Wealth Management

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC FAMILY OFFICE SERVICES

Marta Stevenson, BA
Senior Investment Advisor
Tel: 403-299-6583
marta.stevenson@rbc.com

Jason Holtby, MBA, CPA, CGA, CIM
Portfolio Manager
Tel: 403-299-5133
jason.holtby@rbc.com

Darren White, B.Comm, CIM
Associate Investment Advisor
Tel: 403-299-6508
darren.white@rbc.com

Megan Lok, B.Comm, CFP
Associate
Tel: 403-299-7034
megan.lok@rbc.com

Marija Vrbic, B.Sc. (Econ)
Associate
Tel: 403-299-6536
marija.vrbic@rbc.com

Stevenson Holtby Investment Management Group
of RBC Dominion Securities
Suite 300, 335-8th Ave SW
Calgary, AB   T2P 1C9
Tel: 403-299-5133 | Fax: 403-299-6568
Toll free: 1 800-310-6484
www.stevensonholtby.ca

2022 tax preparation reminders

With the 2022 personal income tax return filing deadline fast approaching, this is a great time to see if you're taking advantage of all of the tax benefits you may be entitled to. The following information outlines items you may want to consider when preparing your 2022 personal income tax return.

Please note that any reference to a spouse in this article also includes a common-law partner.

Filing deadlines

- Generally, the deadline for filing your 2022 personal income tax return with the Canada Revenue Agency (CRA) is May 1, 2023. If you or your spouse were self-employed, you will have until June 15, 2023, to file your tax return. Regardless of your filing deadline, your taxes owing for 2022 should be paid on or before May 1, 2023.

- To avoid a late-filing penalty, file your tax return on time, even if you're 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). The late-filing penalty may be more if you have late-filed in the past.

- If you don't pay your balance owing by May 1, 2023, the CRA will charge compound daily interest on any unpaid amounts at a prescribed interest rate. The CRA will also charge interest on the penalties starting the day after your return is due. If you're self-employed, the CRA will also charge compound daily interest on unpaid Canada Pension Plan (CPP) contributions and Employment Insurance (EI) premiums, if applicable, until you pay all of the amounts owing.

Capital gains and losses

- If, after netting your capital gains and losses realized in the year, you have excess capital losses, consider carrying back the remaining capital losses to offset any capital gains you've reported in any of the three previous tax years. By doing so, you may receive a refund of some of the taxes you paid in the previous years.

- If you have a taxable capital gain in the year, determine whether you have any unused net capital losses available carried forward 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're considered "worthless" for tax purposes. If so, you may be eligible to claim a capital loss.
- If you donated a publicly traded security with an accrued capital gain in-kind to a qualifying charity, you will receive a donation tax receipt for the fair market value of the security, and the capital gain may not be taxable to you. Speak with a qualified tax advisor to determine if the capital gain is taxable.
- If you sold securities in the year, verify that the adjusted cost base (ACB) you report on your return is accurate to ensure you're paying the appropriate amount of tax. Ensure you have properly factored in any corporate reorganizations and return of capital when calculating the ACB of your investments where applicable.
- If you sold your principal residence in 2022, you must report the sale on your tax return. If you plan to claim the principal residence exemption, be sure to properly designate the property as your principal residence for any qualifying years on your tax return.

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 allocate certain types of pension income to your lower-income spouse so the income is taxed in their hands at their lower marginal tax rate. By splitting your pension income, you may also avoid the old age security (OAS) recovery tax (commonly known as OAS clawback) or the reduction of other income-tested government benefits.
- If one spouse passes away during the year, it's still possible to split eligible pension income. If the spouse who will receive the allocated pension income passes away, the maximum amount of eligible pension income that can be split is prorated based on the spouse's month of passing. For example, if Jane received eligible pension income for the current year of $60,000 and her spouse, Jack, passed away in April of this year, the maximum amount of pension income that Jane can split and include on Jack's terminal return would be $10,000 ($60,000 x 50% x 4/12). Jane and the legal representative of Jack must complete and sign the pension income splitting election form.

If you sold securities in the year, verify that the adjusted cost base (ACB) you report on your return is accurate to ensure you're paying the appropriate amount of tax. Ensure you have properly factored in any corporate reorganizations and return of capital when calculating the ACB of your investments where applicable.

- If you or your spouse received eligible pension income, you may be eligible for a federal pension income tax credit of up to $2,000. If your spouse doesn't need to claim all of the credit in order to reduce their federal taxes to zero, they may transfer any unused amount to you.

