

# Many happy returns!

## Mining your tax return for extra money this spring

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One of the best ways to get value from your tax return is to take advantage of all the tax deductions and tax credits that are available to you. The number of personal tax expenditures, which include tax credits, deductions and other special preferences, increased 27% (to 128) in the 18 years from 1996 to 2014.<sup>1</sup> Taking advantage of the common deductions and credits, as well as some lesser-known government tax incentives, may help you end up with extra cash in your pocket.

If you make a mistake and fail to report some of your income, chances are you'll receive a letter from the Canada Revenue Agency (CRA) pointing out the error of your ways. On the other hand, if you fail to claim valuable deductions or credits, don't stand by your mailbox waiting for notification from the CRA. There's no automatic warning system in place to let you know that you could be getting more value from your tax return. So it pays (literally) to know how these deductions and credits can help you keep more of your money. You may also be interested to learn that some of the highest tax-driven benefits may be found beyond the pages of your return.

### The system of tax deductions and tax credits

Tax savings generally begin on page three of Form T1 – Income Tax and Benefit Return as this is where many valuable tax deductions are claimed. These are amounts that you can deduct from your total income to arrive at your taxable income, which is the base for calculating the amount of tax that is payable. Additional savings can be found on Schedule 1, where you claim a number of non-refundable tax credits that directly reduce the tax you pay.

Income tax is levied at graduated, “progressive” rates, such that higher tax rates apply as your income level increases. Figure 1 shows the federal tax rates that apply to various levels of taxable income.

**Figure 1: Federal tax rates for 2017 and 2018**

2017		2018	
Taxable income	Federal tax rate	Taxable income	Federal tax rate
≤ \$45,916	15.0%	≤ \$46,605	15.0%
> \$45,916 and ≤ \$91,831	20.5%	> \$46,605 and ≤ \$93,208	20.5%
> \$91,831 and ≤ \$142,353	26.0%	> \$93,208 and ≤ \$144,489	26.0%
> \$142,353 and ≤ \$202,800	29.0%	> \$144,489 and ≤ \$205,842	29.0%
> \$202,800	33.0%	> \$205,842	33.0%

Let's look at an example that shows how a tax deduction yields tax savings at the marginal tax rate<sup>2</sup> that varies with your income level, while a tax credit yields tax savings at a fixed rate. Suppose you have total income of \$50,000. Figure 2 shows how deductions and credits reduce the tax that you pay in 2018.

The amount of the deduction is subtracted from income, so that this amount of income is not taxed. In Figure 2, a \$1,000 tax deduction yields \$205 of tax savings, calculated as the \$1,000 deduction multiplied by the marginal tax rate that would have applied to the income (20.5%). Consequently, a deduction yields tax savings at your marginal tax rate.

With tax credits, a fixed rate is applied to eligible amounts and the resultant credit amount offsets taxes payable. Figure 2 shows that when the federal tax credit rate of 15% is applied to a \$1,000 amount, \$150 of tax savings results.

When you add provincial tax savings to the federal savings above, the total tax savings can range from

about 20% for the combined credits and up to 54% for a deduction.

### The value of selected tax deductions, credits and other amounts

Since the value (tax savings) from a tax deduction is based on your marginal tax rate, a tax deduction can provide greater value for those who have higher levels of income. Since the value of a tax credit is based on a rate that is fixed for all taxpayers, a tax credit yields the same value regardless of income level or marginal tax rate.<sup>3</sup>

Figure 3 on page 3 shows the hypothetical values you can realize from a variety of tax deductions, credits and other amounts. The tax rates used in the examples were chosen to approximate the average combined federal / provincial rates for an individual with \$50,000 of total income. You may be surprised to learn that many commonly-claimed items have relatively little value, while some lesser-known ones can produce up to a 300% tax-assisted benefit on your money. The assumptions used to come up with the savings are reviewed in detail below.

