With deadline quickly approaching, follow the rules to get the CRA's thumbs up

AVOID AN AUDIT

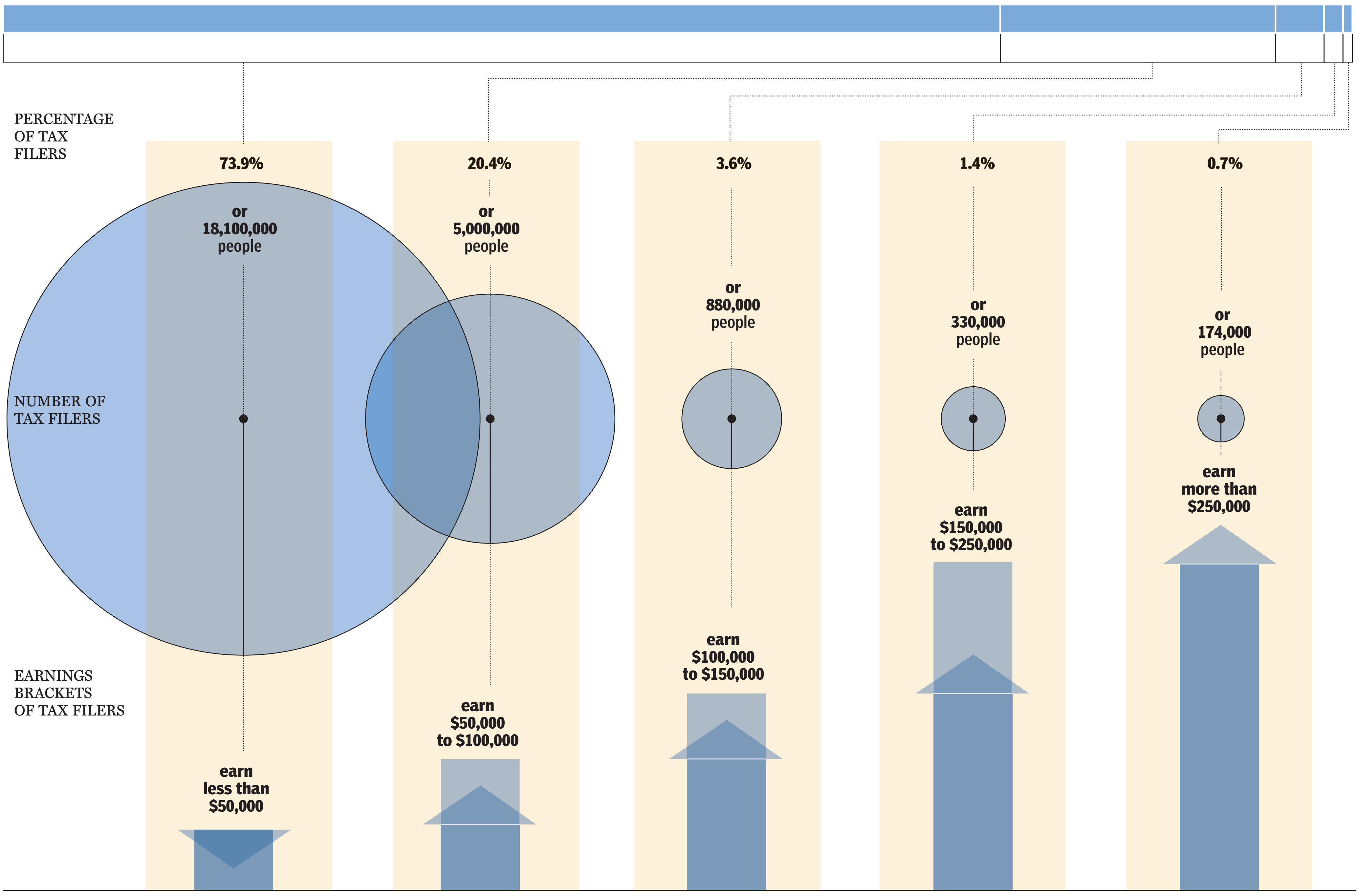
The May 2 tax deadline is fast approaching and H&R Block is offering some common ways a Canada Revenue Agency review might be triggered. **Forget a T slip:** The CRA receives copies of all the T slips issued, so if you forget, misplace or hide a T slip, it will inevitably be uncovered. **Your business looks like a hobby:** The CRA does not expect every new enterprise to make a profit, but there must be some reasonable expectation of profit in future years. **Claiming credits incorrectly:** Support payments for children are deductible only if your agreement was dated before May 1, 1997. Support payments for a spouse or common-law partner are only deductible if the court order or agreement is registered with the CRA. **Claiming regularly reviewed credits:** There are some credits that are more likely to be reviewed than others by the CRA, such as moving expenses and tuition transfers. **Out of the ordinary:** Claiming higher than usual expenses is asking for trouble. *Financial Post*

