



We take your taxes personally!

# The Canadian Tax Secrets Guide

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## Editor's Note

If you are like most taxpayers, your goal is to pay the least to the government as possible. However, for most of us, knowing what to claim and how to claim it are our only obstacles between getting a refund and paying.

PTC Canada has a solution with *The Canadian Tax Secrets Guide*. This document, which includes tax tips, strategies, and recommendations to legally reduce your tax bill, is as easy to use as the other guides offered.

Reference books, guides, and contact information are also provided for your use. Utilize the step-by-step format to make your tax-filing experience simple and thorough.

Go ahead and take advantage as I did, and many others have, and keep your earnings in *your* pocket and not the tax man's.

Editor, Adam Uttley  
Former editor with Bowes Publishing

## Chapter 1

## What's the Secret to Beating the Tax System?

**H**ow many times have you been with a group of people and the subject of beating the taxman came up? Was it in the lunchroom, at the last party, or at the end of April? As you read this guide, you'll discover that the subject comes up every now and then because it is woven into the financial fabric of our everyday lives.

We pay taxes from the minute we get up every day until we take our last breath in life (and even after that, if you can believe it!). And, in Canada, the tax burden is a lot heavier than one would think. If you're earning a paycheque, it's bad enough that the bottom line payable to you gets a good stinging, but what happens when your return is prepared the following spring and you're on the hook for more? Do you eat—or bite the bullet and pay?

That's why the subject sprouts up now and then. So, what's the secret to beating it? Is there really a magic formula that will improve your bottom line and beat the taxman? Is there one rule to learn that can solve your tax problems and let you laugh all the way to the bank?



In a word, No! Anyone who tells you there is a one-step solution to paying no taxes is asking for a heavy jail sentence, and you should run the other way! The good news is that there are several rules and methods available to every taxpayer in Canada that will reduce your overall obligation and give you more freedom with your hard-earned money.

The key is to invest a small amount of time in becoming familiar with the basics of our taxation system. It is not necessary to get caught up in the complications of the system (even though taxes can be complicated) in order to derive some benefit. If you feel your taxes may be complicated, read on. This matter will be addressed later in this guide.



## Chapter 1 Recap

1. The secret to beating the tax system is not a one-solution-solves-all, but to learn the basic rules that apply.
2. By investing a small amount of time, you can accumulate enough knowledge to gain benefits to help your situation.

## Chapter 2

# What This Guide Will Show You

**A** couple of years ago, I met two clients who each had almost 10 years of taxes that needed to be done. They were good, honest, hard-working men who made the grade in their occupations, but were terrified of the tax system and the consequences 10 late years would bring them. I spent an hour with each of them and discovered that the problem was not as bad as they thought.

Jim had been in the construction industry since he finished high school. He was in his early fifties and had seen a lot of change in his life, including divorce and a battle with the bottle. He told me in his first consultation that he went on a two-year binge after the split-up and simply lost track of what was happening. Needless to say, filing his returns was one of the things he forgot. Being self-employed, the first challenge was to get his financial statements in order. It took some research, but fortunately he was able to do this with a little coaching from yours truly. After a few days, I had completed Jim's returns, and he was pleasantly surprised to learn that he would be getting over \$1,000 back! I was able to explain that he had enough deductions for his income, and his entitlement to GST credits produced this net refund. Imagine his relief when 10 years were lifted from his shoulders and he even got some money out of the deal!



Dave graduated from university late in life; he tried various self-employment ventures, but they didn't earn him the money he wanted. After graduation, he landed a good technical job with a large oil company in Calgary. He was so good at it that he was promoted to supervisor within a few months. The new position demanded a lot of his time, and he really wanted to deal with the 10 years of taxes on his mind. That's when he called me. We met at Tim Horton's (my favourite office on the road!) one summer evening. He told me he had gone through a divorce, his business had failed, and he feared the worst when it came to taxes. As with Jim, we spoke for an hour, and he needed to get his financial statements ready. His case was a bit more complex, so we decided to get a bookkeeper.

After a few months, I was able to start on his taxes, and did he ever get a surprise. I phoned him just before Christmas to let him know that he would be getting almost \$10,000 back in the New Year. He almost dropped the phone! Was he going to have a good Christmas, or what!



What do these two stories have in common? I'm sure you're guessing a few things: both clients had problems in their lives; they had different scenarios for each year; they feared the repercussions of late filing; and they both got money back! All these answers are correct, but I believe the common denominator is simple lack of awareness. What if Jim and Dave had met someone or read up on the alternatives available to them? Would they have been so fearful? Would life have been a bit easier? Unfortunately, fear and lack of correct information can drive a lot of us to draw incorrect conclusions.

The purpose of this guide is to take away any misconceptions about taxes and replace them with valuable information to get you on the right track. The first objective is to protect your integrity as a taxpayer. Your reputation is important, so guard it at all costs! You will have a good idea what is and isn't possible.

When I first started working in the shop at Boeing, their motto was "Safety First!" This is the same with taxes. The second objective is to make sure you reap all the benefits you're entitled to. Both Jim and Dave were able to achieve this simply because they took the time to seek professional advice. I am a big believer in getting a professional when needed. You may be a very intelligent, capable person, but you simply can't know everything there is to know. Nobody does!



Taxes are a big part of your life, and it is essential you keep up to date. Too many times a client calls me when CRA has seized their bank accounts (and more!) for non-payment of taxes, and I am limited in what I can do for them. The important thing to understand is that, in most cases, this could have been prevented and matters could have been negotiated had these individuals taken action earlier. CRA does not expect the average taxpayer to know the intricacies of every rule. However, each person is ultimately responsible for their own account and must act accordingly.

By the way, Jim and Dave are not only filing on time, they are usually one of my first callers in the spring! They were so happy with their new discovery that they take the time to voluntarily promote my services. Thank you, Jim and Dave!

 Chapter 2 Recap

1. **Objective 1:** Protect your integrity as a taxpayer. Make sure your information is accurate and prepared honestly.
2. **Objective 2:** Maximize the benefits and deductions on your return by seeking information from professionals.



## Chapter 3

## What Are Taxes? History, Purpose, and Mechanics

**I**t is hard to determine exactly when the idea of taxes started, but we see it early in the Old Testament of the Bible, where the leaders or kings imposed taxes. In fact, if we go to the second book of Kings, we see a similar system to what we have today in Canada:

Jehoiakim paid Pharaoh Neco the silver and gold he demanded. In order to do so, he taxed the land and exacted the silver and gold from the people of the land according to their assessments. 2 Kings 23 Verse 35 (NIV)



Can you believe that? Notice of assessments and the whole deal! But they didn't have computers or mail, so I can imagine they used a self-assessment system, as we do today. I wouldn't be surprised if taxes were around before civilization started. The purpose of taxes is to allow government to raise revenue from its residents and the sale of goods to fund its operations. This being the case, it is safe to assume that taxes have been around as long as there have been governed civilizations.

Taxes do not necessarily have to be in the form of currency. Any person who is required to make a contribution to the common form of rule (i.e. bag of grain, use of skills) is paying taxes. We have seen this kind of bartering in some tribes and in the early days of the west. Going back to the Old Testament example, it was common to pay one-tenth of the crop to the king for taxes. Although the accounting could be trying, this was very much an honour system.

Getting back home to Canada, taxes started to become more prevalent around the Second World War, when the government required vast amounts of funding to buy planes and warheads, pay soldiers' salaries, etc. Before that, taxes did exist but they were not as prominent. This spurred the famous "payroll deduction plan" that we are familiar with today. Although the war ended, the payroll deduction plan continued, and government began to fund other programs with the extra revenues.

The same thing has happened with the GST, introduced in 1991. The Mulroney government introduced this tax specifically to pay down Canada's deficit; however, taxpayer groups have been arguing over this ever since.



Each level of government determines its fiscal needs for the year and sets its tax rates accordingly. These are determined by a number of economic factors and the wishes of the electorate. In the last few years, the trend has been to reduce taxes, but statistics show the overall burden in Canada is still high. I believe the trend will continue toward lower taxes, thanks to trade borders opening up and citizens demanding lower taxes and more accountability. In fact, since the Harper government took office in 2006, we have seen a reduction in the GST and payroll taxes.

Whether or not this trend continues, this guide will show you what exists today that you can act upon. History has shown us that taxes have been around for so long that it is unlikely they will ever disappear. Even in resource-rich areas like Alberta, where oil royalties have filled the government treasury, taxes are still the easiest source of revenue so long as people don't raise too much of a stink about them. Governments are not motivated to do away with them, so it is up to you to find out how you can benefit.

