

# Personal Income Tax Preparation Package

In order to assist you in preparation for tax season, we at **Starr Celeste-Falconeri, LLP, Chartered Accountants**, have prepared this Personal Income Tax Preparation Package. We have included situations and categories which are widely applicable, however we have not, of course, included those which would apply to only a few of you. If you have an investment or situation which is not covered here and for which you have questions, please do not hesitate to contact us.

We have divided this package into sections for your convenience. Please use those sections which are appropriate for your individual circumstances. The sections are:

- **General Categories:**
- **Commission Employees**
- **Salaried Employees**
- **Business (Unincorporated)**
- **Automobile Expenses**
- **Home Office Expenses**
- **Rental Income & Expenses**
- **Investment Income & Expenses**
- **Capital Gains**

## General Slips

Please sort by category and provide the following information slips:

### Revenue Slips

- **T3** Income from trusts, estates, mutual funds
- **T4** Income from employment
- **T4A** Self-employed commissions, pensions, scholarships, directors' fees
- **T4A(OAS)** Income from Old age pension
- **T4A(P)** Income from Canada Pension Plan
- **T4E** Income from Employment Insurance
- **T4PS** Income from Employee profit sharing plans
- **T4RIF** Income from registered retirement income funds
- **T4RSP** Income from registered retirement savings plans
- **T5** Income from investments (interest and dividends usually)
- **T5006** Labour sponsored funds tax credits
- **T5007** Workers' compensation and social assistance benefits income
- **T5008** Statement of securities transactions
- **T5013** Statement of partnership income

## Expense and other slips

- **RRSP** Contribution receipts
- **Donations** Charitable donation receipts
- **Medical** Medical receipts including doctors, dentists, hospitals, ambulance, chiropractors, prescriptions, optometrists, private health insurance premiums, physiotherapy, therapeutic massages, prosthetic devices, homeopaths, naturopaths, psychologists, etc.
- **Union** Union Dues and Professional Association Memberships
- **Child Care** Receipts for day care, summer camp, T4 summaries for T4's issued to nannies
- **Tuition** Receipts for tuition fees paid for post-secondary education
- **Students** Receipts for interest paid on you student loans

*Please also include any other information slips not covered above or in any other section.*

## Employment Expenses

Employees who earn commission income, and employees who are required **as a condition of their employment** to incur expenses in carrying out their employment responsibilities can deduct employment expenses. These employees should obtain a form T 2200 from their employers indicating the expenses which the employer requires them to incur as well as information with respect to any reimbursements, etc. These T 2200 forms must be signed by a responsible official of the employer. A copy of the signed form should be included with your tax return to ensure that Canada Revenue Agency does not challenge the deductibility of expenses. Further, those employees who are eligible to deduct expenses can get a tax credit for the goods and services tax (GST) on these expenses provided that the employer provides their own GST registration number.

Employees are not required to submit receipts supporting these expenses with their tax returns; however, they are cautioned that Canada Revenue Agency may, at any time, ask to see receipts. Any difference between an expense amount claimed and the amount supported by receipts will be disallowed and added back to income. You are advised to include in your expense totals only those expenses for which you have receipts. A summary of employment expenses is included on the next page. Simply fill in the total of each of your receipts next to the appropriate description.

Employees who are required to use their personal vehicles are reminded that they are required by Canada Revenue Agency to maintain a logbook of kilometers driven, separating out the business and personal kilometers driven. Failure to produce a logbook upon request will result in the disallowance of automobile expenses. The deductible portion of automobile expenses will be calculated by us based upon the ratio of business kilometers over total kilometers for the year.

Employees who are required to maintain an office in their homes are reminded that home office expenses can be claimed only if your employer does not provide you with space at their offices, or only if the home office is used **EXCLUSIVELY** for seeing clients. We will calculate your allowable home office expenses for you based upon the ratio of office square footage over total square footage of your residence.

Employees who move at least 40 km closer to a new place of employment are eligible to claim moving expenses against their income from the new work location. If you do not have enough income from the new employment in the year you move to enable you to fully deduct the moving expenses, you may carry the moving expenses forward to another year.

## Unincorporated Business

Those with unincorporated businesses are required to keep proper records of their revenues and expenses. At the very least, we ask that you sort and add your receipts by category. We have included the next page for you to summarize your revenue and expenses. If you have more than one unincorporated business, please feel free to make photocopies of the sheet and please use a separate sheet for each business.

Revenue should be shown EXCLUSIVE of GST and PST (include only your fee or price) and net of any discounts and allowances. It is not necessary to separate revenue by category.

Expenses must be reasonable in the circumstances and must have been incurred for the purpose of earnings business income. Thus, personal expenses are not deductible and should not be included. Similarly, the expenses must appear to make sense in the circumstances and must be for a business purpose.

Those who use their personal vehicles are reminded that they are required by Canada Revenue Agency to maintain a logbook of kilometers driven, separating out the business and personal kilometers driven. Failure to produce a logbook upon request will result in the disallowance of automobile expenses. The deductible portion of automobile expenses will be calculated by us based upon the ratio of business kilometers over total kilometers for the year.

Those who maintain an office in their homes are reminded that home office expenses can be claimed only if the home office is used EXCLUSIVELY for business purposes. We will calculate your allowable home office expenses for you based upon the ratio of office square footage over total square footage of your residence. If your business has a loss, you will not be able to deduct home office expenses, however you will be able to carry the home office expenses forward to a profitable year to reduce business income in that year.

