

2003 PERSONAL INCOME TAX RETURN CHECKLIST

65(1)

Appendix A provides a checklist of information that will be needed to complete your 2003 Personal Income Tax Return.



PERSONAL TAX

65(2)

CAREGIVER CREDIT

In an October 3, 2003 CCRA *Technical Interpretation*, the taxpayer is a *single daughter* who *lives with her parents* in a house owned by her father. The daughter pays the costs of *maintaining the house*. The father's and mother's incomes are \$20,000 and \$7,000 respectively. The father claims the *spousal credit* for the spouse.

CCRA note that the daughter may claim the Federal *caregiver credit* for her mother (\$586 for 2003 - worth about \$800 when added to the Provincial credit).

RETIREMENT HOMES AND NURSING HOMES

In a September 25, 2003 *Technical Interpretation*, CCRA notes that:

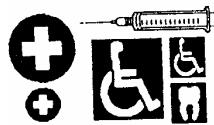
- (i) All regular fees paid to a *nursing home* (including food, accommodation, nursing care, administration,

maintenance and social programming) qualify as *medical expenses*. Additional personal expenses, which are separately identifiable, such as hair-dresser fees, are not allowed.

- (ii) A resident of a "*retirement home*" may claim *medical expenses* if he/she meets certain *disability criteria*. A receipt, or other support, to identify the actual remuneration paid for "*attendant care*" is needed.

MEDICAL EXPENSE

In a September 17, 2003 *Technical Interpretation*, CCRA note



that the application of *veneers by a dentist* is a *medical expense* as it is performed by a "*medical practitioner*" - a dentist.

MEDICAL EXPENSES INCURRED OUTSIDE CANADA

In a November 4, 2003 *Technical Interpretation*, CCRA notes that amounts paid for *cancer treatments* in the *United States* qualify as *medical expenses* if paid to a *medical practitioner* or to a public or licensed private *hospital*. Qualifying medical expenses also include laboratory, radiological or other diagnostic procedures or services.

Also, an individual may claim *transporta-*

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tion and travel expenses if *substantially equivalent* medical services are *not available* in the individual's locality.

MEDICAL EXPENSE - HOME CONSTRUCTION COSTS

In a July 28, 2003 *Tax Court* of Canada case, the taxpayer had *multiple sclerosis* (M.S.) and, in the *construction of a new home*, incurred costs of *\$15,125* for items such as wider passageways, an elevator shaft, dugout to create walkout access, wider stairs, lower windows for viewing, and appropriate kitchen and vanity design.

The Court permitted these expenses as

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medical expenses.

PHARMACIST - MEDICAL PRACTITIONER

In a December 2, 2003 *Technical Interpretation*, CCRA notes that they have reviewed the legislation in each jurisdiction in Canada and are satisfied that an amount paid by an individual *to a pharmacist* in respect of a “*medical service*” qualifies as a *medical expense*.

LATE FILING PENALTIES

The Income Tax Act has a *first offense late filing penalty* of 5% of the *tax unpaid* plus 1% per month to a maximum of twelve months for a total of 17%. This penalty is in addition to interest on the amounts due.

If there are no taxes owed there will be no late filing penalty.

However, if the taxpayer has been charged with a *late filing penalty* in any of the *three preceding taxation years*, the late filing penalty can be *doubled* on the *second offense* to 10% of the tax owing plus 2% per month for a maximum of up to 20 months for a total of 50%.

EMPLOYMENT INCOME

65(3)

THE \$500 GIFT AND \$500 AWARDS PLAN

In a September 25, 2003 *Technical Interpretation*, CCRA note that employers may give, on a *tax deductible* basis, *two non-cash gifts per year tax-free* to an *employee* for special occasions such as Christmas, Hanukkah, birthday, marriage or a similar event where the aggregate of the *gifts* is not more than \$500 per year. Similarly, employers may give *two non-cash awards per year* on a *tax-free* basis in recognition of special achievements such as reaching a set number of years of service, or meeting or exceeding safety standards. The total cost of the *awards* must

not be greater than \$500 per year.

EMPLOYMENT INSURANCE (EI)

In an October 8, 2003 *Technical Interpretation*, CCRA notes that *related persons* and *non-arm's length non-related persons* may be exempt from *EI* even though they own less than, or equal to, 40% of a voting class of shares.

