Dealing with the CRA through a representative (March 2016)

There's no denying that the Canadian tax system is complex, even for individuals with relatively straightforward tax and financial circumstances. As well, significant costs can follow if a taxpayer gets it wrong when filing the annual tax return. Sometimes those costs are measured in the amount of time needed to straighten out the consequences of mistakes made on the annual return; in a worst case scenario, they can involve financial costs in the form of interest charges or even penalties levied for a failure to remit taxes payable on time or in the right amount. Whatever the reason, fewer and fewer individuals are willing to brave the annual trip through the 488 lines of the federal tax return (plus seemingly innumerable related federal schedules and provincial tax forms), and that means that the percentage of Canadians who have their return prepared by someone who has, presumably, more expertise, has continued to rise.

Whether that someone else is a willing family member or friend, or a professional tax preparer and/or tax filing service, having someone else prepare the return means, in most cases, that the taxpayer will be dealing with the Canada Revenue Agency (CRA) through a representative.

It sometimes comes as a surprise to taxpayers that the CRA will not — and, in fact, cannot — provide a taxpayer's personal tax information to anyone other than that taxpayer, unless written authorization has been provided in advance, or the taxpayer him or herself is there to provide verbal authorization. While it may seem reasonable for a spouse who does the tax returns for the entire family or for an adult child completing a return for an elderly parent to be given access to information needed to complete that return, the restrictions on the release of such information are, in fact, very much in the best interests of the taxpayer. Most such requests for another individual's personal tax information are genuine and well-intentioned, but that is not always the case, unfortunately.

The CRA provides a prescribed form — the T1013(E), *Authorizing or Cancelling a Representative*, (available on the CRA website atwww.cra-arc.gc.ca/E/pbg/tf/t1013/README.html) — which can be used by anyone to name any other person as their representative. It's also possible, for those who are already registered for the CRA's My Account service, to authorize a representative online.
No matter what the process, the first decision which must be made by a taxpayer who is authorizing a representative is the level of authority he or she wants to grant to a representative and that, in turn, will depend on what he or she wants the representative to be able to do. The CRA provides for two levels of authorization on the T1013, and broadly speaking, the first — Level 1 — provides the representative with the right to receive information, while the higher Level 2 access enables the representative to make changes to the taxpayer's account. Where a taxpayer does not specify a level of access when authorizing a representative, the CRA will automatically assign the lower Level 1 access to that representative. The specific rights granted to a representative at each level are as follows.

Level 1 Access

Where a representative has been provided by the taxpayer with Level 1 access, the CRA can disclose the following information to that representative:

- information given on the taxpayer's income tax return;
- adjustments to the taxpayer's income tax return;
- information about the taxpayer's RRSP, Home Buyers' Plan, TFSA, and Lifelong Learning Plan;
- the taxpayer's accounting information, including balances, payment on filing, and instalments or transfers;
- information about the taxpayer's benefits and credits (Canada child tax benefit, universal child care benefit, GST/HST credit, working income tax benefit); and
- the taxpayer's marital status (but not information related to his or her spouse or common-law partner).

A Level 1 representative is not allowed to request changes (adjustments and transfers) to the taxpayer's account.

Level 2 Access

A representative who has been provided by the taxpayer with Level 2 access has all the powers of a Level 1 representative, as well as the right to ask for adjustments to the taxpayer’s income, deductions, non-refundable tax credits, and accounting transfers. A Level 2 representative is also able to submit a request for taxpayer relief, and to file a notice of objection or an appeal on the taxpayer’s behalf.

There are some actions which cannot be taken by either a Level 1 or a Level 2 representative. A representative authorized by the filing of a T1013, regardless of level of authorization, will not be allowed to change the taxpayer’s address, marital status, or direct deposit information, or to authorize, view, or cancel other representatives on the taxpayer’s file.