Tax credits and deductions

- A federal donation tax credit of 15% is available on the first $200 of charitable donations. For amounts over this level, the credit increases to 29% or 33%. To the extent that you have taxable income that's subject to tax at 33%, you can receive a federal donation tax credit at a rate of 33% on donations in excess of $200, otherwise, you will be entitled to the 29% credit. You may be able to maximize tax savings by combining charitable donations made by you and your spouse and claiming them on the higher-income spouse's tax return. You are also entitled to a provincial/territorial donation tax credit which varies by province/territory.
- 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 $2,479, whichever is less. Any amount above this threshold is eligible for the non-refundable credit. As such, consider claiming your family's medical expenses together on the lower-income spouse's tax return, assuming that the lower-income spouse is required to pay at least some taxes. This may allow you to maximize the medical expense tax credit.
- 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). To determine eligibility, you'll need to complete the CRA Form T2201, *Disability Tax Credit Certificate*, with a medical practitioner and submit it to the CRA for approval.
- If you have a child or grandchild who's attending a qualifying educational institution, they may be eligible for tuition credits. If your child or grandchild has little or no income and is therefore unable to use some or all of 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 amounts are not transferred, your child or grandchild can carry forward unused credits to future years.

- 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. For example, payments made to caregivers, day nursery schools, daycare centres and education institutions (for the part of the fees that relate to child care services) qualify for the deduction. The maximum deduction is $8,000 for each child under the age of seven, $5,000 for each child between the ages of seven and 16 (where the child turned 16 in the year) and $11,000 for children who are eligible for the DTC. Generally, the lower-income spouse should claim this deduction.
- If you work from home, consider the rules regarding the deductibility of home office expenses on your personal income tax return. Speak with your qualified tax advisor to determine if you can make a claim.
- There are additional credits and deductions that may potentially reduce your tax bill. Speak to your qualified tax advisor to ensure you're claiming all of the credits and deductions you're entitled to.

COVID-19 support measures

- If you received any benefits relating to the government's COVID-19 financial support measures, keep in mind that some of these benefits are taxable. Be sure to include any taxable benefits you received when you're estimating your total income from all sources for the year and consider setting aside funds, if necessary, to pay any potential taxes you may owe in May.

Corporate reorganizations

- If you received a taxable foreign dividend in the year as a result of an eligible foreign spin-off, speak with a qualified tax advisor to see if filing a section 86.1 election with your tax return to treat the dividend as non-taxable makes sense in your circumstances. By making this election, you may allocate the cost of your original shares between your original shares and the spin-off shares.
- If a security you hold undergoes a reorganization, consult with a qualified tax advisor to determine whether the reorganization is properly reported on your tax return. A reorganization may or may not be a taxable event.

Foreign reporting requirements

- If you owned specified foreign property with a total cost of more than C$100,000 at any time during the year, you are required to 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. The due date for this form is the same as your tax return filing deadline. The penalty for failing to file this form on time is $25 per day, subject to a minimum penalty of $100 and a maximum penalty of $2,500.

If you work from home, consider the rules regarding the deductibility of home office expenses on your personal income tax return. Speak with your qualified tax advisor to determine if you can make a claim.

Other notes and considerations

- Issuers such as income trusts, mutual funds and limited partnerships tend to issue tax slips later than most other investments. You may want to wait and file your tax return closer to your tax filing deadline so that you have all of the information you need to file a complete return.
- Even if you didn't receive a tax slip or a tax slip wasn't issued to you because you earned less than $50 of investment income during the year, you must still report all of your investment income earned during the year on your tax return.
- If you received a tax refund from the CRA for the prior year, check your 2021 Notice of Assessment to determine if you received any interest on your refund. If you have, you'll need to report this interest as income on your current-year tax 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 amending your tax return. Failure to report income may result in penalties.
- After filing your income tax return, keep the supporting documents in a safe place. Generally, you should keep these documents for at least six years after the end of the tax year to which the documents relate. If the CRA selects your return for review, you will need these records to support your claims.
- The CRA has a service available called "My Account" for individual taxpayers. This online service allows you to view previous returns, certain tax slips, RRSP room, TFSA room and more. If you haven't already done so, speak with a qualified tax advisor about signing up, as it will allow you to view your tax information immediately and may help you when filing your 2022 tax return.

Conclusion

While there are numerous tax planning strategies you may implement during the year, this article highlights some of the key points 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. Also, be sure to speak with a qualified tax advisor for help in preparing your income tax return.

This article may contain strategies, not all of which will apply to your particular financial circumstances. The information in this article is not intended to provide legal, tax or insurance 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, legal and/or insurance advisor before acting on any of the information in this article.

Wealth Management