HUMAN RIGHTS VIOLATION

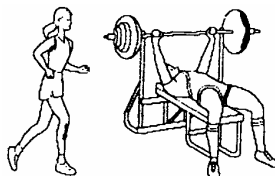
In an October 16, 2003 *Technical Interpretation*, CCRA notes that a settlement with an employee for a *human rights violation* is a *tax-free receipt*.

The Human Rights Code states that a person must not *refuse to employ* or, continue to employ, a person, or *discriminate* against a person regarding employment or any term or condition of employment because of their *race, colour, ancestry, place of origin, political belief, religion, marital status, family status, physical or mental disability, sex, sexual orientation* or *age* of that person or, because that person has been convicted of a *criminal or summary conviction offense* that is unrelated to the employment or to the intended employment of that person.

EMPLOYER-PAID GYM MEMBERSHIPS

In an October 17, 2003 *Technical Interpretation*, CCRA notes that

generally the payment or reimbursement of *club dues or membership fees* by an employer is a *taxable benefit* to the employee. However, if it is clearly to the *employer's advantage* for the employee to be a member of a club, the employee will *not* have a *taxable benefit*.



Editor's Comment

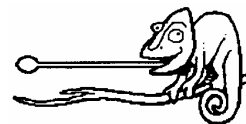
If the membership is to further the *business aspects* of the employer, such as the employee mixing with *current and potential customers*, it would seem *arguable* that there is *no taxable benefit* if the employer is the *primary beneficiary* of the advantage.

BUSINESS/PROPERTY INCOME

65(4)

SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT (SR&ED)

In two studies by consultants *KPMG Chartered Accountants*



it was noted that many firms which are *eligible* for *SR&ED* are *not making the claims*, either because they have had bad experiences *in the past* with detailed audits and questions, or they have heard of bad experiences or, they are *not aware*, of the *SR&ED credit* (35% refundable investment tax credit for Canadian-controlled private corporations and 20% for others).

It is *important to note* that CCRA has *simplified the process*, assists companies that wish to make claims, and expedites the refunds. Therefore, this is an important area, especially for companies that are in the *high tech industry* or *manufacturing*.

DAMAGE PAYMENTS

In an October 30, 2003 *Technical Interpretation*, CCRA notes that a *damage payment* is *deductible* as a *current expense* if it is incurred to earn income from a business or property, it is not on account of capital, it is not related to a personal expense and the amount is reasonable.

In a November 5, 2003 *Technical Interpretation*, CCRA notes that where a business makes a *damage payment* for *breach of*

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contract in the course of an *ongoing business*, the payment would normally be *currently deductible*.

RESERVE DEDUCTIONS

The Income Tax Act permits a taxpayer to *claim a reserve* deduction on a business inventory sale for proceeds which are *not due* at the yearend. The reserve is limited to *three years*.

The Income Tax Act also permits a taxpayer to claim a *reserve* deduction for services to be rendered after the end of the year. However, this does not include a reserve in respect of *guarantees, indemnifications or warranties*.

PET EXPENSES

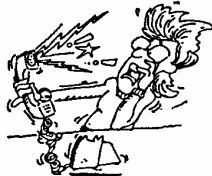
In a November 20, 2003 *Technical Interpretation*, CCRA note that it is possible to *deduct* the portion of *pet expenses* that are related to *earning income*. However, in some cases this may require a *pro-ration* between "personal" and "business".

CAPITAL GAINS

65(5)

NON-COMPETITION PAYMENTS

In response to a recent *Federal Court of Appeal* Decision, the Department of Finance introduced,



effective *October 7, 2003*, *amendments* to the Income Tax Act to treat *non-compete receipts* as regular *income*, or in certain circumstances as a *capital gain* or an *eligible capital receipt* - but *not tax free*. The *payment* will be considered an *eligible capital expenditure* or a *capital* amount.

CORPORATE TAX

65(6)



CORPORATE INTERNET FILING

CCRA now permits *corporate internet filing* for corporate federal income tax returns. (T2 Form)

For further information on corporate internet filing see <http://www.ccra-adrc.gc.ca/eservices/tax/business/corpnnet/about-e.html> or call 1-800-959-2803.

CHARITIES

65(7)

ART FLIPS AND TAX SHELTER DONATION ARRANGEMENTS

CCRA has *reassessed over 3,000 Canadians* who claimed a charitable donation tax credit on the donation of art flips - adding up to about \$7 million in unpaid taxes. See <http://www.ccra-adrc.gc.ca/newsroom/factsheets/2003/nov/1125taxshelter-e.html> for CCRA's three-page *warning* on "tax shelter donation arrangements".

