# The Navigator

## Tax Preparation Reminders for Your 2015 Personal Tax Return

With the 2015 personal income tax return filing deadline fast approaching, you want to make sure you are taking advantage of all the tax benefits you are entitled to. The following are reminders to consider when preparing your 2015 personal income tax return that may help you minimize your tax bill. Please note that any reference to a spouse in this article also includes a common-law partner.

*This article outlines several strategies, not all of which will apply to your particular financial circumstances. The information in this article is not intended to provide legal or tax advice. To ensure that your own circumstances have been properly considered and that action is taken based on the latest information available, you should obtain professional advice from a qualified tax and legal advisor before acting on any of the information in this article.*

### Filing Deadlines

- Generally, the deadline for filing your 2015 income tax return with the Canada Revenue Agency (CRA) is May 2, 2016. If you or your spouse were self-employed, you will have until June 15, 2016 to file your tax return. Regardless of your filing deadline, you must pay all taxes owing for 2015 on or before May 2, 2016.
- To avoid paying a late-filing penalty, file your tax return on time, even if you are unable to pay the taxes you owe. The late-filing penalty is a minimum of 5% of the balance owing on your return, plus a further penalty of 1% of the unpaid tax, multiplied by the number of full months the return is not filed (to a maximum of 12 months). In addition, the CRA will charge compound daily interest on any unpaid amounts at the CRA prescribed interest rate charged on overdue taxes, Canada Pension Plan contributions, and employment insurance premiums until you pay all of your taxes owing.
- You will not be charged any penalties for late filing if you are entitled to a refund or if you do not owe any tax.
- If you received a tax refund from the CRA for the prior year, check your 2014 Notice of Assessment to determine if you received any interest on your refund. If you have, you will need to report this interest as income on your current year tax return.

### Capital Gains and Losses

- If, after netting your capital gains and losses realized in the year, you have excess capital losses, consider completing CRA Form T1A, *Request for Loss Carryback* to carry back the remaining capital losses to offset any capital gains that you have reported in any of the three previous tax years. By doing so, you may be able to recoup some of the taxes you paid in the previous years. This form should be included with your current year tax return. The CRA will send you a Notice of Reassessment for the year(s) you applied your capital losses to.
- If you have a taxable capital gain in the year, determine whether you have any unused net capital losses available to carry forward from previous years. You may be able to apply these losses against your current year capital gains to reduce

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your taxes payable.

- If you had any securities in a non-registered account that ceased to have value during the year, you should consult a qualified tax advisor to determine whether they are considered "worthless" for tax purposes. If so, you may be eligible to claim a capital loss in certain circumstances. For more information, please ask your RBC advisor for our article titled "Claiming Losses on Worthless Securities".
- If you donated a publicly-traded security with an accrued capital gain in-kind to a qualifying charity, the capital gain may not be taxable and you benefit from the donation tax credit. Complete CRA Form T1170, *Capital Gains on Gifts of Certain Capital Property* to calculate the adjusted capital gains on your gifts of publicly-traded securities. For more information, please ask your RBC advisor for our article titled "Charitable Donation of Securities".
- If you sold securities in the year, ensure that the adjusted cost base (ACB) you report on your return is accurate to ensure you are paying the appropriate amount of tax. For more information, please ask your RBC advisor for our article titled "Capital Gains and Losses – Calculating your ACB".

## Pension Income Splitting

- Consider splitting up to 50% of your eligible pension income with your spouse to lower your overall family tax bill. The pension income splitting rules allow you to reallocate certain types of pension income to your lower income spouse to tax it in their hands at their lower marginal tax rate. By reallocating your pension income, you may also avoid having your Old Age Security (OAS) or other income-tested government benefits reduced.

  If you are under 65 years of age during the year, you are generally limited to splitting life annuity payments originating from a pension plan. If you are 65 years of age or older during the year, in addition to life annuity payments from a pension plan, you can split RRIF/LIF/PRIF/RLIF income, among other types of pension income. Please note that if you live in the province of Quebec, you will only be able to split pension income for provincial tax purposes if you are 65 years of age or older. For more information, please ask your RBC advisor for our article titled "Pension Income Splitting".

  To split the qualifying pension income, you and your spouse have to make a joint election on CRA Form T1032, *Joint Election to Split Pension Income*. The form must be signed and attached to both your and your spouse's income tax returns.
- If you or your spouse received eligible pension income, remember to take advantage of the pension income tax credit on up to $2,000 of that income. If your spouse does not need to claim all of the credit in order to reduce their federal taxes to zero, they may transfer any unused amount to your return. For more information, please ask your RBC advisor for our article titled "The Pension Income Tax Credit".

## Income Splitting for Couples with Children under 18

If you or your spouse have a dependent child under 18 years of age, either you or your spouse can claim a non-refundable tax credit of up to $2,000. The credit effectively reduces your federal taxes by what would have been realized if up to $50,000 of your taxable income was transferred to your spouse.

