3%)
 - Other tax revenue (6.2%)
 - Non-Tax revenue(9.7%)



REVENUE SOURCES(%)

PERCENT(%)



Taxable Entities



- Individuals

- Corporations

- Trusts



Tax System



- A tax system is defined by six characteristics:
 - **Who pays the tax**
 - **The tax base**
 - **The rates to be applied to the base**
 - **General exemption**
 - **General deductions**
 - **Other measures(for example, how tax is to be paid)**

Guideline principles – New tax legislation



- ❖ **Fairness** : To ensure that all taxpayers share the tax burden equally.
- ❖ **Stability**: The federal government needs a stable and dependable source of tax revenue so it can manage the country's economy.
- ❖ **Canadian priorities** : The tax system helps meet the national /provincial/territorial and economic needs are priorities for most Canadians.
- ❖ **Consultation**: The federal government is committed to consulting before making final legislative proposal for tax amendments.

TAX ORGANIZATION

- The federal **Minister of Finance** proposes changes in the Government of Canada's tax policy by submitting budgets to parliaments.
- **Parliament** debates and approves the proposed legislation and then it becomes law.
- **The Department of Finance** initiates tax policy, and Parliament passes laws.
- **The Canadian Revenue Agency(CRA)** administers these laws.

THE CANADA REVENUE AGENCY(CRA)

- Administers Canadian Tax laws and supporting Canada's social and economic progress.
- Overseeing tax credit and benefits programs and collecting federal and provincial(except in Quebec), and territorial income taxes.
- Collects GST/HST(except for Quebec), Canada Pension Plan, and employment insurance(EI) premium.
- Administers Canada's International tax agreements with other countries.

Tax Policy Objectives

- Fairness
- Simplicity
- Stability
- Balance Between Sectors
- Social And Economic Goals
- International Competitiveness



PRINCIPLE OF SELF - ASSESSMENT

- Canada bases its tax system on the principle of self – assessment.
- Self – assessment means Canadian residents and non-Canadian residents with Canadian income are responsible for making sure they have paid their taxes according to the Income Tax Act.

Taxpayer Responsibilities

- ❑ Filing an income tax and benefit return by the deadline.
- ❑ Paying the correct amount of tax
- ❑ Giving CRA the necessary information to assess their return
- ❑ Giving CRA up-to-dated information to receive accurate benefits and to avoid unnecessary delays in sending the benefits.

TYPES OF TAXES

DIRECT TAXES

- INCOME TAX
- PROPERTY TAX
- CORPORATE TAX
- ESTATE TAX

INDIRECT TAXES

- SALES TAX
- GST/HST TAX
- FUEL TAX
- CIGARETTE TAX

GST / HST

- The goods and service tax (GST) is a 5% tax that applies to most goods and services in Canada.
- In some provinces, there are two taxes: the GST and a provincial sales tax(PST)
- In Ontario, the GST and PST combined to form the harmonized sales tax(HST)

EXCEPTION TO PAY GST/HST

We pay GST/HST on most what we purchase, except:

- Basic groceries
- Prescription drugs and medical devices
- Most healthcare, medical, and dental services
- Residential rents, university residents
- Local or municipal bus and passenger ferry services
- Legal aid service
- Most banking services
- Most educational services including tuition fees.

COMMON TAX MISTAKES

Mistake 1: Not earned money therefore not file tax return

- Remember : Even if you don't have any tax liabilities , its better to file your tax return because of the GST/HST tax credit, Child tax benefit for children under 18 years, student tuition credits which can be applied to lower their future taxes or applied to their parents

CONTINUE....

- Mistake#2: If I moved to Canada within the calender year,I have to claim income earned in my home country
 - You only need to claim the income you earned while in Canada from your arrival date
- Mistake #3: I have enough time to file my tax return until April 30 so I will file it on April29
 - It is better to have enough time to review your slips and have ready to file in advance.

GST/HST CREDIT

You are eligible to receive the GST/HST CREDIT if you are a resident in Canada and at least one of the following applies:

- 19 years of age or older
- Have (or previously had) a spouse or common law partner
- Parent and live with your child.