**Figure 2: Value of a \$1,000 federal tax deduction and tax credit in 2018**

	No deduction or credit	Tax deduction	Tax credit
Total income	\$50,000	\$50,000	\$50,000
Deductions	n/a	( 1,000)	n/a
Taxable income	\$50,000	\$49,000	\$50,000
Tax @ 15% on first \$46,605	\$ 6,991	\$ 6,991	\$ 6,991
Tax @ 20.5% on remaining income	696	491	696
Total tax payable before credits	\$ 7,687	\$ 7,482	\$ 7,687
Tax credit (\$1,000 @ 15%)	n/a	n/a	( 150)
Total tax payable	\$ 7,687	\$ 7,482	\$ 7,537
<b>Value of deduction / credit</b>		<b>\$ 205</b>	<b>\$ 150</b>

**Figure 3: Hypothetical values of selected tax deductions, credits and contributions at \$50,000 annual income level in 2018**

Tax deductions	
RRSP deduction	\$ 1,500
Tax credits	
Canada caregiver credit	\$ 1,048
Charitable donations and gifts	360
Dividend tax credit for eligible dividends	560
Allowable medical expenses	700
Disability credit	1,655
Tuition credit	900
Other amounts	
Non-taxable portion of capital gains	\$ 750
RESP contributions	1,000
Pension income splitting	2,500
RDSP contributions	13,500

## Tax deductions

### RRSP deduction – value: \$1,500

One of the most commonly-known ways to save tax is to make a contribution to a Registered Retirement Savings Plan (RRSP). You can claim a deduction for contributions made up to 60 days after year end that do not exceed 18% of your previous year's earned income, with a maximum deduction of \$26,230 for 2018 (\$26,010 for 2017). If you have carried forward unused RRSP contribution room, you can claim a higher deduction. You may, however, choose to defer claiming your deduction until a later year, which can be advantageous if you expect your marginal tax rate to be materially higher in the future.

Suppose you made an RRSP contribution of \$5,000. At a marginal tax rate of 30%, this deduction would have a value of approximately \$1,500. Of course, this is merely deferring the tax owing on the \$5,000 until a later time, such as retirement, when the funds are withdrawn, hopefully at a lower marginal tax rate. In the interim, the investment income earned inside your RRSP is effectively tax-free.<sup>4</sup>

## Tax credits

### Canada caregiver credit – value: \$1,048

The Canada caregiver credit was introduced in 2017 and replaces three former credits<sup>5</sup> that were available to those providing caregiving to another.

You can claim the federal Canada caregiver amount of \$6,986 for 2018 (\$6,883 for 2017) if you support your spouse or common-law partner who has a physical or mental impairment. You may also be able to claim the amount for qualifying relatives who depend on you for support because of a physical or mental impairment.<sup>6</sup>

Claiming the Canada caregiver amount of \$6,986 for one dependant provides a federal Canada caregiver credit that, at rate of 15%, would yield tax savings of \$1,048.

### Charitable donations and gifts – value: \$360

A tax credit is provided for donations and gifts to qualified charitable organizations, including registered charities, and public or private foundations. A federal tax credit of 15% applies to total gifts up to \$200. For the amount of total charitable gifts exceeding \$200 in a tax year, the federal credit rate is 29%.<sup>7</sup> Provincial tax credits also apply, generally at the lowest marginal rate for total gifts up to \$200 and at the highest marginal tax rate for total gifts exceeding \$200.<sup>8</sup>

Suppose charitable gifts totalled \$1,000 in 2018. An Ontario donor at the \$50,000 income level would realize a combined federal / provincial tax credit at a rate of 20.05% for the first \$200 and 40.16% on the remaining \$800, yielding a credit of about \$360.<sup>9</sup>

### Dividend tax credit for eligible dividends – value: \$560

A federal dividend tax credit is provided that equals 20.7%<sup>10</sup> of eligible dividend income; provincial credits are also available. The combined

federal / provincial credit is worth at least 28.2% of eligible dividends in 2018, and may be higher, depending on your province of residence. If you had eligible dividend income of \$2,000, the value of this credit would be approximately \$560 assuming a dividend tax credit rate of 28.2%.

### **Allowable medical expenses – value: \$700**

You can claim a credit for total medical expenses that exceed the lesser of 3% of your net income or \$2,302 in 2018 (\$2,268 in 2017). Common eligible medical expenses include fees for doctors, dentists, qualified therapists or other medical practitioners, prescription medication or eyewear, and hospital or medical laboratory services. One commonly-overlooked expense is out-of-pocket costs for medical and dental insurance plans.

Beware, however, that qualifying medical expenses can differ from province to province. For example, fees for an acupuncturist can only be claimed in B.C., Alberta, Ontario, Quebec and Newfoundland.<sup>11</sup> Although amounts are not eligible if they have been reimbursed (such as by a health insurance plan), you can claim amounts paid within any 12-month period that ends in the tax year.

