The Navigator

Tax Preparation Reminders for your 2012 Personal Tax Return

The deadline for filing your 2012 income tax return with the Canada Revenue Agency (CRA) is April 30, 2013. However, if you and/or your spouse (or common-law partner) are self-employed, you and your spouse (or common-law partner) will have until June 17, 2013 to file your tax return. Regardless of the filing deadline, all taxes owed for 2012 must be paid on or before April 30, 2013, even if you are self-employed. If you miss any of these deadlines, you could be subject to punitive interest and penalty charges.

The following items are important considerations you may wish to keep in mind when preparing your 2012 personal Canadian income tax return.

File Your Return on Time

- In order to avoid paying a late-filing penalty, it is important to comply with filing deadlines, 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, compound daily interest will be charged, starting May 1, 2013, on any unpaid amounts (including penalties) until all taxes owing are paid. The prescribed interest rate on amounts owing to the CRA, which can change quarterly, is used. The rate for the first calendar quarter of 2013 is 5%. There will be no penalties for late filing if you are entitled to a refund or if you owe no tax.

Capital Gains and Losses

- If you donated publicly-traded securities in-kind to a registered charity in the year and as a result, realized capital gains on the disposition of the securities, the capital gain is eliminated for tax purposes. Alternatively, if you realize a loss on the donation of a publicly-traded security, you can use this loss to reduce your realized capital gains in order to reduce your taxes payable. Report the total of all gifts of publicly-traded securities you made on the CRA Form T1170 – Capital Gains on Gifts of Certain Capital Property.
- 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 previous three 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 use this form to reassess your prior year's return(s) and issue a refund if you are entitled to one. This means that in addition to the Notice of Assessment you will receive for 2012, you will also receive a Notice(s) of Reassessment for the previous tax year(s) that you applied your capital losses to.

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- If you have a taxable capital gain in the year, determine whether you have carried forward any net capital losses from previous years. You may be able to apply these losses against your current year capital gains to reduce 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. For more information, ask your RBC advisor for a copy of the article titled "Worthless Securities".
- If you sold securities in the year, ensure that the adjusted cost base (ACB) you report on your return is accurate. Inaccurate ACBs may cause you to owe extra tax. For more information regarding calculation of ACB, please ask your RBC advisor for a copy of the 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 (or common-law partner) to lower your overall family tax bill. The pension income splitting rules may enable your family to significantly reduce its total tax bill by allowing certain types of income to be reallocated to a lower income spouse (or common-law partner) so that a portion of the income is taxed in their hands at a lower rate.
- If you are under 65 years of age in the year, you are generally limited to splitting life annuity payments originating from a pension plan. If you are at least 65 years of age in the year, in addition to life annuity payments from a pension plan, you can split RRIF/LIF/PRIF/RLIF income.
- To split the qualifying income, there is nothing that needs to be done at the time that the income is received. In fact, the decision about how much income to reallocate can be delayed until it is time to prepare your income tax return for the year in which the income was received. In order to split income, the CRA Form T1032 — Joint Election to Split Pension Income has to be signed and copies of the forms should be attached to both your and your spouse's (or common-law partner's) income tax returns.
- By reallocating family income, not only will you be likely to reduce the overall family tax bill, you may also avoid having your Old Age Security (OAS) or other income-tested government benefits reduced.

Tax Credits and Deduction

- To maximize tax savings, you and your spouse (or common-law partner) can combine charitable donations and claim them on the tax return of the higher income individual.
- Another way you and your spouse (or common-law partner) can maximize tax savings is to claim the family's medical expenses on the tax return of the spouse or common-law partner with the lower income, assuming that the lower income spouse is paying at least some taxes.
- If you or your dependants are suffering from a prolonged or severe mental or physical impairment, making day-to-day living difficult, you may be eligible to claim the Disability Tax Credit. You will need to complete the CRA Form T2201 – Disability Tax Credit Certificate with your doctor and submit it with

If you owned foreign property with a cumulative cost base (not fair market value) of $100,000 or more (in Canadian dollars) at any time during the year, you should complete the CRA Form T1135 — Foreign Income Verification Statement and attach it to your tax return.

your tax return. You should confirm with your qualified tax advisor if you qualify.

- 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, up to $5,000 of the credits may be transferrable to you.
- Speak to a qualified tax advisor to ensure you are claiming all the credits and deductions that you are entitled to. Missed credits and deductions could result in missed opportunities for reducing your tax bill.

Miscellaneous

- If you received a tax refund from the CRA in 2012, check your 2011 Notice of Assessment to determine if you received any interest on your refund. If you have, you need to report this interest as income on your current year tax return.
- If you received a taxable foreign spin-off dividend in the year, consider filing a Section 86.1 election with your tax return to possibly treat the dividend as non-taxable for Canadian tax purposes if it is an eligible spin-off. Not all foreign spinoffs are eligible, and specific criteria must be met for the dividend to be treated as non-taxable. If you have received a foreign spin-off in the year, check with your qualified tax advisor to determine whether it is eligible for this election.
- If a position you hold undergoes certain types of reorganizations, you may be able to defer the tax consequences of the reorganization by filing an appropriate election. For example, a Section 85 election allows Canadian resident shareholders to exchange their 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. You should also consult with your qualified tax advisor in assisting you with filing the appropriate election.
- If you owned foreign property with a cumulative cost base (not fair market value) of $100,000 or more (in Canadian dollars) at any time during the year, you should complete the CRA Form T1135 — Foreign Income Verification Statement and attach it to your tax return. Among other items, foreign property includes non-Canadian securities, such as U.S. stocks or ADRs, held in Canadian investment accounts. If you are required to complete this form, it is due to be filed by April 30, 2013, regardless of whether you file your tax return. If the form is not filed in a timely manner, you may be subject to substantial penalties.
- Issuers such as income trusts, mutual funds and limited partnerships tend to issue tax slips later than other investments, such as guaranteed investment certificates (GICs). You may want to delay filing your tax return until closer to the April 30, 2013 deadline to ensure you have received all or most of this information to file a complete return.
- 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

Please contact us for more information about the topics discussed in this article.

years starting at 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 items that you should be aware of when preparing your tax return. For more information about the strategies mentioned in this article, talk to your RBC advisor. Talk to your qualified tax advisor for help in preparing your income tax return.

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