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2006 PERSONAL INCOME TAX RETURN CHECKLIST

77(1)

Appendix A provides a checklist of information that will be needed to complete your 2006 Personal Income Tax Return.



PERSONAL TAX

77(2)

ON-LINE TUITION FEES

In a November 10, 2006 *Tax Court* of Canada case, the taxpayer was enrolled in an *on-line Master of Science* postgraduate degree at the University of Liverpool, *England*. The taxpayer claimed tuition fees of \$16,278. The Program was taken *exclusively over the Internet* while the taxpayer was physically in Canada.

Taxpayer Wins!

The Court noted that *full-time attendance* at a foreign university can include attendance through the *Internet or on-line*, as is the case here.

TRANSIT PASS CREDIT

In an October 3, 2006 *Technical Interpretation*, CRA notes that the pass must provide the individual with the right to use *public commuter transit services* on an unlimited number of occasions and on any day on which the public commuter transit services are offered during an uninterrupted period of at least twenty-eight days.

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CHILDREN'S FITNESS TAX CREDIT

The Government proposes to allow, *starting in 2007*, a non-refundable



tax credit on eligible amounts of up to \$500 paid by parents to register a child, who is *under 16* at any time during the year, in an *eligible program of physical activity*.

To qualify, a program must be ongoing (either a minimum of eight weeks duration with a minimum of one session per week or, in the case of children's camps, five consecutive days) and substantially all of the activities must include a significant amount of *physical activity* that contributes to *cardio-respiratory endurance* plus one or more of: muscular strength, muscular endurance, flexibility, or balance.

Registration and membership costs can include the costs of administration, instruction, and the rental of facilities. If the fees charged to parents include a part for

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accommodation, travel, food, or beverages (for example, room and board at a fitness camp), this part must be deducted when calculating the fees that qualify for the tax credit.

EMPLOYMENT INCOME

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EMPLOYMENT BENEFITS

The October 18, 2006 issue of the *National Post* listed the *top one hundred employers* for 2006. Some *employment benefits* provided to employ-



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ees may include: fitness facilities, memberships to fitness clubs, maternity/paternity top-up of salaries, tuition subsidies, scholarship programs for employees' children, health care spending accounts, private pension plan contributions, referral bonuses, on-site daycare facilities, and discounts on the firm's products.

REWARD POINTS

In a September 12, 2006 *External Technical Interpretation*, CRA notes that an employee may receive *tax-free* from an employer *two non-cash gifts per year* and *two non-cash awards per year* (not more than \$500 per year for the *gifts* and the *awards* respectively).

However, CRA has a number of provisos including "*reward points*" received by an employee do *not qualify*.

BUSINESS/PROPERTY INCOME

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APPRENTICESHIP JOB CREATION TAX CREDIT

For the 2006 and subsequent taxation years, a business will be allowed an *investment tax credit* in respect of *each eligible apprentice employed* after *May 2, 2006* equal to the lesser of \$2,000 and 10% of eligible salary payable.

An *eligible apprentice* is an individual who is working in a *prescribed trade* in the first *two years* of the individual's provincially registered apprenticeship contract. A prescribed trade is a trade that is one of the *45 Red Seal Trades*. The 45 Red Seal Trades are listed on www.red-seal.ca and include trades such as bakers, carpenters, electricians, hairstylists, mechanics, machinists, plumbers, welders, etcetera.

The Budget also proposes a new *\$1,000 grant* for first and second year apprentices

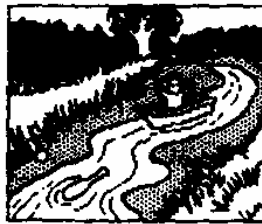
effective *January 1, 2007*.

INTEREST DEDUCTION

In a September 20, 2006 *External Technical Interpretation*, CRA notes that where a taxpayer had a *personal* line of credit of \$60,000 which was increased by \$40,000 to \$100,000 because \$40,000 was invested in securities, the interest that can be deducted for income tax purposes is 40% of the total interest paid. When the taxpayer reduces the line of credit to \$80,000, the interest that can be deducted would be 50% of the interest paid or payable. If the taxpayer further reduces the personal line of credit by paying down the balance to \$40,000, the taxpayer is allowed to deduct 100% of the interest paid or payable.

