
FILING YOUR INCOME TAX RETURN

Every year the Canada Customs and Revenue Agency (CCRA) publishes a list of the more common errors that taxpayers make when filing their income tax returns. While the CCRA's computer system recalculates each tax return and will correct some mistakes, these and other errors could cost you unexpected taxes. In addition, errors may lead you to significantly underestimate your tax liability upon filing, resulting in interest and perhaps even penalty charges.

The most common mistake is an addition or subtraction error. When a taxpayer prepares a tax return by hand on government-approved forms, there is a lot of adding and subtracting and carrying of numbers from one line to another, and sometimes an error is made. Such a mistake could lead to the over- or underpayment of taxes due.

Missing slips is another common problem. Just because you do not receive an information slip does not mean that the income is not taxable! When a taxpayer does not receive a necessary slip, the first course of action is to contact the issuer. If the slip still can't be obtained, stubs or other non-official receipts should be used to estimate the income to be reported. The CCRA asks that a note explaining the problem be attached to the return.

Another area that seems to generate a

significant number of errors relates to support payments. Spousal support payments are deductible if they are paid in the year and are required by a written agreement or court order. Child support payments are deductible only if they were paid in the year and are required under a written agreement or court order made before May 1, 1997, and not subsequently amended.

Since parents sometimes fund their children's post-secondary education, they commonly try to recover some of the tax credits available to the student. However, students must apply their tuition and education amounts to reduce their own federal tax payable to zero before they can transfer an amount to a parent or other eligible individual.

While moving a household can be a very expensive venture and may enhance your opportunity to earn income, expenses associated with a move are not necessarily tax deductible. Eligible moving expenses are only deductible if the relocation places you at least 40 km closer to your new work location. Amounts are deductible against income earned at the new location.

Retiring allowances are another common source of errors on an individual's tax return. The full amount of the retiring allowance is reported as income on line

130 of the income tax return. If some or all of an allowance is transferred into an RRSP, the transferred amount should be shown as a contribution on line 245 and as a deduction on line 240 of Schedule 7, and then transferred with any other deductible RRSP contributions to line 208 of the tax return. Even when the retiring allowance was transferred directly into the RRSP, the above procedure must be followed in

order to access the tax deferral of the rollover.

Filing a tax return is not an easy job and errors can slow the process, expose you to interest (and maybe penalties), and even cause you to lose valuable elections. Care should be taken to double check all calculations before the tax return is filed.

I/R 7401.00

BORROWING TO MAKE AN RRSP CONTRIBUTION

Although the so-called RRSP season has just finished, it's a good time to consider the logic of some RRSP contribution strategies. At "RRSP time," many individuals find themselves short of cash, but can easily borrow the funds to make an RRSP contribution through various financial institutions. But a better alternative might be to forgo the loan and build the RRSP through a series of deposits, using the current cash flow that would otherwise have been used to repay the loan.

The analysis of borrowing to fund an RRSP contribution should compare the economic results of two scenarios:

- making a lump-sum contribution with borrowed funds; and
- using a series of deposits that would otherwise have been used as payments on the outstanding loan.

Consider the following set of facts related to this analysis:

- \$15,000 of RRSP deduction room is available for the prior year;
- the RRSP could earn four per cent per year, compounded monthly;
- the RRSP could grow to \$15,507.57 by the end of the year (assuming an investment term of 10 months);
- the RRSP loan charges an interest rate of seven per cent per year;
- the loan repayment period is 10 months (March to December);
- the anticipated tax refund of \$6,000

(assuming a marginal tax rate of 40 per cent) will be received in June and used to pay down the RRSP loan; and

- the monthly loan payment would be \$943.37 for 10 months. These payments plus the June tax refund would extinguish the RRSP loan.

Under the loan alternative, the funds would be borrowed and the RRSP contribution made at the end of February (i.e., within the RRSP deadline for the prior year), and the RRSP deduction claimed on the prior year's return. The RRSP is created immediately and earns investment income for the entire 10 months. To create an RRSP valued at \$15,507.57, the taxpayer incurs a total cost of \$9,433.70, which includes \$433.70 of interest expense that is non-deductible.

