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PERSONAL INCOME TAXATION - 2012
(March 2013)

General information:

The taxation year for individuals resident in Canada is from January 1 to December 31 of each calendar year.

The deadline for filing the T1 General – Income Tax and Benefit Return is generally April 30th of the following year. Each taxpayer files his or her own return (Canada does not have joint or spousal returns).

For individuals with self-employment income and their spouses, the filing deadline is extended until June 15th of the following year; however, any taxes dues are still payable by April 30th (with interest accruing after that date).

For deceased individuals, the deadline is usually the later of the normal deadline and six months after death.

Items to note:

Taxes can be reduced by various deductions and tax credits. Therefore, timely planning can be helpful. It is very important to keep adequate records and supporting documents. Because Canada has a graduated tax rate system (i.e. higher income, higher tax rates), planning and tax return optimization can also be helpful to reduce taxes.

Areas to consider:

- Income splitting where possible – watch out for income attribution rules.
- Deferral where possible.
- Consider registered plans to increase deferral and possible income splitting – RRSP including Spousal RRSP, RRIF, RESP, RDSP.
- Families – claim child care expenses, eligible dependant or child amounts, children's fitness amount, children's arts amount, adoption expenses and tuition, education and textbook amounts for post-secondary or certified occupational education; consider Canada Child Tax Benefit (income-tested),
- Seniors – possible age amount (income-tested), pension income amount; election to split pension income between spouses
- Persons with disabilities – consider disability amount, caregiver amount, medical expenses, registered disability savings plan (RDSP), Child Disability Benefit (income-tested), family caregiver amount.

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- Keep receipts and documents related to the following:
    - Medical expenses (combine family's expenses and claim by spouse with lower net income; choose optimal 12-month period ending in taxation year)
    - Donations (combine and claim in one spouse's return if combined total exceeds $200)
    - Purchase and sale of properties (including rental properties, securities)
    - Rental operations – leases and expense invoices
    - Business operations – sales and expenditure invoices
- Some recent changes:
    - Elimination of $10,000 limit for medical expenses in respect of a dependent relative for B.C.
    - Rules for contributing to the CPP for employees who are 60 to 70 years of age have changed starting January 1, 2012. CPP contributions are deducted from pensionable earnings paid to an employee who is 60 to 70 years of age, even if the employee is receiving a CPP pension.
    - The B.C. Seniors' Home Renovation Tax Credit, worth up to a $1,000 per year, will be available to seniors 65 and over on eligible permanent home renovation expenditures, for cost incurred on or after April 1, 2012. The maximum amount of credit is $1,000 per year and is calculated as 10% of the qualifying renovation expense (maximum $10,000 in expense). The credit is a refundable tax credit.
    - Additional family caregiver amount of $2,000 in the calculation of certain non-refundable tax credits (including spouse or common-law partner amount, amount for an eligible dependent, amount for children born in 1995 or later or caregiver amount) for taxpayer who has a dependent with an impairment in physical or mental functions.

<u>Residents, Citizens and Canadian Taxpayers</u>

Canadian taxation applies on the world-wide income of Canadian residents and Canadian-sourced income of non-residents of Canada. Accordingly, residence is a key concept in Canadian taxation.

Citizenship is not the criteria used for Canadian taxation. Therefore, a Canadian citizen who is not resident in Canada and has no Canadian-sourced income would not be subject to Canadian taxation. A resident of Canada who is not a Canadian citizen would still be taxed on his or her world-wide income.

A taxpayer may be a "factual resident" or a "deemed resident".

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A factual resident is someone who meets various tests. These tests involve significant residential ties (dwelling place, spouse, dependants), where any one test may be considered determinative by Canada Revenue Agency (CRA); and secondary residential ties (personal property, social ties, economic ties, immigrant status/work permits, medical insurance, driver's licence, registered vehicle, seasonal dwelling, Canadian passport, memberships), which are looked at collectively to weigh the significance of ties to Canada.

A person may be a deemed resident because he or she has sojourned in Canada for 183 days or more in a year.

Foreign Property, Foreign Affiliates and Foreign Trusts

There are various reporting requirements for Canadian residents with respect to foreign property, investments and trusts.

A Form T1135 should be completed if the taxpayer has foreign property with an aggregate cost over C$100,000 (excluding foreign personal-use property, foreign property used exclusively in carrying on the taxpayer's active business, and foreign investments included in Canadian registered mutual funds, RRSPs, RRIFs and RPPs).

If a Canadian resident has 1% or more equity interest in a foreign company and total held by him or her and related persons is 10% or more, then the foreign company is a foreign affiliate. A controlled foreign affiliate is a foreign affiliate controlled by the taxpayer or by non-arm's length person(s) or jointly by the taxpayer and non-arm's length persons, OR by the taxpayer and not more than four other residents of Canada, OR by not more than four residents of Canada other than the taxpayer. A Form T1134-A (foreign affiliate) or T1134-B (controlled foreign affiliate) must be completed for each foreign affiliate.

There are also reporting requirements when a Canadian resident has made transfers or loans to a foreign trust (Form T1141) or when a Canadian resident has received distributions from or was indebted to a foreign trust (Form T1142).