Receive of payments in July, October, January, and April

TAX OBLIGATION OF A NEW EMPLOYEE

HIRING

- SIN (SOCIAL INSURANCE NUMBER) GIVEN TO EMPLOYER AND TAX PREPARER
- SIN was introduced by Parliament in 1964 to register people with Canada's Employment insurance program and Canada Pension Plan.
- The SIN is not an ID.

www.servicecanada.gc.ca

TD1, PERSONAL TAX CREDITS RETURN

- Anyone who has a new employer or payer has to complete the federal form TD1.
- The employer will deduct taxes on the basic personal amount only.
- If you expect your total income for the year to be less than the total claim amount on Form TD1, you can ask your employer not to deduct tax from your earnings.

STATEMENT OF EARNING – PAY STUB

- BASIC PAY
- NET PAY
- GROSS PAY
- CPP/QPP
- EI
- INCOME TAX DEDUCTIONS

CPP/EI

CPP

- 18 YEARS TO 70 YEARS
- Employer should deduct CPP contribution and sending to the CRA.
- Employer contributes a matching amount of CPP and sends both contributions to the CRA through payroll remittances.

EMPLOYMENT INSURANCE(EI) PREMIUM

EI is a temporary financial assistance given to unemployed and looking for job. EI also helps workers who:

- Become sick
- Are pregnant
- Are parents caring for a newborn child
- Must care for a family who is seriously ill

El premium

- El deductions are percentage of the insurable earnings(generally gross pay)
- The employee's El rate and maximum premium for the year may change year to year
- There is no age limit for deducting El premium
- Employer should also pay a share of El(normally 1.4 times of employee's El share)

INCOME TAX DEDUCTION

- Employer deducts income tax at source from earnings of employees.
- No age limit for paying income tax
- Employer calculates how much income tax to deduct by referring to the total claim amount on Form TD1

T₄, STATEMENT OF REMUNERATION PAID

- The employer's name
- The year in which the income was earned by employee.
- The name and address of the employee
- The province of employment which the income was earned (box10)
- The social insurance number of the employee(box12)

CONTINUE ...

- The social insurance number of the employee(box 12)
- The employment income(box 14)
- The CPP contribution(box 16)
- The QPP contribution (box 17) in Quebec
- The EI premium(box 18)
- The income tax deducted from the employment income (box 22)

CONTINUE...

- Box 28 will be marked "X" if the employee is less than 18 and exempt from paying CPP contribution during the past year. In this case box 16 and box 17 will be blank.
- The PPIP premium (box 55) Definition of 'Provincial Parental Insurance Plan - PPIP'
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A Canadian tax deduction relating to taxes that are paid or payable on regular or self-employed income. The Provincial Parental Insurance Plan (PPIP) gives maternity, paternity, parental and adoption benefits to qualified persons. This aid is to support and encourage parents staying home with their children for the first year of the child's life.