However, a July 23, 2003 *Tax Court* of Canada case involved a *successful donation of 981 art pieces* to a public gallery.

The Closer

On December 5, 2003 the Department of Finance introduced amendments to the Income Tax Act to *limit the tax benefits* of certain *charitable donations* made under tax shelter and other arrangements.



As of 6:00 P.M., December 5, 2003, the *value of a gift* will be limited to a *donor's cost* of the property where it is donated *within three years* of acquisition or is otherwise acquired through a gifting arrangement or in contemplation of a donation.

These proposals will not apply to gifts of publicly traded securities, certified cultural property, ecological gifts, or real property situated in Canada.

POLITICAL ACTIVITIES

Information Circular 87-1 has recently been updated to include CCRA's comments on *political activities* of charities. On September 27, 2003 CCRA noted that *partisan political activity* involves the direct or indirect support of, or opposition to, any political party or candidate for public office and is *clearly prohibited*.

Registered charities may *jeopardize* their *charitable status*.

PENSIONS/RRSP

65(8)

REGISTERED RETIREMENT SAVINGS PLAN (RRSP)/ REGISTERED RETIREMENT INCOME FUND (RRIF)/ REGISTERED PENSION PLAN (RPP)

In an October 3, 2003 *Technical Interpretation*, CCRA notes that the Income Tax Act permits a *deceased taxpayer* to *transfer* the RRSP/RRIF/RPP to a "financially dependent" child.



A *mentally or physically impaired* child may transfer the amount to an *RRSP or a RRIF*. A *minor* child may acquire an annuity up to the age of *eighteen*. Otherwise, the amounts are *included* in the in-

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come of the child.

CANADA PENSION PLAN (CPP)

STARTING CPP AT AGE 60

In a Human Resources Development Canada (HRDC) *Internet Publication*, HRDC notes that:

1. If opting to receive *CPP* between the ages of **60 and 65**, the pension will be **reduced by .5%** per month to a maximum of 30%. The reduced rate continues for the life of the pension.
2. To receive CPP early you must either:
 - (i) **Not be working** by the end of the **month before** your pension begins and **during the month** in which it begins, **OR**
 - (ii) In the **month before** your pension begins and the **month it begins**, you must earn **less than** the monthly maximum CPP retirement pension payable at age 65. (In 2003 it is \$801.25 per month.)
3. Remember, if you have a **company pension plan** you should check to see if it will be affected by your **CPP pension**.
4. If a person **does not work** after the **age of 60** and **delays** receiving CPP until **age 65**, the extra five years of no earnings may **lower** the amount of CPP retirement pension payable at the age of 65.

SHARING YOUR CPP

Married or common-law partners who are both at least **60 years of age** can share the CPP benefits earned during their time together.

CHILD REARING DROP-OUT PROVISION

Months of low or zero earnings spent caring for your **child under age 7** may be **excluded** from the calculation of your CPP.

CREDIT SPLITTING UPON DIVORCE OR SEPARATION

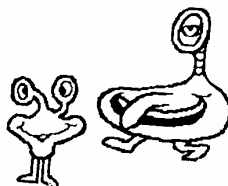
Upon divorce or separation the **CPP pension credits** which the couple built up during the time they lived together can be **divided equally** between them. This may occur even if one spouse or common-law partner did not pay into the CPP.

FARMING

65(9)

CANADIAN AGRICULTURAL INCOME STABILIZATION (CAIS) PROGRAM

The *CAIS* replaces the Net Income Stabilization Account (*NISA*) and many provincial relief plans effective in 2003.



The *NISA* will be **wound-up** and farmers will have up to **five years** to withdraw the money. The first minimum 20% withdrawal must occur by **March 31, 2005**. Funds from Fund 1 (the tax-free portion) may be **rolled** into a farmer's CAIS to meet deposit requirements.

March, 2004 will be a busy month as it is the proposed **deadline** for the CAIS "options notice" for 2003.

GST

65(10)

ELECTRONIC GST/HST FILING

CCRA has **three methods** to file **GST/HST returns** electronically: **GST/HST TELEFILE**, **GST/HST-EDI** and, the newest filing option, **GST/HST NETFILE**. Taxpayers with a nil balance or a refund of \$10,000 or less



can use **NETFILE** or **TELEFILE**.