MANAGEMENT FEE

In a June 26, 2006 *Tax Court* of Canada case, the Court *disallowed* a deduction for *man-*



agement fees paid by BCO to two related corporations on the basis that the management fees were *not* incurred to *earn income* and were *unreasonable*.

CONSTRUCTION REPORTING

The Income Tax Act requires *construction contractors* to *report payments* to *subcontractors* (along with the subcontractor's Business Number or Social Insurance Number) on *Form T5018* on either a calendar or fiscal period basis within six months after the end of the reporting period to which it pertains.

Payments of less than \$500 for services per year per subcontractor do not have to be reported. Failure to file Form T5018 could result in a *penalty* equal to the greater of \$100 and \$25 times the number days, not

exceeding 100 days, during which the failure continues in respect of each such failure (*maximum \$2,500*).

"*Construction activities*" includes the erection, excavation, installation, alteration, modification, repair, improvement, demolition, destruction, dismantling or removal of all, or any part, of a building, structure, surface or sub-surface construction, or any similar property if the person's *business income* for that reporting period is derived *primarily* from those *activities*.

CAPITAL GAINS/LOSSES

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IDENTICAL PROPERTIES

Taxpayers that buy *identical properties* must *average* their *cost base*.

For example, if Mr. A acquired 1 Class A share for \$10 and then another Class A share for \$20, he would own 2 Class A shares with a total cost of \$30 but, each Class A share would have a cost of \$15. Therefore, if one share was sold for \$20, it would have a capital gain of \$5.



One solution is to have a *different person* buy the other share (for example, your corporation, your spouse, a Trust, your child) such that one taxpayer would have a cost base of \$10 on the share and the other a cost base of \$20. If you do not want to trigger a capital gain, you could have the person with the \$20 cost base sell the share.

COTTAGES

Selling cottages, or any asset for that matter, to children for *less than fair market*

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value can result in *double taxation* because the transferor will have *proceeds* equal to *fair market value* and the recipient will have an *adjusted cost base* (ACB) equal to what *they paid*.

Alternatives include:

- (i) a *gift* to the child which would be a *disposition at fair market value* to the transferor and an *ACB of fair market value* to the *transferee* or,
- (ii) a *sale*, for example, for a promissory note equal to *fair market value* which may be forgiven on death. This would also give a fair market value disposition and a fair market value ACB. If the note is *forgiven on death* there may be *no adverse tax consequences*. Also, if the note cannot be demanded earlier than a period of five years, *reserve* could be claimed on the capital gain for five years. The cottage may qualify for a *principal residence exemption*.

TRANSFERRING A LOSS TO A SPOUSE

If Mr. A has an *underlying capital loss* on *publicly traded securities*, but has no *capital gain* for which to offset the loss, he may wish to *transfer* the loss to a *spouse* who has had capital gains.

For example, if Mr. A has a share with a cost base of \$30 and a fair market value of \$10, he could sell the share for \$10 and trigger a capital loss of \$20. If his spouse acquires the same share on the open market 30 days before or 30 days after Mr. A's disposition, Mr. A's capital loss will be denied under the Superficial Loss Rules. Mrs. A's cost base of \$10 will be increased to \$30, assuming that Mrs. A does not sell the shares within this period. Mrs. A could then sell the share for a \$20 capital loss to be offset against her capital gains.

A similar result could occur if Mr. A sold

the share to Mrs. A and, after 30 days, she sold the share. Mrs. A will have to *elect* out of the rollover provisions.

This area is *complicated* and needs professional advice.

ESTATE PLANNING

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CLEARANCE CERTIFICATE

In an October, 2006 *Technical Interpretation*, CRA notes that a *payment* to a *non-resident* beneficiary of an *Estate* may require a *Clearance Certificate* from CRA. Where the *non-resident beneficiary* can show that *no capital gain arises*, the beneficiary will *not be required* to remit or post any amount as *security*.

If a Clearance Certificate is not obtained, the *Estate* may *be liable* to pay CRA 25% of the payment.

TRUSTS - TWENTY-ONE YEAR DEEMED DISPOSITION

The Income Tax Act has a *Twenty-one year deemed realization rule* to prevent the use of *Trusts to defer* indefinitely gains accruing on properties. For example, a Trust established in 1986 would have a deemed disposition in 2007.

Therefore, many Trusts have provisions that require them to be *wound up* on a *tax-free basis* before twenty-one years to avoid the deemed disposition at fair market value.