Personally, I don't believe taxes will completely disappear as they have in some tax-free countries like the Cayman Islands or Bermuda. But the possibility of a low-tax Canada compared to the other G8 nations is greater in our lifetime, thanks to dramatic debt reduction and governments becoming more efficient in their services.



## Chapter 3 Recap

1. Taxes were invented to fund government expenditures as required.
2. Ever since there have been governed civilizations, taxes have been imposed on residents and the sale of goods
3. Governments may have other sources of revenue, but taxes are always the easiest if people are used to them.

## Chapter 4

## Who Is CRA? Getting to Know the Government's Representatives

**A**s I wrote this chapter, I tried to imagine what kind of reaction you would be having to the government. When I worked as an aircraft inspector for Boeing on their military (F-18) projects, one of the older inspectors told me in the spring of 1986, “Son, with the government, you don’t mess with two things: their power or their money.” He was right. I never forgot his advice, even though that was over 20 years ago. That may have been the military then, this may be money now, but the message is the same: *Don’t mess with them!*



So, who is CRA? CRA stands for the Canada Revenue Agency. Before the late-1990s government restructuring, they were known for the longest time as Revenue Canada. Their role is to administer and enforce the tax rules made by Parliament and provide tax-explanation assistance to taxpayers of all ranges. Each major city has a tax center; however, they have recently transferred their regular client service to the internet and call centers. You can also contact them toll free (numbers are on page 55 of this guide) from most places in the world, or you can visit their website: [www.cra-arc.gc.ca](http://www.cra-arc.gc.ca). In short, they are very accessible, and you should take advantage of this. If a personal meeting is required, it can be arranged.

I want to go back to the first paragraph, because I did not want to put a sour taste in your mouth or give you the wrong impression of the CRA. It is true they are particular about getting paid the correct amount (who wouldn’t be?), but having dealt with them for many years, I have found them to be co-operative and understanding. Try to understand that the CRA is made up of people like you and me. Government jobs are not great, as they use to be decades ago. Most of the front-line staff are overworked and don’t get paid the big dollars they used to receive. Dealing with hundreds of changes and politics, is it any wonder many left for the private sector sometime ago?

Knowing this, I always recommend approaching them as if they are one of your customers. As a result, I have found I get exceptional service when I have visited the Calgary office. I not only know most of them by name, but they recognize me in line and they know I have the information they need to proceed, which makes their day a bit easier. Similarly, when I have to bring cases before auditors and collection agents, I have found that if I have the pertinent information and show the clients' commitment to getting a problem resolved, they are more than accommodating. Here's the bottom line: I can serve my clients better if my relationship with CRA is positive.

Being in the industry I am in, I have to serve everybody who retains me with full resources. This isn't always easy, especially if the client starts acting obnoxious and shooting blind. I remember a landlord who approached me two years ago. He had three years of back taxes to be done, and because he owed for every year, needless to say they were on him.



The first thing I asked him to do was to give me his financial records. After looking at them, I felt the information might not be from original sources; this is just cause for rejection if an audit is performed. He assured me the information was accurate, but I made it clear that if an audit happened, he would have to justify the records. He said that was okay and to proceed. Upon completing the returns, I usually ask clients in this situation to pass the CRA correspondence to me, and I will call CRA to inform them the returns are complete.

The CRA representative offered to look at the returns as soon as I arrived at the office so that I would have an idea where my client stood. He was okay with most of the information, but told me the expenses seemed a little high for one year and might need to be looked at more closely. Hoping an audit wouldn't surface, I suggested that one bad year was not unusual in the rental industry. He bought it, subject to lowering the expenses a few percentage points without an audit. I said I would have to check with my client, but I was sure it would be okay. I called the client and he said he would think about it, although he wasn't happy because everything he presented was true.

A few days went by and I didn't hear anything, so I thought I'd call the client. I almost fell off my chair when he told me he had called CRA the next day and given them a piece of his mind. He said, "I did everything they asked me, and now they're changing things that were true to start with. I made sure I called them a few names in the book!" I reminded him of the bookkeeping he had and that it might not be acceptable to them. He said he was going to see them himself and straighten everything out once and for all. Immediately, I phoned the CRA representative, and he was confused over my client's reaction (or should I say overreaction?). "I thought we had this resolved," he said in awe. "Now I've got to get my supervisor and other departments involved." I knew how to interpret this—my client was headed for disaster.

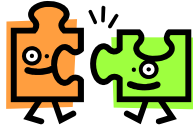


My client called me a few days later and essentially told me they had thrown the book at him. He was ordered to produce source documentation for six years within 30 days; otherwise, all his expenses would be disallowed and he would be required to pay the back taxes with interest and penalties, no exemption. Needless to say, his outlook for the next while changed dramatically. All this could have been avoided had he remained focused on the relationship that was being built by his tax professional.

I remember another client just after that who had about five years of back taxes. We met for coffee, and he explained that his family had broken up a few years earlier and he had gone from job to job. Now, he wanted to build his life back up and deal with whatever needed to be dealt with. One thing was the five years of back taxes CRA was requesting. His were all basic returns, but because he had moved several times he was entitled to deduct those expenses. He told me he did not keep accurate records or any receipts, so he wasn't comfortable in claiming.

I said that was fair, so I contacted his CRA representative when everything was done and arranged a meeting. She was satisfied with the returns, and if there were any details she needed she would contact my client. My client called me about two weeks later because he was so grateful for everything I had done. He was offering a whole bunch of freebies as a gesture, which I am not allowed to take. He said the CRA representative had contacted him to clarify a few points. She was satisfied with everything he had done, and the subject of his moves came up. She got a bit more information and decided to allow some of these expenses because he seemed so honest with everything else.

It is delightful to see such co-operation in today's world, and I believe anybody can get this service if they are willing to co-operate. Keep in mind that nobody likes it when a so-called responsible adult starts threatening the government with their silly, nonsensical remarks. All this does is make a bad situation worse, and you should avoid this like the plague!



#### Chapter 4 Recap

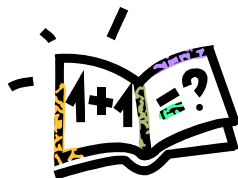
1. CRA, formally known as Revenue Canada, is the governing body for the implementation, enforcement, and regulation of the tax rules in Canada.
2. CRA is very accessible to most taxpayers around the world. They are readily available to help.
3. I always recommend building a good relationship with them, as they can be most accommodating if your intentions are genuine and you are committed to meeting your obligations.

## Chapter 5

## Where Do I Pay Taxes?

**E**arlier, we touched on some of the taxation sources government taps into. Payroll and GST are just two. There is actually a long list that we don't see daily because these sources have become part of the cost of goods. Have you ever seen the pie chart at a gas station informing consumers of the cost of gasoline? I wish they had those charts everywhere. When I show you my list, you'll know why. In fact, you'll wonder what isn't taxed! Don't worry; I'll cover that too.

Most of us know there are three levels of government in Canada: federal, provincial/territorial, and municipal/regional. For all intents and purposes, each government level attempts to collect revenues for their own needs; however, it is common for all levels to transfer funds between them according to need. Such is the case with health care and education from the federal to the provincial. In the case of social assistance, the provinces transfer to the municipalities. The idea behind this is to help the highly strained areas with the needs they face. This is known as equalization of payments or, more commonly, as fairness between regions, and explains some of the reasons each area has different taxation rates.



The most interesting part of this chapter is how government raises tax dollars. Payroll and sales taxes are pretty obvious—we see them every day. But wait until you read the list I've come up with. It not only shows you just a portion, but it is shocking because it affects almost every move we make! You have to wonder how we allowed this to happen, since we are known as one of the most democratic (and best, I might add!) countries to live in.

When you look at the list, keep in mind the pie chart I mentioned at the gas station. The government does not require gas retailers to post it; they are actually doing you an awareness-service, which the government cannot stop. Now, just imagine if other vendors did the same thing. Do you think people's perspectives would change? After you see the list, read on to see just how much this affects you!

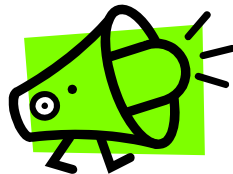


## Some of the many taxes you pay

1. Personal – Federal
2. Personal – Provincial
3. GST/HST
4. PST/QST
5. Gasoline
6. Tobacco
7. Alcohol
8. Environmental
9. Recycling
10. Excise and tariffs
11. Duties and customs
12. Land transfer
13. Energy and utilities
14. Air conditioning (in new cars)
15. Luxury car
16. Used vehicles (even though it was taxed new!)
17. Property
18. Corporate
19. Road use
20. Airport
21. Hotel
22. Surtax (taxes on taxes! Can you believe it?)
23. Interest on overdue and late taxes (The killer!)