A taxpayer naming a representative must also decide whether he or she wants the representative to have online access to the taxpayer’s account, or to be able to deal with the CRA on his or her behalf only by telephone, in person, or by mail. Where the authorization provides only for the latter (no online access), the taxpayer can specify the tax years for which access is being authorized, and the level of authorization granted for each such year. Where online access is authorized, however, that access must be for all tax years, although the taxpayer can still specify the level (Level 1 or Level 2) of access to be allowed. It’s also important to note that where a taxpayer names a firm or business (as opposed to a specific individual) as the representative, he or she is authorizing the CRA to deal with**any** representative from that business. Finally, the taxpayer can also specify a date on which the authorization will expire, if he or she wishes to do so.
It is readily apparent that naming someone as your representative with the CRA, even at the lowest level for a limited period of time, gives that person access to an enormous amount of personal tax and financial information. Taxpayers should be aware, when providing an authorization, exactly what they have agreed to and for what length of time. Where a taxpayer engages the services of a tax return preparation service, for instance, that service will frequently ask the taxpayer to sign an authorization enabling them to act as the taxpayer’s representative with the CRA. It is a reasonable request, given that the tax return preparer may need to contact the CRA to obtain information (e.g., from prior year returns) which is needed to prepare the tax return for the current year. Taxpayers who authorize a representative in such circumstances should, however, be careful to ensure that the authorization is limited, usually to the specific time during which the return will be prepared. Not infrequently, taxpayers have been asked to sign an authorization which does not specify any time frame and are surprised to find that such an authorization is still in effect, giving the representative the right to obtain information about that taxpayer, even years later, long after the taxpayer had finished his or her dealings with the tax return preparation service.

The need to designate a representative to deal on one’s behalf with the CRA is fairly commonplace. However, giving another person access to your personal tax information, even for a limited purpose or a limited time, is a significant step which should not be taken without some thought. Where it is determined that providing such access is necessary, careful consideration should be given to the level of access needed, the tax years for which access is required and, possibly most important, providing a date on which that authorization will expire.

Pension income splitting - getting something for nothing (March 2016)

Any taxpayer told of a strategy that offered the possibility of saving hundreds or thousands of dollars in tax and increasing his or her eligibility for government benefits while requiring no advance planning, no expenditure of funds, and almost no expenditure of time could be forgiven for thinking that what was proposed was an illegal tax scam. In fact, that description applies to pension income splitting which is a government-sanctioned strategy to allow married taxpayers over the age of 65 (or, in some cases, age 60) to minimize their combined tax bill by dividing their private pension income in a way which creates the best possible tax result.

Many Canadians, even those in a position to benefit from pension income splitting, have never heard of it. That's because the strategy gets very little coverage in the media. While Canadians are inundated during the first two months of the year with advertisements extolling the virtues of making contributions to registered retirement savings plans (RRSPs) or tax-free savings accounts (TFSAs), pension income splitting is never mentioned. The reason for that is that it is one of the very few tax planning strategies in which no one but the taxpayer gains a financial benefit.

The information provided with the annual tax return form also doesn't highlight the benefits of pension income splitting, and the form needed to carry out a pension income splitting strategy isn't included in the General Income Tax Return package. The Guide issued by the Canada Revenue Agency (CRA) for 2015 returns does flag the pension income splitting option, in the same manner as all other deductions and credits which may be of particular relevance to seniors. However, the material on income splitting included in the Guide addresses only the mechanics of filing — which number goes where — with no significant explanation of the tax-saving benefits which can be obtained. Consequently, unless a taxpayer is getting good tax planning or tax return preparation advice, it's likely that he or she could overlook a significant opportunity to reduce his or her tax burden.

Dividing income between spouses makes for a lower overall tax bill because of the way our tax system is structured. Canada's tax system is what is known as a "progressive" tax system, in which the rate of tax imposed increases as income rises. In very general terms, for 2015, the first $45,000 of taxable income attracts a combined federal-provincial rate of around 25%. The next $45,000 of such income, however, is taxed at a rate of just under 35%. When taxable income exceeds about $140,000, the tax rate imposed can approach 50%. While those percentages and income thresholds will vary by province, provincial and territorial tax rates will, in every province or territory, increase as taxable income goes up. Dividing income allows a greater proportion of that income to be taxed at lower rates. Of course, that means that the total tax payable (and therefore government tax revenues) will be reduced. Consequently, our tax laws include a set of rules known as the "attribution rules" which seek to prevent strategies to divide income in this way. Pension income splitting is a government-sanctioned exception to those attribution rules.

The general rule with respect to pension income splitting is that taxpayers who receive private pension income during the year are entitled to allocate up to half that income with a spouse for tax purposes. In this context, private pension income means a pension received from a former employer and, where the income recipient is over the age of 65, also includes payments from an annuity, an RRSP, or a registered retirement income fund (RRIF). Government source pensions, like payments from the Canada Pension Plan, Quebec Pension Plan or Old Age Security payments do not qualify for pension income splitting, regardless of the age of the recipient.