However, in certain instances this may *not be possible*. For example, where a *non-resident* is a beneficiary additional planning is required.

This is a *complicated area* and needs professional advice.

SPOUSAL RRSP

Even though the government has announced that *pensions* may be *split*, effective *January 1, 2007*, between spouses, this applies mostly to persons age *65 or over*.

Therefore, the *Spousal RRSP* is still a *useful tool*. For example, if a person made a Spousal RRSP contribution by December 31, 2007, those amounts can be taken out on or after January 1, 2010 by the transferee spouse without attribution back to the contributor.

CHARITABLE DONATION SCHEMES

A February 9, 2006 Federal Court of Appeal case *denied* the taxpayer's *charitable*



donation credits because the donations made were not truly for the amount appearing on the receipts. Also, *gross negligence penalties* were *upheld* by the Federal Court of Appeal.

On October 31, 2006, CRA warned taxpayers about the *risks* of charitable donation *schemes*. (www.cra.gc.ca; click on "what's new")

WEB TIPS

77(7)

PHONESPELL.COM

Do you have a phone number that is *hard for people to remember*? If so, see www.phonespell.com.

This website takes phone numbers varying in length from 7 to 10 digits, and *creates*



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a list of the possible words and word combinations that can be made based on the alphabetic value of each number. For example, if your phone number is 465-3669, the online tool would return word combinations such as “GO JENNY”, “HOLE NO 9”, and “GOLF NOW”.

The website also notes: “*you can take your phone number with you*”. If you want to keep your cell phone number but

change airtime providers, you may be able to do this.

DID YOU KNOW...

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REFUNDS AND REBATES

The May 2, 2006 *Federal Budget* notes that *income tax and GST/HST refunds* will

only be paid to a person if *all returns* under the Excise Tax Act, the Income Tax Act, the Excise Act and the Air Travellers Security Charge Act have *been filed*. This takes effect as of April 1, 2007.

The preceding information is for educational purposes only. As it is impossible to include all situations, circumstances and exceptions in a commentary such as this, a further review should be done. Every effort has been made to ensure the accuracy of the information contained in this commentary. However, because of the nature of the subject, no person or firm involved in the distribution or preparation of this commentary accepts any liability for its contents or use.

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APPENDIX A

2006 PERSONAL INCOME TAX RETURN CHECKLIST

INFORMATION REQUIRED INCLUDES:

1. All *information slips* such as T3, T4, T4A, T4A(OAS), T4A(P), T4E, T4F, T4PS, T4RIF, T4RSP, T5, T10, T2200, T2202, T100, T101, T600, T1163, T1164, TL11A, T5003, T5007, T5008, T5013, T5018 (Subcontractors) RC62 – UCCB; and corresponding provincial slips.
2. Details of *other income* for which no T slips have been received such as:
 - other employment income (including stock option plans and Election Form T1212),
 - business income,
 - partnership income,
 - rental income,
 - alimony, separation allowances, child maintenance,
 - pensions,
 - interest income earned but not yet received - example Canada Savings Bonds, Deferred Annuities, Term Deposits, Treasury Bills, Mutual Funds, Strip Bonds, Compound Interest Bonds
 - professional fees,
 - director fees,
 - scholarships, fellowships, bursaries,
 - replacement properties acquired.
3. Details of *other expenses* such as:
 - employment related expenses - Provide Form T2200 - Declaration of Conditions of Employment,
 - tools acquired by apprentice vehicle mechanics,
 - business and employment purchases like vehicles, supplies, etc.,
 - interest on money borrowed to purchase investments,
 - investment counsel fees,
 - moving expenses - including costs of maintaining a vacant former residence,
 - child care expenses,
 - alimony, separation allowances, child maintenance,
 - safety deposit box fees,
 - accounting fees,
 - pension plan contributions,
 - film and video production eligible for tax credit,
 - mining tax credit expenses,
 - business research and development,
 - adoption related expenses,
 - clergy residence deduction information, including *Form T1223*,
 - disability supports expenses (speech, sight, hearing, learning aids for impaired individuals and attendant care expenses),
 - * *traderperson's tools* acquired by an employee after May 2, 2006,
 - * *public transit passes* acquired on or after July 1, 2006.