As an alternative to the above scenario, consider depositing the equivalent amount of the RRSP loan repayment into an RRSP, on the same 10-month schedule, with the following assumptions:

- the anticipated monthly loan payment was \$943.37;
- the taxpayer contributes \$1,572.29 each month for 10 months to an RRSP, taking into account the gross-up factor of the anticipated tax savings at 40 per cent. Such an assumption is possible because tax instalments or withholding taxes can be adjusted to take the RRSP contribution into account;
- additional RRSP deduction room is

created during the year – in this case, an additional \$723 of room must become available to accommodate a total contribution of \$15,722.90 in the current year. (Alternatively, the analysis can be done assuming that the amount borrowed is less than the full amount of available deduction room for the prior year.); and

- the RRSP accumulation will equal \$15,960.81 by the end of the year.

Under this alternative, the RRSP is created through a series of monthly deposits, each accumulating interest to the end of the year. To create an RRSP valued at \$15,960.81, the taxpayer incurs a total cost of \$9,433.70 (i.e., contributions of \$15,722.90 less the 40 per cent tax sav-

ings), which matches the cash flow cost of the above loan strategy.

While the borrowed funds alternative creates the RRSP immediately, when the final results are considered, the taxpayer does not derive greater economic value. The disadvantage is primarily because the interest expense on the RRSP loan is not tax deductible. As well, the monthly contribution plan benefits from the immediate reduction of tax withholdings or tax instalments.

This discussion is simply one way of analyzing the outcome of two common RRSP contribution options. Now is an ideal time to consider this type of logic and start planning your 2003 RRSP contributions.

I/R 5401.06

GOVERNMENT PENSION PLANS: BENEFITS AND CONTRIBUTIONS FOR 2003

Contributions and benefits under government pension plans are adjusted periodically to reflect increases in the consumer price index or the average Canadian wage. The new amounts, commencing January 1, 2003, are shown in the table

below. Each benefit is subject to income tax when received, with the exception of the Guaranteed Income Supplement and the Allowance. All benefits shown are paid monthly unless otherwise indicated, and are the maximum amounts.

	CPP	QPP	OAS
CPP / QPP benefits (for new beneficiaries)			
Retirement pension (at age 65)	\$801.25	\$801.25	
Disability pension	\$971.26	\$971.23	
Disabled contributor's child benefit (each child)	*\$186.71	*\$59.28	
Survivor's [†] pension			
• under age 55	Δ\$444.96	Δ\$670.76	
• age 55 to 64	\$444.96	\$700.06	
• age 65 or over	\$480.75	\$480.75	
Surviving child's benefit (each child)	*\$186.71	*\$59.28	
Death benefit (lump sum)	\$2,500.00	\$2,500.00	
Combined benefits			
• survivor's [†] pension and disability (under age 65)	\$971.26	n/a	
• survivor's [†] pension and retirement (age 65 and over)	\$801.25	\$801.25	

	CPP	QPP	OAS
Annual CPP/QPP contribution			
Self-employed (9.9%)	\$3,603.60	\$3,603.60	
Employee (matched by employer) (4.95%)	\$1,801.80	\$1,801.80	
Old Age Security (OAS)			
January to March 2003			\$453.36
Guaranteed Income Supplement (GIS)			
January to March 2003			
• spouse/common-law partner receives OAS or Allowance			\$350.95
• single person (or spouse/common-law partner receives neither OAS nor Allowance)			\$538.80
Allowance			
January to March 2003			
• age 60 to 64, and spouse/common-law partner receives OAS and GIS			\$804.31
• age 60 to 64, survivor's [†] Allowance			\$887.98
Notes:			
* flat benefit amounts			
Δ these amounts may vary depending on whether the survivor is under age 45, disabled, or with or without children			
† a survivor is the spouse or common-law partner of a deceased individual			

I/R 3201.01 and 3201.03

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