The mechanics of pension income splitting are relatively simple. There is no need to transfer funds between spouses or to make any change in the actual payment or receipt of qualifying pension amounts, and no need to notify a pension plan administrator.
Taxpayers who wish to split eligible pension income received by either of them must each file Form T1032-15e,*Joint Election to Split Pension Income*, with their annual tax return. That form, which is not included in the annual tax return package, can be found on the CRA website atwww.cra-arc.gc.ca/E/pbg/tf/t1032/README.html, or can be ordered by calling 1-800-959 8281.
On the T1032-15e, the taxpayer receiving the private pension income and the spouse with whom that income is to be split must make a joint election to be filed with their respective tax returns for the particular tax year. Since the splitting of pension income affects the income and therefore the tax liability of both spouses, the election must be made and the form filed by both spouses — an election filed by only one spouse or the other won't suffice. In addition to filing the T1032-15e, the spouse who actually receives the pension income must deduct from income the pension income amount allocated to his or her spouse. That deduction is taken on line 210 of his or her return for the year. And, conversely, the spouse to whom the pension income is being allocated is required to add that amount

to his or her income on the return, this time on line 116. Essentially, to benefit from pension income splitting, all that's needed is to for each spouse to file a single form with the CRA and to make a single entry on his or her tax return for the year.

Generally, when taxpayers sit down to complete their income tax returns this spring, it will be too late to take any action which will reduce taxes payable for the 2015 tax year — in most cases, such actions needed to be taken before the end of the 2015 calendar year. One of the best attributes of pension income splitting as a tax planning strategy is that it doesn't have be addressed until it's time to file the return for 2015. By the end of February or early March, taxpayers will have received the information slips which summarize their income for the year from various sources. At that time, couples who might benefit from this strategy can review those information slips and calculate the extent to which they can make a dent in their overall tax bill for the year through a little judicious income splitting.

Those wishing to obtain more information on pension income splitting than can be found in the General Income Tax Guide should refer to the CRA website atwww.cra-arc.gc.ca/tx/ndvdls/tpcs/pnsn-splt/menu-eng.html, where detailed information is provided.

When and how to file your return for 2015 (March 2016)

For several years, the Canada Revenue Agency (CRA) has been seeking to convince Canadian taxpayers of the benefits of filing their annual tax return online, and it seems that their efforts have been successful. Last year, over 80% of Canadian taxpayers filed their returns by electronic means. The change has been a rapid one, as nearly 40% of tax filers filed a paper return in 2011, with that number dropping to less than 20% in 2015.

There are, in fact, two methods by which online filing can be accomplished — NETFILE and EFILE. The first of those — NETFILE — involves preparing one's return using software approved by the CRA and filing that return on the Agency's website, using the NETFILE service. The second method — EFILE — involves having a third party file one's return online. Almost always, the EFILE service also prepares the return which they are filing.

Most Canadians do seem to prefer having someone else prepare and file their tax return, as 55% of returns filed during the 2015 filing season came in by EFILE. About one-quarter of Canadians (26%) filed using NETFILE and the balance (19%) chose to file using the traditional paper return. A fourth option — TELEFILE — which allowed Canadians to file a tax return using a touch-tone phone was discontinued by the CRA a few years ago and so is no longer available.

The majority of taxpayers who wish to have someone else prepare and file their return can find information about E-FILE on the CRA website atwww.cra-arc.gc.ca/esrvc-srvce/tx/ndvdls/fl-nd/menu-eng.html. It's also possible to do a search on that site, using one's postal code, to locate an approved E-FILE service provider.

The one-quarter of Canadians who are comfortable with preparing their own returns and filing them using the CRA's NETFILE service can find information about that service on the Agency's website atwww.cra-arc.gc.ca/esrvc-srvce/tx/ndvdls/netfile-impotnet/menu-eng.html. At one time it was necessary to have a NETFILE access code in order to NETFILE, but that is no longer the case. Taxpayers who wish to NETFILE will simply have to provide some personal identifying information including their name, social insurance number, and date of birth, in order to satisfy the CRA's security requirements.

NETFILE can only be used where a return is prepared using tax return preparation software which has been approved by the CRA, and such software can be found for sale just about everywhere this time of year. It's also possible to find approved software which can be used free of charge, as a listing of such software is provided on the CRA website atwww.cra-arc.gc.ca/esrvc-srvce/tx/ndvdls/netfile-impotnet/crtfdsftwr/menu-eng.html.

For the still significant minority of taxpayers who wish to file a paper return, individual income tax return packages for 2015 can be obtained at Canada Post outlets or Service Canada locations.