## Tax Credits and Deductions

- The federal donation tax credit rises from 15% to 29% when donations exceed $200. To maximize tax savings, you and your spouse can combine charitable donations and claim them on the higher income spouse's tax return.
- Generally, in order to claim a medical expense tax credit, your eligible medical expenses have to be more than 3% of your net income or $2,208, whichever is less. Any amount above this threshold is eligible for the credit. As such, to maximize tax savings, consider claiming your family's medical expenses together on the lower income spouse's tax return, assuming that the lower income spouse is paying at least some taxes.
- If you, your spouse, or your dependants are suffering from a prolonged and severe mental or physical impairment, you may be eligible to claim the Disability Tax Credit (DTC). You will need to complete the CRA Form T2201, *Disability Tax Credit Certificate* with your doctor and submit it to the CRA at any time during the year.
- If you have a child or grandchild that is attending a qualifying educational institution, they may be eligible for tuition, education, and textbook credits. If your child or grandchild has little or no income and is therefore unable to use these credits, they can transfer up to $5,000 of credits to you. You must use the transferred credits in the year the expenses are incurred. If the amount is not transferred to you, any carryforward is only

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available to your child or grandchild for use at that time.

- You may be able to deduct a portion of the child care expenses you incurred to earn employment or business income, pursue education or perform eligible research. The maximum deduction is $8,000 for each child under the age of seven, $5,000 for each child between the ages of seven through 16, and $11,000 for children who are eligible for the DTC. Generally, only the lower income spouse can claim this deduction.
- If you enrolled your child or your spouse's child in eligible programs of fitness and non-fitness activities, remember to claim the federal children's fitness tax credit and the children's arts tax credit. Beginning in 2015 the children's fitness tax credit is a refundable tax credit so lower-income families that pay little to no income tax may receive a tax refund. The children's fitness tax credit is claimed on up to $1,000 for the fees paid to register your child or your spouse's child in an eligible program of physical activity. The children's arts tax credit is a non-refundable tax credit claimed on up to $500 relating to the cost of registration or membership for your child or your spouse's child in a program of artistic, cultural, recreational, or developmental activity. These credits can be split between you and your spouse as long as you both do not claim the same fees and the total amount claimed is not more than the respective limits per child.
- There are additional credits and deductions that could potentially reduce your tax bill. Speak to your qualified tax advisor to ensure you are claiming all the credits and deductions that you are entitled to.

## Reorganizations

- If you received a taxable foreign dividend in the year as a result of an eligible foreign spin-off, consider filing a Section 86.1 election with your tax return to treat the dividend as non-taxable. By making this election, the cost of your original shares will be allocated between your original shares and the spin-off shares. Consult with a qualified tax advisor to determine whether the foreign spin-off in question is eligible for this election. For more information, please ask your RBC advisor for our article titled "Foreign Spin-Offs".
- If a position you hold undergoes certain types of reorganizations, you may be able to defer the tax consequences by filing the appropriate election. For example, a Subsection 85(1) election allows you to exchange your old shares for new shares of an acquiring corporation on a tax-deferred basis where certain conditions are met. Consult with your qualified tax advisor to determine whether the reorganization is eligible for tax-deferred treatment. For more information on this specific election, please ask your RBC advisor for our article titled "Tax-Deferred Rollovers under Subsection 85(1) - Joint Tax Election".

## Foreign Reporting Requirements

- If you owned specified foreign property with a total cost of more than $100,000 (Canadian) at any time during the year, you should complete the CRA Form T1135, *Foreign Income Verification Statement*. Among other items, specified foreign property includes shares of foreign corporations, even if held in a Canadian investment account, foreign mutual funds and exchange traded funds listed on a foreign exchange. This form is due by your filing deadline for the year of May 2, 2016 or June 15, 2016 if you are self-employed. The penalty for failing to file this form on time is $25 per day, subject to a minimum

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penalty of $100 and a maximum penalty of $2,500. For more information, please ask your RBC advisor for our article titled "Foreign Reporting Requirements in Canada".

## Administrative

- Issuers such as income trusts, mutual funds and limited partnerships tend to issue tax slips later than most other investments. You may want to delay filing your tax return until closer to your tax filing deadline to ensure you have received all of the information you need to file a complete return.
- If you receive a tax slip after filing your tax return, be sure to report the missed income as soon as you can by sending the relevant details to the CRA with an accompanying letter. Not disclosing this information could be considered as a failure to report income which could result in punitive penalties.
- After filing your income tax return, be sure to keep your supporting documents in a safe place. It is generally recommended that you keep these documents for at least six years after the end of the tax year to which the documents relate. If you are selected for review by the CRA, you will need these records to support your claims.

## Conclusion

While there are many tax planning strategies that can be implemented during the year, this article highlights key points that you should be aware of when preparing your tax return. For more information about any of the tips mentioned in this article, please talk to your RBC advisor. It is also highly recommended that you speak with your qualified tax advisor for help in preparing your income tax return.



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