For example, the cost of putting braces on your children could easily be \$3,000 in a year. Coupled with medical insurance premiums, prescription medications and eyeglasses, and some visits to therapists for an aching back, you could find your expenses amount to over \$5,000. Assuming a threshold of \$1,500 ( $\$50,000 \times 3\%$ ), you may have about \$3,500 in allowable expenses, which would yield \$700 of tax savings at a rate of 20%.

### **Disability credit – value: \$1,655**

You can claim the disability amount if a medical professional certifies on Form T2201 - Disability Tax Credit Certificate that you had a severe and prolonged impairment in physical or mental functions. The federal disability amount is \$8,235 for 2018 (\$8,113 for 2017) and provincial disability amounts are also available.<sup>12</sup> You may

also be able to claim a disability amount that would otherwise be claimed by another individual (such as your spouse, common-law partner, child or parent) to the extent that the individual does not need to claim the disability tax amount to reduce taxes payable to zero.

In 2018, an Ontario resident could claim a federal disability amount worth about \$1,235 ( $\$8,235 \times 15\%$ ) and a provincial disability amount worth about \$420 ( $\$8,365 \times 5.05\%$ ), for a combined value of about \$1,655.

### **Tuition credit – value: \$900**

Students enrolled in post-secondary education can claim a federal tax credit based on the amount of tuition that is paid. If the student does not have sufficient income to use the credit in the year of attendance, up to \$5,000 can be claimed by the student's spouse or supporting parent or grandparent. Any remaining amount can be carried forward for use by the student in a future year.<sup>13</sup>

Suppose your post-secondary tuition was \$6,000. The value of the federal tax credit would be \$900 ( $\$6,000 \times 15\%$ ) in 2018.

### **Other amounts**

When looking for tax savings, value doesn't only come in the form of deductions and credits and may even extend beyond your tax return.

### **Non-taxable portion of capital gains – value: \$750**

Unlike interest income that is fully taxable, only 50% of capital gains (less capital losses) are included when calculating total income. The remaining 50% is excluded from income and tax is saved at your marginal rate on this excluded half of net capital gains.

Suppose you had net capital gains of \$5,000 from the sale of shares. Only half of this amount (\$2,500) would be taxed so you would pay tax of

\$750 ( $\$2,500 \times 30\%$ ) on the capital gain, assuming a 30% marginal tax rate. If instead you had earned interest income of \$5,000, you would have paid tax of \$1,500 ( $\$5,000 \times 30\%$ ). The tax savings from earning capital gains in comparison to interest income would, therefore, be \$750 ( $\$1,500 - \$750$ ).

### **Registered Education Savings Plan (RESP) – value: \$1,000**

RESPs allow for tax-efficient savings for children's postsecondary education. Up to \$50,000 can be contributed for each child who is a beneficiary of an RESP. The federal government provides Canada Education Savings Grants (CESGs) equal to 20% of the first \$2,500 of annual RESP contributions per child or \$500 for each year. If a contribution is not made in a particular year, unused CESG room is carried forward and beneficiaries up to age 17 can receive up to \$1,000 of CESGs in any one year, with a \$7,200 lifetime limit. Consequently, a catchup contribution of \$5,000 will garner the maximum CESG of \$1,000 in one year.

While contributions to an RESP are not tax deductible, earnings accrue on a tax-deferred basis. Funds that are withdrawn for post-secondary education are taxable to the student, who often will pay little or no tax.

If an RESP is first opened in 2018 and a contribution of \$5,000 is made, provided there are at least two years of unused RESP and CESG room, the government would contribute an additional 20% in CESGs. The value from a \$5,000 contribution is, therefore, \$1,000 ( $\$5,000 \times 20\%$ ).

In addition, the Canada Learning Bond (CLB) program offers grants to low-income parents who open RESPs for their kids. The CLB can reach a total value of \$2,000 per child toward higher education payments without the parents ever having to contribute their own money.<sup>14</sup>

In the 2018 Federal Budget, the government announced that it is working with the Province of Ontario to integrate RESP referrals into the Ontario

online birth registration service, meaning more children from low-income families will be able to access the CLB. Parents will be able to open an RESP at the same time as they apply for other services under the Ontario online birth registration service. Once an RESP is open, eligible children will automatically be able to receive the CLB into their RESP without any contributions required by their parents or others.