And more and more and more!

Are you getting the picture?



 Chapter 5 Recap

1. Payroll and sales taxes seem large, but they are just a few of the many taxes our Canadian government levies.
2. Government does not actively advertise the depth to which taxes affect individuals (like the gas-station pie charts) because of the perspective people might take.
3. In Canada today, taxes are in almost every aspect of our lives. Read on to see how much they really affect you!

## Chapter 6

## How Much Tax Am I Really Paying?

I'd like to show you a few financial pictures. Being a student of accounting since high school, I remember learning this as if it were yesterday. These are technically known as "Income Statements," in others words, what's left over or short after expenses are taken away from your earnings. Our candidates, direct from Hollywood, are Jacky and Jon.

**Jacky**

Jacky is just starting out from college in her first real job. As an assistant to a lawyer, she's excited about her starting pay of \$2,000 per month. In fact, she went out and bought that Pathfinder she always wanted. With payments of \$400 per month and living at home, she figures she can handle it. Although she does party a bit, that only costs her \$1,000 per month, and car expenses add up to \$100 per month. This is what Jacky's income statement should look like.

Income (job)	\$2,000	
Car payments		\$400
Partying		\$1,000
Car expenses		\$100
Totals	\$2,000	\$1,500
Net Income	+\$500	

## Jon

Jon graduated from college at the same time as Jacky. He was excited to get his first freelance contract from the same lawyer as Jacky works for. As a graphic designer, he negotiated a one-year deal worth \$2,000 per month. He tried to outbid Jacky for that Nissan, but he just didn't have the same drive. He decided to put the money in an RSP account until the 2003 models came out. Since he needed a place to stay (his parents hated him!), his client, the lawyer, agreed to lease the bunkhouse part of the office for \$750, including meals, etc. His other expense included a part-time helper for \$500 per month. This is what Jon's income statement looks like:

Income (business)	\$2,000	
Rent		\$750
Helper		\$500
RRSP		\$750
Totals	\$2,000	\$2,000
Net Income	0	

These two scenarios are interesting for two reasons, but I want to talk mainly about taxes. First, who do you feel is ahead of the game at the end of the month? You may think Jacky is, because technically she has a \$500-a-month positive cash flow without further obligations. In essence, this is true, but this is where perspective comes in. What is the one missing factor in each case? Let's try that again.



### Jacky

Jacky just started out from college in her first real job. As an assistant to a lawyer, she's excited about her starting pay of \$2,000 *before taxes* per month. In fact, she went out and bought that Pathfinder she always wanted. With payments of \$400 *plus taxes* per month and living at home, she figures she can handle it. Although she does party a bit, this only costs her \$1,000 *plus taxes* per month, and car expenses add up to \$100 *plus taxes* per month. This is what Jacky's income statement should look like.

Income (job)	\$2,000 (\$1,600 net)	
Car payments		\$400 (\$460 after tax)
Partying		\$1,000 (\$1,150 after tax)
Car expenses		\$100 (\$115 after tax)
Totals	\$1,600 net	\$1,725 after tax
Net Income	(-\$125)	

Can you see the difference? Does this change things? Has this ever happened to you? Now, let's see how Jon made out.

### Jon

Jon graduated from college at the same time as Jacky. He was excited to get his first freelance contract from the same lawyer as Jacky works for. As a graphic designer, he negotiated a one-year deal worth \$2,000 *against which he can deduct business expenses* per month. He tried to outbid Jacky for that Nissan, but he just didn't have the same drive. He decided to put the money in an RSP account, which *is tax deductible*, until the 2003 models came out. Since he needed a place to stay (his parents hated him!), his client, the lawyer, agreed to lease the bunkhouse part of the office for \$750 *tax deductible against his business income*, including meals, etc. His other expense included a part-time helper for \$500 per month *tax deductible against his business income*. This is what Jon's income statement looks like:

Income (net business after deductions)	\$750	
RRSP		\$750
Totals	\$750	\$750
Net Income	0	

I am not trying to jump the gun into business expenses, but I might as well bring this point up. Any expenses incurred in the normal operation of a legal business are, generally speaking, deductible. Okay, now I've said it, so I hope you can follow after this. Jon did a little "tax homework" before setting out in the world. He started his own consulting business, so his expenses were deductible. By the way, he is one good negotiator! He got his client to cover his living expenses so he could put his leftover money into a deductible RRSP. This brings me to the second point, which is slightly outside of taxes.

Jon ended up not only paying his keep, but he also had money to his name without a negative cash flow from owing taxes. Although the above examples are pretty straightforward and even simplistic, unfortunately this model fits the way a lot of people look at taxes. Jacky was just looking at the outside shell of things, while Jon took the time to check things out. Notice that they made the same income, but Jon opened up his options.

Now, let's get back to the tax part of it. Look at the difference taxes made in Jacky's situation. She went from a positive cash flow of \$500 to a negative cash flow of \$125 on just \$2,000 income. That's a difference of 25%! If I told you Jacky was one of the lucky ones, what would you say? She's my reasoning behind that. Let's see how much the average Canadian pays in taxes. In 2001, the Fraser Institute, a large think tank based in B.C., came out with this startling statistic:



According to  
Canada's Fraser  
Institute, for most  
Canadians, over  
50% of your  
working days go  
toward taxes,  
**AND TAXES ONLY!**

([www.fraserinstitute.ca](http://www.fraserinstitute.ca))

P.S. It's okay, you can go ahead and eat!

It's no wonder people are edgy about their finances. That's the first reason I published this guide: the more aware you are about taxes, the more concerned you will become.

And that brings me to the second purpose for this guide. Let's go back to chapter 3 on the history of taxes. Remember I said taxes had been around since there were governed civilizations? I also said that since taxes are an easy source of revenue, they are unlikely to ever disappear. Let's recall Jacky's and Jon's situations. Although their circumstances were similar, Jon understood he had options and his outlook was totally different from Jacky's. That's what the second part of this guide is about. As a taxpayer, you will always have options. Post this next page somewhere, because it is that important. You *can* do something about it!



You are  
the  
taxpayer!

You  
have  
options!

 Chapter 6 Recap

1. Two people in almost the same situation can have different outlooks, depending on how they play the game.
2. When taxes are factored into the equation, they make a significant difference!
3. For most Canadians, taxes make up almost 50% of their budget, and they don't even know it!
4. ***You are the taxpayer. You have options!*** If you forget everything else, remember: ***You can do something about it.***

## Chapter 7

## Is There Tax-Free Income?

**W**ith all the levies discussed in the last chapter, is there any way we can escape paying taxes without any strings attached?

Actually, the answer is yes. The government has legislated that certain income be deemed tax-free, depending on conditions. Please note that you should always discuss this with your tax professional. For example, income earned from investing these tax-free monies may be taxable. If a taxpayer wins \$1,000,000 in the lottery, that money is tax-free. However, if the taxpayer earns, say, \$50,000 in bank interest, that money is classified as interest income and is taxable. The following list shows some monies that are not taxable in Canada:



## What type of income is not taxable?

1. Lotteries, prizes, gambling and wager winnings (unless you are a professional gambler)
2. Inheritances
3. Social assistance and workers' compensation payments
4. Insurance benefits (except for wage loss payments such as disability and Employment Insurance)
5. Net Federal Supplements
6. Gifts (within reason)
7. Reimbursement of certain personal expenses
8. Certain grants and portions of scholarships
9. Personal money lent to you that you plan to pay back within a reasonable time
10. Windfalls, found money, personal rebates or any non-earned, non-passive revenue, such as coupons, buying incentives, and door prizes
11. Volunteer allowances
12. First Nations employee wages and earnings, depending on status and conditions
13. Money earned in an RRSP plan
14. Money earned in a RESP plan
15. Capital gains from personal property
16. Bartering (within reason)
17. Rental income of a portion of personal property, total not exceeding 33% of reasonable house expenses
18. Income earned by dependants (up to a certain amount)
19. Income earned by investments you transferred to dependants (but is taxable by the dependant, depending on their income)

✓ **Note:** Income from illegal sources, such as theft, blackmail, and bribes, etc. is technically taxable and must be reported as received!