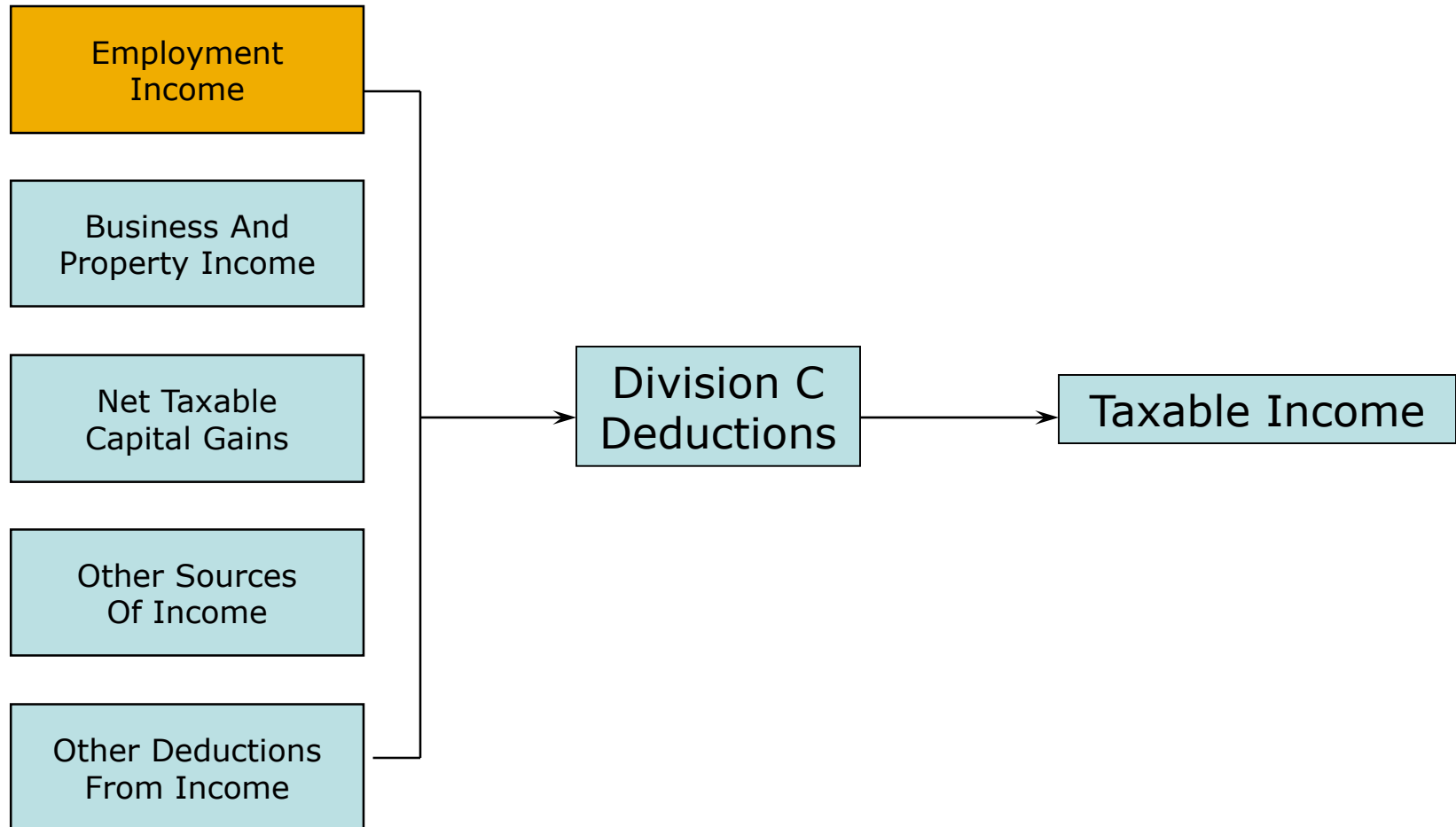
CONTINUE...

- Employers have to provide a T4 information slip to employees by the end of February following the calendar year which it applies.
- Tax return should be filed by April 30.
- T4 slip shows :
 - Employment income in a given year
 - CPP /QPP contributions and EI premium
 - Income tax deducted

HOW TO COMPLETE SIMPLE TAX RETURN

- Select General Income Tax and Benefit package for your province
- Begin with T1 General and the Schedule 1 Federal Tax

From Net To Taxable Income



INCOME TAX AND BENEFIT RETURN T1 GENERAL

The return is setup in an easy-to- follow format with clearly defined areas called:

- Identification
- Election Canada
- GST/HST credit application
- Total income
- Net Income
- Taxable Income
- Refund or balance owing

Available Deductions

- Employee Stock Options (Chapter 3)
- Deductions For Payments
- Home Relocation Loan
- Lump Sum Payments
- Lifetime Capital Gains Deduction (Chapter 11)
- Northern Residents Deductions
- Loss Carry Overs (Chapter 11)

INCOME TAX AND BENEFIT RETURN : T1 General

The return is setup in an easy-to- follow format with clearly defined areas called:

- Identification
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What you need

- Your information slips(such as all T4,T5,T2202- A slips)
- Information relating to any income not reported on an information slips(Tips,...)
- Receipts for deductions and credits that you can claim
- Guide T4055 : Newcomers to Canada
- Tax preparation software

T4 SLIPS

- The employer's name
- The year in which the income was earned
- Name and address
- SIN(Box 12)
- Employment Income (Box 14)
- Employment Insurance premium deducted(Box18)
- Income Tax deducted(Box22)
- Canadian Pension Plan premium(Box28)(if a person is under 18 years old this box is blank)

Preparing Tax Return

PAGE 1

- Identification
- Information about your residence(province you lived on Dec31,...)
- Information about yourself(SIN, date of Birth, language, martial status)
- Election Canada
- GST/HST credit application
- Foreign Property