### **Pension income splitting – value: \$2,500**

Spouses and common-law partners can jointly elect to split pension income. Up to 50% of income that qualifies for the pension amount can be deducted by the recipient, provided this same amount is added to income by the individual's spouse or common-law partner. This pension income splitting technique has value when the pension recipient has a higher marginal tax rate than the spouse.

Pension income splitting may also prevent the loss of income-tested benefits by lowering the income of the pension recipient below the clawback threshold. Old Age Security (OAS) benefits, which had a maximum of about \$7,040 in 2018, are clawed back at a rate of 15% with net income exceeding \$75,910. The Age Amount, which provides federal / provincial tax credits ranging from about \$1,300 to \$1,600 for 2018 depending on the province, is reduced at a rate of 15% when net income exceeds about \$37,000 federally.<sup>15</sup>

Suppose you have a marginal tax rate of 45% while your spouse's rate is 20%. The net tax savings on split pension income would be 25% (the difference between your 45% marginal rate on the pension deduction and your spouse's 20% marginal rate on pension income). The value of splitting \$10,000 of pension income would, therefore, be \$2,500 ( $\$10,000 \times 25\%$ ), plus possible savings of OAS benefits and preservation of some or all of the Age Amount.

## Registered Disability Savings Plan (RDSP) – Value: \$13,500

RDSPs are tax-deferred savings plans that can benefit Canadians who are eligible for the Disability Tax Credit.

Up to \$200,000 can be contributed to the plan until the beneficiary turns 59, with no annual contribution limits. Canada Disability Savings Grants (CDSGs) and Canada Disability Savings Bonds (CDSBs) may be received from the federal government until the beneficiary turns 49. Depending on family income, CDSGs may be up to 300% of your contributions, with a maximum of \$3,500 per year, while no contributions are needed to receive the maximum CDSB of \$1,000 per year.

If maximum CDSGs and CDSBs are not claimed in a year, unused CDSG and CDSB room can be carried forward for up to ten years. Up to \$10,500 of CDSGs and \$11,000 of CDSBs will be awarded in a year that catchup contributions are made.

As with an RESP, contributions to an RDSP are not deductible; however, taxes are deferred until withdrawal, when funds are taxable to the plan beneficiary who may have little or no tax to pay.

Suppose an individual first became eligible for the disability tax credit in 2016 and continued to be eligible in 2018. If an RDSP were first opened for the individual in 2018, contributions could be made for each of the three years of eligibility (2016, 2017 and 2018). A \$1,500 contribution would yield \$3,500 of CDSGs for each year, so three years' worth of contributions (\$4,500) would net \$10,500 of CDSGs.<sup>16</sup> Depending on family income, \$3,000 of CDSBs would also be paid into the plan,<sup>17</sup> regardless of contributions, for total value of \$13,500 (\$10,500 + \$3,000).

## Elimination of tax credits

In a June 17, 2016 announcement,<sup>18</sup> the federal government noted that there were public concerns

related to the efficiency of the tax system, and how the increasing number of tax expenditures had made the federal tax system more complex.

Consequently, government announced it would undertake a review “to ensure that federal tax expenditures are fair for Canadians, efficient and fiscally responsible,” as “part of a broader Government commitment to eliminate poorly targeted and inefficient programs, wasteful spending, and ineffective and obsolete Government initiatives.” Following the review, the government eliminated some popular tax credits starting in 2017, including the education and textbook amounts, the public transit amount (eliminated after June 2017), and the children’s fitness and arts amounts.

## Claiming deductions and credits for previous years

We can see that valuable tax savings can be realized by claiming tax deductions and credits. But what if you didn’t know about these savings or forgot to make claims in previous years? You can still remedy the situation by filing Form T1-ADJ – T1 Adjustment Request for any of the ten previous tax years. In this form you report the amount of the deduction or credit that you originally claimed (zero if no claim was made), along with the revised amount that you are claiming. You can also use the “Change my return” option in the CRA’s online “My Account” service. CRA will process your request and, assuming the deduction or credit is allowed, will issue you a refund for the tax that was overpaid.