Capital items are NOT allowable expenses. Instead, these items are "pooled" into categories set out by Canada Revenue Agency and depreciated or written off over time. Capital items include buildings, furniture, equipment, computers, photocopiers, telephones, etc. These are items which will last for several years. Please list items purchased during this year only beside the capital asset items on the next sheet.

You do not have to include your business receipts with your tax return; however, you must keep the receipts available in case Canada Revenue Agency asks to review them. In the event you are asked to produce receipts, any difference between the expense amount claimed and the amount supported by receipts will be disallowed and added back to your income for the year.

Business losses may be used to reduce income from any other sources. In the event you do not have sufficient income from other sources to use up a business loss, you may carry the loss back for three years or forward for seven years to reduce taxable income in those years

## Rental Income

Those with rental properties are required to keep proper records of their revenues and expenses. At the very least, we ask that you sort and add your receipts by category. We have included the next page for you to summarize your revenue and expenses. If you have more than one rental property, please feel free to make photocopies of the sheet and please use a separate sheet for each property, but not for each unit.

Revenue should be shown EXCLUSIVE of GST (which is only charged on commercial units and not on residential units) and net of any discounts and allowances. It is not necessary to separate revenue by unit.

Expenses must be reasonable in the circumstances and must have been incurred for the purpose of earnings rental income. Thus, personal expenses are not deductible and should not be included. Similarly, the expenses must appear to make sense in the circumstances and must be for a business purpose.

Those who use their personal vehicles are reminded that they are required by Canada Revenue Agency to maintain a logbook of kilometers driven, separating out the rental and personal kilometers driven. Failure to produce a logbook upon request will result in the disallowance of automobile expenses. The deductible portion of automobile expenses will be calculated by us based upon the ratio of rental kilometers over total kilometers for the year.

Those who maintain an office in their homes are reminded that home office expenses can be claimed only if the home office is used EXCLUSIVELY for rental business purposes. We will calculate your allowable home office expenses for you based upon the ratio of office square footage over total square footage of your residence.

Capital items are NOT allowable expenses. Instead, these items are "pooled" into categories set out by Canada Revenue Agency and depreciated or written off over time. Capital items include buildings, furniture, equipment, computers, photocopiers, telephones, etc. These are items which will last for several years. Please list items purchased during this year only beside the capital asset items on the next sheet. Please note that for rental income you can use depreciation to reduce taxable income, however you cannot use depreciation to bring income down below break even. Rental losses cannot include depreciation.

You do not have to include your rental expense receipts with your tax return; however, you must keep the receipts available in case Canada Revenue Agency asks to review them. In the event you are asked to produce receipts, any difference between the expense amount claimed and the amount supported by receipts will be disallowed and added back to your income for the year.

Rental losses may be used to reduce income from any other sources. In the event you do not have enough income from other sources to use up a business loss, you may carry the loss back for three years or forward for seven years to reduce taxable income in those years.

## Investment Income & Carrying Charges

Those with financial investments will usually receive T3 or T5 slips from the payor to support the interest or dividend income they have received. For those who invest in mortgages or other investments which do not issue T slips, please complete the appropriate sections of the next page. **PLEASE DO NOT INCLUDE AMOUNTS WHICH ARE ALREADY INCLUDED ON T SLIPS IN ORDER TO ENSURE THAT THESE AMOUNTS ARE NOT INCLUDED TWICE!**

If you have purchased or sold any assets during the past year, please complete the Capital Gain Worksheet on the page following the next page. For each asset sold, we will need to know the dates of original purchase and final sale, the amount paid to purchase the asset, any fees or commissions paid upon purchase, the amount the assets was sold for, and any fees or commissions paid upon sale. Essentially, the difference between the purchase and selling prices, fees included, will be a capital gain or loss. The gains and losses on all your transactions for the year will be netted against each other (gains less losses). One half of all net gains will be taxable and included in your income subject to tax at your usual rates. Any net losses can be carried back for three years or forward indefinitely and used **ONLY** to reduce capital gains of other years.

You are permitted to deduct reasonable expenses incurred for the purpose of earning investment income. Usual fees are interest paid on loans where the proceeds of the loan were used for investment purposes, fees for investment advice, accounting, legal and other professional fees involved with the investments, safety deposit box charges for storing business documents, and similar items. Please complete the appropriate section of the next page to indicate investment expenses and carrying charges by category.

## Miscellaneous

### **Alimony and support**

Alimony, maintenance, or spousal support, refers to amounts paid to a former spouse. This is deductible to the paying spouse and taxable to the receiving spouse PROVIDED that the payments are made in accordance with a court order or WRITTEN separation agreement, and PROVIDED that they are part of a series of regular payments (not a lump-sum distribution of assets).

Child support payments made under rules in effect for the past several years are not deductible to the payer or taxable to the recipient.

Please provide details of any support payments received or paid by you during the year.

### **Home Buyers' Plan**

If you have withdrawn funds from your RRSP under the home buyers' plan available for first time home purchasers, please provide full details of the dates and amounts withdrawn.

### **Lifelong Learning Plan**

If you have withdrawn funds from your RRSP under the lifelong learning plan to enable you to continue your studies, please provide full details of the dates and amounts withdrawn.