This is an interesting list, because the way this money is earned ranges from luck to hardship to strategic planning. It is obvious that lotteries and gambling fall under luck. Personally, I don't really go for that, because it's always hard to beat the odds and most people lose anyway. Social assistance and net federal supplements are generally based on hardship. I won't be covering that, as I would like to elaborate on the others. Insurance payments to compensate for personal losses are part of financial planning. I am a big believer in being insured to the hilt, but won't go into that either.

I want to get to the income opportunities that you have more control over. Remember in chapter 6, Jon was being reimbursed for certain **personal expenses**. Let's start with that. Suppose your employer requires you to use your car to perform your job. Many employers give either a taxable allowance or direct reimbursement of expenses. The difference between the two is that the taxable allowance is subject to taxes, whereas the direct reimbursement is not. You will have to sit down with your tax professional to see which is more in your favour and negotiate this with the compensator. Also, check out our [Employment Tax Booklet](#) for ideas.



How about money earned in an **RRSP**? This is a great way to earn tax-free money! Of course, when you de-register, it is taxable, but why not ride it as long as you can? My other favourite is **capital gains** from personal property. When I started working full-time in the early 1980s, a Boeing co-worker of mine had a habit that got my attention. He was a carpenter who would buy older houses, move in and fix them up, and then sell every two years. He made a profit not only on the increasing real estate market (remember what happened to the real estate market in Toronto?), but also on the improvements. Within 10 years, he had a beautiful tax-free, mortgage-free home in Orangeville, Ontario, and a fair sum in the bank.

Shortly after that, the Ontario economy fell out, but he was living debt-free and decided to use my next example to his benefit: **free rental income**. He built an in-law suite on the lower level that complied with all the bylaws for his neighbourhood. He rented it out for a modest fee, which was less than 33% of his total household expenses. According to the tax rules, he is not required to declare this, because CRA considers the tenant to be helping out with normal expenses. With no mortgage, a steady small income, and money in the bank (and despite an unemployment rate of over 10% in the mid-'90s), he wasn't worried.

If I were preparing my friend's taxes and we met for a consultation, I would point out two more opportunities. As he was self-employed and had two school-aged children, he could have **paid his kids a small salary**, as they were helping out with the business when needed. Also, I would recommend stashing some of that investment money in the kids' names and starting an **RESP**. The whole idea here is to get his taxes as low as possible without physically giving up the money. Can you see why tax planning is an essential part of your finances?

The note about income from criminal activities is a joke I put in my seminars. But keep in mind that this is true to the letter. Do you remember the infamous Al Capone who went to Alcatraz? He did everything illegal under the sun, and the DAs couldn't get him. But, check out the reason he was convicted. Despite being accused of everything in the book, it was tax evasion that sent Capone to Alcatraz. Take a look at the 1987 movie [The Untouchables](#) starring Kevin Costner and Sean Connery, and you'll know what I mean.



### Chapter 7 Recap

1. There is certain income in Canada that is not taxable. See list for details.
2. Opportunities exist for almost all taxpayers to earn non-taxable income.
3. Illegally earned money is still taxable, despite its source.

## Chapter 8

## What is Tax Deductible?

**N**ow, this will be the most interesting chapter, because I have found that a lot of folks struggle with this. The reason is simple. Rules change every year, and if you're not keeping up with the changes, you'll lose touch sooner or later.

It is very important to discuss these rules with your tax professional before proceeding! Tax software and manuals are good, but they are not 100%. Making wrong deductions will not only cost you, but also can subject you to penalties and interest charges. I have saved several clients from inaccurate returns after they tried doing the returns themselves, only to find out they were not done right.

I have compiled a list that will give you a good idea of what is currently available. While I will try to keep this updated, be sure to obtain the latest from your tax professional or CRA. In summary, the list generally deals with personal returns. In other words, most taxpayers, depending on their situation, may be entitled to claim the appropriate deduction. I also touch on deductions for self-employment, commission/employment expenses, landlords, farmers, and fisherman. I can provide separate guides for this upon request.



## What types of personal expenses and deductions can I claim?

1. Basic exemption (changes each year – \$ 9,600 for the year 2007)
2. Senior citizen (age) amount, depending on your income
3. A legal or common-law spouse, less their income (as of 2001, same sex couples qualify)
4. A dependant child, less their income, if you are a single parent
5. Disabled dependants over 18 living with you
6. CPP and EI contributions
7. Pension income up to \$2,000, depending on your pension
8. Caregiver amount, depending on the dependant's income
9. Disability amount, depending on a doctor's certificate and nature of disability
10. Interest on your student loan
11. Tuition fees
12. Medical expenses
13. Donations and gifts to charities, etc.
14. Political contributions
15. RRSP and spousal RRSP contributions
16. Company, group, and provincial pension plan contributions
17. Union, association, or professional dues
18. Malpractice insurance
19. Childcare expenses



20. Attendant care expenses
21. Business investment losses
22. Moving expenses
23. Child/spousal support payments, depending on your agreement
24. Expenses incurred to earn money from investments
25. Exploration and development expenses.
26. Residential deductions for members of a registered clergy
27. Some legal expenses (ask for details)
28. Some foreign tax paid (ask for details)
29. Some foreign pensions received (ask for details)
30. Depletion allowances
31. Certain transfers to an RIF or an annuity
32. Social benefit repayments



33. Capital and non-capital losses carried over from previous years
34. Limited partnership losses from other years
35. Northern residence
36. Stock option deduction
37. Employee home relocation loan deduction
38. Tax treaty exempt income
39. Employment with a prescribed international organization
40. Vow of perpetual poverty
41. Repayment of shareholder loans
42. Refund of undeducted RRSP contributions
43. Forfeited profit-sharing bonuses
44. Professional liability insurance
45. Split income
46. Transit passes
47. Adoption expenses
48. Children's Fitness Tax Credit
49. Canada Employment amount
50. Dependants (some conditions apply)
51. Certain employment, business, professional, sales commission, rental, fishing, and farming expenses (ask for complete separate guide). Generally speaking, all reasonable expenses associated with running a legal business are deductible, including the business portion of a personal motor vehicle and in-home business expenses.

✓ **Note:** Fines, penalties, and other monetary impositions due to personal misconduct or negligent practice are never deductible under any circumstances!



As you can see, there are numerous deductions available, so I am only going to elaborate on a few. RRSPs are still the Canadian favourite. Take advantage of them whenever you can, because everything earned in them is tax-free! Even if you have to borrow money, the tax deduction usually exceeds the interest payment, so you should discuss this with your financial planner. Also, if your financial planner knows their stuff, they can find ways to make the interest on an RRSP loan tax deductible! You can also take advantage of spousal RRSP contributions if needed. In this case, the contributor gets the deduction, while the spouse has ownership of the plan. To ensure you do not over-contribute, check your contribution limit first. You can get this information by contacting your local CRA office or your previous year's notice of assessment. You are allowed a one-time over-contribution of \$2,000 per taxpayer.

Do you invest money outside your RRSP, such as in stocks, bonds, and mutual funds? Many do, including me. Did you know that you could deduct certain expenses you incur to earn investment and capital gains income? This includes interest on money borrowed, brokerage charges, investment-counselling fees, safety deposit boxes, accounting charges, and more. As mentioned above, work with a financial professional who understands these particular tax rules. If they have a good idea of the law, they will likely be able to maximize your deductions.



In the case of child and spousal support payments, depending on the agreement signed by the parties, the taxpayer may be entitled to deduct child and spousal support in the event of family break-up. Generally speaking, child support payments are no longer deductible by the payer or taxable to the collector if the agreement was written after May 1997. The only exception is if both parties agree that the payments can be deducted by the payer and are taxable to the collector. Alimony support is also ruled by agreement. However, any payments are generally taxable to the collector.

The last issue I will discuss is certain legal expenses. I remember a client who came up to me and said she had spent a considerable amount on lawyers, trying to get her ex-husband to pay his agreed child support. The legal fees came to over \$15,000, and she had to borrow the money. As a sales manager for a high-tech company in Calgary, she earned a fair salary, and did I have good news for her! After obtaining the necessary documents, I was able to deduct all her costs against tax deducted from her salary, because they were specifically for collection of child support. This legal expense and other collection costs are fully deductible. Was she glad she told me that story!



### Chapter 8 Recap

1. Every taxpayer is entitled to certain deductions. See the above list for details.
2. You should always work with a financial professional who is familiar with the tax rules, so that your deductions are maximized.
3. Deductions change every year. Tax software and manuals are good, but not 100%. Before proceeding, always discuss deductions with your tax professional. It will save you a lot of grief and misunderstanding!