Each of these methods requires that the taxpayer either complete the return himself or herself, or pay a fee to have someone else do so. Taxpayers who are not comfortable preparing their own returns but for whom the cost of third-party preparation is a barrier do have another option. A number of Volunteer Tax Preparation Clinics, where volunteers prepare returns without charge, operate during tax filing season. A listing of such clinics is available on the CRA website atwww.cra-arc.gc.ca/tx/ndvdls/vlntr/clncs/menu-eng.html.
Finally, no matter who prepares the return or how it is filed, the filing and payment deadlines are the same. This year taxpayers get a bit of break, as the payment and filing deadline for the majority of Canadians falls on a weekend, and so is extended. Consequently, all individual income tax amounts payable for the 2015 tax year must be paid on or before Monday May 2, 2016. All individual taxpayers (except those who are self-employed and their spouses) must file their return for 2015 on or before Monday May 2, 2016. Self-employed taxpayers and their spouses must file on or before Wednesday June 15, 2016, but are required to pay any tax owing by the May 2, 2016 deadline. No exceptions and, absent exceptional circumstances, no extensions.

What's new on the 2015 tax return (March 2016)

While filing a tax return is an annual event for just about every Canadian, the return that is filed, and sometimes the process of filing it, changes each year. Differences in the return itself arise from changes made in our tax laws, which occur on a regular basis. Changes to the filing process generally come about because of changes in the Canada Revenue Agency's (CRA) administrative procedures, which themselves are usually the result of improvements in technology. The process of filing returns for 2015 includes both types of changes.

On the administrative side, the CRA has introduced a new feature which it calls "Auto-fill my return". That feature allows certain parts of a tax filer's return for 2015 to be automatically completed using information which the CRA already has on file. Most tax filers will know that, even though the use of tax preparation software minimizes the need to manually input a lot of figures, it is still necessary to gather a great deal of information from a number of sources in order to complete the return. Auto-fill my return, which is available only to tax filers who file online using certified tax preparation software and who are registered for the CRA's online service My Account, automatically completes those lines of the return which include information relating to the following:

- T3, T4, and T5 slips;
- Registered retirement savings plans (RRSPs);
- Home Buyers' Plans;
- Lifelong Learning Plans;
- Non-capital losses;
- Capital gains and losses;
- Capital gains deductions;
- Federal and provincial tuition, education, and textbook carryover amounts; and
- Instalment payments.

Changes will also be seen on the 2015 return when it comes to income to be reported and deductions and credits to be claimed. Many of those changes affect families and while some of the changes will be welcome, others may come as an unpleasant surprise.

On the good news side, families which incurred deductible child care expenses during 2015 will find that the maximum amount which can be deducted per child has increased by $1,000. Consequently, the basic limits for 2015 are $8,000 for children born in 2009 or later and $5,000 for those born from 1999 to 2008. The annual limit for child care expenses claimable for a child for whom the disability amount can be claimed is $11,000.

Parents whose child or children are involved in fitness related activities have been able, for the past several years, to claim a non-refundable tax credit to help offset the cost of those activities. As a non-refundable credit, the credit could reduce or eliminate tax otherwise payable, but could not create or increase a refund. For 2015, however, the credit has been made refundable. Parents should also be aware that the same change has not been made to the parallel credit for qualifying arts-related activities, which remains a non-refundable credit.

On the negative side, the tax cost of recent changes to federal benefits and credits for families will become apparent. The previous federal government introduced measures which increased the amount of the Universal Child Care Benefit (UCCB) and provided a new benefit of $60 per month for children aged 6 to 17. Families eligible for the new or increased benefits received a lump sum amount last summer which included all such amounts payable for the first six months of 2015. Thereafter, the monthly amounts payable to qualifying families were increased to reflect the new or increased benefits. However, whether received as a lump sum or on a monthly basis, all such new or increased amounts are subject to tax, and that tax will have to be paid when the return for 2015 is filed.

That is not, unfortunately, the only bad tax news to be found for families on the 2015 tax return. At the same time the UCCB was increased and the new benefit introduced, the existing child tax credit was eliminated. That child tax credit allowed a parent to make a claim, on his or her tax return for the year, for a non-refundable tax credit of $338 for each child under the age of 18. Each such credit claimed reduced the parent’s overall tax bill for the year by $338. Since there will be no child tax credit claim allowed on the return for 2015, every Canadian parent who claimed that credit in previous years will, as a result, see their federal tax bill increase by $338 per child.

Another change provides a benefit to taxpayers who have pursued apprenticeships as part of their education. Students who receive funds from government student loan programs for approved post-secondary education programs have for several years been able to deduct the cost of interest paid on those loans. For 2015, a deduction for interest paid will be provided to registered Red Seal apprentices who have paid interest on a Canada Apprentice Loan.