To determine if you are eligible to use **NETFILE** or **TELEFILE** see if an access code is printed on your personalized GST/HST return. For more information see www.cra.gc.ca/gsthst-netfile or call **1-800-959-2038**.

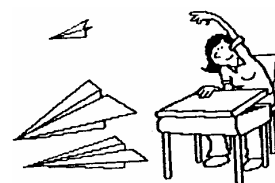
For information on GST/HST-EDI (allows you to file electronically both the GST return and the remittance through a participating financial institution) see www.cra.gc.ca/eservices/gsthst-edi/products-e.html.

WEB TIPS

65(11)

TAXPAYER INFORMATION FROM THE CCRA

CCRA has launched a personal tax information website -



"My Account". This personal tax online program allows you to view information on items such as your assessment dates, dates when returns are received, assessment results, RRSP deduction limits for current and prior years, Home Buyers Plan information, account balances, detailed yearly breakdown of provincial, federal, CPP assessments, and current information on your Child Tax Benefit and GST/HST credits.

To access the information, you need your social insurance number, date of birth, total income from line 150 for either 2001 or 2002 and the eight character access code found on your notice of assessment.

The service can be found by going to: <http://www.cra-adrc.gc.ca/eservices/tax/individuals/myaccount/>

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FINDING PHONE NUMBERS AND ADDRESSES

www.411.ca

On this website you select whether the *phone number* is of a *business or a residence*. You then select the *province, city, last name and first name*. After hitting “submit”, you will be presented with a small list of people who fit the criteria.

www.superpages.ca

You enter the same information as for www.411.ca and get the same type of result. However, you also get the *person’s address* and, with the click of a button, can get *directions to their house*.

FINDING DIRECTIONS/DISTANCES

www.mapquest.ca

From this site, you can enter a starting and ending destination. Directions for either the *fastest or shortest route* will be displayed. In addition, the *estimated time of travel and distance* will be included.

DID YOU KNOW...

65(12)

PIPEDA

On January 1, 2004 the Personal Information Protection and Electronic Documents Act (PIPEDA) takes effect.

Businesses should establish a *PIPEDA* strategy regarding:

- (i) protection of information on their employees and subcontractors, and
- (ii) protection of client information.

The Canadian Institute of Chartered Accountants website at www.cica.ca/privacy has information on this.

HUMAN RESOURCES

DEVELOPMENT CANADA (HRDC)

Beginning January 4, 2004, up to *six weeks* of *Employment Insurance (EI) Compassionate Care Benefits* will be available to

EI-eligible workers who must be absent from work to provide *care or support* to a child, parent, spouse or common-law partner who has a *serious medical condition* with a significant risk of *death* within 26 weeks. The six weeks of benefits can be taken within a 26-week (six months) time frame.

There will be a new “*reason for separation*” on the Record of Employment for this type of leave. A *doctor’s certification* will be required.

For more information see <http://www.hrdc-drhc.gc.ca/ae-ei/yrs /4.0 e.shtml>, or call your local HRDC office.

Also, the *Canada Labor Code* and some *provincial labor codes* are moving to accept these compassionate care leaves.



The preceding information is for educational purposes only. As it is impossible to include all situations, circumstances and exceptions in a commentary such as this, a further review should be done. Every effort has been made to ensure the accuracy of the information contained in this commentary. However, because of the nature of the subject, no person or firm involved in the distribution or preparation of this commentary accepts any liability for its contents or use.