EMPLOYMENT INCOME

- LINE 101: BOX 14 OF T₄
- LINE 104: OTHER EMPLOYMENT INCOME
- LINE 113: OLD AGE SECURITY(OAS)(T₄A)
- LINE 114: CPP BENEFITS
- LINE 155: OTHER PENSION(T₄A)
- LINE 116: ELECTED SPLIT-PENSION AMOUNT
- LINE 117: UNIVERSAL CHILD CARE BENEFIT(UCCB)
- LINE 119: EI AND OTHER BENEFITS
- LINE 120: TAXABLE AMOUNT OF
DIVIDENDS(T₅)(T₄P)(T₃)(T₅₀₁₃)
- LINE 121: INTEREST AND OTHER INVESTMENTS(T₅)(T₃)
- LINE 122: NET PARTNERSHIP INCOME
- LINE 125: REGISTERED DISABILITY SAVING PLAN(RDSP)
INCOME(T₄A)

Continue...

- Line 126 : Rental Income
- Line 127: Taxable Capital Gains
- Line 128: Support payments received
- Line 129: RRSP income (T4RSP) ,HBP
- Line 130: Other income (scholarship, bursaries, grants, lump-sum payments,...)
- Line 135 to 143 – Self-employment income(fill the form T1139,...)
- Line 144: Workers' compensation(T5007)
- Line 145: Social assistance payments(box11 , T5007)
- Line 146: Net Federal Supplements(box21,T\$A(OAS))
- LINE 150: TOTAL INCOME
- LINE 234: TOTAL OF DEDUCTIONS(RRP, RRSP, PRPP, HBP, Union dues, child care expenses, disability supports deduction, capital loss, moving expenses, carrying charges and interest expenses,...)
- LINE 236: NET INCOME
- LINE 260: TAXABLE INCOME(is used to calculate federal tax on schedule1 and provincial tax on form428)

LINE 236 – NET INCOME

- **NET INCOME** is used for certain calculation such as :
 - Canada child tax benefit
 - GST / HST
 - Certain Tax credits
- Note: if the amount of NI is negative ,you may have a non-capital loss.(use form T1A Request for Loss Carryback)

TAX RETURN – SCHEDULE 1

- Use schedule 1 to calculate your federal tax.
- Schedule 1 is divided in to three parts:
 - STEP1 : Federal non-refundable Tax Credit
- Line300 – Basic personal amount(\$11,038)
- Line312 – EI premium(Box18,T4)
- Line363 – Canada Employment amount(maximum \$1,117)
- Line 364 – Public Transit amount

Continue: TAX RETURN – SCHEDULE 1

Step2 – Federal Tax on Taxable income

- Line 38 : the amount from line 260 on his/her return
- Line 39
- Line 43 and 45

Step3 – Net Federal Tax

FEDERAL NON-REFUNDABLE TAX CREDITS

These credits reduce your federal tax.

If the total of these credits is more than your federal tax, you won't get credit for the difference.

Non-Refundable Tax Credits

- **Line 300** : Basic Personal Amount: Claim \$11,038
- **Line 301** : Age Amount ;65 years or older and your net income (line 226) is less than \$80,256.
- **Line 303** : You can claim at any time of the year if your spouse or common law partner's net income is less than \$11,038.

Information for Residents of Ontario

- You can now receive your 2014 Ontario trillium in **one Payment in June 2015**.
- The Ontario child benefit(**OCB**) is a non-taxable amount paid to help low to moderate-income families provide for their children. OCB and CCTB payments are being delivered together each month.

Form ON428

- Step 1: Ontario non-refundable tax credits
- Line 5804 – Basic personal income: \$9,574.
- Line 5808 – Age amount; Age > 65+ years and your income < \$65,958. If your income is equal or less than \$34,798, enter \$4,674 on line 5808.