## Chapter 9

## Why File a Tax Return?

**O**ne of the points I raise in my seminars is that there are actually benefits to filing a return. It's a myth that you are obligated to file a return every year. In fact, you are not required to file a return every year unless CRA asks you to do so. However, you can miss out on benefits, and CRA isn't in the habit of reminding you of this. I have compiled a list of advantages waiting for you.

### Tax benefits and credits available

1. GST credits
2. Child Tax Benefit
3. Refundable medical expenses
4. Certain re-training plans
5. Certain pension benefits
6. Social assistance
7. Workers' compensation
8. Federal supplements
9. Excess tax paid
10. Excess CPP and E.I. contributions
11. Employee GST rebates
12. GST input tax credits (mainly for businesses)
13. Certain provincial tax credits, depending on your residence

✓ **Note:** To obtain the above payments, in most cases a yearly tax return must be filed with the appropriate documentation and completed forms. I always recommend consulting a professional to maximize your benefits while complying with current regulations!

The most common reason for filing a return is to get a refund, and over 50% of yearly filers expect one. If you regularly get back over \$2,000 a year, you should consider lowering your tax deductions. If you owe over \$2,000 a year, you will likely be expected to make quarterly instalments of \$500 or more. When your return is prepared, your excess CPP and EI contributions are calculated and refunded.

Certain tax benefits, such as GST, Child Tax, and other federal/provincial benefits, can only be obtained by filing a return. I have had clients come to me because payments have stopped and they have been asked to file in order to continue receiving them. Regular filing by the end of April of each calendar year will eliminate this.

Certain government payment programs, such as pension plans, social assistance, etc., usually require regular filing so that benefits are not interrupted. Again, regular filing by April prevents interruption. Speak to your tax professional at the beginning of each year, and make an appointment once all your information is ready.

If you are self-employed or claiming certain employment/commission expenses, I list GST on most business-related expenses. The idea behind the GST in 1991 was that businesses would not pay it, so they are required to apply for a refund of the GST they paid the previous year. Depending on the class you fit into, your tax professional should be familiar with this.



## Chapter 9 Recap

1. It is not a legal requirement to file a yearly tax return unless you are asked to do so.
2. You must file a return to obtain a refund, certain tax benefits, and related programs.
3. GST paid on certain business/employment expenses is refundable. Your tax professional should be familiar with this.

## Chapter 10

## Your Tax Professional: Do You Have the Right One Working for You?

I want to be clear about one thing in this chapter. I am not taking anyone's side, neither the taxpayer's nor the professional's. I am simply telling you my experience of the industry and hopefully matching the right people. Although this guide is written mainly for the taxpayer, I will be giving some professional perspective for your information. Let's first describe a tax professional.

One of the most important things to keep in mind is that the CRA has no guidelines or professional designations for who can and cannot prepare tax returns in Canada. Unlike doctors, who have to study medicine for 8 to 10 years before they can practice, the tax-preparation industry remains open. Many people like me have been pushing for designations for the clients' sake, but nothing has come to pass on this or is likely to in the near future.

Also, keep in mind that *not all accountants do tax work*. Taxes are only a part of what accountants learn, and not all of them pursue it. In fact, not only have accountants come up to me with questions, but they have also asked me to do their taxes! So, the lesson here is, shop around for the one that has direct experience in the area you need. This chapter aims to clarify that for you.



A tax professional is someone who has several years' proven experience in the tax field of your particular need and who earns the majority of their revenue from that service. In my case, I have been doing general/personal returns since the early 1980s, so I am known in the preparation industry as a tax consultant. When my clients ask me what I specialize in, I tell them small business/entrepreneurs, corporations, landlords, employment/commission expenses, and investment income/deductions. In fact, all my advertising reads that way.

When they ask me about trust funds or U.S. returns, I have a select group of people who do these. They are top guns in their specialized field, and I always refer these clients to them. So, the bottom line is, the client knows what I can do for them and what I recruit other people for. In most cases, clients or prospective clients go ahead, because they are satisfied with the direction they're taking.

I would like to classify the types of service available to the taxpayer. While a variety of specialties exist, the services can be classified into three categories to make it easier:

### **1. Accountants and accounting firms**

Almost every major centre in Canada has at least one accounting firm or several private accountants. Most of them do accounting work all year round, and taxes are usually a seasonal event. Their strength lies in offering a package of accounting services you may need. They are more geared to businesses—preparing financial statements and accounting services that deal with more than taxes—so this is what I recommend them for. Keep in mind that they are not cheap. They usually start at \$100 per hour and go up from there. For taxpayers with complicated returns that may involve non-tax related/accounting issues, they are the best. For basic returns with minor tax issues, their prices would not likely be competitive.

**Pros:** Full range of services, including services outside the tax system; all year round, with expertise to match

**Cons:** Generally limited in types of services; expensive

### **2. Tax preparation firms and franchises**

They too are in almost every centre in Canada. Their main revenue is generated in March and April (tax season), and they are geared to individual, basic filers. Two well-known firms are H & R Block and Liberty Tax. H & R Block, started by the Block brothers, has been in North America since the 1950s, and Liberty Tax, founded by John Hewitt, came to Canada from the U.S. in the late 1990s. Both are strong, providing the yearly, basic filer with fast service, competitive rates, and a few extra services such as financial planning, bookkeeping, and payroll. Most of their operations are run by part-time staff, with maybe one full-time, on-site manager. If you're looking for basic services with a few extras at competitive rates, they are the way to go. If you have a complicated return that may involve several accounting features, they may not have the resources readily available.

**Pros:** Fast and cheap, especially during tax season

**Cons:** Generally limited in types of services; not around all year

### 3. Tax consultants and specialists

They tend to operate mostly in cities; you won't find them as prevalent as the above. They can be small firms, but most of them consist of one or a few people working independently of big firms and franchises. They usually work full-time in the field of tax preparation/consulting and don't do much financial planning, accounting, payroll, bookkeeping, or other non-tax related work. Therefore, the bulk of their revenue comes from tax work. They are usually good at various tax complexities. Keep in mind that they usually specialize in different fields. My services, for instance, were discussed two pages ago. There are other services, such as overseas taxes, trust funds, incorporations, and foreign returns (including U.S.). Their fees are usually higher than the tax franchises, but most clients understand why. I recommend them for the more challenging returns but not so much for the basic ones.

**Pros:** Highly specialized in particular areas of the tax system; generally niche oriented

**Cons:** Generally limited in types of services; prices are middle of the road; usually around all year

Now that you have an idea what types of service to shop around in, what are some of the characteristics you should look for? I have broken them down into four categories: price, service, specialty, and experience.

#### 1. Price

Interestingly, I don't believe this is the most important factor in choosing a professional. But so many taxpayers base their decision on price that I have chosen to address this first. Let me start by saying, ***Do not make price your major factor in choosing a professional!*** How many times have I seen someone pay a bargain price of \$9.99, only to find out their return was full of mistakes and the preparer has gone out of business? Now what do you do? Not only do you have to get it done right, but you will also likely be charged for fixing the other preparer's mistakes if the return has already been filed. That's where it can start getting costly!



From my experience, a basic return completed by an experienced pro and e-filed, along with support services year round, should cost about \$75 to \$150. With the franchises, you may get a deal, especially if you bring them a few other clients—and that’s okay. If your return is more than just basic, your professional should be able to quote you a rough price before work starts. They should always do this free-of-charge with no obligation, but the quote is not a guarantee of the final invoice. Quotes are usually based on three things: time spent on the return; schedules and forms filled out; and work/research surrounding the return. A professional may use some or all of these or may quote you on the entire job.

I try to quote the whole job up front so that my clients have a good idea what to expect. If the job is hard to quote, I usually give a minimum, with an explanation of the circumstances. Most clients understand and expect this.

One final note about prices: don’t try to nickel and dime a job well done. If your pro is good at what they do, you’ll lose their respect and end up making the Jerk List. I remember a few clients who have done this to me, and I sure hope they don’t call again. Nobody reputable wants to associate with these people!



This also applies to “friends” who do the work for a good price. My friend’s wife complained bitterly because her “friend” made the same error in preparing her return three years in a row, and she had to wait two months for the correction to go through for the huge refund she always gets. I asked her how much she was paying, and she said \$50 for two basic returns. No wonder there were mistakes! This preparer had no motivation to do a good job. Please remember the old saying, “Business is always business!” and for me taxes are always business, no matter who I’m working for!

