Ward & Uptigrove
Chartered Professional Accountants

Tax Alert
March 14, 2019

2018 Tax Season: Common Myths

Many myths have developed over the years around the income tax system and the filing of tax returns. This tax season, let us highlight some common misunderstandings and clarify the truth.

Myth: You don't need to file taxes unless you owe money.

Generally, you only have to file your taxes if you owe money to the government. That said, it's still good practice to file your taxes every year for three main reasons:

1. If you don't owe money, there's a chance you'll receive a refund from the government. This money can be put to good use bettering your finances.
2. The government uses your tax return to assess whether you qualify for various benefit programs. One of the biggest programs that uses your income tax return is the GST/HST tax credit (Ontario Trillium Benefit), which is a tax-free payment to help Canadians with low incomes. You are automatically assessed for this tax credit when you file your taxes.
3. The Canada Child Benefit (CCB) - a monthly payment made to families with children under the age of 18 - information from your income tax return to calculate how much your payments will be, which is why it is important for you and your partner to file a tax return every year, even if you had no income.

Myth: Donation receipts cannot be allocated between spouses / common law partners.

A non-refundable tax credit of 20.05% is received for the first $200 in donations, and 40.16% on amounts in excess of $200 for residents of Ontario. Therefore, it is generally more beneficial to combine donations on one spouse's/partner's return.

Donations that are made by the taxpayer's spouse/partner or made jointly with the spouse/partner can be claimed on either spouse's/partner's return. Please indicate if you do not want donations transferred as we typically combine donations on one spouse's/partner's tax return in order to maximize the benefit.

Other noteworthy items with respect to donations:

- The First-time Donor's Super Tax Credit is no longer available for 2018 and subsequent years.
- If your income is in excess of $205,842, you can receive up to a 44.16% credit (instead of 40.16%) on donation amounts in excess of $200.
- Donations can be carried forward for 5 years if they cannot be used in the current year.

Myth: Employer gifts aren't taxable

This one's true and false. In the case of non – cash gifts for special occasions amounting to less than $500 a year, the gift is non taxable. You're also able to receive long-service awards valued at $500 or less every five years, tax free. However, if the gifts you're receiving from your employer fall outside of these criteria then they are likely taxable. Please note that gift cards are considered a cash equivalent and therefore, they are taxable.

Myth: Your tax rate is the highest rate associated with your annual income.

Only the income amount above the tax threshold of the next bracket is subject to the new tax rate. All of the income you earn below the higher tax bracket remains taxed at the lower rate of tax. You can reduce your annual income with RRSP contributions made before March 1 of the following year, which could also lower your income tax bracket.

Combined Federal and Provincial Tax Rates for Personal Income in Ontario	
2018 Taxable Income	**2018 Marginal Tax Rates**
over $11,809 up to $15,089	15.00%
over $15,089 up to $42,960	20.05%
over $42,960 up to $46,605	24.15%
over $46,605 up to $75,657	29.65%
over $75,657 up to $85,923	31.48%
over $85,923 up to $89,131	33.89%
over $89,131 up to $93,208	37.91%
over $93,208 up to $144,489	43.41%
over $144,489 up to $150,000	46.41%
over $150,000 up to $205,842	47.97%
over $205,842 up to $220,000	51.97%
over $220,000	53.53%

Myth: Snowbirds don't need to file US taxes.

In order to be exempt from filing IRS forms or a U.S. tax return, three conditions must be met:

1. You do not earn any U.S. source income (interest, dividends, capital gains, rent),
2. You are not physically present in the U.S. for more than 182 calendar days
3. You score less than 183 on the Substantial Presence Test.

- To calculate your Substantial Presence score add together
  - Number of days spent in the U.S. in the current tax year (include all daytrips, overnight visits and extended stays)
  - One-third of the days spent in the U.S. from the prior tax year
  - One-sixth of the days spent in the U.S. the year prior to that

Myth: Foreign property does not need to be reported to CRA.

If you own foreign property (this includes funds or tangible property, capital stock, interest, real estate, debt owned, precious materials, etc.) and its cost base exceeded $100,000 CDN at any point during the year, then you must file a T1135. This is also the case for corporations, partnerships and trusts holding foreign assets.

Failure to file a T1135 could result in a penalty of $25 per day for up to 100 days, to a maximum of $2,500.

Myth: US investments held in registered Canadian accounts are not subject to withholding taxes.

The US does not recognize Canadian tax free savings accounts (TFSA), so sadly, that means that any dividends paid by US stocks held in a TFSA will face a withholding tax.

Myth: Receiving a Notice of Assessment means CRA fully accepts and agrees with the information you submitted on your return.

Unfortunately, this is not always the case. A Notice of Assessment is just that – a quick notice which lets you know that at the very least CRA has cast a quick eye over your return. However, this doesn't mean that CRA fully agrees with everything on your return, nor does it mean you can claim everything you've listed on it. CRA will complete a fuller review of your file soon after this to see if they agree with everything, but generally, they have three years after sending a notice of assessment to review your file.

Myth: Payments from the Canada Revenue Agency (including income tax refunds) are only paid through direct deposit.

Recently, CRA has sent out reminders about direct deposit. These may sound like you are supposed to be receiving a payment, but they are stating that you have received a payment by cheque at some point in the past. Please note that while direct deposit is preferred by CRA, it is not required.

If direct deposit is not set up, CRA will continue to mail any cheques.

If you switch banks and were previously set up with direct deposit, please ensure to update your information with the Canada Revenue Agency as soon as possible.

How to set up direct deposit for an individual

- When providing your documents to Ward & Uptigrove, indicate that you would like direct deposit set up *and* provide a void cheque.
- By telephone through calling 1-800-959-8281. You will need your banking information, social insurance number, and information from your most recent tax return.
- By mail through completing the Direct Deposit Enrolment form.
- Through CRA My Account – please click "Arrange my direct deposit" and follow the instructions.

If you're not sure about your Canadian tax obligations and whether or not you can claim a Canadian tax refund, contact us today – we can help.

To help you meet these deadlines and get organized, refer to our 2018 Personal Income Tax Checklist.

Do you know:

- How much you need to have saved by the time you retire?
- If your life, disability and critical illness insurance policies are in line with your needs?
- If your will truly reflects your wishes?
- Whether you should be contributing to your RRSP or TFSA?
- How much you are paying in investment management fees?

If you need help answering any of these questions, contact your accountant or Ward & Uptigrove Wealth Management to have a no obligation meeting with a financial planner or learn more at https://wardanduptigrove.com/Wealth-Management

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