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- <sup>1</sup> See “Canada’s tax code is too complicated—even for CRA officials”, Fraser Institute, December 11, 2017, which is available online at <https://www.fraserinstitute.org/article/canadas-tax-code-is-too-complicated-even-for-cra-officials>.
- <sup>2</sup> This report considers statutory income tax rates and does not consider the impact of low-income tax reductions or the loss of various income tested benefits, such as Old Age Security or the Age Amount, that are “clawed back” once income reaches various annually-indexed, legislated thresholds. For more details, see our report “It’s 2018 - Do You Know What Your Tax Rate Is?” which is available online at <https://www.cibc.com/ca/pdf/advice-centre/do-you-know-your-tax-rate-en.pdf>.
- <sup>3</sup> Note that provincial surtaxes, where applicable, can increase the value of a credit. For example, in Ontario the provincial tax credit rate for most non-refundable credits is 5.05% when the surtax does not apply and effectively increases to 7.88% when the maximum high-income surtax of 56% applies.
- <sup>4</sup> For a full discussion of the benefits of RRSP investing, please see our Report “Just do it: The case for tax-free investing” at [https://www.cibc.com/content/dam/personal\\_banking/advice\\_centre/start\\_savings\\_plan/pdfs/case-for-taxfree-en.pdf](https://www.cibc.com/content/dam/personal_banking/advice_centre/start_savings_plan/pdfs/case-for-taxfree-en.pdf).
- <sup>5</sup> The infirm dependent tax credit, the caregiver credit and the family caregiver tax credit were replaced with the Canada caregiver credit for the 2017 and subsequent taxation years.
- <sup>6</sup> Qualifying relatives include your or your spouse's or common-law partner's child, grandchild, parent, grandparent, brother, sister, uncle, aunt, niece, or nephew. They must rely on you to regularly and consistently provide them with some or all of the basic necessities of life, such as food, shelter and clothing, and may not have income exceeding \$16,405 in 2018 (\$16,163 in 2017).
- <sup>7</sup> The federal credit rate rises from 29% to 33% for total gifts over \$200 to the extent that your taxable income exceeds \$205,842 in 2018 (\$202,800 in 2017).
- <sup>8</sup> In 2018, for donations over \$200, the provincial donation tax credit rate in Alberta, Ontario and New Brunswick differs from the top marginal tax rate.
- <sup>9</sup> The First-time Donor’s Super Credit provides an additional 25% tax credit for a “first-time donor” on up to \$1,000 of donations made after March 21, 2013 and claimed in tax years up to 2017. For a qualifying charitable gift of \$1,000, this would increase the value of the federal credit by \$250.
- <sup>10</sup> 6/11 x 38%.
- <sup>11</sup> A list of authorized medical practitioners by province is available from CRA at [www.canada.ca/en/revenue-agency/services/tax/individuals/topics/about-your-tax-return/tax-return/completing-a-tax-return/deductions-credits-expenses/lines-330-331-eligible-medical-expenses-you-claim-on-your-tax-return/authorized-medical-practitioners-purposes-medical-expense-tax-credit.html](http://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/about-your-tax-return/tax-return/completing-a-tax-return/deductions-credits-expenses/lines-330-331-eligible-medical-expenses-you-claim-on-your-tax-return/authorized-medical-practitioners-purposes-medical-expense-tax-credit.html).
- <sup>12</sup> The disability amount is allowed federally and in all provinces except Quebec, where an “amount for a severe and prolonged impairment in mental or physical functions” can be claimed.
- <sup>13</sup> Education and textbook amounts were also available before 2017. To the extent that these amounts were not claimed in previous years, they can still be carried forward and claimed by the student in the current year or a future year.
- <sup>14</sup> Information regarding CLB is available online at [www.canada.ca/en/employment-social-development/services/learning-bond.html](http://www.canada.ca/en/employment-social-development/services/learning-bond.html).
- <sup>15</sup> In 2018, the federal age amount of \$7,333 yields a tax credit of about \$1,100, which is clawed back at a rate of 15% when net income exceeds \$36,976. In provinces other than Quebec, the age amount ranges from about \$3,700 to \$5,900, with tax credits ranging from about \$240 to \$530 and clawback of 15% with a net income threshold of about \$28,000 to \$39,000. In Quebec, the amount for individuals over age 65 in 2018 is \$3,158 and yields a credit of about \$630 at a rate of 20%.
- <sup>16</sup> This assumes that family income did not exceed thresholds for receiving the maximum amount of CDSGs and CDSBs in each of those years.
- <sup>17</sup> Ibid.
- <sup>18</sup> The government’s announcement on the review of tax expenditures can be found online at <https://www.fin.gc.ca/access/tt-it/rfte-edff-eng.asp>.



**Disclaimer:**

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