## 2. Service

Service is a lot more important than you think. Always insist on people who are professional in their field and don't take service lightly. One of things I like about the tax industry is that there are a lot of good people trying hard to please their clients by treating them well and doing a good job. However, like any other industry, there are those who don't even know what the word "service" means. I know of a guy in a small town in rural Alberta who still uses paper forms (in 2008!). He can't be bothered buying a computer, because his clients don't think there's anything wrong with what he's doing. Don't laugh! The sad thing is, he's got a lot of unaware clients paying him to do their returns year after year.

I know of another tax person in a major city who tells his clients to come on April the 30<sup>th</sup> to pick up their returns, and then he sends them off to CRA. They could have come any time from the beginning of the year to one hour ago, but they've been led to think that's normal and don't bother to look around. I don't know how well he's doing, but it's obvious he's not motivated to improve his service. That's one of the things I liked about Liberty Tax coming to Canada. John Hewitt was aware of some of the ridiculous things going on and was trying to displace them with Liberty's timely service. Good for him! He does a service to all of us in the industry, and he has my respect!



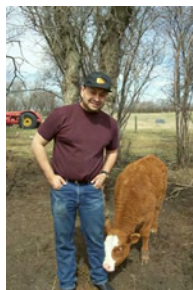
**Accessibility and approachability** are important. Can you reach your tax person easily by phone, fax, e-mail, website, mail, or in person? If not, is there someone to help you even during vacation time? If you didn't answer yes to these questions, you should be looking around. When I'm away on vacation, I always have my portable computer and cell phone with me. If a client needs personal service right away and I'm 3,000 miles away, I always have a team ready to help. If your current person is too hard to get hold of, or possibly hiding under the couch, don't hesitate to go elsewhere!

What about **mobility and convenience**? Your time is important, and your professional should realize this and work with you. One of the services I offer is mobile consulting, rather than requiring every client to come to the office. Essentially, I agree to meet wherever it's convenient. Clients love this! If your tax professional is doing this, then they are willing to work for your business and you should consider them. You should also look for those who can do business online. PTC Canada has "Zero Stop Taxes," which means clients can submit all the information without ever having to meet. How successful is it? Seventy percent of clients now use this method, and it keeps growing!

Does your tax person keep in touch through **free information, mailings, and updates**? You should be free to shop around without any obligation and little contact. I always invite people to visit my website, where they can not only check out my services but also get free information. Prospective clients love this, because they get the information they need without being monitored or bugged for business. My website gets lots of hits, and I have no idea who the people are. I suggest you sign up for our free updates at no charge!

Tax professionals who keep in touch throughout the year with updates, new events, and relevant matters are also doing that little bit extra to earn your business. This is a bonus for you. Personally, I do one or two e-mailings a month on average just to stay in touch. Usually, they are tax related, but sometimes I put in something non-tax related—for two reasons.

First, I have the privilege of meeting people with a variety of talents. If I run into someone who could offer a benefit to my clients, I pass on their name. Second, I have a lot of interests outside taxes, and I'm not shy about sharing them with my clients. I run a farm with cattle and horses. I'm a landlord, and I love investments. Muscle cars are a passion of mine, and I have started collecting them. I enjoy talking about my trips, such as white-water rafting, camping, etc. I find this fascinates most of my clients, and it reminds them that I'm a human being outside my work. Again, if your tax guy has a personal touch, chances are you will be on the receiving end of it. Look out for that!



### 3. Specialty

You will have to determine whether a tax professional's specialty is suited to your needs. Don't ask them; decide for yourself and feel good about it. A close friend once asked me if I thought I was the right person for his business. I just smiled and said, "Only you know best." That really was the answer. After all, you don't have to ask if you're falling in love, you just do it naturally! Anyone who says they do "absolutely everything" is not being up front with you. Either they are contracting out some of the work behind your back, or they are not doing the quality work you should expect. If they are trying to appeal to you on every front, chances are they are desperate for work. Avoid them!

The tax industry is rich with opportunity—it is estimated there were over 15 million potential clients (and growing!) in Canada for the filing year 2008. There are not enough tax professionals to provide quality service to all of them. That's why I say, take your work to the right person. Personally, I have never felt indifferent about my talents, and neither do my clients. In fact, they appreciate my honesty and never doubt where they stand with me.

One client really wanted me to do their trust returns, because they were so disappointed with their last tax person. I told them I could recommend someone reputable, but they insisted I do it. They were even willing to sign the paperwork without my name being on any documentation (so I wouldn't be responsible). While I appreciated the praise I was getting, I confessed this wasn't for me, and I strongly recommended they go elsewhere. I haven't heard from them since, but that's okay. So, the bottom line here is this: if the tax person is honest about what's not within their reach, but they can take your work without a problem, that's who I recommend.

#### 4. Experience

I have already touched on this, so let me finish up. Always aim to get people who not only specialize in your particular challenge, but also have several years' experience doing it. I recommend five years as a minimum, unless the person is working directly under someone with the background you need. Junior people are good if they are enthusiastic and have the hand of experience guiding them. It is common to find them in the firms and franchises. This is okay, as long as the company stands behind their work.

Don't ever hesitate to ask the tax person for testimonials. References can be hard to get because of confidentiality, but the tax person's website should have a few frank statements from clients. Many of my clients have said I could use their comments whenever I needed to, and this should be the same with the tax person you are checking out. The clients' comments should touch on service and specialty and how the client benefited. Also, call the Better Business Bureau (BBB) and other business associations to see if they are reputable. Most important of all, I'm going to make a metaphysical recommendation you can use however you like: **Trust your gut!** If everything seems good on the surface but you still have a bad feeling, go with the bad feeling. Why? Because our mysterious intuition is more often right than wrong. That's my summary from experience!



#### Chapter 10 Recap

1. CRA has not set any professional designations for the preparation of income tax returns in Canada, and not all accountants specialize in taxes. Therefore, you need to analyze the professional's background before engaging in business.
2. There are three types of tax-preparation institutions. accountants/accounting firms; tax franchises; and tax consultants and specialists. This is a good place to start sorting out the various services.
3. There are four variables to each tax service: price, service, specialty, and experience. Price should never be the major factor in choosing your professional. Always pay a fair price for good service, and get a quote whenever possible.

## Chapter 11

## Action Steps: What You Can Do About Your Situation

**W**ell, now that you have an overview of how the tax system works, what the CRA is, and how to choose a professional, what's left? Taking the next step! But first I would like to discuss self-preparation methods, because I'm sure that has crossed your mind. Keep in mind that a fair number of taxpayers prepare their own returns, but that number is dropping due to the increasing complexity of the system. Let's look at what's available.

**1. Using the forms CRA provides**

The manual forms method is getting more obsolete these days thanks to computers and alternative methods. While they still work, they are prone to errors, and I don't recommend them.

**2. Tax software**

There are quite a few software packages on the market, ranging from \$9.99 to \$99.99 for consumers. For \$29.99, you should be able to get a good one that can do up to 20 returns covering most needs. They are generally well designed and easy for first-time users. For basic returns, I recommend them.

**3. Telephone method**

This service was introduced a few years ago and is suitable for basic returns, but it is being phased out due to the internet. It is almost as fast as e-filing when it comes to refunds.

**4. Getting "my buddy" to do it**

One of my clients got the president of a company to do his returns, and I assumed the fellow knew what he was doing until I saw his work. I found a few errors and informed my client that the return would have to be corrected. After paying me a fair sum to correct the problem, can you believe he ended up owing money with penalties and interest? For this reason, I don't recommend this unless the preparer knows what they are doing.

## 5. Putting your information slips in an envelope and sending them to CRA without preparation

When someone told me at a Christmas party that people actually do this, I thought it was a joke. Then I ran into a few people later in the year who do this on a regular basis. I can't believe people can be so naive! If you know someone who does this, please tell them to stop right away and spend the small amount required for a professional return. CRA has no way of knowing your situation from year to year, and you are likely missing out on valuable deductions. If you're doing this, you're nutty and deserve to lose whatever you're losing trying to save the preparation fees!

## 6. Volunteer tax services

This may be an alternative, depending on your financial situation. CRA sponsors a few of these clinics during tax season. An employee of mine had hers done through her church until she began working for me. You'll have to scout around. And remember, while there may be some good volunteer services around, you'll likely get what you pay for! For basic returns, they're okay, but otherwise I don't recommend them.

That's most of them. I'm sure technology will deliver even quicker and more efficient methods as time goes on, and I'll let you know when that happens. Now I'd like to discuss what you can do if you choose not to do things yourself. Remember, more taxpayers are enlisting the services of a professional, so I am going to talk along that line.