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Child Tax Benefit System

- Basic
 - \$1,433/Year For Each Qualified Dependant
 - +\$100/Year For Each Dependant Over Two
 - Eroded when family income exceeds \$43,561
- Supplement
 - \$2,221/Year for 1st child
 - \$1,964/Year for 2nd
 - \$1,869/Year for 3rd and subsequent
 - Eroded when family income exceeds \$25,356

Tax Payable - The Basic System

- 2013 Rates
 - 1st \$43,561 @ 15%
 - \$43,562 to \$87,123 @ 22%
 - \$87,124 to \$135,054 @ 26%
 - Over \$135,054 @ 29%
 - Full Indexing Each Year

Income Tax Credit

- Spouse Or Common-Law Partner –
ITA 118(1)(a)
 - Includes common-law and same sex
 - $(15\%)(\$11,038 - \text{Net Income Of Spouse})$
 - Gets The \$2,040 Family Caregiver Amount if infirm
 - Maximum = \$1,656 or \$1,962 (If FCA)

Personal Income Tax Credit

- Spouse Or Common-Law Partner –
ITA 118(1)(a)
 - Includes common-law and same sex
 - $(15\%)(\$11,038 - \text{Net Income Of Spouse})$
 - Gets The \$2,040 Family Caregiver Amount if infirm
 - Maximum = \$1,656 or \$1,962 (If FCA)

2013 Personal Tax Credits

- Child Tax Credit
 - ITA 118(1)(b.1)
 - $[(15\%)(\$2,234)] = \335
 - Gets The \$2,040 Family Caregiver Amount if infirm
 - $[(15\%)(\$4,274)] = \641
 - For each child under 18 at end of year
 - No income threshold
 - Can take eligible dependant and this credit for the same child.
 - If eligible dependant, take family caregiver only for child credit

Age - ITA 118(2)

- Reach 65 In The Year
- $\$1,028 = [(15\%)(\$6,854)]$
- Reduction
 - $15\% \text{ Of Income} > \$34,562$
 - $\$80,255 - \$34,562 = \$45,693$
 - $[(\$45,693)(15\%)] = \$ 6,854$

Public Transit Passes – ITA 118.02

- 15% of cost
 - Individual
 - Spouse and children under 19
 - Qualifying pass
 - Unlimited travel for 28 days
 - 5 day passes if they cover 20 out of 28 days
 - Electronic cards with at least 32 one-way trips.

Child Fitness – ITA 118.03

- 15% of up to \$500 of costs
 - Maximum \$75
 - Child under 16
 - Eligible expenses
 - Does not include
 - travel, food, or lodging
 - child care costs
 - Additional \$75 [(15%)(500)] for child eligible for the disability tax credit

Children's Arts – ITA 118.031

- 15% of up to \$500 of costs
 - Maximum \$75
 - Child under 16
 - Eligible expenses
 - Does not include
 - travel, food, or lodging
 - child care costs
 - Additional \$75 [(15%)(500)] for child eligible for the disability tax credit

First Time Home Buyer's Tax Credit

- $\$750 [(15\%)(\$5,000)]$
- Can be claimed by individual or spouse
- No home purchase in preceding four years

Charitable Donations – ITA 118.1

- General Rules
 - 15% (1st \$200) + 29% Of Excess
- Super Credit For First-Time Donors
 - 40% (1st \$200) + 54% (next \$800) + 29% of additional
 - One time only
 - Any year prior to 2018 for 2013 contributions only

Disability Supplement

- If under 18 at end of year:
 - 15% Of \$4,490 = \$674
 - Combined Provides \$1,828 $[(15\%)(\$7,697 + \$4,490)]$
 - The \$4,490 is reduced by
 - Child care costs deducted;
 - Amounts deducted under the disability supports deduction; and
 - Attendant care amounts claimed for the medical expense tax credit

Tuition Credit - ITA 118.5

- Tuition
 - 15% Of Actual
 - Post-Secondary
 - Cost > \$100
 - No Upper Limit

Education Credit – 118.6(2)

- Education
 - 15% of \$400 per month of Full Time attendance (\$60)
 - 15% of \$120 per month of Part Time attendance (\$18)
 - Unlimited carry forward by student

Ways to reduce your taxes

- Child care expenses: You can deduct daycare, baby sitter cost :\$7000 for the child under 7 and \$4000 for the child older than 7 and below 16 years old
- Moving expenses of relocation because of your job workplace at least 40 KM.
- Medical expenses, public transit, children fitness, art club, charitable donation
- RRSP, RRP

References

- Department of Finance: www.fin.gc.ca
- CRA : www.cra.gc.ca
- Tax Court of Canada: <http://decision.tcc.gc.ca>
- Income Tax Act