PERSONAL FINANCE: TAX TIME

73.9% OF CANADIANS WHO FILED A TAX RETURN EARNED UNDER $50,000

CANADIANS WHO FILED TAX RETURNS IN 2009

PERCENTAGE, NUMBER AND EARNINGS BRACKET



SOURCE: CANADA REVENUE AGENCY INTERIM STATISTICS - UNIVERSE DATA, 2011 EDITION (2009 TAX YEAR)

RICHARD JOHNSON / NATIONAL POST

How deep are Canadian pockets?

New data suggests your neighbours are not as rich as you might think

JAMIE GOLOMBEK
Tax Expert

Ever wonder how much your neighbour makes? You may be surprised to learn that they probably earn less than you think.

One of the measures in this past week's federal budget highlighted this fact by showing just how many seniors have very little income. The budget announced an enhancement to the Guaranteed Income Supplement such that seniors with little or no income other than Old Age Security and the GIS will receive additional annual benefits of up to $600 for single seniors and $840 for couples.

To qualify for the full supplement, single recipients would have to have an annual income (excluding Old Age Security and GIS) of $2,000 or less and couples would have to earn less than $4,000 annually.

Above these income thresholds, the amount of the top-up will be gradually reduced and will be completely phased out at an income level of $4,400 for singles and $7,360 for couples. The government estimates that this measure, if ultimately passed, would benefit more than 680,000 seniors across Canada.

That so many Canadians have such a low income may come as a shock to you, but if you take a close look at the statistics, you may uncover some eye-opening facts that could reframe your view of how much Canadians actually earn.

New 2011 interim income statistics data released last month by the Canada Revenue Agency looks at data from personal income returns that were processed for the 2009 tax year, which generally had to be filed by the end of April 2010. While these are preliminary statistics, they are based on approximately 97% of all returns filed.

In 2009, Canadians filed nearly 24.5 million personal tax returns. Of those, 8.3 million of them were non-taxable, the majority of which are likely being filed by Canadians to ensure their ongoing eligibility for certain benefits and credits.

For example, individuals who may be eligible to receive a goods and services tax/harmonized sales tax (GST/HST) credit need to file annually. Students who may have no current tax to pay but who wish to carry forward or transfer their tuition, education and textbook amounts should file as well. Teenagers who have earned income, perhaps from a part-time or summer job, should file to report earned income to ensure eligibility to make an RRSP contribution in a future year.

> Less than 1% of tax-filing Canadians make more than $250,000

Parents who receive the Canada Child Tax Benefit and the Universal Child Care Benefit should also be filing annually to ensure access to these valuable amounts.

So, how much money do Canadians actually make per year?

Of the 24.5 million returns filed, 18 million Canadians reported total income of $50,000 or less. That's not a typo. In other words, ignoring individuals who don't file returns such as children, nearly 75% of tax-filing Canadians earned under $50,000 in total income in 2009.

Add another five million Canadians who reported total income of between $50,000 and $100,000 and you conclude that about 95% of individuals have income below $100,000 annually.

What about Canada's highest income earners? The statistics say 880,000 Canadians reported income in the range of $100,000 to $150,000, 333,000 reported incomes between $150,000 and $250,000 and a mere 174,000 of tax return filing Canadians, or 0.7%, had income over $250,000.

What's also interesting is the effect your income has on your marginal tax rate and your average tax rate. Your marginal tax rate is the amount of tax you pay on an additional dollar of income above a certain amount, while your average tax rate, which is typically much lower than your marginal rate, is simply the amount of tax you pay divided by your total income.

While most of us intuitively think of Alberta as a personal income tax haven, when you earn $50,000 of taxable income in 2011, you actually pay more tax in Alberta than you would in Ontario or British Columbia.

On $50,000, an individual claiming only the basic personal amounts federally and provincially would pay a total of $8,850 of taxes in British Columbia or $9,680 if she lived in Ontario, but in Alberta, would face a tax bill totalling $9,815.

While we think of Alberta as having the lowest personal income tax in Canada, that's really only true at higher income levels, owing to the nature of its 10% flat provincial tax rate.

For the $50,000 Alberta income-earner, both her marginal and average tax rates (32% and 19.6% respectively) are above the rates in British Columbia and Ontario.

So, as you sit down to prepare your tax return this month and review how much income you actually earned last year, perhaps you will experience a sense of schadenfreude when you realize that your neighbours probably makes less money than you thought they did.

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