I first recommend doing an honest self-assessment. Ask yourself these questions:

- Are you on time every year, and is your tax account paid in full?
- Are you maximizing your deductions?
- Does your tax planning make sense, and are you in sync with your financial plans?
- Are you getting the answers you are looking for?
- Will you be okay with the new changes that come along every year (and they will happen!)?

If you answered yes to these questions with full confidence, congratulations! You have a good edge on the tax system and stand to do well. If you answered yes to only one or a few, it's time to recruit an expert.

Make good use of your communication tools, including the telephone, e-mail, fax, and letters. Check out at least three tax professionals, and recruit one of them to work for you. The best way to approach them is to schedule an appointment (avoid tax time if possible, as they are putting in 18-hour days!) or send them an e-mail, fax, or letter. If you call, be sure to ask if they have a few minutes to talk before you get into the details. And always have all relevant documents and information ready.

Most clients grasp their own situation in seconds, but the tax person may need 10 or 15 minutes to get a good perspective on things. If you feel the phone conversation went well, book a time to meet. Ask the tax person what information you need to bring. Also ask if there are any fees for the consultation. New clients may get a complimentary first-time consultation, but that is becoming rare due to demand.

Whether you go to their office or meet for coffee, make sure you have at least half an hour of uninterrupted time to discuss your situation in detail. Send as much documentation in advance as you can so that the tax person can research any needed material before the meeting. If the meeting goes well, the tax person will usually ask you to sign a few consent forms and will request a retainer. Keep in mind that most professionals who are doing well *are not* actively recruiting new clients, so be respectful of their time.

Once you have chosen the tax person for you, come up with a game plan for your situation. Your professional should be in on this, and your goals should be definite, with timelines. At the end of the plan, check to see that your professional has been fair with you and has met the agreed expectations. If they have, hang on to them for dear life. If they haven't, then re-evaluate or relocate!

 Chapter 11 Recap

1. There are several self-preparation methods available, but because of the complexity of the system, more and more people are choosing to use a professional.
2. If you have assessed your situation and you are on top of your taxes, continue with your program. If not, start shopping for a tax professional.
3. Interview at least three professionals (outside tax season). If you find the right one for you, stay with them. If not, move on!



## Chapter 12

## Proactivity or Inactivity: Either You're Doing Something About It or You're Not!


**H**ave you ever met someone who wouldn't give you a definite yes or no on an important decision? Those people really bug me, because they don't feel they are doing anything wrong, and yet that's not true! Let me show you the outlook of two brothers. One was proactive when it came to taxes, the other was inactive. Can you guess who's who?

<b>Billy</b>	<b>Bob</b>
Always files on time	Never files on time
Looks for new ways to save on taxes	Lets CRA deal with it
Meets his tax pro every year for strategies	Doesn't have a tax pro
Knows what to expect every year	Every year is a nasty surprise
Follows up on a tax problem ASAP	Thinks problem will go away

I think we know who is proactive and inactive. Now I want to introduce you to their brother Beau. Beau doesn't like either of their thinking, because it's too black or white. He likes the grey side of things and has always lived this way. Let's compare his thoughts on the above situations.

<b>Beau</b>
Filing on time is interesting, but he's late anyway.
Would like to save taxes, but it sounds like work.
Has a few numbers, and he'll call them one day.
Knows it's a new year, but what's going to change?
When vacation time comes, he'll look at dealing with this.

Beau's view of taxes unfortunately reflects the attitude of most "want to be" taxpayers. They're wishy-washy and will never amount to anything. Their grand excuse is that they are "working on it," and of course nothing ever gets done. At least Bob is honest about his shortcomings, whereas Beau is in a vicious circle. His constant denial gives him a false sense of security and prevents him from becoming proactive. So, the conclusion is, *sitting on the fence is inactivity in disguise*. Avoid it at all costs!

 Chapter 12 Recap

1. Most taxpayers are either proactive or inactive. Proactive taxpayers are generally on top of things, whereas inactive taxpayers are usually behind the 8-ball.
2. Taxpayers who pretend to be "working on their situation" but never seem to get around to it are considered inactive.
3. If your tax situation is good, you are proactive. If it isn't, you are inactive. It's really that simple!

## Chapter 13

# You Are the Taxpayer! You Have Options!

**I** will promise you one thing if you live in Canada: you are a taxpayer, no question about it. If you plan to live in Canada for the rest of your life, you will always be a taxpayer. The real question I ask is, How much are you choosing to pay? When I give one of my seminars, I always emphasize the basic fundamental I discussed in chapter 6:

You are  
  
the  
  
taxpayer!  
  
You  
  
have  
  
options!

I am a big believer in taking advantage of the alternatives available to me. This guide has laid out your options, and it is now up to you to decide what you're going to do. It's really that simple! Remember this one fact I repeat every chance I get:

***More and more Canadians are choosing to pay less and less taxes!***

Are you one of them?

 Chapter 13 Recap

1. If you live in Canada, you are a taxpayer and always will be.
2. ***You are the taxpayer! You have options!***
3. This guide spells out your options. It is now up to you.
4. ***More and more Canadians are choosing to pay less and less taxes!***

## Chapter 14

## What to Avoid!

**N**ow that I have given you a list of options and action plans, it is time to list my **don'ts!** Why? Because there are a lot of scams out there and things that won't do you any good! My rule of thumb is this, *If it sounds too good to be true, it probably is!*

**1. Tax organizations that promise “no tax obligations”**

I have seen a variety of these, and I can tell you right away they are a scam! Someone tries to sell you a membership by showing you some half-baked rule that seems to say taxes are an option and you are not obligated to pay. If you ever get wind of this, walk the other way. You are inviting trouble, and when it shows up you'll be hard pressed to get rid of it.

As I explained in chapter 3, taxes are necessary for government operations. Suppose there was something that said taxes were an option. Parliament could repeal it and enforce the tax law retroactively. I doubt they'd have trouble doing it and even getting public support. Remember what I said about not messing with the government's financial affairs? This is a good example, so don't listen to the false promises of charlatans.

In fact, I recommend reporting them to the authorities. They are not only preying on vulnerable people, but they are also hurting society in general by shorting the public purse and leading innocent people into crime. Remember, tax fraud is a criminal offence, and CRA will pursue it!

**2. Tax people who do things that seem risky or illegal**

While most people are honest, there is always someone trying to make a fast buck at your expense. These people are often desperate for business and make big promises for a cheap price. If you feel uneasy about their undertakings, call some of the other folks in the industry. If it sounds like malpractice, contact CRA and report them. They are out of line and need to be dealt with accordingly.

As I said earlier, shop around for someone who knows their stuff, and pay them a fair fee. You will have a better chance of finding someone who will take good care of your tax situation year to year. Taxes are a big part of your life, and you need someone good on your side. Be fair with them, and they'll look out for you!

 Chapter 14 Recap

1. If it sounds too good to be true, it probably is.
2. Organizations or tax people that promote false or unrealistic materials should not only be avoided, but also reported to the proper authorities.
3. Always remember to recruit a good, reputable tax professional and pay them fairly. They will do a good job for you!

## Chapter 15

## Contact and Reference Information: Where to Go and What to Do!

**I** can only trust that this guide has been of help to you. One of my goals when I went into the tax industry was to make the complex tax laws easier for clients to understand. I hope I have helped you take at least the first step. I will leave you with a list of handy contact information, including my own.

### My contact information

Neel Roberts, President and Founder  
PTC Canada  
Box 1347  
Vulcan, Alberta, Canada  
T0L 2B0  
Tel: 866-485-2683  
Fax: 866-485-2761  
E-mail: [Neel\\_Roberts@ptccanada.com](mailto:Neel_Roberts@ptccanada.com)  
Website: [www.ptccanada.com](http://www.ptccanada.com)

Sign up for our free update list today!

### Request for services

1. Tell us a bit about [your situation](#).
2. Fill out a [personal consent form](#).
3. Fill out a [business consent form](#).
4. Fill out our [service agreement](#).
5. Arrange a retainer before sending.
6. E-mail or fax us as above and we will be in touch with you!