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4. Details of *other investments* such as:
 - real estate or oil and gas investments - including financial statements,
 - labour-sponsored funds,
 - Registered Education Savings Plans.
5. Details and *receipts* for:
 - Registered Retirement Savings Plan (RRSP) contributions,
 - professional dues,
 - tuition fees - including mandatory ancillary fees, and Forms T2202, TL11A and TL11D,
 - charitable donations (including publicly traded securities),
 - medical expenses (including certain medical related modifications to new or existing home and travel expenses),
 - political contributions.
6. Details of *capital gains and losses* realized in 2006.

Also, new rules now permit *rollovers* for *foreign share spin-offs* and various *foreign share reorganizations*.
7. Details of previous *capital gain exemptions* claimed, *business investment losses* and *cumulative net investment loss accounts*.
8. Name, address, date of birth, S.I.N., and province of *residence* on December 31, 2006.
9. *Marital/common-law status* and spouse/partner's income, S.I.N. and birth date.
10. List of *dependents* - including their incomes and birth dates.
11. If you or one of your dependents was in full time attendance at a *college or university*, details concerning name of institution, number of months in attendance, tuition fees, income of dependent, Form T2202.
12. Are you *disabled or are any of your dependents* disabled? Provide Form T2201 - disability tax credit certificate. This also includes extensive therapy such as kidney dialysis and certain cystic fibrosis therapy. Also, the *transfer rules* include relatives such as parents, grandparents, child, grandchild, brothers, sisters, aunts, uncles, nephews or nieces.

Persons with *disabilities* also may receive tax relief for the cost of *disability supports* (eg. sign language services, talking textbooks, etc.) incurred for the purpose of *employment* or *education*.
13. Details regarding residence in a prescribed area which qualifies for the *Isolated Area Deduction*.
14. Information regarding *child tax credit* receipts.
15. Details regarding *RRSP - Home Buyers' Plan* withdrawals and repayments; *RRSP - Lifelong Learning Plan* repayment.
16. Receipts for 2006 income tax *installments* or, payments of tax.
17. Copy of 2005 personal tax *returns*, 2005 Assessment *Notices* and any correspondence from Canada Revenue Agency (CRA).
18. 2006 *Personalized Tax information* which CRA may have sent you.
19. Do you want your *tax refund or credit* deposited directly to your account in a financial institution? Yes/No.

To start direct deposit, or to change banking information, attach a void personalized cheque or your branch, institution and account number.
20. Details of *carry forwards* from previous years including losses, donations, forward averaging amounts, registered retirement savings plans.
21. Details of *foreign property* owned at any time in 2006 including cash, stocks, trusts, partnerships, real estate, tangible and intangible property, contingent interests, convertible property, etc..

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22. Details of *income* from, or *distributions* to, *foreign entities* such as foreign affiliates and trusts.
23. Details of your *Pension Adjustment Reversal* if you ceased employment and were in a Registered Pension Plan or a Deferred Profit Sharing Plan. (T10 Slip)
24. If you provided *in-home care* for a *parent or grandparent* (including in-laws) 65 years of age or over, or an infirm *dependent relative*, a federal tax credit may be available.
Also, the caregiver may claim related *training costs* as a medical expense credit.
25. Interest paid on qualifying *student loans* is eligible for a tax credit.
26. *Retroactive lump-sum payments*
Individuals receiving qualifying retroactive *lump-sum payments* over \$3,000 may be allowed to use a special mechanism to compute the tax.
27. Changes in *family circumstance* that could affect the *Goods and Services Tax Credit*, such as births, deaths, marriages, reaching the age of 19 years, and becoming or ceasing to be a resident in Canada.
28. *Children* of low or middle income parents may be entitled to a *Canada Learning Bond* of \$500 in the initial year and \$100 per year until age 15. Please ask us for details.
29. Do you have any *personal interest expense* - such as on a house mortgage or vehicle?
If so, it may be possible to take steps to convert this into deductible interest.
- *30. An *investment tax credit* is available in respect of each *eligible apprentice* employed after May 2, 2006 in one of the 45 Red Seal Trades. Also, a *\$1,000 grant* is available for first and second year apprentices effective *January 1, 2007*.
- *31. Have you received the *Universal Child Care Benefit* of \$100 *per month* for each child under *6 years* of age available to lower and middle income people? *This commenced on July, 2006.* (Form RC62)

* **May 2, 2006 Federal Budget changes**

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