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APPENDIX A

2003 PERSONAL INCOME TAX RETURN CHECKLIST INFORMATION REQUIRED INCLUDES:

1. All *information slips* such as T3, T4, T4A, T4A(OAS), T4A(P), T4E, T4F, T4PS, T4RIF, T4RSP, T5, T10, T2200, T2202, T100, T101, T600, T1163, T1164, TL11A, T5003, T5007, T5008, T5013, T5018 (Subcontractors) and corresponding provincial slips.
2. Details of *other income* for which no T slips have been received such as:
 - other employment income (including stock option plans and Election Form T1212),
 - business income,
 - partnership income,
 - rental income,
 - alimony, separation allowances, child maintenance,
 - pensions,
 - interest income earned but not yet received - example Canada Savings Bonds, Deferred Annuities, Term Deposits, Treasury Bills, Mutual Funds, Strip Bonds, Compound Interest Bonds
 - professional fees,
 - director fees,
 - scholarships, fellowships, bursaries,
 - replacement properties acquired.
3. Details of *other expenses* such as:
 - employment related expenses - Provide Form T2200 A Declaration of Conditions of Employment@,
 - tools acquired by apprentice vehicle mechanics,
 - business and employment purchases like vehicles, supplies, etc.,
 - interest on money borrowed to purchase investments,
 - investment counsel fees,
 - moving expenses - including costs of maintaining a vacant former residence,
 - child care expenses,
 - alimony, separation allowances, child maintenance,
 - safety deposit box fees,
 - accounting fees,
 - pension plan contributions,
 - film and video production eligible for tax credit,
 - mining tax credit expenses,
 - business research and development,
 - clergy residence deduction information, including *Form T1223*.
4. Details of *other investments* such as:
 - real estate or oil and gas investments - including financial statements,
 - labour-sponsored funds,
 - Registered Education Savings Plans.
5. Details and *receipts* for:
 - Registered Retirement Savings Plan (RRSP) contributions,
 - professional dues,
 - tuition fees - including mandatory ancillary fees, and Forms T2202 and TL11,
 - charitable donations (including publicly traded securities),
 - medical expenses (including medical related modifications to new or existing home and travel expenses),

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- political contributions.

APPENDIX A (continued)

6. Details of *capital gains and losses* realized in 2003.
Also, new rules now permit rollovers for foreign share spin-offs and various foreign share reorganizations.
7. Details of previous capital gain exemptions claimed, business investment losses and cumulative net investment loss accounts.
8. Name, address, date of birth, S.I.N., and province of *residence* on December 31, 2003.
9. *Marital/common-law status* and spouse/partner=s income, S.I.N. and birth date.
10. List of *dependents* - including their incomes and birth dates.
11. If you or one of your dependents was in full time attendance at a *college or university*, details concerning name of institution, number of months in attendance, tuition fees, income of dependent, Form T2202.
12. Are you *disabled or are any of your dependents* disabled? Provide Form T2201 - disability tax credit certificate. This also includes extensive therapy such as kidney dialysis and certain cystic fibrosis therapy. Also, the *transfer rules* include relatives such as parents, grandparents, child, grandchild, brothers, sisters, aunts, uncles, nephews or nieces.
13. Details regarding residence in a prescribed area which qualifies for the *Isolated Area Deduction*.
14. Information regarding *child tax credit* receipts.
15. Details regarding *RRSP - Home Buyers= Plan* withdrawals and repayments; *RRSP - Lifelong Learning Plan* repayment.
16. Receipts for 2003 income tax *installments* or, payments of tax.
17. Copy of 2002 personal tax *returns*, 2002 Assessment *Notices* and any correspondence from Canada Customs and Revenue Agency (CCRA).
18. 2003 *Personalized Tax information* which CCRA may have sent you.
19. Do you want your *tax refund or credit* deposited directly to your account in a financial institution? Yes/No.
To start direct deposit, or to change banking information, attach a Avoid@personalized cheque or your branch, institution and account number.
20. Details of *carry forwards* from previous years including losses, donations, forward averaging amounts, registered retirement savings plans.
21. Details of *foreign property* owned at any time in 2003 including cash, stocks, trusts, partnerships, real estate, tangible and intangible property, contingent interests, convertible property, etc..
22. Details of *income* from, or *distributions* to, *foreign entities* such as foreign affiliates and trusts.
23. Details of your *Pension Adjustment Reversal* if you ceased employment and were in a Registered Pension Plan or a Deferred Profit Sharing Plan. (T10 Slip)
24. If you provided *in-home care* for a *parent or grandparent* (including in-laws) 65 years of age or over, or an infirm *dependent relative*, a federal tax credit may be available.
Also, the caregiver may claim related *training costs* as a medical expense credit.
25. Interest paid on qualifying *student loans* is eligible for a tax credit.
26. Retroactive lump-sum payments
Individuals receiving qualifying retroactive *lump-sum payments* over \$3,000 may be allowed to use a special mechanism to compute the tax.
27. Changes in *family circumstance* that could affect the *Goods and Services Tax Credit*, such as births, deaths, marriages, reaching the age of 19 years, and becoming or ceasing to be a resident in Canada.

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