## CRA Contacts

Service	Toll Free Number
General Services	1-800-959-8281
Refund Enquiries	1-800-959-1956
Business Number Enquiries	1-800-959-5525
Child Tax Benefits	1-800-387-1193
GST Credit-Personal	1-800-959-1953
Forms	1-800-959-2221
Collections	1-800-332-1312
All other Government of Canada Services	1-800-622-6232
Alberta Family Employment Tax Credit	1-800-959-2809
Fax Number-Depending on your location	Call General Services
Web Site	<a href="http://www.cra-arc.gc.ca">www.cra-arc.gc.ca</a>
Overseas Tax Services-Ottawa	1-800-267-5177
Overseas Tax Services-Outside Canada	Collect 613-952-3741
Local Tax Center	Call General Services

✓ **Note: Toll free numbers work across Canada.**



## Other Tax Booklets

We offer other tax booklets, worksheets, and information that may be helpful to you. These include:

1. [Employment and Commission Expense Tax Booklet](#)
2. [Investment Tax Booklet](#)
3. [Rental Property Tax Booklet](#)
4. [Small Unincorporated Business Tax Booklet](#)
5. [Farming Income](#)
6. [Personal Tax Checklist](#) (Everyone can use this.)
7. [Corporate Tax Checklist](#) and many other [forms and worksheets](#)
8. Plus our [10 Ways series](#) (for example [10 Ways to Cut Your Tax Bill](#))

You can download these and much more from our website ([www.ptccanada.com](http://www.ptccanada.com) under Resources) or we can arrange to have them sent to you.

## Tax Guides from CRA

Every year, CRA publishes a variety of [Tax Guides and Pamphlets](#). I suggest you get these at the end of each tax year when they go online, or you can have them mailed to you by calling the Forms Centre at 1-800-959-2221. You can also access their list of [forms and publications](#).

## Survey and Feedback

As a favour to us, we would greatly appreciate it if you would take a few minutes to give us your thoughts. Your contribution will help others and make us better at what we do. **Thank you for your time!**

Please rate the following items from 1 to 5, where **1 is strongly disagree** and **5 is strongly agree**.

1. I found this guide to be generally helpful. \_\_\_\_\_
2. This guide was too long \_\_\_\_\_, too short \_\_\_\_\_, just right. \_\_\_\_\_
3. I learned something new and practical. \_\_\_\_\_
4. I will implement a few ideas discussed. \_\_\_\_\_
5. I would recommend this to people I care about. \_\_\_\_\_
6. The guide was well organized and easy to follow. \_\_\_\_\_
7. The materials made sense to me. \_\_\_\_\_
8. I was able to understand the general messages introduced. \_\_\_\_\_
9. I feel enlightened on the subject of taxes. \_\_\_\_\_
10. I would like to see more publications like this. \_\_\_\_\_
11. I will refer to this guide again in the future. \_\_\_\_\_
12. I will bring this guide with me when I'm doing research. \_\_\_\_\_

**I found the following subjects useful:**

**I would like to see more on the following:**

**General comments and feedback:**

**Thank you for your valued response! Kindly send this to me by whatever method you wish. My contact information is on page 54. I look forward to meeting you soon!**

*Neel*

# Appendix

## Tax Organization Checklist


### Part 1 of 4 – Personal Information

1. Are you a first-time client to PTC Canada?
2. If you are a first-time client, how did you find out about PTC Canada? (referred, where, when, how?)
3. Tax years to be filed (we recommend doing a separate checklist for each year to be filed)
4. Full legal name (as on social insurance card) and the name you used in the tax year filed (i.e. Cameron John Smith, Cam; or Susan Ashley Brown, Sue)
5. Current residential mailing address. If moving soon, use new address.
6. Home telephone number. Also, work, pager, cell, and other contact numbers. Please include e-mail addresses, fax numbers, and web addresses, if applicable.
7. Marital status. If married or common law and not filing together, please include your spouse's first name, social insurance number, and net income (line 236 of their return).
8. Your social insurance number
9. Your date of birth in the following format: day/month/year
10. Were you or your spouse self-employed at any time this tax year? If yes, in which province?
11. Were you involved in bankruptcy? If yes, please state entrance and/or discharge date.
12. Is the taxpayer deceased? If yes, please state date of death. Please also provide details of legal hearings, proceedings, etc.
13. Did you leave or re-enter Canada this year? If so, please provide departure and/or entrance date(s).
14. Do you wish to have your name added to the voters' list through your tax return?
15. Are you applying for the GST credit?
16. Do you have any children/dependants under 19 or 19 and older certified infirm by a doctor? If yes, please state their full legal name(s), social insurance number(s), and net income (line 236 of their return). If they require a tax return completed by us, please have them use a separate PTC Canada checklist.
17. Do you own foreign property worth over \$100,000 Canadian?
18. Please tell us any other personal information we may need.

## Part 2 of 4 – Income

What are the sources of your income? Please note, this includes income from all over the world, not just Canada.


1. Employment
2. Sales or commissions
3. Odd jobs, casual labour, tips
4. Old Age Security Pension
5. Canada or Quebec Pension Plan
6. Other pensions or superannuation
7. Disability benefits
8. Employment insurance benefits
9. Taxable dividends from Canadian corporations
10. Interest or investment income
11. Income/losses from a limited/non-active partnership
12. Taxable capital gains
13. Support payments received
14. RRSP income
15. Workers' compensation income
16. Social assistance
17. Net Federal Supplements
18. Did you start, participate in, or end a business(es), rental property(ies), farm(s), fishing operation(s), or profession(s) of which you were either a sole proprietor, partner, or co-owner? If yes, please click on the appropriate items and state the applicable partners' names, social insurance numbers, mailing addresses, and percentage of activity level (from 1% to 99%).
19. Foreign income
20. Any other income we need to know about.

 **Please note:** If you had income but were not issued a T-slip for it, you must discuss this with the issuer. **As a taxpayer, you, not your income provider, PTC Canada, or CRA, are ultimately responsible for researching, tabulating, and reporting all your income.**

## Part 3 of 4 – Deductions from Income

Which of the following deductions apply to you?

1. Registered Pension Plan contributions not on T4 slips
2. RRSPs
3. Saskatchewan Pension Plan
4. Annual union or professional dues
5. Universal Child Care Benefit (UCCB) repayment
6. Child care expenses
7. Child fitness tax credit
8. Attendant Care expenses
9. Live-in dependants under 18 or over 65
10. Business investment losses
11. Moving expenses or any carried over from last year
12. Spousal or child support payments made
13. Carrying charges and interest expenses
14. Exploration and development expenses
15. Authorized employment expenses
16. Cleric's residence deduction
17. Canadian Forces personnel and police deduction
18. Canada employment amount
19. Employee home-relocation deduction
20. Stock options and shares deductions
21. Limited losses of other years' deductions
22. Non-capital losses of other years
23. Net capital losses of other years
24. Capital gains deductions
25. Northern residence deduction
26. Disability claim
27. Interest paid on student loan this year and interest paid in previous years not claimed
28. Tuition amounts claimed by student/taxpayer and any amount carried over from previous years
29. Tuition amount transferred by parent
30. Amounts transferred from your spouse
31. Medical expenses not covered by a drug plan
32. Public transit passes
33. Donations not claimed up to 5 years
34. Tax paid by instalments in advance
35. Federal or provincial tax credits
36. Losses or any other deductions carried over from last year
37. Any other deduction you feel we should know about

 **Please note:** All deductions claimed by the taxpayer are subject to CRA approval. *You, the taxpayer, must pursue all rejected or disputed deductions at your own expense. PTC Canada assumes no responsibility or liability for rejected or disputed deductions.*

## Part 4 of 4 – Miscellaneous

### **A. For the completion of your return, please review the following:**

1. Would you like direct deposit of your refund, GST payment, or child tax benefits?
2. Are you planning to enclose any payment to CRA with this return?

### **B. One of the services PTC Canada offers is assistance with negotiations with CCRC and any challenges you may face with your taxes. All answers to the following questions will be kept strictly confidential! If you would prefer to speak to us directly, please indicate.**


1. Do you currently have a debt outstanding with CRA that you would like to discuss?
2. Do you currently have any outstanding issues with CRA?
3. Have you ever been audited? If yes, how many times and when? Please provide details.

### **C. PTC Canada's growth has been largely due to clients referring their friends, family, and associates. PTC Canada pays referral bonuses and awards discount fees upon completion of a new client's return. We invite you to take advantage of this.**

1. Do you know someone who might require our assistance or services? If yes, please provide name, phone number, relationship, and details. May we use your name when contacting this person?

### **D. Please enclose the following information with these documents and all your receipts:**

- a) Last year's tax return
- b) Last year's notice of assessment
- c) Signed consent form (T1013). If you do not have this, we can provide it.
- d) Spouse's or common law spouse's tax information
- e) Dependants' tax information
- f) Anything else you feel we should know about

 **Please note:** Tips on this form or webpage are for information only and are not legal advice. Those seeking legal advice must obtain counsel from professionals practicing in that field. **PTC Canada will not be held responsible for any liability incurred by anyone using this information form or webpage.**