Significant penalties apply when a taxpayer has not complied with foreign reporting rules.

Completion of T1 General Income Tax and Benefit Return

1. Identification:

The taxpayer provides personal information, applies for GST/HST credit where applicable, and indicates where he/she has foreign property with a cost of over $100,000.

2. Total income:

The taxpayer lists income from all sources that are subject to taxation to calculate total income. The most common sources of income are:

- Employment income (including most benefits)
- Pension income
- Dividend income
- Interest and other investment income
- Rental income
- Taxable capital gains
- Self-employment income (business and professional income, fishing and farming income)

3. Net income:

Net income is determined after certain allowable deductions are subtracted from total income. The most common of these deductions are:

- RPP and RRSP deductions
- Union or professional dues
- Child care expenses
- Carrying charges and interest

4. Taxable income:

Taxable income is determined after certain additional deductions are subtracted from net income. The most common of these deductions are:

- Losses of other years (non-capital, capital and limited partnership losses)
- Capital gains deduction for qualified small business corporation shares, or qualified farm or fishing property

5. Refund or Balance owing:

The federal tax and provincial tax of the taxpayer are aggregated to arrive at total taxes payable. Any taxes already withheld at source or paid by instalments are subtracted from taxes payable to arrive at the balance owing or refund due to the taxpayer.

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The calculation of the federal tax based on the taxpayers' taxable income is done on Schedule 1, while the BC provincial tax is done on the BC 428. Both federal and provincial taxes are charges at graduated rates, with higher tax rates charged on higher levels of income. The 2012 combined federal and BC tax rates for the different brackets of income are presented in the table on page 5.

2012 Income Tax Rates for Residents of B.C.

Taxable Income			Ineligible Dividends	Eligible Dividends	Capital Gains	Other Income
0	-	37,013	4.16	0	10.03	20.06
37,014	-	42,707	7.46	0	11.35	22.70
42,708	-	74,028	16.21	9.63	14.85	29.70
74,029	-	84,993	19.71	10.32	16.25	32.50
84,994	-	85,414	21.95	12.79	17.15	34.29
85,415	-	103,205	26.95	18.31	19.15	38.29
103,206	-	132,406	29.96	21.64	20.35	40.70
Above 132,407			33.71	25.78	21.85	43.70

2012 Non-refundable tax credits

Taxpayers are allowed certain federal and provincial non-refundable tax credits, which reduce their federal and provincial taxes payable. The amounts of the major non-refundable tax credit items and their resulting tax credit (tax reduction) amounts are listed below:

	Federal			BC	
	Amount	Tax Credit		Amount	Tax Credit
Basic Personal	$ 10,822	$ 1,623		$ 11,354	$ 575
Age	6,720	1,008		4,356	220
Spouse or eligible dependant	10,822*	1,623		9,964	504
Dependant child under 18	2,191*	329		n/a	n/a

	Federal			**BC**	
	Amount	**Tax Credit**		**Amount**	**Tax Credit**
Infirm dependant 18 or over	6,402	960		4,250	215
CPP contributions	Amount contributed; max. $2,307	15% x amount		Amount contributed; max. $2,307	5.06% x amount
EI premiums	Amount contributed; max. $840	15% x amount		Amount contributed; max. $840	5.06% x amount
Disability	7,546	1,132		7,285	369
Additional disability for child under 18	4,402	660		4,250	215
Caregiver	4,402*	660		4,250	215
Pension	pension amount; max. $ 2,000	max. $ 300		pension amount; max. $ 1,000	max. $ 51
Medical expense	expense in excess of 3% of net income or $ 2,109	15% x amount		expense in excess of 3% of net income or $ 2,020	5.06% x amount
Tuition fees	tuition fees	15% x amount		tuition fees	5.06% x amount
Education	$ 400/month of full-time & $ 120/month of part-time	15% x amount		$ 200/month of full-time & $ 60/month of part-time	5.06% x amount
Textbook	$ 65/month of full-time & $ 20/month of part-time	15% x amount		n/a	n/a
Charitable donations	donations (up to 75% of net income)	15% of first $200; 29% of balance		donations (up to 75% of net income)	5.06% of first $200; 14.7% of balance

	Federal			BC	
	Amount	Tax Credit		Amount	Tax Credit
Canada Employment Credit	15% of first $ 1,095	$ 164		n/a	n/a
Public transit	amounts paid for eligible public transit passes (self, spouse, children under 19)	15% x amount		n/a	n/a
Children's fitness	up to $ 500/child or $1,000/child under 18 who qualifies for disability tax credit	max. $ 75 or $150 for child under 18 who qualifies for disability tax credit		up to $500 / child	Max $25.30
Children's arts	up to $ 500/child or $1,000/child under 18 who qualifies for disability tax credit	max. $ 75 or $150 for child under 18 who qualifies for disability tax credit		up to $500 / child	Max $25.30
Adoption expenses	up to $ 11,440	max. $ 1,716		up to $ 11,440	max. $ 579
Home buyers' tax credit	$5,000	$750		n/a	n/a
BC Seniors' Home Renovation tax credit	n/a	n/a		up to $ 10,000 of qualifying expenses	10% x amount

* Additional amount of $2,000 if eligible for Family caregiver amount

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